

READING CONNECTIONS, INC.  
FINANCIAL REPORT  
YEARS ENDED JUNE 30, 2017 AND 2016

**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, 2017 and 2016, 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, 2017 and 2016, 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 10, 2017

**READING CONNECTIONS, INC.**  
**Statements of Financial Position**  
**June 30, 2017 and 2016**

	<u>Assets</u>	
	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash and cash equivalents	\$ 369,373	\$ 292,110
Other investments	8,375	8,311
Prepaid expenses	1,270	896
Grants receivable	111,631	103,632
Total current assets	<u>490,649</u>	<u>404,949</u>
Investments:		
Beneficial interest in endowments	<u>89,052</u>	<u>80,552</u>
Property and Equipment:		
Office furniture and equipment	18,977	15,886
Leasehold improvements	38,500	38,500
	<u>57,477</u>	<u>54,386</u>
Less accumulated depreciation	52,287	52,449
	<u>5,190</u>	<u>1,937</u>
Total assets	<u>\$ 584,891</u>	<u>\$ 487,438</u>

Liabilities and Net Assets

Current Liabilities:		
Accrued expenses	\$ 13,592	\$ 10,455
Total current liabilities	<u>13,592</u>	<u>10,455</u>
Net Assets:		
Unrestricted:		
Undesignated	304,435	282,891
Board designated for endowment	88,233	80,460
Temporarily restricted	178,631	113,632
Total net assets	<u>571,299</u>	<u>476,983</u>
Total liabilities and net assets	<u>\$ 584,891</u>	<u>\$ 487,438</u>

**READING CONNECTIONS, INC.**  
**Statements of Activities and Changes in Net Assets**  
**Years Ended June 30, 2017 and 2016**

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support:						
Grants and contributions:						
United Way	\$ 386	\$ 87,424	\$ 87,810	\$ 382	\$ 93,191	\$ 93,573
Grants	394,315	91,207	485,522	351,174	20,441	371,615
Other	157,802	-	157,802	113,849	-	113,849
	<u>552,503</u>	<u>178,631</u>	<u>731,134</u>	<u>465,405</u>	<u>113,632</u>	<u>579,037</u>
Revenues:						
Investment income (loss)	11,754	-	11,754	(4,555)	-	(4,555)
Other income	4,627	-	4,627	2,279	-	2,279
	<u>16,381</u>	<u>-</u>	<u>16,381</u>	<u>(2,276)</u>	<u>-</u>	<u>(2,276)</u>
Total support and revenues	<u>568,884</u>	<u>178,631</u>	<u>747,515</u>	<u>463,129</u>	<u>113,632</u>	<u>576,761</u>
Net assets released from restrictions	<u>113,632</u>	<u>(113,632)</u>	<u>-</u>	<u>141,968</u>	<u>(141,968)</u>	<u>-</u>
Expenses:						
Program services:						
Tutor services	233,225	-	233,225	245,635	-	245,635
Student services	292,022	-	292,022	257,622	-	257,622
	<u>525,247</u>	<u>-</u>	<u>525,247</u>	<u>503,257</u>	<u>-</u>	<u>503,257</u>
Supporting services:						
General and administrative	59,681	-	59,681	51,405	-	51,405
Fundraising	68,271	-	68,271	49,864	-	49,864
	<u>127,952</u>	<u>-</u>	<u>127,952</u>	<u>101,269</u>	<u>-</u>	<u>101,269</u>
Total expenses	<u>653,199</u>	<u>-</u>	<u>653,199</u>	<u>604,526</u>	<u>-</u>	<u>604,526</u>
Changes in net assets	29,317	64,999	94,316	571	(28,336)	(27,765)
Net assets, beginning of year	<u>363,351</u>	<u>113,632</u>	<u>476,983</u>	<u>362,780</u>	<u>141,968</u>	<u>504,748</u>
Net assets, end of year	<u>\$ 392,668</u>	<u>\$ 178,631</u>	<u>\$ 571,299</u>	<u>\$ 363,351</u>	<u>\$ 113,632</u>	<u>\$ 476,983</u>

See Notes to Financial Statements

**READING CONNECTIONS, INC.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2017**

	Program Services		Supporting Services		Total
	Tutor Services	Student Services	General and Administrative	Fundraising	
Salaries	\$ 155,378	\$ 188,398	\$ 36,240	\$ 27,041	\$ 407,057
Employee benefits	2,739	2,739	420	414	6,312
Payroll taxes	11,844	14,361	2,763	2,061	31,029
Professional fees	5,156	4,748	9,661	11,053	30,618
Contract services	6,010	8,779	-	-	14,789
Office supplies	1,319	1,319	280	-	2,918
Telephone	3,827	3,827	605	286	8,545
Postage and freight	501	500	-	53	1,054
Occupancy	30,307	30,307	2,916	-	63,530
Parking	2,639	4,036	656	-	7,331
Advertising	79	79	248	248	654
Printing	1,991	2,159	1,441	894	6,485
Program supplies	3,548	19,115	-	-	22,663
Travel	2,638	5,046	232	395	8,311
Conference and meetings	2,447	3,578	550	-	6,575
Fundraising events	-	-	-	24,942	24,942
Membership dues	272	272	-	-	544
Licenses	-	-	200	-	200
Depreciation	753	754	331	-	1,838
Insurance	1,631	1,859	1,956	282	5,728
Service charges	-	-	568	568	1,136
Miscellaneous	146	146	614	34	940
	<u>\$ 233,225</u>	<u>\$ 292,022</u>	<u>\$ 59,681</u>	<u>\$ 68,271</u>	<u>\$ 653,199</u>

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

	Program Services		Supporting Services		Total
	Tutor Services	Student Services	General and Administrative	Fundraising	
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
	<u>\$ 245,635</u>	<u>\$ 257,622</u>	<u>\$ 51,405</u>	<u>\$ 49,864</u>	<u>\$ 604,526</u>

**READING CONNECTIONS, INC.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016**

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	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Changes in net assets	\$ <b>94,316</b>	\$ (27,765)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	<b>1,838</b>	5,511
Donated investments	<b>(1,021)</b>	(2,507)
Unrealized (gain) loss on investments	<b>(10,784)</b>	5,811
Investment fees deducted from earnings	<b>1,526</b>	1,490
Reinvestment of earnings in endowments	<b>(2,114)</b>	(2,361)
(Increase) decrease in:		
Prepaid expenses	<b>(374)</b>	530
Grants receivable	<b>(7,999)</b>	28,336
Increase (decrease) in:		
Accrued expenses	<b>3,137</b>	(862)
Net cash provided by operating activities	<u><b>78,525</b></u>	<u>8,183</u>
Cash flows from investing activities:		
Distributions from endowment fund	<b>3,829</b>	3,771
Purchase of property and equipment	<b>(5,091)</b>	(1,110)
Net cash provided by (used in) investing activities	<u><b>(1,262)</b></u>	<u>2,661</u>
Increase in cash and cash equivalents	<b>77,263</b>	10,844
Cash and cash equivalents, beginning of year	<u><b>292,110</b></u>	<u>281,266</u>
Cash and cash equivalents, end of year	<u><u><b>\$ 369,373</b></u></u>	<u><u><b>\$ 292,110</b></u></u>



## **READING CONNECTIONS, INC.**

### **Notes to Financial Statements**

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#### 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, 2017 and 2016, 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

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#### 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, 2017 and 2016.

##### **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 2017 and 2016.

##### **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**

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#### 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 2017 and 2016 were \$654 and \$0, respectively.

##### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 10, 2017, 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, fundraising 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.

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

## 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, 2017 and 2016, the fair value of the matching fund above the original \$10,000 basis was \$819 and \$92, respectively. Distributions received from the matching endowment were \$438 and \$439 for the years ended June 30, 2017 and 2016, respectively.

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

	<u>2017</u>	<u>2016</u>
Board Designated Endowment	\$ <b>88,233</b>	\$ 80,460
Matching Endowment	<b>819</b>	92
	<u><u>\$ <b>89,052</b></u></u>	<u><u>\$ 80,552</u></u>

Endowment activity for the years ended June 30, 2017 and 2016 is as follows:

		Unrestricted Board Designated	Total
<u>2017</u>	<u>Unrestricted</u>		
Endowment net assets, beginning of year	<u>\$ 92</u>	<u>\$ 80,460</u>	<u>\$ 80,552</u>
Investment return:			
Investment income	233	1,881	2,114
Net appreciation	1,298	10,443	11,741
Investment fees	(366)	(1,160)	(1,526)
Distributions	<u>(438)</u>	<u>(3,391)</u>	<u>(3,829)</u>
Total investment return	<u>727</u>	<u>7,773</u>	<u>8,500</u>
Endowment net assets, end of year	<u><u>\$ 819</u></u>	<u><u>\$ 88,233</u></u>	<u><u>\$ 89,052</u></u>
<u>2016</u>			
Endowment net assets, beginning of year	<u>\$ 1,409</u>	<u>\$ 88,863</u>	<u>\$ 90,272</u>
Investment return:			
Investment income	266	2,095	2,361
Net depreciation	(778)	(6,042)	(6,820)
Investment fees	(366)	(1,124)	(1,490)
Distributions	<u>(439)</u>	<u>(3,332)</u>	<u>(3,771)</u>
Total investment return	<u>(1,317)</u>	<u>(8,403)</u>	<u>(9,720)</u>
Endowment net assets, end of year	<u><u>\$ 92</u></u>	<u><u>\$ 80,460</u></u>	<u><u>\$ 80,552</u></u>

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

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NOTE 4 - INVESTMENTS

At June 30, 2017 and 2016, investments were comprised of the following:

	Cost	Cumulative Unrealized Gain (Loss)	Fair Value
<b>2017</b>			
Beneficial Interest in Endowments	\$ 56,172	\$ 32,880	\$ 89,052
Other Investments	9,332	(957)	8,375
	<u>\$ 65,504</u>	<u>\$ 31,923</u>	<u>\$ 97,427</u>
<b>2016</b>			
Beneficial Interest in Endowments	\$ 56,172	\$ 24,380	\$ 80,552
Other Investments	7,302	1,009	8,311
	<u>\$ 63,474</u>	<u>\$ 25,389</u>	<u>\$ 88,863</u>

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, 2017 and 2016:

	Fair Value Measurements at June 30, 2017			
	Level 1	Level 2	Level 3	Total
Other investments	\$ 8,375	\$ -	\$ -	\$ 8,375
Investments measured at NAV:				
Beneficial interest in endowments	-	-	-	89,052
	<u>\$ 8,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 97,427</u>

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

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NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

	Fair Value Measurements at June 30, 2016			
	Level 1	Level 2	Level 3	Total
Other investments	\$ 8,311	\$ -	\$ -	\$ 8,311
Investments measured at NAV:				
Beneficial interest in endowments	-	-	-	80,552
	<u>\$ 8,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,863</u>

NOTE 6 - IN-KIND CONTRIBUTIONS

The Organization currently occupies a 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, 2017 and 2016, 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 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, 2017 and 2016 as follows:

	2017	2016
Rent and utilities	\$ 20,000	\$ 20,000
Fundraising	3,528	-
Student/tutor programs	6,119	3,371
Other	-	20
	<u>\$ 29,647</u>	<u>\$ 23,391</u>

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2017 and 2016 are available for the following purposes:

	2017	2016
Time restricted for subsequent years operations	\$ 172,424	\$ 113,632
Family literacy	4,207	-
Other purpose restricted net assets	2,000	-
	<u>\$ 178,631</u>	<u>\$ 113,632</u>

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.

## READING CONNECTIONS, INC.

### Notes to Financial Statements

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#### 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, 2017 and 2016, 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 \$7,290 in 2018. Total rental expense, including the High Point Library in-kind lease described in Note 6, for the years ended June 30, 2017 and 2016 was \$63,530 and \$62,270, respectively.

#### NOTE 11 - ACCOUNTING STANDARDS 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 standard will have on their financial statements.

In February of 2016, 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 Organization's management has not determined the impact this standard will have on their financial statements.

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

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

In August 2016, 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.