

READING CONNECTIONS, INC.
FINANCIAL REPORT
YEARS ENDED JUNE 30, 2010 AND 2009



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 statements of financial position of Reading Connections, Inc. as of June 30, 2010 and 2009, 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, 2010 and 2009, 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, LLP

Greensboro, North Carolina
October 7, 2010

READING CONNECTIONS, INC.
Statements of Financial Position
June 30, 2010 and 2009

	<u>Assets</u>	
	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and cash equivalents	\$ 158,480	\$ 94,495
Prepaid expenses	2,942	1,417
Grants receivable	108,995	119,694
Current portion of pledges receivable	15,000	15,000
Total current assets	<u>285,417</u>	<u>230,606</u>
Investments:		
Certificates of deposit and business savings account	116,699	125,176
Beneficial interest in endowments	57,460	50,427
	<u>174,159</u>	<u>175,603</u>
Other Assets:		
Pledges receivable, less current portion	<u>30,000</u>	45,000
Office furniture and equipment	38,832	38,832
Less accumulated depreciation	37,596	36,901
	<u>1,236</u>	<u>1,931</u>
Computer software	11,353	11,353
Less accumulated amortization	11,353	10,775
	<u>-</u>	<u>578</u>
Total assets	<u>\$ 490,812</u>	<u>\$ 453,718</u>
	<u>Liabilities and Net Assets</u>	
Current Liabilities:		
Accrued expenses	\$ 7,307	\$ 23,494
Total current liabilities	<u>7,307</u>	<u>23,494</u>
Net Assets:		
Unrestricted	237,065	201,707
Unrestricted board designated	57,460	50,427
Temporarily restricted	188,980	178,090
Total net assets	<u>483,505</u>	<u>430,224</u>
Total liabilities and net assets	<u>\$ 490,812</u>	<u>\$ 453,718</u>

READING CONNECTIONS, INC.
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2010 and 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support:						
Grants and contributions:						
United Way of Greater Greensboro	\$ 571	\$ 93,947	\$ 94,518	\$ 567	\$ 112,475	\$ 113,042
Grants	332,493	37,485	369,978	396,665	65,615	462,280
Other	56,099	12,548	68,647	60,126	-	60,126
	<u>389,163</u>	<u>143,980</u>	<u>533,143</u>	<u>457,358</u>	<u>178,090</u>	<u>635,448</u>
Revenues:						
Investment gain (loss)	9,073	-	9,073	(3,756)	-	(3,756)
Other income	816	-	816	504	-	504
	<u>9,889</u>	<u>-</u>	<u>9,889</u>	<u>(3,252)</u>	<u>-</u>	<u>(3,252)</u>
Total support and revenues	<u>399,052</u>	<u>143,980</u>	<u>543,032</u>	<u>454,106</u>	<u>178,090</u>	<u>632,196</u>
Net assets released from restrictions	<u>133,090</u>	<u>(133,090)</u>	<u>-</u>	<u>145,221</u>	<u>(145,221)</u>	<u>-</u>
Expenses:						
Program services:						
Tutor services	170,673	-	170,673	185,069	-	185,069
Student services	193,229	-	193,229	245,784	-	245,784
	<u>363,902</u>	<u>-</u>	<u>363,902</u>	<u>430,853</u>	<u>-</u>	<u>430,853</u>
Supporting services:						
General and administrative	84,675	-	84,675	73,135	-	73,135
Fundraising	41,174	-	41,174	59,486	-	59,486
	<u>125,849</u>	<u>-</u>	<u>125,849</u>	<u>132,621</u>	<u>-</u>	<u>132,621</u>
Total expenses	<u>489,751</u>	<u>-</u>	<u>489,751</u>	<u>563,474</u>	<u>-</u>	<u>563,474</u>
Changes in net assets	42,391	10,890	53,281	35,853	32,869	68,722
Net assets, beginning of year	252,134	178,090	430,224	216,281	145,221	361,502
Net assets, end of year	<u>\$ 294,525</u>	<u>\$ 188,980</u>	<u>\$ 483,505</u>	<u>\$ 252,134</u>	<u>\$ 178,090</u>	<u>\$ 430,224</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 and amortization	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.
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.
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Changes in net assets	\$ 53,281	\$ 68,722
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	695	758
Amortization	578	693
Unrealized (gain) loss on investments	(6,386)	8,846
Investment fees	1,290	1,466
Reinvestment of earnings from beneficial interest in endowments	(1,937)	(2,318)
Disbursement (reinvestment) of earnings from certificates of deposit and business savings account	8,477	(4,219)
(Increase) decrease in:		
Prepaid expenses	(1,525)	773
Grants receivable	10,699	25,527
Pledges receivable	15,000	(60,000)
Increase (decrease) in:		
Accrued expenses	(16,187)	14,283
Net cash provided by operating activities	<u>63,985</u>	<u>54,531</u>
Increase in cash and cash equivalents	63,985	54,531
Cash and cash equivalents, beginning of year	<u>94,495</u>	<u>39,964</u>
Cash and cash equivalents, end of year	<u>\$ 158,480</u>	<u>\$ 94,495</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.

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued new guidance related to U.S. generally accepted accounting principles ("GAAP") effective for financial statements issued for periods ending after September 15, 2009. The guidance established the FASB Accounting Standards Codification ("FASB ASC") as the sole source of authoritative guidance for GAAP. Adoption of this guidance did not have a material impact on the Organization's financial statements.

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 and that are not cash equivalents are considered investments. See Note 4 for discussion of fair value measurements.

Beneficial Interest in Net Assets of 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 The Community Foundation of Greater Greensboro for the sole benefit of the Organization.

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, 2010 and 2009, 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.

READING CONNECTIONS, INC.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Office Furniture 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.

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, 2010 and 2009.

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 2010 and 2009. Currently, the statute of limitations remains open subsequent to and including 2007; however, no examinations are in process or anticipated.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, **2010** and 2009, advertising costs were **\$746** and \$545, 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.

Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure through October 7, 2010, 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, **2010**, investments were comprised of the following:

	Cost	Cumulative Unrealized Gain	Fair Value
Beneficial interest in endowments	\$ 24,437	\$ 33,023	\$ 57,460
Certificates of deposit and business savings account	116,699	-	116,699
	<u>\$ 141,136</u>	<u>\$ 33,023</u>	<u>\$ 174,159</u>

READING CONNECTIONS, INC.
Notes to Financial Statements

NOTE 3 - INVESTMENTS (Continued)

At June 30, 2009, investments were comprised of the following:

	Cost	Cumulative Unrealized Gain	Fair Value
Beneficial interest in endowments	\$ 24,437	\$ 25,990	\$ 50,427
Certificates of deposit	125,176	-	125,176
	<u>\$ 149,613</u>	<u>\$ 25,990</u>	<u>\$ 175,603</u>

NOTE 4 - FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 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 Organization 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;
- 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 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, 2010:

Description	Total	Level 1	Level 2	Level 3
Beneficial interest in endowments	\$ 57,460	\$ -	\$ -	\$ 57,460
Business savings account	116,699	116,699	-	-
	<u>\$ 174,159</u>	<u>\$ 116,699</u>	<u>\$ -</u>	<u>\$ 57,460</u>

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

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

The beneficial interest in endowments was reclassified from Level 2 to Level 3 in the current year due to the unobservable nature of certain investments held in the endowment. See Note 10 for a reconciliation of beginning and ending balance.

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable at June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Amounts to be received in one year	\$ 15,000	\$ 15,000
Amounts to be received in two to five years	30,000	45,000
	<u>\$ 45,000</u>	<u>\$ 60,000</u>

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2010 and 2009 are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Time restricted to June 30, 2011 fiscal year	\$ 121,495	\$ -
Time restricted to June 30, 2012 and thereafter	30,000	45,000
Time restricted to June 30, 2010 fiscal year	-	133,090
High Point Library construction	37,485	-
	<u>\$ 188,980</u>	<u>\$ 178,090</u>

NOTE 7 - RISK AND UNCERTAINTIES

The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation and the National Credit Union Administration covers \$250,000 for substantially all depository accounts. The Organization from time to time may have amounts on deposit in excess of the 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 statement of financial position.

NOTE 8 - 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. 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, 2010 and 2009, no expenses were incurred and no contributions have been made to the plan.

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

NOTE 9 - OPERATING LEASE COMMITMENT

The Organization rents its office facility under an operating lease agreement that ends June 30, 2012. Future lease commitments at June 30, 2010 are as follows:

Year Ending <u>June 30,</u>	
2011	\$ 19,200
2012	<u>21,600</u>
	<u>\$ 40,800</u>

Total rental expense for the years ended June 30, **2010** and 2009 was **\$16,451** and \$20,470, respectively.

NOTE 10 - 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 an endowment fund 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 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, the CFGG created a matching endowment fund with an initial contribution of \$10,000 that shall remain the property of the CFGG in perpetuity. The terms of this matching endowment provide for distributions to the Organization identical to those of the endowment fund 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 the CFGG for this deficit. As of June 30, 2010 and 2009, the fair value of the matching fund was below the original amount, therefore the Organization has a zero beneficial interest in this fund.

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

Beneficial Interest in Endowment Funds:	<u>2010</u>	<u>2009</u>
Endowment Fund	\$ 57,460	\$ 50,427
Matching Fund	-	-
	<u>\$ 57,460</u>	<u>\$ 50,427</u>

READING CONNECTIONS, INC.
Notes to Financial Statements

NOTE 10 - BENEFICIAL INTEREST IN NET ASSETS OF ENDOWMENTS (Continued)

Board designated net asset composition by type of fund at June 30, 2010 and 2009 is as follows:

	2010		
	Unrestricted Board		
	Unrestricted	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	459	6,574	7,033
Transfer	(459)	459	-
Endowment net assets, end of year	\$ -	\$ 57,460	\$ 57,460
	2009		
	Unrestricted Board		
	Unrestricted	Designated	Total
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, end of year	\$ -	\$ 50,427	\$ 50,427