READING CONNECTIONS, INC.

FINANCIAL REPORT

YEARS ENDED JUNE 30, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015, 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
October 13, 2016

READING CONNECTIONS, INC.
Statements of Financial Position
June 30, 2016 and 2015

Assets

	2016	2015
Current Assets:		
Cash and cash equivalents	**$ 292,110**	$ 281,266
Other investments	**8,311**	4,795
Prepaid expenses	**896**	1,426
Grants receivable	**103,632**	131,968
Total current assets	**404,949**	419,455
Investments:		
Beneficial interest in endowments	**80,552**	90,272
Property and Equipment:		
Office furniture and equipment	**15,886**	16,447
Leasehold improvements	**38,500**	38,500
	54,386	54,947
Less accumulated depreciation	**52,449**	48,609
	1,937	6,338
Total assets	**$ 487,438**	$ 516,065

Liabilities and Net Assets

	2016	2015
Current Liabilities:		
Accrued expenses	**$ 10,455**	$ 11,317
Total current liabilities	**10,455**	11,317
Net Assets:		
Unrestricted:		
Undesignated	**282,891**	273,917
Board designated for endowment	**80,460**	88,863
Temporarily restricted	**113,632**	141,968
Total net assets	**476,983**	504,748
Total liabilities and net assets	**$ 487,438**	$ 516,065

READING CONNECTIONS, INC.
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support:						
Grants and contributions:						
United Way	**$ 382**	**$ 93,191**	**$ 93,573**	$ 841	$ 98,616	$ 99,457
Grants	**351,174**	**20,441**	**371,615**	338,779	43,352	382,131
Other	**113,849**	**-**	**113,849**	114,609	-	114,609
	465,405	**113,632**	**579,037**	454,229	141,968	596,197
Revenues:						
Investment income (loss)	**(4,555)**	**-**	**(4,555)**	977	-	977
Other income	**2,279**	**-**	**2,279**	7,456	-	7,456
	(2,276)	**-**	**(2,276)**	8,433	-	8,433
Total support and revenues	**463,129**	**113,632**	**576,761**	462,662	141,968	604,630
Net assets released from restrictions	**141,968**	**(141,968)**	**-**	148,497	(148,497)	-
Expenses:						
Program services:						
Tutor services	**245,635**	**-**	**245,635**	212,595	-	212,595
Student services	**257,622**	**-**	**257,622**	235,788	-	235,788
	503,257	**-**	**503,257**	448,383	-	448,383
Supporting services:						
General and administrative	**51,405**	**-**	**51,405**	52,630	-	52,630
Fundraising	**49,864**	**-**	**49,864**	52,270	-	52,270
	101,269	**-**	**101,269**	104,900	-	104,900
Total expenses	**604,526**	**-**	**604,526**	553,283	-	553,283
Changes in net assets	**571**	**(28,336)**	**(27,765)**	57,876	(6,529)	51,347
Net assets, beginning of year	**362,780**	**141,968**	**504,748**	304,904	148,497	453,401
Net assets, end of year	**$ 363,351**	**$ 113,632**	**$ 476,983**	$ 362,780	$ 141,968	$ 504,748

See Notes to Financial Statements

READING CONNECTIONS, INC.
Statement of Functional Expenses
Year Ended June 30, 2016

	Program Services		Supporting Services		
	Tutor Services	Student Services	General and Administrative	Fundraising	Total
Salaries	$ 171,100	$ 171,100	$ 32,111	$ 22,121	$ 396,432
Employee benefits	6,485	6,485	762	762	14,494
Payroll taxes	13,105	13,105	2,459	1,694	30,363
Professional fees	2,727	2,338	6,531	8,487	20,083
Contract services	1,950	2,178	-	-	4,128
Office supplies	1,044	1,045	97	97	2,283
Telephone	3,321	3,321	677	-	7,319
Postage and freight	580	581	-	61	1,222
Occupancy	29,697	29,697	2,876	-	62,270
Parking	3,792	4,674	587	-	9,053
Printing	1,822	2,180	1,678	457	6,137
Program supplies	2,275	8,751	-	-	11,026
Travel	1,797	4,594	493	203	7,087
Conference and meetings	2,011	3,360	252	-	5,623
Fundraising events	-	-	-	15,436	15,436
Membership dues	174	175	-	-	349
Licenses	-	-	200	-	200
Depreciation	2,650	2,649	212	-	5,511
Insurance	1,050	1,334	805	166	3,355
Service charges	-	-	618	365	983
Miscellaneous	55	55	1,047	15	1,172
	$ 245,635	$ 257,622	$ 51,405	$ 49,864	$ 604,526

See Notes to Financial Statements

READING CONNECTIONS, INC.
Statement of Functional Expenses
Year Ended June 30, 2015

	Program Services		Supporting Services		
	Tutor Services	Student Services	General and Administrative	Fundraising	Total
Salaries	$ 133,346	$ 133,346	$ 31,648	$ 15,934	$ 314,274
Employee benefits	2,636	2,636	570	570	6,412
Payroll taxes	12,321	12,321	2,924	1,472	29,038
Professional fees	3,302	2,918	7,086	10,382	23,688
Contract services	5,469	8,027	-	-	13,496
Office supplies	745	745	64	64	1,618
Telephone	3,308	3,308	286	-	6,902
Postage and freight	734	734	-	77	1,545
Occupancy	29,192	29,192	2,636	-	61,020
Parking	2,663	5,457	480	-	8,600
Advertising	262	-	-	-	262
Printing	2,131	2,131	1,753	275	6,290
Program supplies	4,307	18,962	-	-	23,269
Travel	3,052	4,684	649	332	8,717
Conference and meetings	3,337	5,537	576	-	9,450
Fundraising events	-	-	-	22,375	22,375
Membership dues	212	212	-	-	424
Licenses	-	-	200	-	200
Depreciation	4,814	4,814	59	-	9,687
Insurance	764	764	2,075	146	3,749
Service charges	-	-	571	643	1,214
Miscellaneous	-	-	1,053	-	1,053
	$ 212,595	$ 235,788	$ 52,630	$ 52,270	$ 553,283

See Notes to Financial Statements

READING CONNECTIONS, INC.
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Changes in net assets	**$ (27,765)**	$ 51,347
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	**5,511**	9,687
Donated investments	**(2,507)**	(1,987)
Unrealized loss on investments	**5,811**	231
Investment fees deducted from earnings	**1,490**	1,604
Reinvestment of earnings in endowments	**(2,361)**	(2,432)
(Increase) decrease in:		
Prepaid expenses	**530**	814
Grants receivable	**28,336**	(13,471)
Increase (decrease) in:		
Accrued expenses	**(862)**	6,145
Net cash provided by operating activities	**8,183**	51,938
Cash flows from investing activities:		
Distributions from endowment fund	**3,771**	-
Purchase of property and equipment	**(1,110)**	(1,129)
Net cash provided by (used in) investing activities	**2,661**	(1,129)
Increase in cash and cash equivalents	**10,844**	50,809
Cash and cash equivalents, beginning of year	**281,266**	230,457
Cash and cash equivalents, end of year	**$ 292,110**	$ 281,266

See 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 City 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 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 statements of activities and changes in net assets. See Note 5 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 ("CFGG") 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, 2016 and 2015, 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.

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 statements 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 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, 2016 and 2015.

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 2016 and 2015.

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.

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 **2016** and 2015 were **$0** and $262, 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 October 13, 2016, 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 accounting principles generally accepted in the United States of America was not met.

NOTE 3 - 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.

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.

NOTE 3 - BENEFICIAL INTEREST IN ENDOWMENTS (Continued)

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, **2016** and 2015, the fair value of the matching fund above the original $10,000 basis was **$92** and $1,409, respectively. Distributions received from the matching endowment were **$439** and $0 for the years ended June 30, **2016** and 2015.

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

	2016	2015
Board Designated Endowment	**$ 80,460**	$ 88,863
Matching Endowment	**92**	1,409
	$ 80,552	$ 90,272

Endowment activity for the years ended June 30, 2016 and 2015 is as follows:

2016	Unrestricted	Unrestricted Board Designated	Total
Endowment net assets, beginning of year	**$ 1,409**	**$ 88,863**	**$ 90,272**
Investment return:			
Investment income	**266**	**2,095**	**2,361**
Net depreciation	**(778)**	**(6,042)**	**(6,820)**
Investment fees	**(366)**	**(1,124)**	**(1,490)**
Distributions	**(439)**	**(3,332)**	**(3,771)**
Total investment return	**(1,317)**	**(8,403)**	**(9,720)**
Endowment net assets, end of year	**$ 92**	**$ 80,460**	**$ 80,552**

2015	Unrestricted	Unrestricted Board Designated	Total
Endowment net assets, beginning of year	$ 1,614	$ 88,792	$ 90,406
Investment return:			
Investment income	279	2,153	2,432
Net depreciation	(111)	(851)	(962)
Investment fees	(373)	(1,231)	(1,604)
Total investment return	(205)	71	(134)
Endowment net assets, end of year	$ 1,409	$ 88,863	$ 90,272

NOTE 4 - INVESTMENTS

At June 30, 2016 and 2015, investments were comprised of the following:

2016	Cost	Cumulative Unrealized Gain	Fair Value
Beneficial Interest in Endowments	**$ 56,172**	**$ 24,380**	**$ 80,552**
Other Investments	**7,302**	**1,009**	**8,311**
	$ 63,474	**$ 25,389**	**$ 88,863**
2015			
Beneficial Interest in Endowments	$ 56,172	$ 34,100	$ 90,272
Other Investments	4,795	-	4,795
	$ 60,967	$ 34,100	$ 95,067

NOTE 5 - 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.

Following is a description of the valuation methodologies used for assets measured at fair value:

Beneficial Interest in Endowments: Valued using the net asset value ("NAV") approach provided by CFGG as a practical expedient. The NAV is based on the value of the underlying assets owned by the trust, minus its liabilities, and then divided by the number of shares outstanding.

Other Investments: Investments in marketable securities held in brokerage account.

The following tables set forth by level, within the fair value hierarchy, the Plan's fair value measurements at June 30, 2016 and 2015:

	Fair Value Measurements at June 30, 2016			
	Level 1	Level 2	Level 3	Total
Beneficial interest in endowments	**$ -**	**$ -**	**$ 80,552**	**$ 80,552**
Other investments	**8,311**	-	**-**	**8,311**
	$ 8,311	**$ -**	**$ 80,552**	**$ 88,863**

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

	Fair Value Measurements at June 30, 2015			
	Level 1	Level 2	Level 3	Total
Beneficial interest in endowments	$ -	$ -	$ 90,272	$ 90,272
Other investments	4,795	-	-	4,795
	$ 4,795	$ -	$ 90,272	$ 95,067

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

	2016	2015
Balance, beginning	**$ 90,272**	$ 90,406
Distributions	**(3,771)**	-
Investment income (loss), net	**(5,949)**	(134)
Balance, ending	**$ 80,552**	$ 90,272

NOTE 6 - 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, 2016 and 2015, 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, 2016 and 2015 as follows:

	2016	2015
Rent and utilities	**$ 20,000**	$ 20,000
Fundraising	**-**	4,023
Student/tutor programs	**3,371**	4,001
Conferences and meetings	**-**	4,899
Other	**20**	200
	$ 23,391	$ 33,123

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 and 2015 are available for the following purposes:

	2016	2015
Time restricted for subsequent years operations	**$ 113,632**	$ 131,115
Family Literacy	**-**	10,853
	$ 113,632	$ 141,968

NOTE 8 - 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 9 - 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, 2016 and 2015, no expenses were incurred and no contributions were made to the plan.

NOTE 10 - 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. Minimum future rental payments under this lease are $43,425 in 2017 and $10,935 in 2018. Total rental expense, including the High Point Library in-kind lease described in Note 6, for the years ended June 30, **2016** and 2015 was **$62,270** and $61,020, respectively.

NOTE 11 - ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers.* This update was revised in August 2015 by ASU 2015-14, which delayed the effective date one year to fiscal periods beginning after December 15, 2018. The purpose of the updates are to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and IFRS. This update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts fall under the scope of different guidance. Management of the Organization has not determined the impact this pronouncement will have on their financial statements.

NOTE 11 - ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE (Continued)

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement.* This update is effective for fiscal periods beginning after December 15, 2016. The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using NAV as a practical expedient. Management has not determined the impact this pronouncement will have on their financial statements.

In February of 2016, the FASB issued ASU 2016-02, *Leases.* This update is effective for fiscal periods beginning after December 15, 2019 for nonpublic entities. Under the new standard, lessees will be required to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The standard will apply to both types of leases, capital (or finance) leases and operating leases. Previously, GAAP has required only capital leases to be recognized on lessee balance sheets. As under current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease for lessees primarily will depend on its classification as a finance or operating lease. For capital or finance leases, lessees will recognize amortization of the right-of-use asset separately from interest on the lease liability. For operating leases, lessees will recognize a single total lease expense. For both types of leases, lessees will recognize a right-of-use asset and a lease liability. Lessor accounting under the new standard will remain similar to lessor accounting under current GAAP. The Company's management has not determined the impact this pronouncement will have on their financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities.* This update is effective for fiscal periods beginning after December 15, 2017. Under the new standard, there will be two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) instead of the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted). The new standard requires all not-for-profit entities to provide expenses and an analysis of expenses by both nature and function, and disclosure of the methods used to allocate those expenses among the various functions. ASU 2016-14 requires qualitative disclosure about how liquidity is managed including dates to meet the cash needs for the upcoming year. The update allows underwater endowment funds to be reflected in the net assets without donor restrictions. Investment returns will be presented net of all related external and direct internal expenses and the existing disclosure of the netted amounts is no longer required. The standard continues to allow not-for-profit entities to present the net amount of operating cash flows using either the direct or indirect method of reporting, while no longer requiring the indirect reconciliation if the direct method is used.