

READING CONNECTIONS, INC.

FINANCIAL REPORT

YEARS ENDED JUNE 30, 2009 AND 2008



READING CONNECTIONS, INC.

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Certified Public Accountants since 1947

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, 2009 and 2008, 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 U.S. generally accepted auditing standards. 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Bernard Robinson & Company, LLP

Greensboro, North Carolina
September 16, 2009

READING CONNECTIONS, INC.
Statements of Financial Position
June 30, 2009 and 2008

Assets

	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash and cash equivalents	\$ 94,495	\$ 39,964
Prepaid expenses	1,417	2,190
Current portion of grants and contributions receivable	134,694	145,221
Total current assets	<u>230,606</u>	<u>187,375</u>
Investments:		
Certificates of deposit	125,176	120,957
Beneficial interest in endowments	50,427	58,421
	<u>175,603</u>	<u>179,378</u>
Other Assets:		
Grants and contributions receivable, less current portion	45,000	-
Office furniture and equipment	38,832	38,832
Less accumulated depreciation	36,901	36,143
	<u>1,931</u>	<u>2,689</u>
Computer software	11,353	11,353
Less accumulated amortization	10,775	10,082
	<u>578</u>	<u>1,271</u>
Total assets	<u>\$ 453,718</u>	<u>\$ 370,713</u>

Liabilities and Net Assets

Current Liabilities:		
Accrued expenses	\$ 23,494	\$ 9,211
Total current liabilities	<u>23,494</u>	<u>9,211</u>
Net Assets:		
Unrestricted	201,707	158,414
Unrestricted board designated	50,427	57,867
Temporarily restricted	178,090	145,221
Total net assets	<u>430,224</u>	<u>361,502</u>
Total liabilities and net assets	<u>\$ 453,718</u>	<u>\$ 370,713</u>

READING CONNECTIONS, INC.
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support:						
Grants and contributions:						
United Way of Greater Greensboro	\$ 567	\$ 112,475	\$ 113,042	\$ 77	\$ 118,397	\$ 118,474
Grants	396,665	65,615	462,280	253,675	26,824	280,499
Other	60,126	-	60,126	64,347	-	64,347
	<u>457,358</u>	<u>178,090</u>	<u>635,448</u>	<u>318,099</u>	<u>145,221</u>	<u>463,320</u>
Revenues:						
Investment loss	(3,756)	-	(3,756)	(926)	-	(926)
Other income	504	-	504	2,148	-	2,148
	<u>(3,252)</u>	<u>-</u>	<u>(3,252)</u>	<u>1,222</u>	<u>-</u>	<u>1,222</u>
Total support and revenues	<u>454,106</u>	<u>178,090</u>	<u>632,196</u>	<u>319,321</u>	<u>145,221</u>	<u>464,542</u>
Net assets released from restrictions	<u>145,221</u>	<u>(145,221)</u>	<u>-</u>	<u>194,223</u>	<u>(194,223)</u>	<u>-</u>
Expenses:						
Program services:						
Tutor services	185,069	-	185,069	163,924	-	163,924
Student services	245,784	-	245,784	244,684	-	244,684
	<u>430,853</u>	<u>-</u>	<u>430,853</u>	<u>408,608</u>	<u>-</u>	<u>408,608</u>
Supporting services:						
General and administrative	73,135	-	73,135	79,752	-	79,752
Fundraising	59,486	-	59,486	60,951	-	60,951
	<u>132,621</u>	<u>-</u>	<u>132,621</u>	<u>140,703</u>	<u>-</u>	<u>140,703</u>
Total expenses	<u>563,474</u>	<u>-</u>	<u>563,474</u>	<u>549,311</u>	<u>-</u>	<u>549,311</u>
Changes in net assets	<u>35,853</u>	<u>32,869</u>	<u>68,722</u>	<u>(35,767)</u>	<u>(49,002)</u>	<u>(84,769)</u>
Net assets, beginning of year	<u>216,281</u>	<u>145,221</u>	<u>361,502</u>	<u>252,048</u>	<u>194,223</u>	<u>446,271</u>
Net assets, end of year	<u>\$ 252,134</u>	<u>\$ 178,090</u>	<u>\$ 430,224</u>	<u>\$ 216,281</u>	<u>\$ 145,221</u>	<u>\$ 361,502</u>

See notes to financial statements.

READING CONNECTIONS, INC.
Statement of Functional Expenses
Year Ended June 30, 2009

	Program Services		Supporting Services		Total
	Tutor Services	Student Services	General and Administrative	Fundraising	
Salaries	\$ 131,769	\$ 131,769	\$ 31,004	\$ 15,502	\$ 310,044
Employee benefits	7,299	7,299	1,718	859	17,175
Payroll taxes	9,653	9,654	2,273	1,135	22,715
Professional fees	1,069	1,069	7,580	-	9,718
Contract services	9,136	56,636	17,278	-	83,050
Office supplies	1,478	1,478	330	-	3,286
Telephone	2,887	2,887	641	-	6,415
Postage and freight	1,238	504	-	92	1,834
Occupancy	7,165	7,164	6,141	-	20,470
Parking	1,517	1,517	336	-	3,370
Advertising	-	-	545	-	545
Printing	2,431	2,431	-	256	5,118
Program supplies	1,968	15,919	-	-	17,887
Travel	3,203	3,203	712	-	7,118
Conference and meetings	3,232	3,231	-	-	6,463
Fundraising events	-	-	-	41,379	41,379
Membership dues	167	167	-	-	334
Licenses	-	-	200	-	200
Depreciation and amortization	472	472	434	73	1,451
Insurance	-	-	3,602	190	3,792
Service charges	-	-	237	-	237
Bad debt expense	123	123	104	-	350
Miscellaneous	262	261	-	-	523
	<u>\$ 185,069</u>	<u>\$ 245,784</u>	<u>\$ 73,135</u>	<u>\$ 59,486</u>	<u>\$ 563,474</u>

See notes to financial statements.

READING CONNECTIONS, INC.
Statement of Functional Expenses
Year Ended June 30, 2008

	Program Services		Supporting Services		Total
	Tutor Services	Student Services	General and Administrative	Fundraising	
Salaries	\$ 110,500	\$ 110,500	\$ 26,000	\$ 13,000	\$ 260,000
Employee benefits	4,646	4,646	1,093	547	10,931
Payroll taxes	8,657	8,657	2,037	1,019	20,370
Professional fees	884	884	6,267	-	8,034
Contract services	11,662	75,413	18,946	-	106,021
Office supplies	1,548	1,548	345	-	3,441
Telephone	2,193	2,193	487	-	4,874
Postage and freight	1,460	595	-	108	2,163
Occupancy	7,466	7,466	6,398	-	21,330
Parking	1,613	1,613	358	-	3,584
Advertising	-	-	9,880	-	9,880
Printing	2,481	2,482	-	261	5,224
Program supplies	2,521	20,396	-	-	22,917
Travel	4,022	4,022	894	-	8,938
Conference and meetings	2,925	2,924	-	-	5,849
Fundraising events	-	-	-	45,640	45,640
Membership dues	147	147	-	-	294
Licenses	-	-	225	-	225
Depreciation and amortization	759	759	683	72	2,273
Insurance	-	-	5,785	305	6,090
Service charges	-	-	280	-	280
Bad debt expense	88	88	74	-	250
Miscellaneous	352	351	-	-	703
	<u>\$ 163,924</u>	<u>\$ 244,684</u>	<u>\$ 79,752</u>	<u>\$ 60,951</u>	<u>\$ 549,311</u>

See notes to financial statements.

READING CONNECTIONS, INC.
Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Changes in net assets	\$ 68,722	\$ (84,769)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	758	1,438
Amortization	693	835
Unrealized loss on investments	8,846	8,895
Investment fees	1,466	982
Reinvestment of earnings from beneficial interest in endowments	(2,318)	(3,725)
Reinvestment of earnings from certificates of deposit	(4,219)	(5,219)
(Increase) decrease in:		
Prepaid expenses	773	3,331
Grants and contributions receivable	(34,473)	(5,074)
Increase (decrease) in:		
Accounts payable	-	(1,884)
Accrued expenses	14,283	2,658
Net cash provided by (used in) operating activities	<u>54,531</u>	<u>(82,532)</u>
Increase (decrease) in cash and cash equivalents	54,531	(82,532)
Cash and cash equivalents, beginning of year	39,964	122,496
Cash and cash equivalents, end of year	<u>\$ 94,495</u>	<u>\$ 39,964</u>

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 statement 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. During the year ended, June 30, 2009, the Organization adopted Statement of Financial Accounting Standards No. 157 ("FAS No. 157"), *Fair Value Measurements*, which 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 adoption of FAS No. 157 by the Organization did not have any impact on the Organization's financial statements.

Unrealized gains and losses due to changes in market valuations are included in the changes in net assets. Realized gains and losses are determined using the specific identification method.

Beneficial Interest in Net Assets of Endowments

In accordance with Statement of Financial Accounting Standards No. 136, *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 Reading Connections, Inc.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contributions Receivable

Grants and contributions 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 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.

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Office Furniture and Equipment

Office furniture and equipment, including computer software, are stated at cost. Donated office furniture and equipment are stated at the fair market value at the date received. The Organization generally capitalizes individual items that cost \$200 or more. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets with a half year recognized in the years of acquisition and disposal.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

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, 2009 and 2008.

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 those that may be considered uncertain. All identified material tax positions will be assessed and measured by a "more-likely-than-not" threshold to determine if the benefit of any uncertain tax position should be recognized in the financial statements. Any changes in the amount of a tax position will be recognized in the period the change occurs.

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. At June 30, **2009** and 2008, advertising costs were **\$545** and \$9,880, respectively.

Use of Estimates

The preparation of financial statements in conformity with 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.

READING CONNECTIONS, INC.
Notes to Financial Statements

NOTE 2 - DONATED SERVICES

The Organization receives a significant amount of donated services from unpaid volunteers who assist in fund-raising, tutoring 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, 2009, investments were comprised of the following:

	<u>Cost</u>	<u>Fair Value</u>
Beneficial interest in endowments	\$ 24,437	\$ 50,427
Certificates of deposit (with terms of one year or less)	<u>125,176</u>	<u>125,176</u>
	<u>\$ 149,613</u>	<u>\$ 175,603</u>

At June 30, 2008, investments were comprised of the following:

	<u>Cost</u>	<u>Fair Value</u>
Beneficial interest in endowments	\$ 49,527	\$ 58,421
Certificates of deposit (with terms of one year or less)	<u>120,957</u>	<u>120,957</u>
	<u>\$ 170,484</u>	<u>\$ 179,378</u>

The fair value measurement at June 30, 2009 consists of the following:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Beneficial interest in endowments	\$ 50,427	\$ -	\$ 50,427
Certificates of deposit	<u>125,176</u>	<u>125,176</u>	<u>-</u>
	<u>\$ 175,603</u>	<u>\$ 125,176</u>	<u>\$ 50,427</u>

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

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2009 and 2008 are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Time restricted to June 30, 2010 budget year	\$ 133,090	\$ -
Time restricted to June 30, 2011 and thereafter	45,000	-
Time restricted to June 30, 2009 budget year	-	118,397
English for All	-	4,850
Health literacy planning	-	21,974
	<u>\$ 178,090</u>	<u>\$ 145,221</u>

NOTE 5 - CONCENTRATION OF CREDIT RISK

The Organization places its cash, cash equivalents, and certificate of deposits with financial institutions in the United States. In May 2009, the Federal Deposit Insurance Corporation ("FDIC") and the National Credit Union Administration ("NCUA") temporarily increased coverage to \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts. The increased coverage is scheduled to expire on December 31, 2013, at which time its anticipated amounts insured by the FDIC and NCUA will return to \$100,000. From time to time during the year, the Organization may have had amounts on deposit in excess of the insured limits. As of June 30, 2009, the Organization did not exceed these insured amounts.

NOTE 6 - PENSION 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. During the year ended June 30, 2005, the Organization temporarily 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, 2009 and 2008, no contributions have been made to the plan.

READING CONNECTIONS, INC.

Notes to Financial Statements

NOTE 7 - OPERATING LEASE COMMITMENT

The Organization rents its office facility under an operating lease agreement that ends August 31, 2011. Future lease commitments at June 30, 2009 are as follows:

Year Ending <u>June 30,</u>	
2010	\$ 20,520
2011	20,520
2012	3,420
	<u>\$ 44,460</u>

Total rental expense for the years ended June 30, 2009 and 2008 was \$20,470 and \$21,330, respectively.

NOTE 8 - BENEFICIAL INTEREST IN NET ASSETS OF ENDOWMENTS

The Organization has endowment funds which are managed by the Community Foundation of Greater Greensboro ("CFGG"). The Board of Directors established the two separate endowment funds with unrestricted monies to designate resources for acquiring a building to house the Organization's operations. Under the terms of an agreement with CFGG, CFGG manages the funds to protect the value of the principal. 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 endowments provided that a majority of the governing boards of the Organization and CFGG approve of the withdrawal.

At the time the endowments were established, the Organization granted variance power to CFGG. That power gives CFGG the right to distribute the investment income to other nonprofit organizations of its choice under specific circumstances as defined in the endowment agreements.

READING CONNECTIONS, INC.
Notes to Financial Statements

NOTE 8 - BENEFICIAL INTEREST IN NET ASSETS OF ENDOWMENTS (Continued)

The Organization has the following beneficial interests in net assets of endowments held at the Community Foundation of Greater Greensboro at June 30:

Beneficial Interest in Endowment Funds:	<u>2009</u>	<u>2008</u>
Endowment Fund	\$ 50,427	\$ 57,867
Matching Fund	-	554
	<u>\$ 50,427</u>	<u>\$ 58,421</u>

Board designated net asset composition by type of fund at June 30, 2009 and 2008 as follows:

<u>2009</u>	<u>Unrestricted</u>	<u>Board Designated</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 554	\$ 57,867	\$ 58,421
Investment return:			
Investment income	341	1,977	2,318
Net appreciation (depreciation)	72	(8,918)	(8,846)
Investment fees	(465)	(1,001)	(1,466)
Total investment return	(52)	(7,942)	(7,994)
Transfer	(502)	502	-
Endowment net assets, ending of year	<u>\$ -</u>	<u>\$ 50,427</u>	<u>\$ 50,427</u>
<u>2008</u>			
Endowment net assets, beginning of year	\$ 1,637	\$ 62,936	\$ 64,573
Investment return:			
Investment income	578	3,147	3,725
Net appreciation (depreciation)	(1,373)	(7,522)	(8,895)
Investment fees	(288)	(694)	(982)
Total investment return	(1,083)	(5,069)	(6,152)
Endowment net assets, ending of year	<u>\$ 554</u>	<u>\$ 57,867</u>	<u>\$ 58,421</u>

READING CONNECTIONS, INC.

Notes to Financial Statements

NOTE 9 - NEWLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board ("FASB") has issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 was originally effective for certain nonpublic enterprises, including nonpublic not-for-profit organizations for fiscal years beginning after December 15, 2007.

The Organization has elected to defer the application of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* as provided by FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. FSP FIN 48-3 defers the effective date of FIN 48 for certain nonpublic enterprises, including nonpublic not-for-profit organizations and pass-through entities, to fiscal years beginning after December 15, 2008. The Organization has not determined the effect that the adoption of this interpretation will have on its financial statements.