

READING CONNECTIONS, INC.  
FINANCIAL REPORT  
YEARS ENDED JUNE 30, 2018 AND 2017



**READING CONNECTIONS, INC.**

**Table of Contents**

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	<u>Page No.</u>
Independent Auditor's Report .....	1
<i>Financial Statements</i>	
Statements of Financial Position .....	2
Statements of Activities and Changes in Net Assets .....	3
Statement of Functional Expenses - Year Ended June 30, 2018 .....	4
Statement of Functional Expenses - Year Ended June 30, 2017 .....	5
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7



## 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, 2018 and 2017, 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, 2018 and 2017, 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 17, 2018

**READING CONNECTIONS, INC.**  
**Statements of Financial Position**  
**June 30, 2018 and 2017**

**Assets**

	<b>2018</b>	2017 (As Restated)
Current Assets:		
Cash and cash equivalents	\$ 361,997	\$ 369,373
Investments	11,651	8,375
Grants receivable	116,776	111,631
Pledges receivable, current portion	21,567	20,020
Other receivables	3,874	-
Prepaid expenses	1,514	1,270
Total current assets	<u>517,379</u>	<u>510,669</u>
Noncurrent Assets:		
Pledges receivable, net of current portion	35,471	19,601
Beneficial interest in endowments	91,112	89,052
	<u>126,583</u>	<u>108,653</u>
Property and Equipment:		
Office furniture and equipment	21,788	18,977
Leasehold improvements	38,500	38,500
	<u>60,288</u>	<u>57,477</u>
Less accumulated depreciation	55,139	52,287
	<u>5,149</u>	<u>5,190</u>
Total noncurrent assets	<u>131,732</u>	<u>113,843</u>
Total assets	<u>\$ 649,111</u>	<u>\$ 624,512</u>

**Liabilities and Net Assets**

Current Liabilities:		
Accounts payable	\$ 350	\$ -
Accrued expenses	12,272	13,592
Total current liabilities	<u>12,622</u>	<u>13,592</u>
Net Assets:		
Unrestricted:		
Undesignated	325,806	305,092
Board designated for endowment	90,275	88,233
Temporarily restricted	220,408	217,595
Total net assets	<u>636,489</u>	<u>610,920</u>
Total liabilities and net assets	<u>\$ 649,111</u>	<u>\$ 624,512</u>

**READING CONNECTIONS, INC.**  
**Statements of Activities and Changes in Net Assets**  
**Years Ended June 30, 2018 and 2017**

	2018			2017 (As Restated)		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support:						
Grants and contributions:						
United Way	\$ 1,266	\$ 96,775	\$ 98,041	\$ 386	\$ 87,424	\$ 87,810
Grants	366,791	59,026	425,817	394,315	91,207	485,522
Other	184,919	49,656	234,575	141,579	15,120	156,699
	552,976	205,457	758,433	536,280	193,751	730,031
Revenues:						
Investment income	8,436	-	8,436	11,754	-	11,754
Other income	17,108	-	17,108	4,627	-	4,627
	25,544	-	25,544	16,381	-	16,381
Total support and revenues	578,520	205,457	783,977	552,661	193,751	746,412
Net assets released from restrictions	202,644	(202,644)	-	130,512	(130,512)	-
Expenses:						
Program services:						
Tutor services	229,707	-	229,707	233,225	-	233,225
Student services	355,187	-	355,187	292,022	-	292,022
	584,894	-	584,894	525,247	-	525,247
Supporting services:						
General and administrative	62,827	-	62,827	59,681	-	59,681
Fundraising	110,687	-	110,687	68,271	-	68,271
	173,514	-	173,514	127,952	-	127,952
Total expenses	758,408	-	758,408	653,199	-	653,199
Changes in net assets	22,756	2,813	25,569	29,974	63,239	93,213
Net assets, beginning of year, prior to restatement	393,325	217,595	610,920	363,351	113,632	476,983
Restatement	-	-	-	-	40,724	40,724
Net assets, beginning of year, as restated	393,325	217,595	610,920	363,351	154,356	517,707
Net assets, end of year	\$ 416,081	\$ 220,408	\$ 636,489	\$ 393,325	\$ 217,595	\$ 610,920

See Notes to Financial Statements

**READING CONNECTIONS, INC.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2018**

	Program Services		Supporting Services		Total
	Tutor Services	Student Services	General and Administrative	Fundraising	
Salaries	\$ 153,463	\$ 249,124	\$ 37,576	\$ 29,014	\$ 469,177
Payroll taxes	11,770	19,107	2,882	2,225	35,984
Professional fees	3,488	3,044	8,344	11,948	26,824
Contract services	7,600	7,670	-	-	15,270
Office supplies	1,807	1,807	261	-	3,875
Telephone	3,558	3,558	553	355	8,024
Postage and freight	530	530	-	118	1,178
Occupancy	27,753	27,753	2,784	-	58,290
Parking	2,987	5,126	844	364	9,321
Advertising	1,465	1,465	4,382	7,238	14,550
Printing	2,827	2,899	818	1,065	7,609
Program supplies	5,080	20,218	-	-	25,298
Travel	1,946	5,398	542	394	8,280
Conference and meetings	1,877	3,327	351	10	5,565
Fundraising events	-	-	-	56,995	56,995
Membership dues	142	142	-	-	284
Subscriptions	54	55	120	-	229
Licenses	-	-	200	-	200
Depreciation	1,400	1,479	272	-	3,151
Insurance	1,636	2,161	1,868	284	5,949
Service charges	-	-	590	671	1,261
Miscellaneous	324	324	440	6	1,094
	<u>\$ 229,707</u>	<u>\$ 355,187</u>	<u>\$ 62,827</u>	<u>\$ 110,687</u>	<u>\$ 758,408</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>

See Notes to Financial Statements

**READING CONNECTIONS, INC.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2018 and 2017**

	<u>2018</u>	2017 (As Restated)
Cash flows from operating activities:		
Changes in net assets	\$ 25,569	\$ 93,213
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	3,151	1,838
Donated investments	(1,089)	(1,021)
Unrealized gain on investments	(6,890)	(10,784)
Investment fees deducted from earnings	1,617	1,526
Reinvestment of earnings	(2,776)	(2,114)
(Increase) decrease in:		
Pledges receivable	(17,417)	1,103
Grants receivable	(5,145)	(7,999)
Other receivable	(3,874)	-
Prepaid expenses	(244)	(374)
Increase (decrease) in:		
Accounts payable	350	-
Accrued expenses	(1,320)	3,137
Net cash provided by (used in) operating activities	<u>(8,068)</u>	<u>78,525</u>
Cash flows from investing activities:		
Distributions from endowment fund	3,802	3,829
Purchase of property and equipment	(3,110)	(5,091)
Net cash provided by (used in) investing activities	<u>692</u>	<u>(1,262)</u>
Increase (decrease) in cash and cash equivalents	(7,376)	77,263
Cash and cash equivalents, beginning of year	<u>369,373</u>	<u>292,110</u>
Cash and cash equivalents, end of year	<u>\$ 361,997</u>	<u>\$ 369,373</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, 2018 and 2017, 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, 2018 and 2017.

##### **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 2018 and 2017.

##### **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.

##### **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 2018 and 2017 were \$14,550 and \$654, respectively.

## **READING CONNECTIONS, INC.**

### **Notes to Financial Statements**

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#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **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 17, 2018, 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.

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, 2018 and 2017, the fair value of the matching fund above the original \$10,000 basis was \$837 and \$819, respectively. Distributions received from the matching endowment were \$427 and \$438 for the years ended June 30, 2018 and 2017, respectively.

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

## NOTE 3 - BENEFICIAL INTEREST IN ENDOWMENTS (Continued)

In all events, the actual payout for the funds shall not result in a violation of the Uniform Management of Institutional Funds Act ("UMIFA"). The agreement also gives CFGG's Board the power to modify any restrictions or conditions on the distribution of assets for any specified charitable purpose or to any specified organization, if, in their sole judgment such restriction becomes, ineffective, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the area served by CFGG. The Organization can withdraw a portion of the endowment provided that a majority of the governing boards of the Organization and CFGG approve of the withdrawal.

The Organization has the following beneficial interest in endowment held at CFGG as of June 30:

	<u>2018</u>	<u>2017</u>
Board Designated Endowment	\$ 90,275	\$ 88,233
Matching Endowment	837	819
	<u>\$ 91,112</u>	<u>\$ 89,052</u>

Endowment activity for the years ended June 30, 2018 and 2017 is as follows:

<u>2018</u>	Unrestricted	Unrestricted Board Designated	Total
Endowment net assets, beginning of year	\$ 819	\$ 88,233	\$ 89,052
Investment return:			
Investment income	276	2,274	2,550
Net appreciation	538	4,391	4,929
Investment fees	(369)	(1,248)	(1,617)
Distributions	(427)	(3,375)	(3,802)
Total investment return	<u>18</u>	<u>2,042</u>	<u>2,060</u>
Endowment net assets, end of year	<u>\$ 837</u>	<u>\$ 90,275</u>	<u>\$ 91,112</u>

<u>2017</u>	Unrestricted	Unrestricted Board Designated	Total
Endowment net assets, beginning of year	\$ 92	\$ 80,460	\$ 80,552
Investment return:			
Investment income	233	1,881	2,114
Net depreciation	1,298	10,443	11,741
Investment fees	(366)	(1,160)	(1,526)
Distributions	(438)	(3,391)	(3,829)
Total investment return	<u>727</u>	<u>7,773</u>	<u>8,500</u>
Endowment net assets, end of year	<u>\$ 819</u>	<u>\$ 88,233</u>	<u>\$ 89,052</u>

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

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## NOTE 4 - INVESTMENTS

At June 30, 2018 and 2017, investments were comprised of the following:

	Cost	Cumulative Unrealized Gain (Loss)	Fair Value
<b>2018</b>			
Common stock	\$ 10,629	\$ 1,022	\$ 11,651
Beneficial Interest in Endowments	56,172	34,940	91,112
	<u>\$ 66,801</u>	<u>\$ 35,962</u>	<u>\$ 102,763</u>
<b>2017</b>			
Common stock	\$ 9,332	\$ (957)	\$ 8,375
Beneficial Interest in Endowments	56,172	32,880	89,052
	<u>\$ 65,504</u>	<u>\$ 31,923</u>	<u>\$ 97,427</u>

## NOTE 5 - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy under Topic 820 - *Fair Value Measurement* are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2017 and 2016.

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

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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

*Common Stock:* Valued at the daily closing price as reported by relevant stock exchanges. All stock are considered actively traded.

*Beneficial Interest in Endowment Funds:* 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.

This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Participant transactions (purchases and sales) may occur daily. Were the Plan to initiate a full redemption of the collective trust, the investment advisor reserves the right to temporarily delay withdrawal from the trust in order to ensure that securities liquidations will be carried out in an orderly business manner.

The following tables set forth by level, within the fair value hierarchy, the Plan's fair value measurements at June 30, 2018 and 2017:

	Fair Value Measurements at June 30, 2018			
	Level 1	Level 2	Level 3	Total
Common stock	\$ 11,651	\$ -	\$ -	\$ 11,651
Total assets in the fair value hierarchy	11,651	-	-	11,651
Investments measured at net asset value (a)	-	-	-	91,112
Investments at fair value	\$ 11,651	\$ -	\$ -	\$ 102,763
	Fair Value Measurements at June 30, 2017			
	Level 1	Level 2	Level 3	Total
Common stock	\$ 8,375	\$ -	\$ -	\$ 8,375
Total assets in the fair value hierarchy	8,375	-	-	8,375
Investments measured at net asset value (a)	-	-	-	89,052
Investments at fair value	\$ 8,375	\$ -	\$ -	\$ 97,427

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

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

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**NOTE 6 - PLEDGES RECEIVABLE**

Pledges receivable are recorded at present value using a discount rate of 5% and consist of the following amounts as of June 30:

	<u>2018</u>	<u>2017</u>
Amounts due within one year	\$ 21,567	\$ 20,020
Amounts due in one to five years	39,080	23,686
	<u>60,647</u>	<u>43,706</u>
Less: Present value discount	3,609	4,085
	<u>\$ 57,038</u>	<u>\$ 39,621</u>

**NOTE 7 - 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, 2018 and 2017, 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, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
Rent and utilities	\$ 20,000	\$ 20,000
Fundraising	6,536	3,528
Student/tutor programs	6,580	6,119
Other	424	-
	<u>\$ 33,540</u>	<u>\$ 29,647</u>

**NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2018 and 2017 are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Time restricted for subsequent years operations	\$ 144,517	\$ 164,023
Family literacy	36,865	43,572
Detention center programs	20,000	10,000
Other purpose restricted net assets	19,026	-
	<u>\$ 220,408</u>	<u>\$ 217,595</u>

**NOTE 9 - OPERATING LEASE COMMITMENT**

The Organization rents its office facility under an operating lease agreement expiring September 2020, with monthly payments ranging from \$3,100 to \$3,289. Minimum future rental payments under this lease are \$38,037 in fiscal year 2019. Total rental expense, including the High Point Library in-kind lease described in Note 6, for the years ended June 30, 2018 and 2017 was \$58,290 and \$63,530, respectively.

## READING CONNECTIONS, INC.

### Notes to Financial Statements

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#### NOTE 10 - 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 11 - 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, 2018 and 2017, no expenses were incurred and no contributions were made to the plan.

#### NOTE 12 - PRIOR PERIOD RESTATEMENT

The June 30, 2017 financial information has been restated to properly account for pledges receivable that had not been previously recorded by the Organization. Prior to the year ended June 30, 2018, these pledges had been recorded when payment was received instead of recognized when the pledges were made. The restatement resulted in the following changes to the amounts previously reported for the year ended June 30, 2017:

	<u>As Previously Stated</u>	<u>As Restated</u>
Statement of Financial Position:		
Pledges receivable, current portion	\$ -	\$ 20,020
Pledges receivable, net of current portion	-	19,601
Net assets, temporarily restricted	113,632	217,595
Statement of Activities and Changes in Net Assets:		
Grants and contributions, other, unrestricted	\$ 157,802	\$ 141,579
Grants and contributions, other, temporarily restricted	-	15,120
Net assets released from restrictions	113,632	130,512
Changes in net assets, temporarily restricted	64,999	63,239
Statement of Cash Flows:		
Changes in net assets	\$ 94,316	\$ 93,213
Decrease in pledges receivable	-	1,103



## READING CONNECTIONS, INC.

### Notes to Financial Statements

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#### NOTE 13 - 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, 2016-10, 2016-12, 2016-20, 2017-13 and 2017-14, 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 2016, FASB issued ASU 2016-02, *Leases (Topic 842)* and subsequently amended the update with ASU 2017-13, 2018-01, 2018-10 and 2018-11. 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.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*. 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.