UNITED THROUGH READING

FINANCIAL STATEMENTS

DECEMBER 31, 2017

Leaf & Cole, LLP
Certified Public Accountants

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Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Trustees
United Through Reading

Report on the Financial Statements

We have audited the accompanying financial statements of United Through Reading, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Through Reading as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Leaf & Cole LLP

San Diego, California
May 23, 2018

UNITED THROUGH READING
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS

Assets: (Notes 2, 3, 4 and 5)		
Cash and cash equivalents	$	748,491
Contributions receivable		44,022
Prepaid expenses		13,519
Beneficial interests in endowment funds		63,085
TOTAL ASSETS	$	869,117

LIABILITIES AND NET ASSETS

Liabilities: (Note 2)		
Accounts payable and accrued expenses	$	84,756
Deferred revenue		25,000
Total Liabilities		109,756
Net Assets: (Notes 2, 6 and 7)		
Unrestricted		648,293
Temporarily restricted		60,560
Permanently restricted		50,508
Total Net Assets		759,361
TOTAL LIABILITIES AND NET ASSETS	$	869,117

The accompanying notes are integral part of the financial statements.

UNITED THROUGH READING
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Other Revenue:				
Contributions:				
Corporations and corporate foundations	$ 584,893	$ 20,000	$ -	$ 604,893
In-kind contributions	410,963	-	-	410,963
Foundations and civic groups	183,436	16,000	-	199,436
Individuals	150,956	-	-	150,956
Net assets released from restrictions	1,914	(1,914)	-	-
Total Contributions	1,332,162	34,086	-	1,366,248
Other Revenue:				
Special event revenue	646,934	-	-	646,934
Investment income	907	4,066	3,598	8,571
Total Other Revenue	647,841	4,066	3,598	655,505
Total Support and Other Revenue	1,980,003	38,152	3,598	2,021,753
Expenses:				
Program Services	1,219,214	-	-	1,219,214
Supporting Services:				
Management and general	258,125	-	-	258,125
Fundraising	126,308	-	-	126,308
Total Supporting Services	384,433	-	-	384,433
Total Progam and Supporting Services	1,603,647	-	-	1,603,647
Special Events	315,767	-	-	315,767
Total Expenses	1,919,414	-	-	1,919,414
Change in Net Assets	60,589	38,152	3,598	102,339
Net Assets at Beginning of Year	587,704	22,408	46,910	657,022
NET ASSETS AT END OF YEAR	$ 648,293	$ 60,560	$ 50,508	$ 759,361

The accompanying notes are integral part of the financial statements.

UNITED THROUGH READING
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services	Management and General	Fund-Raising	Total
Personnel:				
Educational/resource expenses	$ 6,108	$ 483	$ 694	$ 7,285
Salaries, payroll taxes and benefits	684,984	58,036	109,642	852,662
Total Personnel	691,092	58,519	110,336	859,947
Occupancy:				
Equipment	11,755	976	1,465	14,196
Office rent	1,776	151	227	2,154
Telephone/Internet	6,094	570	855	7,519
Transportation/mileage/meals	13,535	1,347	2,187	17,069
Total Occupancy	33,160	3,044	4,734	40,938
Insurance/License Registrations	6,874	688	1,031	8,593
Office:				
Bank service fees	5,241	513	655	6,409
Miscellaneous	218	13	14	245
Office supplies/copies	3,331	764	721	4,816
Printing/reproduction/postage	15,665	1,440	2,164	19,269
Total Office	24,455	2,730	3,554	30,739
Professional:				
Professional fees	38,328	22,315	6,653	67,296
Total Professional	38,328	22,315	6,653	67,296
Other:				
Books	52,760	-	-	52,760
Consultants	14,765	-	-	14,765
Educational/resource expenses	679	-	-	679
Equipment	24,919	-	-	24,919
Miscellaneous	562	-	-	562
Printing/reproduction/postage	9,855	-	-	9,855
Telephone/Internet	6,051	-	-	6,051
Program materials	13,344	-	-	13,344
Rent	1,223	-	-	1,223
Supplies	1,688	-	-	1,688
Transportation/mileage/meals	59,325	-	-	59,325
Total Other	185,171	-	-	185,171
Total Expenses Before In-Kind Expenses	979,080	87,296	126,308	1,192,684
In-Kind Expenses	240,134	170,829	-	410,963
Total Program and Supporting Services Expenses	$ 1,219,214	$ 258,125	$ 126,308	$ 1,603,647

The accompanying notes are an integral part of the financial statements.

UNITED THROUGH READING
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

Cash Flows From Operating Activities:		
Change in net assets	$	102,339
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Permanently restricted investment income		(3,598)
(Increase) Decrease in:		
Contributions receivable		(27,012)
Prepaid expenses		2,462
Increase (Decrease) in:		
Accounts payable and accrued expenses		(4,846)
Deferred revenue		(160,500)
Net Cash Used in Operating Activities		(91,155)
Cash Flows From Investing Activities:		
Increase in beneficial interests in endowment funds		(7,664)
Net Cash Used in Investing Activities		(7,664)
Cash Flows From Financing Activities:		
Permanently restricted investment income		3,598
Net Cash Provided by Financing Activities		3,598
Net Decrease in Cash and Cash Equivalents		(95,221)
Cash and Cash Equivalents at Beginning of Year		843,712
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	748,491

The accompanying notes are an integral part of the financial statements.

Note 1 - Organization:

United Through Reading (the "Organization"), a Nonprofit California Corporation, is dedicated to uniting U.S. military families who face physical separation by facilitating the bonding experience of reading aloud together.

In more than 200 locations worldwide, United Through Reading offers military service members the opportunity to be video-recorded reading books to their children at home. This program creates emotional connections between parents and their children, encourages literacy and makes homecomings easier.

In 2017, with the help of 17,220 volunteer hours, United Through Reading served over 116,000 beneficiaries, at 358 recording locations around the world distributing more than 15,000 children's books to military children. According to surveys, 98% of participants report a decrease in their children's anxiety during deployment and 99% of participants report a reduction in their own stress during deployment.

Note 2 - Significant Accounting Policies:

Accounting Method

The financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets – Net assets not subject to donor imposed stipulations

- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Organization. The income from these assets is available for either general operations or specific programs as specified by the donor.

The FASB has issued reporting standards for endowments of not-for-profit Organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

Note 2 - Significant Accounting Policies: (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Organization invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the investment.

The Organization's statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Beneficial interests in endowment funds are considered Level 3 assets and are reported at the fair value of the underlying assets as reported by the fund manager.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all contributions receivable were fully collectible; therefore, no allowance for doubtful contributions receivable was recorded at December 31, 2017.

Note 2 - Significant Accounting Policies: (Continued)

Capitalization and Depreciation

The Organization capitalizes all expenditures in excess of $1,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted. Absent donor stipulations regarding how long those donated assets must be maintained. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Furniture and equipment	5 years

Furniture and equipment is fully depreciated at December 31, 2017.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of furniture and equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

Compensated Absences

Accumulated unpaid vacation totaling $47,141 at December 31, 2017, is accrued when incurred and included in accounts payable and accrued expenses.

Investment Income

Investment income consists of the following for the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest income	$ 907	$ -	$ -	$ 907
Investment return on beneficial interests in endowment funds	-	4,066	3,598	7,664
Total Investment Income	$ 907	$ 4,066	$ 3,598	$ 8,571

Note 2 - Significant Accounting Policies: (Continued)

Revenue Recognition

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Special Event Revenue

Special event revenue is recognized in the period that the event occurs. Deferred revenue totaled $25,000 at December 31, 2017.

Donated Services and Materials

The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated professional services are recorded at fair value, and totaled $260,486 for the year ended December 31, 2017 and are included in in-kind contributions in the statement of activities.

In-kind contributions of books and supplies used for program services with an estimated fair value of $150,477 for the year ended December 31, 2017, are included in in-kind contributions in the statement of activities.

Allocated Expenses

Expenses by function have been allocated among program and supporting services classifications on the basis of internal records and estimates made by the Organization’s management.

Income Tax Status

The Organization is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization is not a private foundation.

The Organization’s Return of Organization Exempt from Income Tax for the years ended December 31, 2017 2016, 2015 and 2014 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Note 2 - Significant Accounting Policies: (Continued)

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use to be cash equivalents.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 23, 2018, the date the financial statements were available to be issued.

Note 3 - Fair Value Measurements:

The following table summarizes assets measured at fair value by classification within the fair value hierarchy at December 31, 2016:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2017
Beneficial interests in endowment funds (Note 5)	$ -	$ -	$ 63,085	$ 63,085
	$ -	$ -	$ 63,085	$ 63,085

The reconciliation for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are included in the Note as indicated above.

The following table represents the Organization's Level 3 financial instrument, the valuation techniques used to measure the fair value of the financial instrument, and the significant unobservable inputs and the range of values for those inputs for the year ended June 30, 2017:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Beneficial interest in endowment funds	$ 63,085	Valuation of underlying assets as provided by San Diego Foundation and Rancho Santa Fe Foundation	Base price	N/A

Note 4 - Contributions Receivable:

Contributions receivable totaled $44,022 at December 31, 2017 and are due in less than one year.

Note 5 - Beneficial Interests in Endowment Funds:

The Organization has beneficial interests in endowment funds held at Rancho Santa Fe Foundation and San Diego Foundation. The beneficial interest in endowment funds held at Rancho Santa Fe Foundation is held in an investment pool, which is structured for long-term, total return consisting of 33.2% domestic equities, 23.2% international equities, 2.0% in emerging markets, 37.6% fixed income and 4% in cash and cash equivalents. The beneficial interest in endowment funds held at San Diego Foundation is invested in a portfolio of equity and debt securities, which is structured for long-term total return, consisting of 24.3% domestic equities, 28.3% global/ international equities, 19.3% alternative investments, 16.7% fixed income, 7.2% real estate investments, 3.7% commodities and 0.5% in cash and cash equivalents. The activity of the beneficial interests in endowment funds consisted of the following for the year ended December 31, 2017:

	Rancho Santa Fe Foundation	San Diego Foundation	Total
Balance at December 31, 2016	$ 26,340	$ 29,081	$ 55,421
Investment return	3,598	4,066	7,664
Balance at December 31, 2017	$ 29,938	$ 33,147	$ 63,085

Note 6 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes at December 31, 2017:

Books and supplies	$ 36,000
San Diego Foundation - Unappropriated endowment earnings	12,577
Wounded Warriors	11,983
Total Temporarily Restricted Net Assets	$ 60,560

Net assets in the amount of $1,914 were released from restrictions during the year ended December 31, 2017 by incurring expenses satisfying the purpose restrictions specified by donors.

Note 7 - Endowment Net Assets:

The Organization has a beneficial interest in endowment funds that are held at Rancho Santa Fe Foundation ("RSFF") and San Diego Foundation ("SDF") collectively referred as the "Foundations". The Foundations manage the funds in accordance with UPMIFA. The investment objective is to maintain the purchasing power (real value) of the endowment funds. However, from time to time, the fair value of the assets in an endowment fund may fall below the level that the donors require the Organization to retain as a fund of perpetual duration. There were no such deficiencies at December 31, 2017. Permanently restricted net assets held by the Foundations are comprised of:

- The original value of gifts donated to the fund.
- The original value of Organization funds transferred to the fund.
- The original value of subsequent gifts donated to the fund.
- Investment income and realized and unrealized gains and losses on investments.
- Distributions from the fund in accordance with spending policy.

SDF endowment funds are invested in a portfolio of equity and debt securities, which are structured for long-term total return. SDF's spending policy is to disburse 5% annually, based upon endowment principal market value over the last 36 months. These calculations are made on a monthly basis. If the market value of the endowment principal of any fund, at the end of each month, is less than the initial value of all contributions made to the endowment principal, then distributions will be limited to interest and dividends received.

RSFF endowment funds are invested in permanent funds with long-term investment objectives and strategies that will accommodate relevant, reasonable or probable events. Management of the assets is designed to preserve the principal of the funds and provide a source of funds for current operations and programs. The Organization's spending policy allows for annual distributions of equity to 5% of the current value, which includes contributions to the fund, income earned on such contributions and all gains and losses on such funds.

Endowment composition by type of fund at December 31, 2017:

	Temporarily Restricted	Permanently Restricted	Total
San Diego Foundation	$ 12,577	$ 20,570	$ 33,147
Rancho Santa Fe Foundation	-	29,938	29,938
	$ 12,577	$ 50,508	$ 63,085

Changes in endowment net assets for the year ended December 31, 2017:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at December 31, 2016	$ 8,511	$ 46,910	$ 55,421
Investment return	4,066	3,598	7,664
Endowment Net Assets at December 31, 2017	$ 12,577	$ 50,508	$ 63,085