

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

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2016

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of International Reading Association, Inc. d/b/a International Literacy Association and affiliate (nonprofit organizations), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated 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 and affiliate as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position, consolidating statement of activities, and schedules of functional expenses included on pages 20 through 23 are presented for purposes of additional analysis and are not required parts of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Belfint, Lyons & Shuman, P.A.

October 17, 2016
Wilmington, Delaware

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

CURRENT ASSETS	
Cash and Cash Equivalents	\$ 2,464,215
Accounts Receivable - Net	108,398
Interest Receivable	1,433
Publication Inventory	86,368
Prepaid Expenses and Other	<u>1,144,966</u>
TOTAL CURRENT ASSETS	<u>3,805,380</u>
OTHER ASSETS	
Investments	9,730,095
Property and Equipment - Net	2,180,796
Assets Held in Charitable Remainder Trust	<u>96,753</u>
TOTAL OTHER ASSETS	<u>12,007,644</u>
TOTAL ASSETS	<u><u>\$ 15,813,024</u></u>
CURRENT LIABILITIES	
Accounts Payable	\$ 144,482
Deferred Revenues	3,970,697
Accrued Expenses	<u>575,779</u>
TOTAL CURRENT LIABILITIES	4,690,958
OTHER LIABILITIES	
Amounts Held for Others in Charitable Remainder Trust	<u>72,733</u>
TOTAL LIABILITIES	<u>4,763,691</u>
NET ASSETS	
Unrestricted	
Undesignated	(2,361,493)
Board-Designated	<u>12,643,159</u>
Total Unrestricted	10,281,666
Temporarily Restricted	593,647
Permanently Restricted	<u>174,020</u>
TOTAL NET ASSETS	<u>11,049,333</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 15,813,024</u></u>

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

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT				
Membership	\$ 1,587,833	\$ -	\$ -	\$ 1,587,833
Educational Resources	2,458,755	-	-	2,458,755
Annual Conference	2,934,649	-	-	2,934,649
Contributions and Grants	1,026,271	478,017	-	1,504,288
Investment Income (Loss)	(50,143)	45	-	(50,098)
Change in Value of Interest in Charitable Trust	-	-	(2,763)	(2,763)
Other Revenue	427,936	-	-	427,936
	<u>8,385,301</u>	<u>478,062</u>	<u>(2,763)</u>	<u>8,860,600</u>
Total Revenue	8,385,301	478,062	(2,763)	8,860,600
Net Assets Released from Restrictions	<u>336,524</u>	<u>(336,524)</u>	<u>-</u>	<u>-</u>
	<u>8,721,825</u>	<u>141,538</u>	<u>(2,763)</u>	<u>8,860,600</u>
TOTAL REVENUE AND OTHER SUPPORT				
EXPENSES				
Program Services				
Membership	2,852,031	-	-	2,852,031
Educational Resources	2,604,434	-	-	2,604,434
Annual Conference	2,952,764	-	-	2,952,764
Other Programs	1,125,908	-	-	1,125,908
	<u>9,535,137</u>	<u>-</u>	<u>-</u>	<u>9,535,137</u>
Total Program Services	9,535,137	-	-	9,535,137
Supporting Services				
Management and General	2,182,083	-	-	2,182,083
Fundraising	142,190	-	-	142,190
	<u>2,324,273</u>	<u>-</u>	<u>-</u>	<u>2,324,273</u>
Total Supporting Services	2,324,273	-	-	2,324,273
	<u>11,859,410</u>	<u>-</u>	<u>-</u>	<u>11,859,410</u>
TOTAL EXPENSES	<u>11,859,410</u>	<u>-</u>	<u>-</u>	<u>11,859,410</u>
CHANGE IN NET ASSETS	<u>(3,137,585)</u>	<u>141,538</u>	<u>(2,763)</u>	<u>(2,998,810)</u>
NET ASSETS - Beginning of Year	<u>13,419,251</u>	<u>452,109</u>	<u>176,783</u>	<u>14,048,143</u>
NET ASSETS - End of Year	<u>\$ 10,281,666</u>	<u>\$ 593,647</u>	<u>\$ 174,020</u>	<u>\$ 11,049,333</u>

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

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers, Gifts, and Grants	\$ 8,250,147
Cash Paid to Suppliers and Employees	(12,218,077)
Interest and Dividends Received	240,019
Interest Paid	<u>(503)</u>
NET CASH FROM OPERATING ACTIVITIES	<u>(3,728,414)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Property and Equipment	(34,857)
Proceeds from Disposal of Property and Equipment	1,165,175
Purchase of Investments	(940,918)
Proceeds from Disposal of Investments	<u>2,984,830</u>
NET CASH FROM INVESTING ACTIVITIES	<u>3,174,230</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments of Obligations Under Capital Lease	<u>(3,199)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(557,383)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>3,021,598</u>
CASH AND CASH EQUIVALENTS - End of Year	<u><u>\$ 2,464,215</u></u>

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

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
CONSOLIDATED STATEMENT OF CASH FLOWS - CONTINUED
YEAR ENDED JUNE 30, 2016

**RECONCILIATION OF CHANGE IN NET ASSETS TO NET
NET CASH FROM OPERATING ACTIVITIES**

Change in Net Assets	\$ (2,998,810)
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities	
Depreciation and Amortization	167,190
Gain on Disposal of Property and Equipment	(366,980)
Bad Debt Expense	2,107
Reduction of Publication Inventory Reserves	(292,788)
Change in Value of Interest in Charitable Trust	2,763
Net Realized and Unrealized Loss on Investments	285,898
Change in Assets	
Accounts Receivable	46,889
Interest Receivable	4,219
Publication Inventory	382,296
Prepaid Expenses and Other	(496,395)
Change in Liabilities	
Accounts Payable	(29,805)
Deferred Revenue	(349,294)
Accrued Expenses	<u>(85,704)</u>
NET CASH FROM OPERATING ACTIVITIES	<u><u>\$ (3,728,414)</u></u>

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

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

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 July 2017. Upon the completion of the transfer, IRA will cease its existence leaving ILA as the surviving organization. As of and prior to June 30, 2016, 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*. The Foundation supports the programs of IRA.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of IRA and the Foundation. All intercompany accounts and transactions have been eliminated. In these consolidated financial statements, IRA and the Foundation are collectively referred to as the Association.

Presentation of Single-Year Consolidated Financial Statements - The Association traditionally conducts an annual conference. The revenue from the conference comprises a significant portion of the Association's 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. Annual conference revenue for the year ended June 30, 2016 was \$2,934,649. Due to the change in timing of the annual conference, there was no annual conference revenue recognized during the year ended June 30, 2015. As a result of this lack of comparability, the Association is presenting its June 30, 2016 consolidated financial statements in a single year presentation.

Basis of Presentation - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation - continued - 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 \$14,751 as of June 30, 2016.

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 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.

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investments - continued - 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 - IRA and the Foundation are nonprofit organizations exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and, therefore, no provision for federal income taxes is included in the accompanying consolidated financial statements. In addition, the organizations qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been determined by the Internal Revenue Service (IRS) not to be “private foundations” within the meaning of Section 509(a)(2) of the IRC.

Income not related to the organizations’ tax-exempt purposes may be subject to taxation as unrelated business 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

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes - continued - determined that no liability for uncertain tax positions is required to be accrued and included in the consolidated statement of financial position as of June 30, 2016.

The federal informational returns of IRA and the Foundation for fiscal years ended in 2013, 2014, and 2015 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 year ended June 30, 2016 was \$233,193. 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 year ended June 30, 2016 was \$32,838.

Shipping and Handling - Shipping and handling costs for educational resource publications and materials are expensed as incurred. Shipping and handling costs were \$130,753 for the year ended June 30, 2016.

Use of Estimates - The preparation of consolidated 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 consolidated 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. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As June 30, 2016, the Association had \$1,368,830 in excess of FDIC-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 a professional investment advisor that oversees the portfolio's managers.

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

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 3: PUBLICATION INVENTORY

Publication inventory is comprised of the following as of June 30, 2016:

Finished Goods	\$	176,202
Other Merchandise		<u>5,743</u>
		181,945
Less: Obsolescence Reserve		<u>95,577</u>
	\$	<u><u>86,368</u></u>

NOTE 4: INVESTMENTS

Investments consisted of the following as of June 30, 2016:

Cash Funds Restricted for Endowment	\$	15,273
Equity Securities		292,654
Mutual Funds		
International Equity		804,629
Domestic Equity		2,151,107
Fixed Income		3,638,108
Other Funds		196,510
Debt Instruments		
Mortgage-Backed Securities		18,781
Alternative Investments		<u>2,613,033</u>
Total Investments	\$	<u><u>9,730,095</u></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 include, but are not limited to: limited liquidity, absence of oversight, dependence on key individuals, emphasis on speculative investments, and nondisclosure of portfolio composition.

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 4: INVESTMENTS - CONTINUED

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 consolidated financial statements from all investment managers.

Investment loss consisted of the following for the year ended June 30, 2016:

Unrealized Losses	\$ (347,411)
Realized Gains	61,513
Interest and Dividends	261,516
Investment Advisory Fees	<u>(25,716)</u>
 Total Investment Loss	 <u><u>\$ (50,098)</u></u>

Under the terms of certain limited partnership agreements, the Association is obligated to periodically advance additional funding. As of June 30, 2016, the Association had outstanding commitments of approximately \$84,700 to provide funding to limited partnerships (Note 10).

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2016:

Land	\$ 1,089,848
Buildings and Improvements	3,047,578
Furniture, Equipment, and Software	<u>4,555,229</u>
	8,692,655
Accumulated Depreciation and Amortization	<u>(6,511,859)</u>
 Property and Equipment - Net	 <u><u>\$ 2,180,796</u></u>

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.

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 6: SPLIT-INTEREST AGREEMENTS - CONTINUED

The trust's assets are measured at fair value and are reported in the consolidated statement of financial position as assets held in charitable remainder trust in the amount of \$96,753 as of June 30, 2016. 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 consolidated statement 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, 2016, the liability was \$72,733. 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 \$347,292 during the year ended June 30, 2016.

NOTE 8: COMMITMENTS AND CONTINGENCIES

As of June 30, 2016, the Association had commitments of approximately \$1,741,055 for conference-related services, which are expected to be incurred between 2017 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, 2016, the Association maintained board-designated net assets for several projects.

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 9: NET ASSETS - CONTINUED

Temporarily restricted net assets consisted of the following as of June 30, 2016:

Cumulative Earnings on Endowed Funds - Restricted for Research	\$ 115,630
Delaware Early Literacy Project	80,615
Foundation - Lead2Feed World Hunger Leadership Challenge	347,402
Foundation - Panasonic Student Eco Citizenship Project	<u>50,000</u>
	<u><u>\$ 593,647</u></u>

Permanently restricted net assets consisted of the following as of June 30, 2016:

Corpus of Endowed Funds (Note 11)	\$ 150,000
Beneficial Interest in Charitable Remainder Trust	<u>24,020</u>
	<u><u>\$ 174,020</u></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.

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

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 10: FAIR VALUE MEASUREMENTS - CONTINUED

Fair values of assets measured on a recurring basis as of June 30, 2016 were as follows:

	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	\$ 15,273	\$ 15,273	\$ -	\$ -
Equity Securities	292,654	292,654	-	-
Mutual Funds				
International Equity	804,629	804,629	-	-
Domestic Equity	2,151,107	2,151,107	-	-
Fixed Income	3,638,108	3,638,108	-	-
Other Funds	196,510	196,510	-	-
Debt Instruments				
Mortgage-Backed Securities	18,781	18,781	-	-
Alternative Investments	<u>2,613,033</u>	<u>-</u>	<u>-</u>	<u>2,613,033</u>
 Total Investments	 9,730,095	 7,117,062	 -	 2,613,033
 Assets Held in Charitable Trust	 <u>96,753</u>	 <u>96,753</u>	 <u>-</u>	 <u>-</u>
 Assets Measured at Fair Value	 <u>\$ 9,826,848</u>	 <u>\$ 7,213,815</u>	 <u>\$ -</u>	 <u>\$ 2,613,033</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 year ended June 30, 2016:

Balance - Beginning of Year	\$ 2,988,454
Losses on Investments	(216,820)
Liquidations of Investments (Net)	<u>(158,601)</u>
Balance - End of Year	<u>\$ 2,613,033</u>

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

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, 2016:

<u>Class of Investment</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Alternative Investments				
Absolute Return Funds	(a) \$ 1,224,108	\$ -	Semi-Annual	90 Days
Real Estate Funds	(b) 290,361	14,500	N/A	N/A
Private Equity Funds	(c) <u>1,098,564</u>	<u>70,200</u>	N/A	N/A
Total	<u>\$ 2,613,033</u>	<u>\$ 84,700</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, 2016, 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, 2016, there were no redemption provisions for these funds. Distributions of available funds are made at the manager's discretion.

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.

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 11: ENDOWMENT FUNDS - CONTINUED

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, 2016, 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.

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.

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 11: ENDOWMENT FUNDS - CONTINUED

Endowment Composition -

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted - Endowment Funds	\$ -	\$ 115,630	\$ 150,000	\$ 265,630
Board-Designated Funds	10,204,047	-	-	10,204,047
Total	\$ 10,204,047	\$ 115,630	\$ 150,000	\$ 10,469,677

Endowment Fund Activity - Changes in the fund's net assets for the year ended June 30, 2016 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Fund's Net Assets - July 1, 2015	\$ 12,213,910	\$ 121,585	\$ 150,000	\$ 12,485,495
Interest and Dividends	252,993	8,523	-	261,516
Unrealized Losses on Investments	(335,238)	(12,173)	-	(347,411)
Realized Gains on Investments	57,026	4,487	-	61,513
Investment Advisory Fees	(24,924)	(792)	-	(25,716)
Contributions/Deposits	976,330	-	-	976,330
Appropriated for Expenditure	(2,936,050)	(6,000)	-	(2,942,050)
Fund's Net Assets - June 30, 2016	\$ 10,204,047	\$ 115,630	\$ 150,000	\$ 10,469,677

NOTE 12: LEASES

The Association leases copiers and printers under a noncancelable operating lease agreement which expires in March 2018. Rental expense for the year ended June 30, 2016 totaled \$33,180.

As of June 30, 2016, future minimum lease payments are approximately:

2017	\$ 33,180
2018	<u>24,885</u>
	<u>\$ 58,065</u>

The Association leases out office space for various terms under noncancelable operating lease agreements. The leases expired during the year ended June 30, 2016. Rental income for the year ended June 30, 2016 totaled \$44,951.

SUPPLEMENTARY INFORMATION

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

	International Reading Association, Inc. d/b/a International Literacy Association	Foundation for Impact on Literacy and Learning	Eliminating Entries	Consolidating Totals
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 1,871,836	\$ 592,379	\$ -	\$ 2,464,215
Accounts Receivable - Net	116,320	-	(7,922)	108,398
Interest Receivable	1,433	-	-	1,433
Publication Inventory	86,368	-	-	86,368
Prepaid Expenses and Other	1,144,966	-	-	1,144,966
TOTAL CURRENT ASSETS	3,220,923	592,379	(7,922)	3,805,380
OTHER ASSETS				
Investments	9,730,095	-	-	9,730,095
Property and Equipment - Net	2,180,796	-	-	2,180,796
Assets Held in Charitable Remainder Trust	96,753	-	-	96,753
TOTAL OTHER ASSETS	12,007,644	-	-	12,007,644
TOTAL ASSETS	\$ 15,228,567	\$ 592,379	\$ (7,922)	\$ 15,813,024
CURRENT LIABILITIES				
Accounts Payable	\$ 144,482	\$ 7,922	\$ (7,922)	\$ 144,482
Deferred Revenues	3,970,697	-	-	3,970,697
Accrued Expenses	575,779	-	-	575,779
TOTAL CURRENT LIABILITIES	4,690,958	7,922	(7,922)	4,690,958
OTHER LIABILITIES				
Amounts Held for Others in Charitable Remainder Trust	72,733	-	-	72,733
TOTAL LIABILITIES	4,763,691	7,922	(7,922)	4,763,691
NET ASSETS				
Unrestricted				
Undesignated	(2,548,548)	187,055	-	(2,361,493)
Board-Designated	12,643,159	-	-	12,643,159
Total Unrestricted	10,094,611	187,055	-	10,281,666
Temporarily Restricted	196,245	397,402	-	593,647
Permanently Restricted	174,020	-	-	174,020
TOTAL NET ASSETS	10,464,876	584,457	-	11,049,333
TOTAL LIABILITIES AND NET ASSETS	\$ 15,228,567	\$ 592,379	\$ (7,922)	\$ 15,813,024

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	International Reading Association, Inc. d/b/a International Literacy Association			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT				
Membership	\$ 1,587,833	\$ -	\$ -	\$ 1,587,833
Educational Resources	2,458,755	-	-	2,458,755
Annual Conference	2,934,649	-	-	2,934,649
Contributions and Grants	157,111	80,615	-	237,726
Investment Income (Loss)	(50,143)	45	-	(50,098)
Change in Value of Interest in Charitable Trust	-	-	(2,763)	(2,763)
Other Revenue	427,504	-	-	427,504
	<u>7,515,709</u>	<u>80,660</u>	<u>(2,763)</u>	<u>7,593,606</u>
Total Revenue				
Net Assets Released from Restrictions	6,000	(6,000)	-	-
	<u>7,521,709</u>	<u>74,660</u>	<u>(2,763)</u>	<u>7,593,606</u>
TOTAL REVENUE AND OTHER SUPPORT				
EXPENSES				
Program Services				
Membership	2,852,031	-	-	2,852,031
Educational Resources	2,604,434	-	-	2,604,434
Annual Conference	2,952,764	-	-	2,952,764
Other Programs	13,385	-	-	13,385
	<u>8,422,614</u>	<u>-</u>	<u>-</u>	<u>8,422,614</u>
Total Program Services				
Supporting Services				
Management and General	2,096,039	-	-	2,096,039
Fundraising	142,190	-	-	142,190
	<u>2,238,229</u>	<u>-</u>	<u>-</u>	<u>2,238,229</u>
Total Supporting Services				
	<u>10,660,843</u>	<u>-</u>	<u>-</u>	<u>10,660,843</u>
TOTAL EXPENSES				
CHANGE IN NET ASSETS	(3,139,134)	74,660	(2,763)	(3,067,237)
NET ASSETS - Beginning of Year	<u>13,233,745</u>	<u>121,585</u>	<u>176,783</u>	<u>13,532,113</u>
NET ASSETS - End of Year	<u>\$ 10,094,611</u>	<u>\$ 196,245</u>	<u>\$ 174,020</u>	<u>\$ 10,464,876</u>

Foundation for Impact on Literacy and Learning					
Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Eliminating Entries	Consolidating Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,587,833
-	-	-	-	-	2,458,755
-	-	-	-	-	2,934,649
869,160	397,402	-	1,266,562	-	1,504,288
-	-	-	-	-	(50,098)
-	-	-	-	-	(2,763)
432	-	-	432	-	427,936
869,592	397,402	-	1,266,994	-	8,860,600
330,524	(330,524)	-	-	-	-
1,200,116	66,878	-	1,266,994	-	8,860,600
-	-	-	-	-	2,852,031
-	-	-	-	-	2,604,434
-	-	-	-	-	2,952,764
1,112,523	-	-	1,112,523	-	1,125,908
1,112,523	-	-	1,112,523	-	9,535,137
86,044	-	-	86,044	-	2,182,083
-	-	-	-	-	142,190
86,044	-	-	86,044	-	2,324,273
1,198,567	-	-	1,198,567	-	11,859,410
1,549	66,878	-	68,427	-	(2,998,810)
185,506	330,524	-	516,030	-	14,048,143
\$ 187,055	\$ 397,402	\$ -	\$ 584,457	\$ -	\$ 11,049,333

INTERNATIONAL READING ASSOCIATION, INC.
d/b/a International Literacy Association
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	Program Services				Supporting Services				Total
	Membership	Educational Resources	Annual Conference	Other Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Grants and Awards	\$ 12,900	\$ 72,991	\$ -	\$ -	\$ 85,891	\$ -	\$ -	\$ -	\$ 85,891
Salaries and Wages	1,296,302	982,243	833,676	9,065	3,121,286	788,855	80,984	869,839	3,991,125
Pension Plan	114,671	84,174	69,374	-	268,219	70,902	8,172	79,074	347,293
Other Employee Benefits	177,764	173,426	121,640	-	472,830	154,760	2,871	157,631	630,461
Payroll Taxes	95,497	69,255	58,620	-	223,372	56,338	6,552	62,890	286,262
Legal	8,493	2,123	2,123	-	12,739	29,723	-	29,723	42,462
Accounting	-	-	-	-	-	150,989	-	150,989	150,989
Bad Debt Expense	-	-	-	-	-	2,107	-	2,107	2,107
Professional Fundraising Services	-	-	-	-	-	-	16,359	16,359	16,359
Marketing and Promotion	57,670	38,222	107,465	-	203,357	25,651	1,185	26,836	230,193
Office Expenses	41,743	14,248	11,943	-	67,934	18,628	707	19,335	87,269
Information Technology	78,462	82,506	78,462	-	239,430	256,365	6,405	262,770	502,200
Occupancy	68,512	35,398	55,669	-	159,579	154,870	4,719	159,589	319,168
Travel - Staff	54,852	16,496	30,584	382	102,314	33,533	84	33,617	135,931
Travel - Board and Volunteers	70,347	12,740	7,300	3,938	94,325	63,218	-	63,218	157,543
Conferences	25,414	17,803	1,303,696	-	1,346,913	8,511	7,826	16,337	1,363,250
Interest	-	-	-	-	-	503	-	503	503
Depreciation	26,469	17,331	25,467	-	69,267	95,758	2,165	97,923	167,190
Insurance	-	-	17,287	-	17,287	34,887	-	34,887	52,174
Outside Services	277,554	517,357	220,852	-	1,015,763	66,432	4,149	70,581	1,086,344
Equipment Rental and Maintenance	-	-	-	-	-	4,407	-	4,407	4,407
Postage and Shipping	265,689	130,753	2,546	-	398,988	4,131	12	4,143	403,131
Printing	178,063	74,580	1,355	-	253,998	2,835	-	2,835	256,833
Professional Development	1,629	706	4,705	-	7,040	70,077	-	70,077	77,117
Cost of Goods Sold	-	262,082	-	-	262,082	2,559	-	2,559	264,641
TOTAL	\$ 2,852,031	\$ 2,604,434	\$ 2,952,764	\$ 13,385	\$ 8,422,614	\$ 2,096,039	\$ 142,190	\$ 2,238,229	\$ 10,660,843

FOUNDATION FOR IMPACT ON LITERACY AND LEARNING
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	<u>Program Services</u>				<u>Supporting Services</u>				<u>Total</u>
	<u>Membership</u>	<u>Educational Resources</u>	<u>Annual Conference</u>	<u>Other Programs</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	
Grants and Awards	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Salaries and Wages	-	-	-	-	-	-	-	-	-
Pension Plan	-	-	-	-	-	-	-	-	-
Other Employee Benefits	-	-	-	-	-	-	-	-	-
Payroll Taxes	-	-	-	-	-	-	-	-	-
Legal	-	-	-	-	-	-	-	-	-
Accounting	-	-	-	-	-	-	-	-	-
Bad Debt Expense	-	-	-	-	-	-	-	-	-
Professional Fundraising Services	-	-	-	-	-	-	-	-	-
Marketing and Promotion	-	-	-	263,112	263,112	-	-	-	263,112
Office Expenses	-	-	-	74,690	74,690	330	-	330	75,020
Information Technology	-	-	-	-	-	-	-	-	-
Occupancy	-	-	-	-	-	-	-	-	-
Travel - Staff	-	-	-	32,927	32,927	3,339	-	3,339	36,266
Travel - Board and Volunteers	-	-	-	-	-	-	-	-	-
Conferences	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-
Outside Services	-	-	-	667,087	667,087	82,375	-	82,375	749,462
Equipment Rental and Maintenance	-	-	-	-	-	-	-	-	-
Postage and Shipping	-	-	-	-	-	-	-	-	-
Printing	-	-	-	74,707	74,707	-	-	-	74,707
Professional Development	-	-	-	-	-	-	-	-	-
Cost of Goods Sold	-	-	-	-	-	-	-	-	-
TOTAL	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,112,523</u>	<u>\$ 1,112,523</u>	<u>\$ 86,044</u>	<u>\$ -</u>	<u>\$ 86,044</u>	<u>\$ 1,198,567</u>