

READING CONNECTIONS, INC.
FINANCIAL REPORT
YEARS ENDED JUNE 30, 2021 AND 2020



READING CONNECTIONS, INC.

Table of Contents

	<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, 2021	4
Statement of Functional Expenses - Year Ended June 30, 2020	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, 2021 and 2020, 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, 2021 and 2020, 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 19, 2021

READING CONNECTIONS, INC.
Statements of Financial Position
June 30, 2021 and 2020

Assets

	<u>2021</u>	<u>2020</u>
Current Assets:		
Cash and cash equivalents	\$ 479,920	\$ 371,851
Investments	24,010	18,426
Grants receivable	123,811	279,809
Pledges receivable, current portion	23,570	26,920
Other receivables	-	6,000
Prepaid expenses	1,252	673
Total current assets	<u>652,563</u>	<u>703,679</u>
Noncurrent Assets:		
Pledges receivable, net of current portion and allowance	10,411	29,378
Beneficial interest in endowments	109,679	84,459
	<u>120,090</u>	<u>113,837</u>
Property and Equipment:		
Office furniture and equipment	27,685	25,759
Leasehold improvements	38,500	38,500
	<u>66,185</u>	<u>64,259</u>
Less accumulated depreciation	63,124	61,359
	<u>3,061</u>	<u>2,900</u>
Total noncurrent assets	<u>123,151</u>	<u>116,737</u>
Total assets	<u>\$ 775,714</u>	<u>\$ 820,416</u>

Liabilities and Net Assets

Current Liabilities:		
Accounts payable	\$ -	\$ 1,177
Accrued expenses	19,735	15,967
Notes payable	130,300	130,300
Total current liabilities	<u>150,035</u>	<u>147,444</u>
Net Assets:		
Without donor restrictions:		
Undesignated	274,801	198,406
Board designated for endowment	107,569	84,459
With donor restrictions	243,309	390,107
Total net assets	<u>625,679</u>	<u>672,972</u>
Total liabilities and net assets	<u>\$ 775,714</u>	<u>\$ 820,416</u>

READING CONNECTIONS, INC.
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support:						
Grants and contributions:						
United Way	\$ 208	\$ 105,811	\$ 106,019	\$ 968	\$ 146,434	\$ 147,402
Grants	444,461	103,517	547,978	342,960	181,374	524,334
Other	123,735	-	123,735	99,569	6,001	105,570
	<u>568,404</u>	<u>209,328</u>	<u>777,732</u>	<u>443,497</u>	<u>333,809</u>	<u>777,306</u>
Revenues:						
Program income	-	-	-	50,574	-	50,574
Investment income	30,951	-	30,951	(1,318)	-	(1,318)
Other income	2,862	-	2,862	3,168	-	3,168
	<u>33,813</u>	<u>-</u>	<u>33,813</u>	<u>52,424</u>	<u>-</u>	<u>52,424</u>
Total support and revenues	<u>602,217</u>	<u>209,328</u>	<u>811,545</u>	<u>495,921</u>	<u>333,809</u>	<u>829,730</u>
Net assets released from restrictions	<u>356,126</u>	<u>(356,126)</u>	<u>-</u>	<u>229,230</u>	<u>(229,230)</u>	<u>-</u>
Expenses:						
Program services:						
Tutor services	210,682	-	210,682	225,949	-	225,949
Student services	520,927	-	520,927	490,392	-	490,392
	<u>731,609</u>	<u>-</u>	<u>731,609</u>	<u>716,341</u>	<u>-</u>	<u>716,341</u>
Supporting services:						
General and administrative	60,694	-	60,694	62,875	-	62,875
Fundraising	66,535	-	66,535	76,664	-	76,664
	<u>127,229</u>	<u>-</u>	<u>127,229</u>	<u>139,539</u>	<u>-</u>	<u>139,539</u>
Total expenses	<u>858,838</u>	<u>-</u>	<u>858,838</u>	<u>855,880</u>	<u>-</u>	<u>855,880</u>
Changes in net assets	99,505	(146,798)	(47,293)	(130,729)	104,579	(26,150)
Net assets, beginning of year	<u>282,865</u>	<u>390,107</u>	<u>672,972</u>	<u>413,594</u>	<u>285,528</u>	<u>699,122</u>
Net assets, end of year	<u>\$ 382,370</u>	<u>\$ 243,309</u>	<u>\$ 625,679</u>	<u>\$ 282,865</u>	<u>\$ 390,107</u>	<u>\$ 672,972</u>

READING CONNECTIONS, INC.
Statement of Functional Expenses
Year Ended June 30, 2021

	Program Services		Supporting Services		Total
	Tutor Services	Student Services	General and Administrative	Fundraising	
Salaries	\$ 159,562	\$ 400,973	\$ 36,668	\$ 27,331	\$ 624,534
Payroll taxes	12,195	30,644	2,802	2,089	47,730
Professional fees	2,605	4,478	12,044	7,283	26,410
Office supplies	-	577	124	-	701
Telephone	3,300	3,300	449	588	7,637
Postage and freight	225	676	-	100	1,001
Occupancy	26,274	26,276	2,828	-	55,378
Parking	3,153	8,175	892	1,172	13,392
Advertising	-	25	-	20	45
Printing	302	2,086	1,547	24	3,959
Program supplies	140	38,546	-	-	38,686
Travel	-	639	-	-	639
Conference and meetings	192	193	50	50	485
Fundraising events	-	-	-	26,490	26,490
Membership dues	244	245	-	-	489
Licenses	-	-	200	-	200
Depreciation	664	718	383	-	1,765
Insurance	1,811	3,280	1,931	294	7,316
Bad debt expense	-	-	150	-	150
Service charges	-	-	565	1,093	1,658
Miscellaneous	15	96	61	1	173
	<u>\$ 210,682</u>	<u>\$ 520,927</u>	<u>\$ 60,694</u>	<u>\$ 66,535</u>	<u>\$ 858,838</u>

READING CONNECTIONS, INC.
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services		Supporting Services		Total
	Tutor Services	Student Services	General and Administrative	Fundraising	
Salaries	\$ 162,031	\$ 366,461	\$ 41,177	\$ 31,948	\$ 601,617
Payroll taxes	12,303	27,826	3,126	2,426	45,681
Professional fees	3,501	7,627	8,291	12,761	32,180
Contract services	-	76	-	-	76
Office supplies	1,164	1,164	153	-	2,481
Telephone	3,373	3,373	478	588	7,812
Postage and freight	659	659	-	146	1,464
Occupancy	27,969	27,969	3,338	-	59,276
Parking	3,713	8,650	952	1,157	14,472
Printing	775	3,266	775	779	5,595
Program supplies	1,705	25,698	-	-	27,403
Travel	1,017	7,558	32	170	8,777
Conference and meetings	4,452	5,576	441	47	10,516
Fundraising events	-	-	-	25,473	25,473
Membership dues	219	220	-	-	439
Licenses	-	-	200	-	200
Depreciation	1,348	1,348	343	-	3,039
Insurance	1,650	2,717	1,886	292	6,545
Bad debt expense	-	-	837	-	837
Interest expense	-	-	181	-	181
Service charges	-	-	604	872	1,476
Miscellaneous	70	204	61	5	340
	<u>\$ 225,949</u>	<u>\$ 490,392</u>	<u>\$ 62,875</u>	<u>\$ 76,664</u>	<u>\$ 855,880</u>

READING CONNECTIONS, INC.
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Changes in net assets	\$ (47,293)	\$ (26,150)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,765	3,039
Donated investments	-	(977)
Unrealized (gain) loss on investments	(30,874)	319
Investment fees deducted from earnings	1,788	1,602
Reinvestment of earnings	(1,718)	(272)
(Increase) decrease in:		
Pledges receivable	22,317	28,320
Grants receivable	155,998	(117,399)
Other receivable	6,000	2,500
Prepaid expenses	(579)	1,255
Increase (decrease) in:		
Accounts payable	(1,177)	76
Accrued expenses	3,768	9,220
Net cash provided by (used in) operating activities	<u>109,995</u>	<u>(98,467)</u>
Cash flows from investing activities:		
Distributions from endowment fund	-	3,962
Purchase of property and equipment	(1,926)	(2,970)
Net cash provided by (used in) investing activities	<u>(1,926)</u>	<u>992</u>
Cash flows from financing activities:		
Proceeds from issuance of notes payable	-	130,300
Net cash provided by financing activities	<u>-</u>	<u>130,300</u>
Increase in cash and cash equivalents	108,069	32,825
Cash and cash equivalents, beginning of year	<u>371,851</u>	<u>339,026</u>
Cash and cash equivalents, end of year	<u>\$ 479,920</u>	<u>\$ 371,851</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, 2021 and 2020 was \$4,870 and \$4,720, respectively.

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.

Revenue Recognition

The Organization derives its revenues primarily from state grants. However there is one source of revenue that is considered an exchange transaction. The Organization provides tutoring services to various clients based on an agreed-upon contract price. These program revenues are recognized when control of these services is transferred to its customers, in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those services.

For performance obligations related to one time only tutoring services to clients, control transfers to the customer at a point in time. The control transfers when the Organization delivers the promised services. The Organization collects payment for these services at the time services are provided and recognizes the revenue at that time.

The following table disaggregates the Company's revenue based on the timing of satisfaction of performance obligations for the year ended June 30:

	<u>2021</u>	<u>2020</u>
Performance obligations satisfied at a point in time	\$ -	\$ 50,574
Total net sales	<u>\$ -</u>	<u>\$ 50,574</u>

Contributions are generally recognized as revenue when they are received or unconditionally pledged. Revenue related to unconditional promises to give are recorded at their net realizable value. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

READING CONNECTIONS, INC.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

One exception is when restrictions on contributions are met in the same accounting period as the contributions are recorded. In that case, the contributions and expenditures are included in net assets without donor restrictions. Conditional promises to give are recognized as revenue when the condition stipulated by the pledge has been met. Grants and awards received from various government and private funding sources are recorded based on management's evaluation on the specific attributes of the grants and awards. Typically, when funds are received in advance without significant conditions, they are considered unconditional and recorded as contributions without donor restrictions at time of receipt. Grants and awards received on a reimbursement basis are considered to be conditional promises to give and are not recognized until the grant costs are incurred.

The Organization has received proceeds from several state grants and awards. Periodic audits of these grants and awards are required and certain costs may be questioned as not being appropriate under the agreements, potentially resulting in the refund of grant monies to the grantor agencies. No provision has been made in the accompanying financial statements for the refund of grant monies, as no such refund is expected.

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 2021 and 2020.

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.

READING CONNECTIONS, INC.

Notes to Financial Statements

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 19, 2021, 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.

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

NOTE 3 - BENEFICIAL INTEREST IN ENDOWMENTS (Continued)

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, 2021, the fair value of the matching fund above the original \$10,000 basis was \$2,110. There was no balance in the matching fund as of June 30, 2020, because the matching fund was less than \$10,000. No distributions were received from the matching endowment for the year ended June 30, 2021. Distributions received from the matching endowment were \$428 for the year ended June 30, 2020.

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>2021</u>	<u>2020</u>
Board Designated Endowment	\$ 107,569	\$ 84,459
Matching Endowment	2,110	-
	<u>\$ 109,679</u>	<u>\$ 84,459</u>

Endowment activity for the years ended June 30, 2021 and 2020 is as follows:

	Unrestricted	Unrestricted Board Designated	Total
2021			
Endowment net assets, beginning of year	<u>\$ (303)</u>	<u>\$ 84,459</u>	<u>\$ 84,156</u>
Investment return:			
Investment income	171	1,505	1,676
Net appreciation	2,619	23,016	25,635
Investment fees	(377)	(1,411)	(1,788)
Distributions	-	-	-
Total investment return	<u>2,413</u>	<u>23,110</u>	<u>25,523</u>
Endowment net assets, end of year	<u>\$ 2,110</u>	<u>\$ 107,569</u>	<u>\$ 109,679</u>
2020			
Endowment net assets, beginning of year	<u>\$ 812</u>	<u>\$ 91,956</u>	<u>\$ 92,768</u>
Investment return:			
Investment income	265	2,279	2,544
Net depreciation	(586)	(5,006)	(5,592)
Investment fees	(366)	(1,236)	(1,602)
Distributions	(428)	(3,534)	(3,962)
Total investment return	<u>(1,115)</u>	<u>(7,497)</u>	<u>(8,612)</u>
Endowment net assets, end of year	<u>\$ (303)</u>	<u>\$ 84,459</u>	<u>\$ 84,156</u>

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

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	\$ 479,920
Receivables	147,381
Investments	24,010
Beneficial interest in endowments	<u>109,679</u>
Financial assets, at year end	760,990
Less those unavailable for general expenditures within one year due to board designations:	
Quasi-endowment fund	<u>107,569</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 653,421</u></u>

NOTE 5 - INVESTMENTS

At June 30, 2021 and 2020, investments were comprised of the following:

<u>2021</u>	Cost	Cumulative Unrealized Gain	Fair Value
Common stock	<u>\$ 11,606</u>	<u>\$ 12,404</u>	<u>\$ 24,010</u>
Beneficial Interest in Endowments	<u>56,172</u>	<u>53,507</u>	<u>109,679</u>
	<u><u>\$ 67,778</u></u>	<u><u>\$ 65,911</u></u>	<u><u>\$ 133,689</u></u>
 <u>2020</u> 			
Common stock	\$ 11,606	\$ 6,820	\$ 18,426
Beneficial Interest in Endowments	56,172	28,287	84,459
	<u><u>\$ 67,778</u></u>	<u><u>\$ 35,107</u></u>	<u><u>\$ 102,885</u></u>

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.

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

NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)

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, 2021 and 2020.

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, 2021 and 2020:

	Fair Value Measurements at June 30, 2021			
	Level 1	Level 2	Level 3	Total
Common stock	<u>\$ 24,010</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,010</u>
Total assets in the fair value hierarchy	<u>24,010</u>	<u>-</u>	<u>-</u>	<u>24,010</u>
Investments measured at net asset value (a)	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,679</u>
Investments at fair value	<u><u>\$ 24,010</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 133,689</u></u>

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

NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)

	Fair Value Measurements at June 30, 2020			
	Level 1	Level 2	Level 3	Total
Common stock	\$ 18,426	\$ -	\$ -	\$ 18,426
Total assets in the fair value hierarchy	18,426	-	-	18,426
Investments measured at net asset value (a)	-	-	-	84,459
Investments at fair value	\$ 18,426	\$ -	\$ -	\$ 102,885

(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, 2021 and 2020, 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, 2021 and 2020 as follows:

	2021	2020
Rent and utilities	\$ 20,000	\$ 20,000
Fundraising	518	885
Student/tutor programs	2,136	9,381
Other	102	71
	<u>\$ 22,756</u>	<u>\$ 30,337</u>

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:

	2021	2020
Amounts due within one year	\$ 23,570	\$ 26,920
Amounts due in one to five years	16,555	36,850
	40,125	63,770
Less: Present value discount	1,274	2,752
Less: Allowance for doubtful accounts	4,870	4,720
	<u>\$ 33,981</u>	<u>\$ 56,298</u>

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

NOTE 9 - NET ASSETS SUBJECT TO TIME OR PURPOSE RESTRICTIONS

Net assets with donor restrictions as of June 30, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Time restricted for subsequent years operations	<u>\$ 243,309</u>	<u>\$ 390,107</u>

NOTE 10 - OPERATING LEASE COMMITMENT

The Organization rents its office facility under an operating lease agreement expiring October 2023, with monthly payments ranging from \$3,200 to \$3,365. Minimum future rental payments under this lease are \$39,040 in fiscal year 2022, \$40,040 in fiscal year 2023 and \$13,460 in fiscal year 2024. Total rental expense, including the High Point Library in-kind lease described in Note 7, for the years ended June 30, 2021 and 2020 was \$55,378 and \$59,276 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.

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, 2021 and 2020, no expenses were incurred and no contributions were made to the plan.

NOTE 13 - PAYCHECK PROTECTION PROGRAM LOAN

The Organization received a Paycheck Protection Program ("PPP") loan from the Small Business Association ("SBA") via the Bank of Oak Ridge ("Lender") in the amount of \$120,300, pursuant to the PPP under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The Loan matures on April 6, 2022, and bears interest at a rate of 1% per annum, payable monthly commencing on the seven-month anniversary of the date of the note, December 7, 2020. The loan and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The unforgiven portion of the PPP loan is payable over two years, with a deferral of payments for the first six months.

READING CONNECTIONS, INC.

Notes to Financial Statements

NOTE 13 - PAYCHECK PROTECTION PROGRAM LOAN (Continued)

The Organization has used the funds received for qualifying expenses and therefore believes the requirements for loan forgiveness will be met and no amounts will be required to be paid back. On August 6, 2021, the SBA forgave all of the principal and accrued interest.

The Organization also received a loan directly from the SBA for the maximum allowable amount of \$10,000 under the Economic Injury Disaster Loan ("EIDL") Advance program. The EIDL will be forgiven if the Organization meets certain criteria. The unforgiveable portion will bear interest at 2.75% with a maturity date in 2050. Repayments on the EIDL are deferred for one year. The Organization is expected to meet the requirements for the loan to be forgiven before payments are due.