

READING CONNECTIONS, INC.  
FINANCIAL REPORT  
YEARS ENDED JUNE 30, 2011 AND 2010



# 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, 2011 .....	4
Statement of Functional Expenses - Year Ended June 30, 2010 .....	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 statements of financial position of Reading Connections, Inc. as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of Reading Connections, Inc. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Bernard Robinson & Company, L.L.P.*

Greensboro, North Carolina  
November 16, 2011

**READING CONNECTIONS, INC.**  
**Statements of Financial Position**  
**June 30, 2011 and 2010**

	<u>Assets</u>	
	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and cash equivalents	\$ 138,904	\$ 158,480
Certificates of deposit and business savings account	117,843	116,699
Prepaid expenses	1,488	2,942
Grants receivable	146,249	108,995
Current portion of pledges receivable	15,000	15,000
Total current assets	<u>419,484</u>	<u>402,116</u>
Investments:		
Beneficial interest in endowments	<u>70,612</u>	<u>57,460</u>
Other Assets:		
Pledges receivable, less current portion	<u>-</u>	<u>30,000</u>
Property and Equipment:		
Office furniture and equipment	47,374	38,832
Leasehold improvements	38,500	-
	<u>85,874</u>	<u>38,832</u>
Less accumulated depreciation	42,945	37,596
	<u>42,929</u>	<u>1,236</u>
Total assets	<u>\$ 533,025</u>	<u>\$ 490,812</u>
	<u>Liabilities and Net Assets</u>	
Current Liabilities:		
Accrued expenses	\$ 21,276	\$ 7,307
Total current liabilities	<u>21,276</u>	<u>7,307</u>
Net Assets:		
Unrestricted:		
Undesignated	264,956	237,065
Board designated for endowment	70,612	57,460
Temporarily restricted	176,181	188,980
Total net assets	<u>511,749</u>	<u>483,505</u>
Total liabilities and net assets	<u>\$ 533,025</u>	<u>\$ 490,812</u>

**READING CONNECTIONS, INC.**  
**Statements of Activities and Changes in Net Assets**  
**Years Ended June 30, 2011 and 2010**

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support:						
Grants and contributions:						
United Way of Greater Greensboro	\$ 516	\$ 100,249	\$ 100,765	\$ 571	\$ 93,947	\$ 94,518
Grants	369,720	60,932	430,652	332,493	37,485	369,978
Other	76,782	-	76,782	56,099	12,548	68,647
	<u>447,018</u>	<u>161,181</u>	<u>608,199</u>	<u>389,163</u>	<u>143,980</u>	<u>533,143</u>
Revenues:						
Investment income	14,768	-	14,768	9,073	-	9,073
Other income	1,193	-	1,193	816	-	816
	<u>15,961</u>	<u>-</u>	<u>15,961</u>	<u>9,889</u>	<u>-</u>	<u>9,889</u>
Total support and revenues	<u>462,979</u>	<u>161,181</u>	<u>624,160</u>	<u>399,052</u>	<u>143,980</u>	<u>543,032</u>
Net assets released from restrictions	<u>173,980</u>	<u>(173,980)</u>	<u>-</u>	<u>133,090</u>	<u>(133,090)</u>	<u>-</u>
Expenses:						
Program services:						
Tutor services	230,640	-	230,640	170,673	-	170,673
Student services	261,041	-	261,041	193,229	-	193,229
	<u>491,681</u>	<u>-</u>	<u>491,681</u>	<u>363,902</u>	<u>-</u>	<u>363,902</u>
Supporting services:						
General and administrative	70,232	-	70,232	84,675	-	84,675
Fundraising	34,003	-	34,003	41,174	-	41,174
	<u>104,235</u>	<u>-</u>	<u>104,235</u>	<u>125,849</u>	<u>-</u>	<u>125,849</u>
Total expenses	<u>595,916</u>	<u>-</u>	<u>595,916</u>	<u>489,751</u>	<u>-</u>	<u>489,751</u>
Changes in net assets	41,043	(12,799)	28,244	42,391	10,890	53,281
Net assets, beginning of year	294,525	188,980	483,505	252,134	178,090	430,224
Net assets, end of year	<u>\$ 335,568</u>	<u>\$ 176,181</u>	<u>\$ 511,749</u>	<u>\$ 294,525</u>	<u>\$ 188,980</u>	<u>\$ 483,505</u>

**READING CONNECTIONS, INC.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2011**

	Program Services		Supporting Services		Total
	Tutor Services	Student Services	General and Administrative	Fundraising	
Salaries	\$ 154,307	\$ 154,307	\$ 36,308	\$ 18,154	\$ 363,075
Employee benefits	6,746	6,746	1,587	794	15,873
Payroll taxes	11,759	11,759	2,767	1,383	27,668
Professional fees	1,048	1,048	7,433	-	9,529
Contract services	20,593	20,593	4,576	-	45,763
Office supplies	3,107	3,107	690	-	6,904
Telephone	2,837	2,837	631	-	6,305
Postage and freight	988	402	-	73	1,463
Occupancy	9,414	9,414	8,069	-	26,897
Parking	2,369	2,369	526	-	5,264
Advertising	-	-	693	-	693
Printing	3,311	3,311	-	349	6,971
Program supplies	4,370	35,357	-	-	39,727
Travel	4,195	4,195	932	-	9,322
Conference and meetings	2,313	2,313	-	-	4,626
Fundraising events	-	-	-	12,782	12,782
Membership dues	236	236	-	-	472
Licenses	-	-	200	-	200
Depreciation	1,739	1,739	1,604	267	5,349
Insurance	-	-	3,826	201	4,027
Service charges	-	-	385	-	385
Bad debt expense	5	5	5	-	15
Miscellaneous	1,303	1,303	-	-	2,606
	<u>\$ 230,640</u>	<u>\$ 261,041</u>	<u>\$ 70,232</u>	<u>\$ 34,003</u>	<u>\$ 595,916</u>

**READING CONNECTIONS, INC.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2010**

	Program Services		Supporting Services		Total
	Tutor Services	Student Services	General and Administrative	Fundraising	
Salaries	\$ 122,294	\$ 122,294	\$ 28,775	\$ 14,388	\$ 287,751
Employee benefits	6,059	6,059	1,426	713	14,257
Payroll taxes	9,941	9,941	2,339	1,170	23,391
Professional fees	796	796	5,646	-	7,238
Contract services	6,099	16,099	33,248	-	55,446
Office supplies	3,112	3,112	692	-	6,916
Telephone	2,619	2,619	582	-	5,820
Postage and freight	952	388	-	71	1,411
Occupancy	5,758	5,758	4,935	-	16,451
Parking	1,733	1,733	385	-	3,851
Advertising	-	-	746	-	746
Printing	2,200	2,200	-	232	4,632
Program supplies	1,850	14,970	-	-	16,820
Travel	3,118	3,118	693	-	6,929
Conference and meetings	2,148	2,148	-	-	4,296
Fundraising events	-	-	-	24,351	24,351
Membership dues	354	354	-	-	708
Licenses	-	-	200	-	200
Depreciation	414	414	381	64	1,273
Insurance	-	-	3,522	185	3,707
Service charges	-	-	284	-	284
Bad debt expense	957	957	821	-	2,735
Miscellaneous	269	269	-	-	538
	<u>\$ 170,673</u>	<u>\$ 193,229</u>	<u>\$ 84,675</u>	<u>\$ 41,174</u>	<u>\$ 489,751</u>

**READING CONNECTIONS, INC.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2011 and 2010**

---

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Changes in net assets	\$ 28,244	\$ 53,281
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	5,349	1,273
Unrealized gain on investments	(12,731)	(6,386)
Investment fees	1,403	1,290
Reinvestment of earnings in endowments	(1,824)	(1,937)
Reinvestment of earnings from certificates of deposit and business savings account	(1,144)	-
(Increase) decrease in:		
Prepaid expenses	1,454	(1,525)
Grants receivable	(37,254)	10,699
Pledges receivable	30,000	15,000
Increase (decrease) in:		
Accrued expenses	13,969	(16,187)
Net cash provided by operating activities	<u>27,466</u>	<u>55,508</u>
Cash flows from investing activities:		
Proceeds from reinvested earnings in certificates of deposit and business savings account	-	8,477
Purchase of property and equipment	(47,042)	-
Net cash provided by (used in) investing activities	<u>(47,042)</u>	<u>8,477</u>
Increase (decrease) in cash and cash equivalents	(19,576)	63,985
Cash and cash equivalents, beginning of year	<u>158,480</u>	<u>94,495</u>
Cash and cash equivalents, end of year	<u>\$ 138,904</u>	<u>\$ 158,480</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 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 or held in the business savings account, 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 changes in net assets. The business savings account and certificates of deposits that are not cash equivalents are considered investments. See Note 4 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 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, 2011 and 2010, 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**

---

#### 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 of the fund 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 statement 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 in the statements of activities and changes in 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, 2011 and 2010.

##### **Donated Assets**

Donated marketable securities and other noncash donations are recorded as 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 2011 and 2010. Currently, the statute of limitations remains open subsequent to and including 2008; however, no examinations are in process or anticipated.

##### **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. At June 30, **2011** and 2010, advertising costs were **\$693** and \$746, respectively.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 November 16, 2011, which is the date the financial statements were available to be issued.

## NOTE 2 - DONATED SERVICES

The Organization receives a significant amount of donated services from unpaid volunteers who assist in tutoring, fund-raising and special projects. No amounts have been recognized in the statements of activities and changes in net assets for revenue or expenses related to these services because the criteria for recognition under generally accepted accounting principles was not met.

## NOTE 3 - INVESTMENTS

At June 30, **2011**, investments were comprised of the following:

	Cost	Cumulative Unrealized Gain	Fair Value
Beneficial interest in endowments	<u>\$ 56,172</u>	<u>\$ 14,440</u>	<u>\$ 70,612</u>

At June 30, 2010, investments were comprised of the following:

	Cost	Cumulative Unrealized Gain	Fair Value
Beneficial interest in endowments	<u>\$ 56,172</u>	<u>\$ 1,288</u>	<u>\$ 57,460</u>

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

---

**NOTE 4 - FAIR VALUE MEASUREMENTS**

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair values for assets and liabilities using one of the following valuation measurements: quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); or significant unobservable inputs (Level 3). Observable inputs reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity, while unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30:

Description	2011			
	Total	Level 1	Level 2	Level 3
Beneficial interest in endowments	<u>\$ 70,612</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,612</u>

  

Description	2010			
	Total	Level 1	Level 2	Level 3
Beneficial interest in endowments	<u>\$ 57,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,460</u>

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

	2011	2010
Balance, beginning	<u>\$ 57,460</u>	\$ -
Transfer from Level 2	-	50,427
Investment income reinvested, net	<u>13,152</u>	7,033
Balance, ending	<u>\$ 70,612</u>	<u>\$ 57,460</u>

**NOTE 5 - PLEDGES RECEIVABLE**

Pledges receivable at June 30, 2011 and 2010 are as follows:

	2011	2010
Amounts to be received in one year	<u>\$ 15,000</u>	\$ 15,000
Amounts to be received in two to five years	-	30,000
	<u>\$ 15,000</u>	<u>\$ 45,000</u>

## READING CONNECTIONS, INC.

### Notes to Financial Statements

---

#### NOTE 6 - IN-KIND CONTRIBUTIONS

The Organization leases space at High Point Library to meet with students at no cost. The use of the Library has been estimated at a fair value of \$1,660 per month. During the year ended June 30, 2011, the Organization recognized in-kind contributions of \$6,667 related to the use of the Library, which is included in occupancy expense on the statement of functional expenses. The lease between the Library and the Organization can be cancelled by either party at any time with a 30 day notice.

#### NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2011 and 2010 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Time restricted to June 30, 2012 fiscal year	\$ 132,749	\$ 30,000
Time restricted to June 30, 2011 fiscal year	-	121,495
Family Literacy	43,432	-
High Point Library construction	-	37,485
	<u>\$ 176,181</u>	<u>\$ 188,980</u>

#### NOTE 8 - RISKS AND UNCERTAINTIES

The Organization maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (the "FDIC") and the National Credit Union Administration (the "NCUA"). From December 31, 2010 through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account and the ownership capacity of the funds. The unlimited coverage is separate from, and in addition to, the insurance coverage provided for a depositor's other accounts held at a FDIC and NCUA-insured institution. Once the increased coverage expires, FDIC and NCUA limits will return to \$250,000.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported on the statements of financial position.

#### NOTE 9 - RETIREMENT PLAN

The Organization has a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code ("IRC"). The plan covers substantially all full-time employees of the Organization. The Organization contributes 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, 2011 and 2010, no expenses were incurred and no contributions have been made to the plan.

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

---

## NOTE 10 - OPERATING LEASE COMMITMENT

In addition to the High Point Library in-kind lease described in Note 6, the Organization rents its office facility under an operating lease agreement that ends June 30, 2012. Future lease commitments under non-cancellable lease agreements at June 30, 2011 are as follows:

Year Ending June 30,	
<u>2012</u>	<u>\$ 21,600</u>

Total rental expense, including in-kind rent, for the years ended June 30, **2011** and 2010 was **\$26,897** and \$16,451, respectively.

## NOTE 11 - 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, 2011 and 2010, the fair value of the matching fund was below the original amount.

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

	<b>2011</b>	<b>2010</b>
Endowment Fund	<u><u>\$ 70,612</u></u>	<u><u>\$ 57,460</u></u>

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

---

NOTE 11 - BENEFICIAL INTEREST IN ENDOWMENTS (Continued)

Endowment activity for the years ended June 30, 2011 and 2010 is as follows:

	<b>2011</b>		
	Unrestricted	Unrestricted Board Designated	Total
Endowment net assets, beginning of year	\$ -	\$ 57,460	\$ 57,460
Investment return:			
Investment income	231	1,593	1,824
Net appreciation	551	12,180	12,731
Investment fees	(376)	(1,027)	(1,403)
Total investment return	<u>406</u>	<u>12,746</u>	<u>13,152</u>
Transfer	<u>(406)</u>	<u>406</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 70,612</u>	<u>\$ 70,612</u>
	<b>2010</b>		
	Unrestricted	Unrestricted Board Designated	Total
Endowment net assets, beginning of year	\$ -	\$ 50,427	\$ 50,427
Investment return:			
Investment income	260	1,676	1,936
Net appreciation	573	5,813	6,386
Investment fees	(374)	(915)	(1,289)
Total investment return	<u>459</u>	<u>6,574</u>	<u>7,033</u>
Transfer	<u>(459)</u>	<u>459</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 57,460</u>	<u>\$ 57,460</u>

NOTE 12 - RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.