

READING CONNECTIONS, INC.

FINANCIAL REPORT

YEARS ENDED JUNE 30, 2014 AND 2013



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READING CONNECTIONS, INC.

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Independent Auditor's Report

To the Board of Directors
Reading Connections, Inc.
Greensboro, North Carolina

We have audited the accompanying financial statements of Reading Connections, Inc. (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses, 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.

Auditor's 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 audits 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 Organization'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 Organization'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reading Connections, Inc. as of June 30, 2014 and 2013, 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.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
November 13, 2014

READING CONNECTIONS, INC.
Statements of Financial Position
June 30, 2014 and 2013

	<u>Assets</u>	
	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and cash equivalents	\$ 111,261	\$ 162,350
Business savings account	119,196	118,839
Other investments	2,077	-
Prepaid expenses	2,240	2,233
Grants receivable	118,497	137,672
Total current assets	<u>353,271</u>	<u>421,094</u>
Investments:		
Beneficial interest in endowments	<u>90,406</u>	<u>77,898</u>
Property and Equipment:		
Office furniture and equipment	48,295	47,374
Leasehold improvements	38,500	38,500
	<u>86,795</u>	<u>85,874</u>
Less accumulated depreciation	71,899	62,353
	<u>14,896</u>	<u>23,521</u>
Total assets	<u>\$ 458,573</u>	<u>\$ 522,513</u>
	<u>Liabilities and Net Assets</u>	
Current Liabilities:		
Accounts payable	\$ -	\$ 254
Accrued expenses	5,172	13,214
Total current liabilities	<u>5,172</u>	<u>13,468</u>
Net Assets:		
Unrestricted:		
Undesignated	216,112	276,823
Board designated for endowment	88,792	77,542
Temporarily restricted	148,497	154,680
Total net assets	<u>453,401</u>	<u>509,045</u>
Total liabilities and net assets	<u>\$ 458,573</u>	<u>\$ 522,513</u>

READING CONNECTIONS, INC.
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2014 and 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support:						
Grants and contributions:						
United Way	\$ 169	\$ 109,747	\$ 109,916	\$ 648	\$ 100,249	\$ 100,897
Grants	294,603	38,750	333,353	380,774	54,431	435,205
Other	118,545	-	118,545	105,932	-	105,932
	<u>413,317</u>	<u>148,497</u>	<u>561,814</u>	<u>487,354</u>	<u>154,680</u>	<u>642,034</u>
Revenues:						
Investment income	16,061	-	16,061	9,870	-	9,870
Other income	5,963	-	5,963	3,593	-	3,593
	<u>22,024</u>	<u>-</u>	<u>22,024</u>	<u>13,463</u>	<u>-</u>	<u>13,463</u>
Total support and revenues	<u>435,341</u>	<u>148,497</u>	<u>583,838</u>	<u>500,817</u>	<u>154,680</u>	<u>655,497</u>
Net assets released from restrictions	<u>154,680</u>	<u>(154,680)</u>	<u>-</u>	<u>179,535</u>	<u>(179,535)</u>	<u>-</u>
Expenses:						
Program services:						
Tutor services	247,754	-	247,754	254,767	-	254,767
Student services	268,909	-	268,909	285,499	-	285,499
	<u>516,663</u>	<u>-</u>	<u>516,663</u>	<u>540,266</u>	<u>-</u>	<u>540,266</u>
Supporting services:						
General and administrative	63,578	-	63,578	72,203	-	72,203
Fundraising	59,241	-	59,241	52,259	-	52,259
	<u>122,819</u>	<u>-</u>	<u>122,819</u>	<u>124,462</u>	<u>-</u>	<u>124,462</u>
Total expenses	<u>639,482</u>	<u>-</u>	<u>639,482</u>	<u>664,728</u>	<u>-</u>	<u>664,728</u>
Changes in net assets	(49,461)	(6,183)	(55,644)	15,624	(24,855)	(9,231)
Net assets, beginning of year	<u>354,365</u>	<u>154,680</u>	<u>509,045</u>	<u>338,741</u>	<u>179,535</u>	<u>518,276</u>
Net assets, end of year	<u>\$ 304,904</u>	<u>\$ 148,497</u>	<u>\$ 453,401</u>	<u>\$ 354,365</u>	<u>\$ 154,680</u>	<u>\$ 509,045</u>

READING CONNECTIONS, INC.
Statement of Functional Expenses
Year Ended June 30, 2014

	Program Services		Supporting Services		Total
	Tutor Services	Student Services	General and Administrative	Fundraising	
Salaries	\$ 159,679	\$ 159,679	\$ 34,404	\$ 24,715	\$ 378,477
Employee benefits	5,455	5,455	1,072	1,389	13,371
Payroll taxes	18,494	18,494	3,984	2,862	43,834
Professional fees	2,369	2,028	7,261	5,189	16,847
Contract services	8,200	8,200	-	-	16,400
Office supplies	1,483	1,483	383	10	3,359
Telephone	3,149	3,149	550	-	6,848
Postage and freight	627	627	-	66	1,320
Occupancy	25,970	25,970	5,772	-	57,712
Parking	3,407	5,274	876	-	9,557
Advertising	516	-	-	5,745	6,261
Printing	3,734	3,734	752	326	8,546
Program supplies	3,559	22,497	-	-	26,056
Travel	2,455	3,442	420	136	6,453
Conference and meetings	1,777	1,996	2,194	99	6,066
Fundraising events	-	-	-	17,849	17,849
Membership dues	406	406	-	-	812
Licenses	-	-	200	-	200
Depreciation	4,766	4,767	14	-	9,547
Insurance	1,708	1,708	2,307	292	6,015
Service charges	-	-	540	563	1,103
Relocation expenses	-	-	2,064	-	2,064
Miscellaneous	-	-	785	-	785
	<u>\$ 247,754</u>	<u>\$ 268,909</u>	<u>\$ 63,578</u>	<u>\$ 59,241</u>	<u>\$ 639,482</u>

See Notes to Financial Statements

READING CONNECTIONS, INC.
Statement of Functional Expenses
Year Ended June 30, 2013

	Program Services		Supporting Services		Total
	Tutor Services	Student Services	General and Administrative	Fundraising	
Salaries	\$ 179,216	\$ 179,216	\$ 36,610	\$ 26,246	\$ 421,288
Employee benefits	4,889	4,889	1,098	1,098	11,974
Payroll taxes	14,044	14,044	2,869	2,057	33,014
Professional fees	1,897	2,003	11,096	-	14,996
Contract services	7,562	7,562	-	-	15,124
Office supplies	1,988	1,988	442	-	4,418
Telephone	2,974	2,974	661	-	6,609
Postage and freight	557	557	-	59	1,173
Occupancy	18,914	18,914	5,572	-	43,400
Parking	4,338	4,338	964	-	9,640
Printing	3,925	3,925	-	413	8,263
Program supplies	4,844	28,890	-	-	33,734
Travel	2,652	3,076	1,784	-	7,512
Conference and meetings	1,559	7,833	1,857	-	11,249
Fundraising events	-	-	-	21,526	21,526
Membership dues	307	307	-	-	614
Licenses	-	-	200	-	200
Depreciation	4,281	4,281	753	94	9,409
Insurance	613	613	4,600	307	6,133
Service charges	-	-	459	409	868
Bad debt expense	-	-	2,500	-	2,500
Miscellaneous	207	89	738	50	1,084
	<u>\$ 254,767</u>	<u>\$ 285,499</u>	<u>\$ 72,203</u>	<u>\$ 52,259</u>	<u>\$ 664,728</u>

READING CONNECTIONS, INC.
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Changes in net assets	\$ (55,644)	\$ (9,231)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	9,547	9,409
Donated investments	(2,094)	-
Unrealized gain on investments	(13,589)	(7,812)
Investment fees deducted from earnings	1,689	1,546
Reinvestment of earnings in endowments	(3,774)	(3,093)
Reinvestment of earnings from business savings account	(357)	(424)
(Increase) decrease in:		
Prepaid expenses	(7)	(1,544)
Grants receivable	19,175	9,363
Pledges receivable	-	15,000
Increase (decrease) in:		
Accounts payable	(254)	(1,696)
Accrued expenses	(8,042)	(10,934)
Net cash provided by (used in) operating activities	<u>(53,350)</u>	<u>584</u>
Cash flows from investing activities:		
Distributions from endowment fund	3,183	-
Purchase of property and equipment	(922)	-
Net cash provided by (used in) investing activities	<u>2,261</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	(51,089)	584
Cash and cash equivalents, beginning of year	<u>162,350</u>	<u>161,766</u>
Cash and cash equivalents, end of year	<u>\$ 111,261</u>	<u>\$ 162,350</u>

READING CONNECTIONS, INC.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Reading Connections, Inc. (the "Organization") was established through a grant from the Kayser-Roth Charitable Foundation. The purpose of the Organization is to improve basic literacy skills of adults in the Greensboro and Guilford County area, to increase the awareness of adult literacy needs in our community, and to serve as a central resource for the provision of literacy sources.

Cash and Cash Equivalents

For purposes of reporting the statements of cash flows, the Organization includes all cash accounts, which are not subject to withdrawal restrictions or penalties or held in the business savings account, and all highly liquid investments with a maturity of three months or less as cash and cash equivalents.

Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Unrealized gains and losses due to changes in market valuations are included in the changes in net assets. The business savings account is considered investments. See Note 4 for discussion of fair value measurements.

Beneficial Interest in Endowments

In accordance with FASB ASC 958, *Transfers of Assets to a Not-for-profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, the Organization recognizes its interest in assets held by Community Foundation of Greater Greensboro for the sole benefit of the Organization. These assets consist of a Board designated endowment and a beneficial interest in the assets held in the endowment.

Grants and Pledges Receivable

Grants and pledges receivable consist of unconditional promises to give. The Organization estimates an allowance for doubtful accounts based on a number of factors including historical experience with the donor and past due status. Receivables are written off when considered uncollectible by management. The grants and contributions receivable as of June 30, 2014 and 2013, are considered fully collectible.

Support and Revenue

Grants, contributions, and revenues are generally available for unrestricted use in the year received or promised, unless specifically restricted by the donor.

Property and Equipment

Property and equipment are stated at cost, or if donated, at estimated fair market value at the date of donation. The Organization capitalizes all significant expenditures for property and equipment whose life exceeds one year. Depreciation is provided for over the estimated useful lives of the assets using the straight-line method.

READING CONNECTIONS, INC.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The Organization reports information regarding its financial position and activities using three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets represent resources over which the Board of Directors has discretionary control and are used to carry out the operations of the Organization in accordance with its bylaws.

Temporarily restricted net assets represent resources currently available for use, but expendable only for those operating purposes specified by the donor. Resources originate primarily from gifts and grants. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Temporarily restricted net assets received and expended during the same year are classified as unrestricted in the statements of activities and changes in net assets.

Permanently restricted net assets represent resources subject to donor-imposed stipulations that do not expire by passage of time, nor can be fulfilled or otherwise removed by the actions of the Organization. The Organization has no funds classified as permanently restricted net assets for the years ended June 30, 2014 and 2013.

Noncash Contributions

Donated marketable securities and other noncash contributions are recorded as in-kind contributions at their estimated fair values at the date of donation.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the accompanying financial statements. Qualifying contributions to the Organization are tax deductible.

It is the Organization's policy to evaluate all tax positions to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a "more-likely-than-not" threshold to determine if the tax position is uncertain and what, if any, the effect of the uncertain tax position may have on the financial statements. No material uncertain tax positions were identified for 2014 and 2013. Currently, the statute of limitations remains open subsequent to and including 2011; however, no examinations are in process or anticipated.

Functional Allocation of Expenses

The costs of programs and supporting services are reported on a functional basis in the statements of activities and changes in net assets. This requires the allocation of indirect costs among the various programs and supporting services based on estimates made by management.

READING CONNECTIONS, INC.**Notes to Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising costs incurred in **2014** and 2013 were **\$6,261** and \$8,515, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure through November 13, 2014, which is the date the financial statements were available to be issued.

NOTE 2 - DONATED SERVICES

The Organization receives a significant amount of donated services from unpaid volunteers who assist in tutoring, fund-raising and special projects. No amounts have been recognized in the statements of activities and changes in net assets for revenue or expenses related to these services because the criteria for recognition under generally accepted accounting principles was not met.

NOTE 3 - INVESTMENTS

At June 30, 2014 and 2013, investments were comprised of the following:

	2014		
	Cost	Cumulative Unrealized Gain	Fair Value
Beneficial interest in endowments	\$ 56,172	\$ 34,234	\$ 90,406
	2013		
	Cost	Cumulative Unrealized Gain	Fair Value
Beneficial interest in endowments	\$ 56,172	\$ 21,726	\$ 77,898

READING CONNECTIONS, INC.**Notes to Financial Statements**

NOTE 4 - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair values for assets and liabilities using one of the following valuation measurements: quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); or significant unobservable inputs (Level 3). Observable inputs reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity, while unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2014 and 2013.

The Organization's assets have been valued as Level 3 investments for the years ended June 30:

<u>Description</u>	<u>2014</u>	<u>2013</u>
Beneficial interest in endowments	<u>\$ 90,406</u>	<u>\$ 77,898</u>

The following is a reconciliation of Level 3 investments for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Balance, beginning	\$ 77,898	\$ 68,539
Distributions	(3,183)	-
Investment income (loss), net	15,691	9,359
Balance, ending	<u>\$ 90,406</u>	<u>\$ 77,898</u>

NOTE 5 - IN-KIND CONTRIBUTIONS

The Organization leases space at High Point Library to meet with students at no cost. The use of the Library has been estimated at a fair value of \$1,667 per month. During the years ended June 30, 2014 and 2013, the Organization recognized in-kind contributions of \$20,000 related to the use of the Library, which is included in occupancy expense on the statements of functional expenses. The lease between the Library and the Organization can be cancelled by either party at any time with a 30 day notice. The Organization also receives goods and services to be used for both their programs and fundraising events.

The Organization recorded revenue and expense related to these in-kind contributions for the years ended June 30, 2014 and 2013 as follows:

	<u>2014</u>	<u>2013</u>
Rent and utilities	\$ 20,000	\$ 20,000
Student/tutor programs	810	4,020
Advertising	5,625	8,500
Fundraising	5,189	934
	<u>\$ 31,624</u>	<u>\$ 33,454</u>

READING CONNECTIONS, INC.

Notes to Financial Statements

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2014 and 2013 are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Time restricted for subsequent years operations	\$ 137,247	\$ 124,249
Family Literacy	11,250	30,431
	<u>\$ 148,497</u>	<u>\$ 154,680</u>

NOTE 7 - RISKS AND UNCERTAINTIES

The Organization maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation. Deposit accounts, at times, may exceed federally insured limits.

Investment securities 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 that such changes could materially affect the amounts reported on the statements of financial position.

NOTE 8 - RETIREMENT PLAN

The Organization has a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code ("IRC"). The plan covers substantially all full-time employees of the Organization and allows for a contribution of two percent of gross salaries for qualified employees to the plan. Employees may make contributions to the plan up to the maximum amount allowed by the IRC. The Organization has suspended contributions to the plan and is considering implementing a waiting period for employees who wish to participate in the plan. For the years ended June 30, 2014 and 2013, no expenses were incurred and no contributions were made to the plan.

NOTE 9 - OPERATING LEASE COMMITMENT

The Organization rents its office facility under an operating lease agreement expiring September 2017, with monthly payments ranging from \$3,335 to \$3,645. Total rental expense, including the High Point Library in-kind lease described in Note 5, for the years ended June 30, 2014 and 2013 was \$57,712 and \$43,400, respectively.

NOTE 10 - BENEFICIAL INTEREST IN ENDOWMENTS

The Organization has endowment funds which are managed by Community Foundation of Greater Greensboro ("CFGG"). The Board of Directors established an endowment fund with unrestricted monies to designate resources for housing the Organization's operations. On an annual basis, CFGG makes a distribution equal to the target payout percentage for that year times the average fair market value of the fund on the last business day of each of the 12 preceding quarters. If the fund has been established within the preceding 12 quarters, the average of the fair market value of the fund is then calculated on the last business day of each quarter of its existence.

READING CONNECTIONS, INC.**Notes to Financial Statements**

NOTE 10 - BENEFICIAL INTEREST IN ENDOWMENTS (Continued)

Over the long-term, the Organization expects the current spending policy to preserve the purchasing power of the endowment funds over time, and to provide a reasonably stable and predictive revenue stream for use in connection with the charitable purposes of the Organization. The Organization can withdraw all or a portion of the endowment provided that a majority of the governing boards of the Organization and CFGG approve of the withdrawal.

At the time the Organization established the endowment fund above, CFGG created a matching endowment fund with an initial contribution of \$10,000 that shall remain the property of CFGG in perpetuity. The Organization received a beneficial interest in the assets held in the endowment. The terms of the endowment agreement provide for distributions to the Organization to be calculated identical to the endowment fund above provided the balance in the endowment fund remains at least \$20,000. In addition, if the fair value of the investments in the matching fund fall below the original amount, the Organization is not responsible to CFGG for this deficit. As of June 30, 2014 and 2013, the fair value of the matching fund above the original \$10,000 basis was **\$1,614** and \$356, respectively. No distributions from the matching endowment were received in either of the years ended June 30, 2014 and 2013.

The Organization has the following interests in endowments held at CFGG as of June 30:

	<u>2014</u>	<u>2013</u>
Board Designated Endowment	\$ 88,792	\$ 77,542
Matching Endowment	1,614	356
	<u><u>\$ 90,406</u></u>	<u><u>\$ 77,898</u></u>

Endowment activity for the years ended June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>Unrestricted</u>	<u>Unrestricted Board Designated</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 356	\$ 77,542	\$ 77,542	\$ 77,898
Investment return:				
Distributions	(387)	(2,796)	(3,183)	(3,183)
Investment income	441	3,333	3,774	3,774
Net appreciation	1,591	12,015	13,606	13,606
Investment fees	(387)	(1,302)	(1,689)	(1,689)
Total investment return	<u>1,258</u>	<u>11,250</u>	<u>12,508</u>	<u>12,508</u>
Endowment net assets, end of year	<u><u>\$ 1,614</u></u>	<u><u>\$ 88,792</u></u>	<u><u>\$ 90,406</u></u>	<u><u>\$ 90,406</u></u>
	<u>2013</u>			
Endowment net assets, beginning of year	\$ -	\$ 68,539	\$ 68,539	\$ 68,539
Investment return:				
Investment income	368	2,725	3,093	3,093
Net appreciation	370	7,442	7,812	7,812
Investment fees	(382)	(1,164)	(1,546)	(1,546)
Total investment return	<u>356</u>	<u>9,003</u>	<u>9,359</u>	<u>9,359</u>
Endowment net assets, end of year	<u><u>\$ 356</u></u>	<u><u>\$ 77,542</u></u>	<u><u>\$ 77,898</u></u>	<u><u>\$ 77,898</u></u>