

**INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2015 AND 2014

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
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BELFINT • LYONS • SHUMAN
Certified Public Accountants

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Independent Auditors' Report

To the Board of Directors of
International Reading Association, Inc.

We have audited the accompanying financial statements of International Reading Association, Inc. d/b/a International Literacy Association (nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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.

To the Board of Directors of
International Reading Association, Inc.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Reading Association, Inc. d/b/a International Literacy Association as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Business Combination

On June 23, 2015, International Reading Association, Inc. was granted sole corporate membership of the Foundation for Impact on Literacy and Learning (Foundation), a separate nonprofit organization. This transaction was treated as an acquisition in accordance with Financial Accounting Standards Board Accounting Standards Codification 958-805, *Business Combination* (Note 15). As a result, the statement of financial position of International Reading Association, Inc. as of June 30, 2015 includes the accounts of the Foundation and the statements of activities, functional expenses, and cash flows for the year ended June 30, 2015 include the activity of the Foundation from June 23, 2015 through June 30, 2015.

Belfint, Lyons & Shuman, P.A.

October 29, 2015
Wilmington, Delaware

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,021,598	\$ 3,058,401
Accounts Receivable - Net	157,394	784,946
Interest Receivable	5,652	1,188
Publication Inventory	175,876	306,267
Prepaid Expenses and Other	648,571	240,012
TOTAL CURRENT ASSETS	<u>4,009,091</u>	<u>4,390,814</u>
OTHER ASSETS		
Investments	12,059,905	13,544,013
Property and Equipment - Net	3,116,135	3,362,107
Assets Held in Charitable Remainder Trust	103,108	107,321
TOTAL OTHER ASSETS	<u>15,279,148</u>	<u>17,013,441</u>
TOTAL ASSETS	<u>\$ 19,288,239</u>	<u>\$ 21,404,255</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 174,287	\$ 563,185
Deferred Revenues	4,319,991	2,519,878
Current Maturities of Capital Lease Payable	3,199	2,961
Accrued Expenses	661,483	566,150
TOTAL CURRENT LIABILITIES	<u>5,158,960</u>	<u>3,652,174</u>
OTHER LIABILITIES		
Amounts Held for Others in Charitable Remainder Trust	76,325	80,407
Capital Lease Payable (Net of Current Maturities)	4,811	8,014
TOTAL OTHER LIABILITIES	<u>81,136</u>	<u>88,421</u>
TOTAL LIABILITIES	<u>5,240,096</u>	<u>3,740,595</u>
NET ASSETS		
Unrestricted		
Undesignated	(2,061,576)	154,551
Board-Designated	15,480,827	17,210,297
Total Unrestricted	<u>13,419,251</u>	<u>17,364,848</u>
Temporarily Restricted	452,109	121,898
Permanently Restricted	176,783	176,914
TOTAL NET ASSETS	<u>14,048,143</u>	<u>17,663,660</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,288,239</u>	<u>\$ 21,404,255</u>

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

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2015 AND 2014

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE AND OTHER SUPPORT				
Journals	\$ 1,305,677	\$ -	\$ -	\$ 1,305,677
Membership	1,922,396	-	-	1,922,396
Publications	1,562,929	-	-	1,562,929
Annual Convention	-	-	-	-
Contributions and Grants	89,413	-	-	89,413
Investment Income	317,543	7,674	-	325,217
Change in Value of Interest in Charitable Trust	-	-	(131)	(131)
Other Revenue	226,964	-	-	226,964
Excess of Assets Acquired Over Liabilities Assumed in Donation of Foundation	200,583	330,524	-	531,107
Total Revenue	5,625,505	338,198	(131)	5,963,572
Net Assets Released from Restrictions	7,987	(7,987)	-	-
TOTAL REVENUE AND OTHER SUPPORT	5,633,492	330,211	(131)	5,963,572
EXPENSES				
Direct Product Cost - Salary and Benefits	1,708,891	-	-	1,708,891
Direct Product Cost - Cost of Goods and Services	1,809,842	-	-	1,809,842
Marketing and Selling Salary and Benefits	331,890	-	-	331,890
Marketing and Selling Expense	792,986	-	-	792,986
Other Operating Salary and Benefits	3,168,203	-	-	3,168,203
Other Operating Expenses	1,767,277	-	-	1,767,277
TOTAL EXPENSES	9,579,089	-	-	9,579,089
CHANGE IN NET ASSETS	(3,945,597)	330,211	(131)	(3,615,517)
NET ASSETS - Beginning of Year	17,364,848	121,898	176,914	17,663,660
NET ASSETS - End of Year	\$ 13,419,251	\$ 452,109	\$ 176,783	\$ 14,048,143

2014

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 1,452,481	\$ -	\$ -	\$ 1,452,481
2,004,543	-	-	2,004,543
2,169,660	-	-	2,169,660
4,235,012	-	-	4,235,012
1,142,539	-	-	1,142,539
1,571,068	43,830	-	1,614,898
-	-	5,025	5,025
266,599	-	-	266,599
-	-	-	-
12,841,902	43,830	5,025	12,890,757
6,000	(6,000)	-	-
12,847,902	37,830	5,025	12,890,757
1,735,966	-	-	1,735,966
2,683,946	-	-	2,683,946
274,763	-	-	274,763
1,156,877	-	-	1,156,877
3,437,922	-	-	3,437,922
3,184,214	-	-	3,184,214
12,473,688	-	-	12,473,688
374,214	37,830	5,025	417,069
16,990,634	84,068	171,889	17,246,591
\$ 17,364,848	\$ 121,898	\$ 176,914	\$ 17,663,660

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

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers, Gifts, and Grants	\$ 7,567,927	\$ 10,613,046
Cash Paid to Suppliers and Employees	(9,868,921)	(11,994,501)
Interest and Dividends Received	494,296	487,558
Interest Paid	-	(967)
	(1,806,698)	(894,864)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(100,125)	(88,375)
Proceeds from Disposal of Property and Equipment	7,164	2,105
Purchase of Investments	(2,341,831)	(6,179,530)
Proceeds from Disposal of Investments	3,652,396	8,231,124
Cash Assumed in Donation of Foundation	555,256	-
	1,772,860	1,965,324
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of Obligations Under Capital Lease	(2,965)	(2,741)
	(2,965)	(2,741)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(36,803)	1,067,719
CASH AND CASH EQUIVALENTS - Beginning of Year	3,058,401	1,990,682
CASH AND CASH EQUIVALENTS - End of Year	\$ 3,021,598	\$ 3,058,401
NONCASH INVESTING AND FINANCING ACTIVITIES		
Accounts Payable Assumed in Donation of Foundation	\$ 24,149	\$ -

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

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
STATEMENTS OF CASH FLOWS - CONTINUED
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (3,615,517)	\$ 417,069
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities		
Depreciation and Amortization	337,741	563,154
Loss on Disposal of Property and Equipment	1,192	2,705
Bad Debt Expense (Reduction of Allowance)	(31,691)	4,655
Increase (Reduction) of Publication Inventory Reserves	20,829	(128,447)
Change in Value of Interest in Charitable Trust	131	(5,025)
Net Realized and Unrealized (Gain) Loss on Investments	173,543	(1,128,789)
Excess of Assets Acquired Over Liabilities Assumed in Donation of Foundation	(531,107)	-
Change in Assets		
Accounts Receivable	659,243	(49,981)
Interest Receivable	(4,464)	1,449
Publication Inventory	109,562	177,573
Prepaid Expenses and Other	(408,559)	98,164
Change in Liabilities		
Accounts Payable	(413,047)	59,407
Deferred Revenue	1,800,113	(610,512)
Accrued Expenses	95,333	(296,286)
NET CASH FROM OPERATING ACTIVITIES	\$ (1,806,698)	\$ (894,864)

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

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1: NATURE OF ACTIVITIES

Nature of Activities - International Reading Association, Inc. (IRA) is a 501(c)(3) tax-exempt organization. Its mission is to promote literacy worldwide by improving the quality of reading instruction through the study of the reading process and teaching techniques, to serve as a clearinghouse for the dissemination of reading research through conferences, journals, and other publications, and to actively encourage the lifetime reading habit.

As of June 30, 2014, International Reading Association, Inc. operated under the name International Literacy Association. Management formed a separate Delaware nonprofit corporation in 2015 under the name International Literacy Association (ILA) for the purpose of receiving 100% of the activities of International Reading Association, Inc. The purpose of transferring 100% of the activities to ILA will allow the organization to move jurisdiction from Pennsylvania to Delaware, which is the jurisdiction of its operations. The transfer of assets, liabilities, and activities is expected to occur in January 2016. Upon the completion of the transfer, IRA will cease its existence leaving ILA as the surviving organization. As of and prior to June 30, 2015, ILA had no net assets or activities.

On June 23, 2015, International Reading Association, Inc. was granted sole corporate membership of the Foundation for Impact on Literacy and Learning (Foundation), a separate nonprofit organization. This transaction was treated as an acquisition in accordance with Financial Accounting Standards Board Accounting Standards Codification 958-805, *Business Combination* (Note 15). As a result, the statement of financial position of International Reading Association, Inc. as of June 30, 2015 includes the accounts of the Foundation and the statements of activities, functional expenses, and cash flows for the year ended June 30, 2015 include the activity of the Foundation from June 23, 2015 through June 30, 2015.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - Transactions between IRA and the Foundation subsequent to the date of acquisition are eliminated. The term "Association" in these financial statements is used to describe IRA prior to the date of acquisition and the consolidated reporting unit subsequent to the date of acquisition.

Comparability of Financial Statements - The Association traditionally conducts an annual conference. The revenue from the conference comprises a significant portion of the Association's revenue. During the year ended June 30, 2014, annual conference revenue was \$4,235,012, or 33% of total revenue. In prior years, the conference occurred at a date close to but prior to the end of the Association's fiscal year. The Association decided to move the timing of its annual conference, beginning with its 2015 conference, to July. As a result, there is no annual conference revenue recognized during the year ended June 30, 2015.

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Authoritative guidance requires that net assets and revenues, gains, expenses, and losses be classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

Permanently Restricted - Net assets subject to donor-imposed stipulations that are maintained permanently by the Association.

Temporarily Restricted - Net assets whose use by the Association is subject to donor-imposed stipulations that can be fulfilled by actions of the Association pursuant to those stipulations or that expire by the passage of time.

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purpose by action of the Board of Directors.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Cash and Cash Equivalents - Cash and cash equivalents represent short-term securities purchased with an original maturity of three months or less and money market mutual funds. Cash equivalents are readily convertible to cash and are stated at fair value.

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. The allowance for doubtful accounts was \$13,904 and \$45,595 as of June 30, 2015 and 2014, respectively.

Investments - Investments are carried at fair value. Investments in equity securities and debt securities with readily determinable fair values are determined based on quoted market prices.

Investment sales and purchases are determined by the specific identification method and are recorded on the trade date. Changes in fair value of investments are recognized as increases or decreases in unrestricted net assets unless

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investments - continued - their use is temporarily or permanently restricted by explicit donor stipulations or by law. Unrealized gains and losses are included in revenue and other support.

The Association also invests in a variety of alternative investments. Such investments are accounted for at estimated fair value and are disclosed in the aggregate as “Alternative Investments” in Note 4.

Publication Inventory - Publication inventory is valued at the lower of cost or market determined using the first-in, first-out basis. The Association estimates a reserve for obsolescence and slow-moving inventory based on a historical analysis of the quantity-on-hand compared to actual sales. Inactive products are reserved at 100%.

Property, Plant, and Equipment - Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as support at their estimated fair value. Land is recorded at cost and is not depreciated. Maintenance and repairs are charged to expense as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets. Useful lives of depreciable assets are as follows:

Buildings and Improvements	15 to 40 Years
Furniture, Equipment, and Software	3 to 7 Years
Vehicles	7 Years

Prepaid Expenses - Prepaid expenses include postage, insurance, conference expenses, and travel advances.

Deferred Revenue and Revenue Recognition - Revenue from memberships and journal subscriptions is deferred and recognized on a straight-line basis over the term of the membership or subscription, which is primarily for one year.

Conference fees and related expenses are recognized in the period in which the event is held. Revenue from sale of publications is generally recognized when the product is shipped. Advertising and rental income are recorded on the accrual basis.

Income Taxes - The Association is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been determined by the Internal Revenue Service (IRS) not to be a “private foundation” within the meaning of Section 509(a)(2) of the IRC.

Income not related to the Association’s tax-exempt purpose may be subject to taxation as unrelated business

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes - continued - income. Accounting principles generally accepted in the United States of America impose a threshold for determining when an income tax benefit can be recognized in regard to uncertain tax positions. The Association has determined that no liability for uncertain tax positions is required to be accrued and included in the statements of financial position as of June 30, 2015 and 2014.

The federal informational returns of the Association for the years ended June 30, 2012, 2013 and 2014 are subject to examination by the IRS, generally for three years after they were filed.

Advertising - Non-direct-response advertising costs are expensed as incurred. Advertising expenses for the years ended June 2015 and 2014 were \$108,648 and \$278,347, respectively. Direct-response advertising costs related to the annual conference are capitalized and recognized as expenses upon the occurrence of the conference. Capitalized advertising costs for the years ended June 2015 and 2014 were \$49,953 and \$0, respectively.

Shipping and Handling - Shipping and handling costs are expensed as incurred. Shipping and handling costs were \$163,215 and \$178,737 for the years ended June 30, 2015 and 2014, respectively.

Use of 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 disclosure 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.

Concentration of Credit Risk - The Association maintains its cash and cash equivalents in various financial institutions that, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Other financial instruments that potentially subject the Association to concentrations of credit risk consist principally of accounts receivable and investments. Concentrations of credit risk with respect to accounts receivable are limited due to the number of customers comprising the receivable balance and their dispersion throughout the country. Concentrations of credit risk with respect to investments are limited due to the placement of its investments with several professional investment advisors subject to the Association's investment policy.

Subsequent Events - The Association's policy is to evaluate events and transactions subsequent to its year end for potential recognition in the financial statements or disclosure in the notes to the financial statements. Management has evaluated events and transactions through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 3: PUBLICATION INVENTORY

Publication inventory is comprised of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Work-In-Progress	\$ 13,937	\$ 13,173
Finished Goods	547,163	659,879
Other Merchandise	<u>3,142</u>	<u>752</u>
	564,242	673,804
Less: Obsolescence Reserve	<u>388,366</u>	<u>367,537</u>
	<u>\$ 175,876</u>	<u>\$ 306,267</u>

NOTE 4: INVESTMENTS

Investments consisted of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Cash Funds Restricted for Endowment	\$ 12,351	\$ 8,421
Equity Securities	425,694	525,168
Mutual Funds		
International Equity	1,364,852	1,550,919
Domestic Equity	2,979,997	3,426,841
Fixed Income	3,803,584	4,095,700
Other Funds	463,677	698,797
Debt Instruments		
Mortgage-Backed Securities	21,296	26,785
Alternative Investments	<u>2,988,454</u>	<u>3,211,382</u>
Total Investments	<u>\$ 12,059,905</u>	<u>\$ 13,544,013</u>

Estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. Alternative investments are carried at their net asset value per share, as a practical expedient, as provided by the investment managers. Alternative investments are primarily in private equity funds, in which the underlying investments are in limited partnerships, venture capital partnerships and buyout funds, and real estate funds. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty, and therefore may differ from the value that would have been used had a ready market for such investments existed. These instruments may contain elements of both credit risk and market risk. Such risks

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 4: INVESTMENTS - CONTINUED

include, but are not limited to: limited liquidity, absence of oversight, dependence on key individuals, emphasis on speculative investments, and nondisclosure of portfolio composition.

The Association reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining fair value of the alternative investments. The Association requests, receives, and reviews the audited financial statements from all investment managers.

Investment income consisted of the following for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Unrealized Gains (Losses)	\$ (202,071)	\$ 21,682
Realized Gains	28,528	1,107,107
Interest and Dividends	529,964	525,244
Investment Advisory Fees	<u>(31,204)</u>	<u>(39,135)</u>
Total Investment Income	<u>\$ 325,217</u>	<u>\$ 1,614,898</u>

Under the terms of certain limited partnership agreements, the Association is obligated to periodically advance additional funding. As of June 30, 2015 and 2014, the Association had outstanding commitments of approximately \$141,250 and \$234,350, respectively, to provide funding to limited partnerships (Note 10).

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Land	\$ 1,089,848	\$ 1,089,848
Buildings and Improvements	4,593,528	4,593,528
Furniture, Equipment, and Software	4,625,236	4,755,154
Vehicles	-	23,718
Construction in Progress	<u>24,047</u>	<u>-</u>
	10,332,659	10,462,248
Accumulated Depreciation and Amortization	<u>(7,216,524)</u>	<u>(7,100,141)</u>
Property and Equipment - Net	<u>\$ 3,116,135</u>	<u>\$ 3,362,107</u>

Total depreciation and amortization expense for the years ended June 30, 2015 and 2014 was \$337,741 and \$563,154, respectively.

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 6: SPLIT-INTEREST AGREEMENTS

The Association holds investments as the trustee of a charitable remainder trust. During the term of the trust, the Association will make payments annually to the designated income beneficiary equal to 6% of the fair value of the trust's assets on the first day of the year. Upon the death of the income beneficiary, the Association will receive the undistributed remainder of the principal and income in the trust.

The trust's assets are measured at fair value and are reported in the statements of financial position as assets held in charitable remainder trust in the amount of \$103,108 and \$107,321 as of June 30, 2015 and 2014, respectively. The Association recognizes a liability for the estimated present value of payments to be made to the income beneficiary. The liability is reported in the statements of financial position as amounts held for others in charitable remainder trust. The liability was determined using the estimated life expectancy of the income beneficiary and was discounted to present value using a rate of 8%, based on the estimated rate of return on the trust's portfolio assets. As of June 30, 2015 and 2014, the liability was \$76,325 and \$80,407, respectively. The remainder of principal and interest to be received by the Association is restricted to an endowment fund for public education awards. As a result, net assets from the Association's irrevocable beneficial interest in charitable remainder trusts are reported as permanently restricted.

NOTE 7: EMPLOYEE RETIREMENT PLAN

The Association sponsors a defined contribution (money purchase) retirement plan (Plan) for the benefit of its employees. All salaried employees who work 1,000 hours or more per year are eligible to participate in the Plan. The Plan is funded by Association contributions of 9% of each participant's compensation. These contributions vest immediately. Employees may voluntarily elect to supplement the Association's contributions. Expenses associated with the Plan amounted to \$322,786 and \$333,164 during the years ended June 30, 2015 and 2014, respectively.

NOTE 8: COMMITMENTS AND CONTINGENCIES

As of June 30, 2015, the Association had commitments of approximately \$711,548 for conference-related services, which are expected to be incurred between 2016 and 2021.

NOTE 9: NET ASSETS

The Board of Directors retains full control over the unrestricted board-designated net assets to achieve any of its institutional purposes. As of June 30, 2015 and 2014, the Association maintained board-designated net assets for several projects.

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 9: NET ASSETS - CONTINUED

Temporarily restricted net assets consisted of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Cumulative Earnings on Endowed Funds - Restricted for Research	\$ 121,585	\$ 121,898
Foundation - Lead2Feed World Hunger Leadership Challenge	303,067	-
Foundation - Dream Up Program	2,678	-
Foundation - Panasonic Student Eco Citizenship Project	<u>24,779</u>	<u>-</u>
	<u>\$ 452,109</u>	<u>\$ 121,898</u>

Permanently restricted net assets consisted of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Corpus of Endowed Funds (Note 11)	\$ 150,000	\$ 150,000
Beneficial Interest in Charitable Remainder Trust	<u>26,783</u>	<u>26,914</u>
	<u>\$ 176,783</u>	<u>\$ 176,914</u>

NOTE 10: FAIR VALUE MEASUREMENTS

The Association follows the provisions of Financial Accounting Standards Board Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosure*. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Association has the ability to access. Since valuations are based on quoted market prices that are readily and regularly available in an active market, it does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

INTERNATIONAL READING ASSOCIATION, INC.
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 10: FAIR VALUE MEASUREMENTS - CONTINUED

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair values of assets measured on a recurring basis as of June 30 were as follows:

	2015			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Cash Funds	\$ 12,351	\$ 12,351	\$ -	\$ -
Equity Securities	425,694	425,694	-	-
Mutual Funds				
International Equity	1,364,852	1,364,852	-	-
Domestic Equity	2,979,997	2,979,997	-	-
Fixed Income	3,803,584	3,803,584	-	-
Other Funds	463,677	463,677	-	-
Debt Instruments				
Mortgage-Backed Securities	21,296	21,296	-	-
Alternative Investments	<u>2,988,454</u>	<u>-</u>	<u>-</u>	<u>2,988,454</u>
Total Investments	12,059,905	9,071,451	-	2,988,454
Assets Held in Charitable Trust	<u>103,108</u>	<u>103,108</u>	<u>-</u>	<u>-</u>
Assets Measured at Fair Value	<u>\$ 12,163,013</u>	<u>\$ 9,174,559</u>	<u>\$ -</u>	<u>\$ 2,988,454</u>

INTERNATIONAL READING ASSOCIATION, INC.
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 10: FAIR VALUE MEASUREMENTS - CONTINUED

	2014			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Cash Funds	\$ 8,421	\$ 8,421	\$ -	\$ -
Equity Securities	525,168	525,168	-	-
Mutual Funds				
International Equity	1,550,919	1,550,919	-	-
Domestic Equity	3,426,841	3,426,841	-	-
Fixed Income	4,095,700	4,095,700	-	-
Other Funds	698,797	698,797	-	-
Debt Instruments				
Mortgage-Backed Securities	26,785	26,785	-	-
Alternative Investments	3,211,382	-	-	3,211,382
Total Investments	13,544,013	10,332,631	-	3,211,382
Assets Held in Charitable Trust	107,321	107,321	-	-
Assets Measured at Fair Value	<u>\$ 13,651,334</u>	<u>\$ 10,439,952</u>	<u>\$ -</u>	<u>\$ 3,211,382</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

Assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) were as follows for the years ended June 30:

	2015	2014
Balance - Beginning of Year	\$ 3,211,382	\$ 5,140,226
Gains on Investments	283,870	96,594
Liquidations of Investments (Net)	(506,798)	(2,025,438)
Balance - End of Year	<u>\$ 2,988,454</u>	<u>\$ 3,211,382</u>

INTERNATIONAL READING ASSOCIATION, INC.
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 10: FAIR VALUE MEASUREMENTS - CONTINUED

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) were as follows as of June 30:

2015				
Class of Investment	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Alternative Investments				
Absolute Return Funds	(a) \$ 1,304,328	\$ -	Semi-Annual	90 Days
Real Estate Funds	(b) 261,327	18,250	N/A	N/A
Private Equity Funds	(c) <u>1,422,799</u>	<u>123,000</u>	N/A	N/A
Total	<u>\$ 2,988,454</u>	<u>\$ 141,250</u>		
2014				
Class of Investment	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Alternative Investments				
Absolute Return Funds	(a) \$ 1,249,402	\$ -	Semi-Annual	90 Days
Real Estate Funds	(b) 359,965	22,250	N/A	N/A
Private Equity Funds	(c) <u>1,602,015</u>	<u>212,100</u>	N/A	N/A
Total	<u>\$ 3,211,382</u>	<u>\$ 234,350</u>		

- (a) *Absolute Return Fund* - Investments in this category focus on multi-strategy investing including, but not limited to, a variety of arbitrage strategies, distressed investments, private equity, long/short equity, special situations, and convertible hedging. These funds can be redeemed semi-annually with a 90-day notice period.
- (b) *Real Estate Funds* - This category's investments include any interest in or vehicle relating to real estate assets. As of June 30, 2015 and 2014, there were no redemption provisions for these funds. Distributions of available funds are made at the manager's discretion.
- (c) *Private Equity Funds* - Holdings in this category include private equity, venture capital funds, buyout funds, secondary funds, and direct investments. As of June 30, 2015 and 2014, there were no redemption provisions for these funds. Distributions of available funds are made at the manager's discretion.

INTERNATIONAL READING ASSOCIATION, INC.
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 11: ENDOWMENT FUNDS

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Association's endowment consists of a portfolio of actively managed funds established to provide both a source of operating funds and long-term financial stability. The endowment includes donor-restricted endowment funds and endowment funds designated by the Board of Directors to function as quasi-endowments.

Interpretation of Relevant Law - The Association has interpreted the statute as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Interest and dividends earned on the endowment funds are classified as temporarily restricted in accordance with the donor's wishes.

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "historic dollar value." Deficiencies of this nature are reported by a charge to unrestricted net assets and a corresponding increase to either permanently restricted net assets or temporarily restricted net assets as appropriate. As of June 30, 2015 and 2014, the Association did not record any charges to unrestricted net assets for deficiencies in funds.

Endowment Spending Policy - The Association's policy stipulates that spending from quasi-endowment and endowment can be up to 5% of the December 31 market value prior to the start of the fiscal year.

Return Objectives and Risk Parameters - The Association has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that equal or exceed annual inflation while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

INTERNATIONAL READING ASSOCIATION, INC.
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 11: ENDOWMENT FUNDS - CONTINUED

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Association relies on a strategy in which investment returns are achieved through current yield (interest and dividends). The Association targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Endowment Composition -

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted - Endowment Funds	\$ -	\$ 121,585	\$ 150,000	\$ 271,585
Board-Designated Funds	12,213,910	-	-	12,213,910
Total	<u>\$ 12,213,910</u>	<u>\$ 121,585</u>	<u>\$ 150,000</u>	<u>\$ 12,485,495</u>
	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted - Endowment Funds	\$ -	\$ 121,898	\$ 150,000	\$ 271,898
Board-Designated Funds	13,888,380	-	-	13,888,380
Total	<u>\$ 13,888,380</u>	<u>\$ 121,898</u>	<u>\$ 150,000</u>	<u>\$ 14,160,278</u>

Endowment Fund Activity - Changes in the fund's net assets for the year ended June 30, 2015 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Fund's Net Assets - July 1, 2014	\$ 13,888,380	\$ 121,898	\$ 150,000	\$ 14,160,278
Interest and Dividends	521,488	8,476	-	529,964
Unrealized Losses on Investments	(189,161)	(12,910)	-	(202,071)
Realized Gains on Investments	15,626	12,902	-	28,528
Investment Advisory Fees	(30,410)	(794)	-	(31,204)
Appropriated for Expenditure	(1,992,013)	(7,987)	-	(2,000,000)
Fund's Net Assets - June 30, 2015	<u>\$ 12,213,910</u>	<u>\$ 121,585</u>	<u>\$ 150,000</u>	<u>\$ 12,485,495</u>

INTERNATIONAL READING ASSOCIATION, INC.
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 11: ENDOWMENT FUNDS - CONTINUED

Endowment Fund Activity - continued

Changes in the fund's net assets for the year ended June 30, 2014 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Fund's Net Assets - July 1, 2013	\$ 14,612,663	\$ 84,068	\$ 150,000	\$ 14,846,731
Interest and Dividends	518,291	6,953	-	525,244
Unrealized Gains on Investments	12,108	9,574	-	21,682
Realized Gains on Investments	1,079,152	27,955	-	1,107,107
Investment Advisory Fees	(38,483)	(652)	-	(39,135)
Appropriated for Expenditure	<u>(2,295,351)</u>	<u>(6,000)</u>	<u>-</u>	<u>(2,301,351)</u>
Fund's Net Assets - June 30, 2014	<u><u>\$ 13,888,380</u></u>	<u><u>\$ 121,898</u></u>	<u><u>\$ 150,000</u></u>	<u><u>\$ 14,160,278</u></u>

NOTE 12: LEASES

The Association leases copiers and printers for various terms under noncancelable operating lease agreements. The leases expire at various dates through March 2018. The Association leases equipment under a capital lease agreement expiring October 2017. The asset and liability under the capital lease are originally recorded at the present value of the minimum lease payments. Rental expense for the years ended June 30, 2015 and 2014 totaled \$33,180 and \$36,888, respectively. The following is a summary of the equipment held under capital leases as of June 30:

	<u>2015</u>	<u>2014</u>
Equipment	\$ 15,429	\$ 15,429
Less: Accumulated Depreciation	<u>8,229</u>	<u>5,143</u>
	<u><u>\$ 7,200</u></u>	<u><u>\$ 10,286</u></u>

INTERNATIONAL READING ASSOCIATION, INC.
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 12: LEASES - CONTINUED

As of June 30, 2015, future minimum lease payments and the present value of minimum capital lease payments are approximately:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2016	\$ 3,708	\$ 33,180
2017	3,708	33,180
2018	<u>1,382</u>	<u>24,885</u>
Total Future Minimum Lease Payments	8,798	<u>\$ 91,245</u>
Less: Amount Representing Imputed Interest	<u>788</u>	
Present Value of Future Minimum Lease Payments	8,010	
Less: Current Maturities	<u>3,199</u>	
Capital Lease Obligations - Net of Current Maturities	<u>\$ 4,811</u>	

The Association leases out office space for various terms under noncancelable operating lease agreements. The leases expire at various dates through April 2019. Rental income for the years ended June 30, 2015 and 2014 totaled \$144,737 and \$130,409, respectively.

As of June 30, 2015, future minimum rental payments to be received on noncancelable operating leases are contractually due as follows:

	<u>Operating Leases</u>
2016	\$ 126,329
2017	88,196
2018	66,520
2019	65,729
2020	<u>45,478</u>
Total Future Minimum Rental Payments	<u>\$ 392,252</u>

INTERNATIONAL READING ASSOCIATION, INC.
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 13: CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. As June 30, 2015 and 2014, the Association had \$2,229,432 and \$2,108,081 in excess of FDIC-insured limits, respectively.

NOTE 14: EXPENSES BY FUNCTIONAL CLASSIFICATION

The costs of providing various programs and other activities have not been summarized on a functional basis in the statements of activities. Expenses by function were as follows for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Program Services	\$ 7,941,550	\$ 10,673,913
Supporting Services		
Management and General	1,545,408	1,679,234
Fundraising	<u>92,131</u>	<u>120,541</u>
Total Expenses	<u>\$ 9,579,089</u>	<u>\$ 12,473,688</u>

NOTE 15: BUSINESS COMBINATION

On June 23, 2015, the articles of incorporation for Foundation for Impact on Literacy and Learning (Foundation) were restated to name International Literacy Association the sole corporate member of the Foundation. The Foundation is a 501(c)(3) tax-exempt organization whose purpose is to support the programs of the Association. The acquisition occurred because the Foundation's former parent company experienced a corporate restructuring and they felt a change in control would be in the best interest for the Foundation.

The following table summarizes the amounts of assets acquired and liabilities assumed recognized at the acquisition date:

Cash	\$ 555,256
Accounts Payable Assumed	<u>(24,149)</u>
Excess of Assets Acquired Over Liabilities Assumed in Donation of Foundation	<u>\$ 531,107</u>

INTERNATIONAL READING ASSOCIATION, INC.
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 15: BUSINESS COMBINATION - CONTINUED

In addition to the assets acquired and liabilities assumed as a result of the acquisition, the following balances and activities from the Foundation have been included in the financial statements as of or for the year ended June 30, 2015:

Cash	\$ 531,169
Account Payable	15,139
Interest Income	62
Expenses	15,139

NOTE 16: RECLASSIFICATIONS

Certain accounts in the prior year statement of financial position have been reclassified for comparative purposes to conform to the current year presentation. These reclassifications had no effect on previously reported changes in net assets or total net assets.