

READING CONNECTIONS, INC.
FINANCIAL REPORT
YEARS ENDED JUNE 30, 2019 AND 2018



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, 2019 and 2018, 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, 2019 and 2018, 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 14, 2019

READING CONNECTIONS, INC.
Statements of Financial Position
June 30, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current Assets:		
Cash and cash equivalents	\$ 339,026	\$ 361,997
Investments	14,751	11,651
Grants receivable	162,410	116,776
Pledges receivable, current portion	33,215	21,567
Other receivables	8,500	3,874
Prepaid expenses	1,928	1,514
Total current assets	<u>559,830</u>	<u>517,379</u>
Noncurrent Assets:		
Pledges receivable, net of current portion and allowance	51,403	35,471
Beneficial interest in endowments	92,768	91,112
	<u>144,171</u>	<u>126,583</u>
Property and Equipment:		
Office furniture and equipment	22,789	21,788
Leasehold improvements	38,500	38,500
	<u>61,289</u>	<u>60,288</u>
Less accumulated depreciation	58,320	55,139
	<u>2,969</u>	<u>5,149</u>
Total noncurrent assets	<u>147,140</u>	<u>131,732</u>
Total assets	<u>\$ 706,970</u>	<u>\$ 649,111</u>

Liabilities and Net Assets

Current Liabilities:		
Accounts payable	\$ 1,101	\$ 350
Accrued expenses	6,747	12,272
Total current liabilities	<u>7,848</u>	<u>12,622</u>
Net Assets:		
Without donor restrictions:		
Undesignated	321,638	325,806
Board designated for endowment	91,956	90,275
With donor restrictions	285,528	220,408
Total net assets	<u>699,122</u>	<u>636,489</u>
Total liabilities and net assets	<u>\$ 706,970</u>	<u>\$ 649,111</u>

READING CONNECTIONS, INC.
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support:						
Grants and contributions:						
United Way	\$ 656	\$ 132,410	\$ 133,066	\$ 1,266	\$ 96,775	\$ 98,041
Grants	462,716	31,486	494,202	366,791	59,026	425,817
Other	128,239	84,618	212,857	184,919	49,656	234,575
	<u>591,611</u>	<u>248,514</u>	<u>840,125</u>	<u>552,976</u>	<u>205,457</u>	<u>758,433</u>
Revenues:						
Program income	34,075	-	34,075	-	-	-
Investment income	5,138	-	5,138	8,436	-	8,436
Other income	4,603	-	4,603	17,108	-	17,108
	<u>43,816</u>	<u>-</u>	<u>43,816</u>	<u>25,544</u>	<u>-</u>	<u>25,544</u>
Total support and revenues	<u>635,427</u>	<u>248,514</u>	<u>883,941</u>	<u>578,520</u>	<u>205,457</u>	<u>783,977</u>
Net assets released from restrictions	<u>183,394</u>	<u>(183,394)</u>	<u>-</u>	<u>202,644</u>	<u>(202,644)</u>	<u>-</u>
Expenses:						
Program services:						
Tutor services	221,286	-	221,286	229,707	-	229,707
Student services	409,331	-	409,331	355,187	-	355,187
	<u>630,617</u>	<u>-</u>	<u>630,617</u>	<u>584,894</u>	<u>-</u>	<u>584,894</u>
Supporting services:						
General and administrative	75,597	-	75,597	62,827	-	62,827
Fundraising	115,094	-	115,094	110,687	-	110,687
	<u>190,691</u>	<u>-</u>	<u>190,691</u>	<u>173,514</u>	<u>-</u>	<u>173,514</u>
Total expenses	<u>821,308</u>	<u>-</u>	<u>821,308</u>	<u>758,408</u>	<u>-</u>	<u>758,408</u>
Changes in net assets	<u>(2,487)</u>	<u>65,120</u>	<u>62,633</u>	<u>22,756</u>	<u>2,813</u>	<u>25,569</u>
Net assets, beginning of year,						
Net assets, beginning of year, as restated	<u>416,081</u>	<u>220,408</u>	<u>636,489</u>	<u>393,325</u>	<u>217,595</u>	<u>610,920</u>
Net assets, end of year	<u>\$ 413,594</u>	<u>\$ 285,528</u>	<u>\$ 699,122</u>	<u>\$ 416,081</u>	<u>\$ 220,408</u>	<u>\$ 636,489</u>

READING CONNECTIONS, INC.
Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services		Supporting Services		Total
	Tutor Services	Student Services	General and Administrative	Fundraising	
Salaries	\$ 146,483	\$ 285,850	\$ 44,216	\$ 59,197	\$ 535,746
Payroll taxes	11,165	21,788	3,370	4,512	40,835
Professional fees	4,511	4,726	13,435	15,976	38,648
Contract services	6,563	6,686	-	-	13,249
Office supplies	1,495	1,495	147	-	3,137
Telephone	3,329	3,328	533	487	7,677
Postage and freight	491	491	-	109	1,091
Occupancy	27,507	27,508	3,115	-	58,130
Parking	3,596	7,367	1,051	1,145	13,159
Printing	2,463	2,463	1,299	2,450	8,675
Program supplies	3,656	27,478	-	-	31,134
Travel	1,896	9,424	791	544	12,655
Conference and meetings	4,468	5,918	738	394	11,518
Fundraising events	-	-	-	29,009	29,009
Membership dues	142	142	-	-	284
Licenses	-	-	200	-	200
Depreciation	1,529	1,530	122	-	3,181
Insurance	1,632	2,749	1,899	463	6,743
Bad debt expense	-	-	3,883	-	3,883
Service charges	-	-	593	725	1,318
Miscellaneous	360	388	205	83	1,036
	<u>\$ 221,286</u>	<u>\$ 409,331</u>	<u>\$ 75,597</u>	<u>\$ 115,094</u>	<u>\$ 821,308</u>

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>

READING CONNECTIONS, INC.
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Changes in net assets	\$ 62,633	\$ 25,569
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	3,181	3,151
Donated investments	-	(1,089)
Unrealized gain on investments	(3,352)	(6,890)
Investment fees deducted from earnings	1,625	1,617
Reinvestment of earnings	(3,029)	(2,776)
(Increase) decrease in:		
Pledges receivable	(27,580)	(17,417)
Grants receivable	(45,634)	(5,145)
Other receivable	(4,626)	(3,874)
Prepaid expenses	(414)	(244)
Increase (decrease) in:		
Accounts payable	751	350
Accrued expenses	(5,525)	(1,320)
Net cash used in operating activities	<u>(21,970)</u>	<u>(8,068)</u>
Cash flows from investing activities:		
Distributions from endowment fund	-	3,802
Purchase of property and equipment	(1,001)	(3,110)
Net cash provided by (used in) investing activities	<u>(1,001)</u>	<u>692</u>
Decrease in cash and cash equivalents	(22,971)	(7,376)
Cash and cash equivalents, beginning of year	<u>361,997</u>	<u>369,373</u>
Cash and cash equivalents, end of year	<u>\$ 339,026</u>	<u>\$ 361,997</u>

READING CONNECTIONS, INC.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Reading Connections, Inc. (the "Organization") was established through a grant from the Kayser-Roth Charitable Foundation. The purpose of the Organization is to improve basic literacy skills of adults in the Greensboro 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 6 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 allowance for doubtful accounts for grants and contributions receivable as of June 30, 2019 was \$3,883.

Support and Revenue

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

Property and Equipment

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

READING CONNECTIONS, INC.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The Organization reports information regarding its financial position and activities using two classes of net assets; net assets without donor restrictions and net assets with donor restrictions.

Without donor restrictions - resources of the Organization that are not restricted by donors or grantors as to use or purpose. These resources include amounts generated from operations, undesignated gifts, and the investment in property and equipment.

With donor restrictions - includes resources that carry a donor-imposed restriction that permits the Organization to use or expend the donated assets as specified for which the restrictions are satisfied by the passage of time or by actions of the Organization. As those restrictions are met, the contributions are released from net assets with donor restrictions and are transferred to net assets without donor restrictions. Those resources for which the restrictions are met in the same fiscal year they are received are included in net assets without restrictions. It also includes resources that carry a donor-imposed restriction that stipulates that donated assets be maintained in perpetuity, but may permit the Organization to use or expend part or all of the income derived from the donated assets. At year end, the Organization did not have any assets in perpetuity.

Adoption of New Accounting Standard

During the year ended June 30, 2019, the Organization retroactively adopted the requirements in FASB ASC 958 to improve information presented in the financial statements and notes about the entity's liquidity, financial performance and cash flows (overall presentation of certain information). The June 30, 2018 financial statements have been reclassified to show the impact of these adoptions.

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 2019 and 2018.

Functional Allocation of Expenses

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

READING CONNECTIONS, INC.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising costs incurred in 2019 and 2018 were \$0 and \$14,550, 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 14, 2019, 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, 2019 and 2018, the fair value of the matching fund above the original \$10,000 basis was \$812 and \$837, respectively. Distributions received from the matching endowment were \$0 and \$427 for the years ended June 30, 2019 and 2018, respectively.

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>2019</u>	<u>2018</u>
Board Designated Endowment	\$ 91,956	\$ 90,275
Matching Endowment	812	837
	<u>\$ 92,768</u>	<u>\$ 91,112</u>

Endowment activity for the year ended June 30, 2019 is as follows:

<u>2019</u>	<u>Unrestricted</u>	<u>Unrestricted Board Designated</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 837	\$ 90,275	\$ 91,112
Investment return:			
Investment income	295	2,479	2,774
Net appreciation	50	457	507
Investment fees	(370)	(1,255)	(1,625)
Distributions	-	-	-
Total investment return	<u>(25)</u>	<u>1,681</u>	<u>1,656</u>
Endowment net assets, end of year	<u>\$ 812</u>	<u>\$ 91,956</u>	<u>\$ 92,768</u>

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

NOTE 3 - BENEFICIAL INTEREST IN ENDOWMENTS (Continued)

Endowment activity for the year ended June 30, 2018 is as follows:

2018	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 depreciation	538	4,391	4,929
Investment fees	(369)	(1,248)	(1,617)
Distributions	(427)	(3,375)	(3,802)
Total investment return	18	2,042	2,060
Endowment net assets, end of year	\$ 837	\$ 90,275	\$ 91,112

NOTE 4 - ASSETS LIQUIDITY

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of restrictions within one year of the statement of financial position date.

Cash and cash equivalents	\$ 339,026
Receivables	204,125
Investments	14,751
Financial assets, at year end	557,902
Less those unavailable for general expenditures within one year due to board designations:	
Quasi-endowment fund	91,956
Financial assets available to meet cash needs for general expenditures within one year	\$ 465,946

NOTE 5 - INVESTMENTS

At June 30, 2019 and 2018, investments were comprised of the following:

2019	Cost	Cumulative Unrealized Gain (Loss)	Fair Value
Common stock	\$ 10,629	\$ 4,122	\$ 14,751
Beneficial Interest in Endowments	56,172	36,596	92,768
	<u>\$ 66,801</u>	<u>\$ 40,718</u>	<u>\$ 107,519</u>
2018			
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>

READING CONNECTIONS, INC.

Notes to Financial Statements

NOTE 6 - 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 June 30, 2019 and 2018.

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.

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

NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)

The following tables set forth by level, within the fair value hierarchy, the Plan's fair value measurements at June 30, 2019 and 2018:

	Fair Value Measurements at June 30, 2019			
	Level 1	Level 2	Level 3	Total
Common stock	<u>\$ 14,751</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,751</u>
Total assets in the fair value hierarchy	<u>14,751</u>	<u>-</u>	<u>-</u>	<u>14,751</u>
Investments measured at net asset value (a)	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,768</u>
Investments at fair value	<u><u>\$ 14,751</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 107,519</u></u>

	Fair Value Measurements at June 30, 2018			
	Level 1	Level 2	Level 3	Total
Common stock	<u>\$ 11,651</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,651</u>
Total assets in the fair value hierarchy	<u>11,651</u>	<u>-</u>	<u>-</u>	<u>11,651</u>
Investments measured at net asset value (a)	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,112</u>
Investments at fair value	<u><u>\$ 11,651</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 102,763</u></u>

(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.

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, 2019 and 2018, 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, 2019 and 2018 as follows:

	2019	2018
Rent and utilities	<u>\$ 20,000</u>	<u>\$ 20,000</u>
Fundraising	<u>-</u>	<u>6,536</u>
Student/tutor programs	<u>9,600</u>	<u>6,580</u>
Other	<u>714</u>	<u>424</u>
	<u><u>\$ 30,314</u></u>	<u><u>\$ 33,540</u></u>

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

NOTE 8 - 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>2019</u>	<u>2018</u>
Amounts due within one year	\$ 33,215	\$ 21,567
Amounts due in one to five years	<u>60,380</u>	<u>39,080</u>
	93,595	60,647
Less: Present value discount	5,094	3,609
Less: Allowance for doubtful accounts	<u>3,883</u>	<u>-</u>
	<u>\$ 84,618</u>	<u>\$ 57,038</u>

NOTE 9 - NET ASSETS SUBJECT TO TIME OR PURPOSE RESTRICTIONS

Net assets with donor restrictions as of June 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Time restricted for subsequent years operations	\$ 285,528	\$ 144,517
Family literacy	-	36,865
Detention center programs	-	20,000
Other purpose restricted net assets	-	19,026
	<u>\$ 285,528</u>	<u>\$ 220,408</u>

NOTE 10 - 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 \$39,180 in fiscal year 2020, and \$9,867 in fiscal year 2021. Total rental expense, including the High Point Library in-kind lease described in Note 7, for the years ended June 30, 2019 and 2018 was \$58,130 and \$58,290, respectively.

NOTE 11 - 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**

NOTE 12 - 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, 2019 and 2018, no expenses were incurred and no contributions were made to the plan.