

**Reading and Education for
Adult Development, Inc.
(The Read Center)**

Report on Financial Statements

*For the year ended June 30, 2019
(with comparative totals for year ended June 30, 2018)*

DRAFT

Reading and Education for Adult Development, Inc. (The Read Center)

Contents

	<u>Page</u>
Independent Auditor’s Report	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities.....	4
Statement of Functional Expenses.....	5
Statement of Cash Flows	6
Notes to Financial Statements.....	7-14

DRAFT



Independent Auditor's Report

Board of Directors
Reading and Education for Adult Development, Inc.
(The READ Center)
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Reading and Education for Adult Development, Inc. (The READ Center, a nonprofit organization) which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 entity'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 entity'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 The READ Center as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The READ Center's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 28, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Richmond, Virginia
September XX, 2018

DRAFT

Reading and Education for Adult Development, Inc. (The Read Center)**Statement of Financial Position****As of June 30, 2019 (with comparative totals as of June 30, 2018)**

	2019			2018 Total
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 244,969	\$ 8,894	\$ 253,863	\$ 174,919
Investments	373,851	210,506	584,357	569,830
Pledges receivable	-	10,000	10,000	-
Accrued Interest	2,267		2,267	
Prepaid expenses	3,490	-	3,490	4,127
Total current assets	<u>624,577</u>	<u>229,400</u>	<u>853,977</u>	<u>748,876</u>
Furniture, fixtures and equipment				
Furniture, fixtures and equipment, net of accumulated depreciation of \$58,554 in 2019 and \$53,182 in 2018	18,305	-	18,305	23,677
Total assets	<u>\$ 642,882</u>	<u>\$ 229,400</u>	<u>\$ 872,282</u>	<u>\$ 772,553</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	\$ 23,750	\$ -	\$ 23,750	\$ 14,738
Net assets				
Net assets	619,132	229,400	848,532	757,815
Total liabilities and net assets	<u>\$ 642,882</u>	<u>\$ 229,400</u>	<u>\$ 872,282</u>	<u>\$ 772,553</u>

See Notes to Financial Statements

Reading and Education for Adult Development, Inc. (The Read Center)

Statement of Activities

For the year ended June 30, 2019 (with comparative totals for the year ended June 30, 2018)

	2019			2018
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Total
Support and revenue				
Contributions and grants				
Individual	\$ 149,121	\$ 9,150	\$ 158,271	\$ 152,246
Local government	24,500	-	24,500	21,407
Grants	165,624	25,000	190,624	314,085
Organizations	73,096	-	73,096	33,217
	<u>412,341</u>	<u>34,150</u>	<u>446,491</u>	<u>520,955</u>
In-kind contributions	62,069	-	62,069	88,416
Special events, net	39,702	-	39,702	38,605
Interest and dividend income, net	27,907	756	28,663	19,892
Capital gain distributions	-	5,373	5,373	5,124
Net investment gain (loss)	12,385	691	13,076	(5,423)
Other income	1,852	-	1,852	6,000
Total support and revenue	<u>556,256</u>	<u>40,970</u>	<u>597,226</u>	<u>673,569</u>
Net assets released from restrictions				
Satisfaction of time and program restrictions	117,600	(117,600)	-	-
Reclassification of earnings under donor agreement	2,472	(2,472)	-	-
Total support, revenue and reclassifications	<u>676,328</u>	<u>(79,102)</u>	<u>597,226</u>	<u>673,569</u>
Expenses				
Program services	403,721	-	403,721	440,200
Supporting services:				
Management and general	38,799	-	38,799	30,068
Fundraising	63,989	-	63,989	27,498
	<u>506,509</u>	<u>-</u>	<u>506,509</u>	<u>497,766</u>
Increase in net assets	169,819	(79,102)	90,717	175,803
Net assets, beginning of year	<u>449,313</u>	<u>308,502</u>	<u>757,815</u>	<u>582,012</u>
Net assets, end of year	<u>\$ 619,132</u>	<u>\$ 229,400</u>	<u>\$ 848,532</u>	<u>\$ 757,815</u>

See Notes to Financial Statements

Reading and Education for Adult Development, Inc. (The Read Center)

Statement of Functional Expenses

For the year ended June 30, 2019 (with comparative totals for the year ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
Program services		
Salaries, wages and benefits	\$ 279,761	\$ 292,691
Occupancy costs	73,346	91,173
Office administration	10,325	19,624
Services and materials	35,646	32,552
Depreciation	4,643	4,160
	<u>403,721</u>	<u>440,200</u>
Management and general		
Salaries, wages and benefits	15,320	13,842
Occupancy costs	1,847	1,463
Office administration	21,268	14,446
Depreciation	364	317
	<u>38,799</u>	<u>30,068</u>
Fundraising		
Salaries, wages and benefits	50,339	13,842
Occupancy costs	1,412	1,463
Office administration	2,490	1,662
Services and materials	9,384	10,214
Depreciation	364	317
	<u>63,989</u>	<u>27,498</u>
	<u>\$ 506,509</u>	<u>\$ 497,766</u>

See Notes to Financial Statements

Reading and Education for Adult Development, Inc. (The Read Center)

Statement of Cash Flows

For the year ended June 30, 2019 (with comparative totals for the year ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 90,717	\$ 175,803
Adjustments to reconcile change in net assets to net cash provided by provided by operating activities:		
Depreciation	5,372	4,794
Net investment (gain) loss	(13,076)	5,423
Donated stock	(5,894)	(16,591)
(Increase) decrease in:		
Pledges receivable	(10,000)	-
Accrued Interest	(2,267)	-
Prepaid expenses	637	(9)
Decrease (increase) in:		
Accounts payable and accrued expenses	9,012	(5,231)
Net cash provided by operating activities	<u>74,501</u>	<u>164,189</u>
Cash flows from investing activities		
Purchases of furniture, fixtures and equipment	-	(4,099)
Purchase of investments	(308,410)	(366,722)
Proceeds from sale of investments	<u>312,853</u>	<u>129,389</u>
Net cash provided by (used in) investing activities	<u>4,443</u>	<u>(241,432)</u>
Net change in cash and cash equivalents	78,944	(77,243)
Cash and cash equivalents, beginning of year	174,919	252,162
Cash and cash equivalents, end of year	<u>\$ 253,863</u>	<u>\$ 174,919</u>

See Notes to Financial Statements

Reading and Education for Adult Development, Inc. (The Read Center)

Notes to Financial Statements

June 30, 2019

Note 1. Description of Organization

Reading and Education for Adult Development, Inc. (The READ Center) is a non-stock, Virginia not-for-profit corporation, incorporated in 1982, for the purpose of enhancing the quality of life in the greater Richmond metropolitan area by helping adults learn to read. The READ Center is exempt from Federal income taxes as a not-for-profit entity as defined in Section 501(c)(3) of the Internal Revenue Code.

Note 2. Summary of Significant Accounting Policies

Basis of presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and, accordingly, reflect all significant receivables and recognized revenues and support when earned and payable and expenditures when incurred.

The financial statements include certain prior-year summarized comparative information in total, but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (US GAAP). Accordingly, such information should be read in conjunction with The READ Center's audited financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Use of estimates:

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Classification of net assets:

The financial statements have been prepared in accordance with US GAAP which requires The READ Center to report information regarding its financial position and activities according to two classes of net assets – with and without donor restrictions, as follows:

Without donor restrictions: represents net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of management and the board of directors.

With donor restrictions: represents net assets subject to stipulations imposed by donors and grantors. Some restrictions are temporary in nature and will be met by actions of the Organization or the passage of time. Other donor restrictions are permanent in nature and generally exist because the donor stipulated that funds be maintained in perpetuity.

Reading and Education for Adult Development, Inc. (The Read Center)

Notes to Financial Statements

June 30, 2019

Note 2. Summary of Significant Accounting Policies, Continued

Cash and cash equivalents:

For purposes of the statement of cash flows, The READ Center considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments:

Investments are carried at fair value. The fair value of marketable equity securities, bonds and other investments are based on quoted market prices. Cost used in the determination of gains and losses on sales of investments is based on the specific cost of the investment sold, adjusted for any other-than-temporary declines in value of the investment.

Fair value measurements:

The READ Center uses a three-tier hierarchy established within US GAAP to prioritize the assumptions, referred to as inputs, used in valuation techniques to measure fair value. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1: Quoted market prices in active markets for identical investments.
- Level 2: Other significant observable inputs (including quoted prices for similar investments in active markets, interest rates and yield curves, prepayment speeds, credit risks, etc.)
- Level 3: Significant unobservable inputs

The asset's 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.

Following is a description of the valuation methodologies used for investments measured at fair value at June 30, 2019:

Equity securities and corporate bonds: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value (NAV) of shares held by The READ Center at year end using closing prices reported in the active market.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although The READ Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

All of The READ Center's investments are measured as level 1 investments.

Reading and Education for Adult Development, Inc. (The Read Center)

Notes to Financial Statements

June 30, 2019

Note 2. Summary of Significant Accounting Policies, Continued

Donated marketable securities:

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

Furniture, fixtures and equipment:

The READ Center capitalizes all expenditures in excess of \$500 for furniture, fixtures and equipment with an extended useful life. Furniture, fixtures and equipment is recorded at cost, or if donated, at fair market value on the date received. Major improvements are capitalized and depreciated; maintenance and repairs which do not significantly improve or extend the life of respective assets are expensed. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is reflected in the statement of activities. Depreciation is calculated on the straight-line method over the estimated useful lives of 3 to 7 years.

Revenue recognition:

Contributions and grants are recognized as revenue when they are received. Contributions received are recorded as net assets with or without donor restrictions, depending on the existence and/or nature of any donor restrictions.

In-kind contributions:

In-kind contributions represent the estimated fair market value of rent, goods and services (i.e. donated teacher time), contributed to The READ Center for which a clearly measurable and objective basis of valuation exists. A substantial number of volunteers have made significant contributions of their time in the furtherance of The READ Center's programs. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Income taxes:

The READ Center is a qualifying nonprofit organization that is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and the tax statutes of the Commonwealth of Virginia whereby only unrelated business income, if any, as defined by the Code, is subject to federal income tax.

Generally accepted accounting principles prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be in a tax return. Management has evaluated The READ Center's tax positions and concluded that The READ Center has taken no uncertain tax positions that require adjustment to the financial statements as of or for the year ended June 30, 2019. Fiscal years ending on or after 2016 remain subject to examination by federal and state tax authorities.

Reading and Education for Adult Development, Inc. (The Read Center)

Notes to Financial Statements

June 30, 2019

Note 2. Summary of Significant Accounting Policies, Continued

Uniform Prudent Management of Institutional Funds Act:

During 2008, the Commonwealth of Virginia enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). In August 2008, an accounting standard was passed which provides guidance on the classification of endowment fund net assets for states that have enacted versions of UPMIFA. Under UPMIFA all appropriated endowment fund assets are considered restricted. See Note 5 for discussion of endowment funds.

Concentration and risk:

The READ Center maintains its cash on deposit with two financial institutions located in the United States of America. The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage for up to \$250,000 of cash held in each separate FDIC insured bank and savings institution. From time to time, The READ Center may have amounts on deposit in excess of the insured limits.

Two donors make up approximately 23% of total contributions and grants.

Subsequent events:

The READ Center has evaluated subsequent events through September XX, 2019, the date which the financial statements were available to be issued.

Recently issued accounting standards:

In August 2016, the Financial Accounting Standards Board issued an accounting standards update (ASU) that required changes to the net asset classification and additional information about a not-for-profit entity's liquidity, financial performance and cash flows. This change is intended to enhance the usefulness of a not-for-profit's financial statements. The Organization has adjusted for these changes in the presentation of the accompanying financial statements.

In May 2014, the Financial Accounting Standards Board issued an ASU that replaces all existing revenue recognition guidance in current U.S. GAAP. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard achieves this through a five step process. The ASU is effective for annual reporting periods beginning after December 15, 2018 (the Organization's 2020 financial statements) and is not expected to significantly alter the Organization's financial statements.

Reading and Education for Adult Development, Inc. (The Read Center)

Notes to Financial Statements

June 30, 2019

Note 3. Investments

Investments consist of the following at June 30, 2019:

	June 30, 2019		
	Cost	Fair Value	Cumulative Unrealized Gains(Losses)
Mutual funds:			
Equities	\$ 330,732	\$ 356,460	\$ 25,728
Bond funds	47,550	48,727	1,177
Corporate bonds	<u>176,333</u>	<u>179,170</u>	<u>2,837</u>
	<u>\$ 554,615</u>	<u>\$ 584,357</u>	<u>\$ 29,742</u>

Investment income consists of the following for the year ended June 30, 2019:

Interest and dividend income, net	\$ 28,663
Capital gain distributions	5,373
Realized gain	5,191
Unrealized gain	<u>7,885</u>
Investment income	<u>\$ 47,112</u>

Note 4. Furniture, Fixtures and Equipment

Furniture, fixtures and equipment consist of the following at June 30, 2019:

Furniture and equipment	\$ 13,682
Computer equipment	50,075
Copier	8,696
Library books	<u>4,406</u>
Total furniture, fixtures and equipment	76,859
Less accumulated depreciation	<u>(58,554)</u>
Net furniture, fixtures and equipment	<u>\$ 18,305</u>

Note 5. Endowment

The READ Center's endowment consists of one individual fund established and held in a separate investment account as directed by the donor. The donor directed that the corpus be maintained in perpetuity, with one-half (1/2) of the realized income to be used for general operating purposes and the remaining one-half (1/2) being added to corpus. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Reading and Education for Adult Development, Inc. (The Read Center)

Notes to Financial Statements

June 30, 2019

Note 5. Endowment, Continued

While UPMIFA does not require it unless the donor instrument contains an express provision, The READ Center generally requires the preservation of the fair value of the original gift, as of the gift date, as donor-restricted endowment funds. Following this approach, The READ Center classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and the (c) accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instrument, at the time the accumulation is added to the fund. The remaining portion of the net assets with donor restrictions endowment fund that is not permanently restricted is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, The READ Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the purpose, duration, and preservation of the endowment fund; expected total return of investments; general economic conditions and the possible effect of inflation or deflation; other resources of the organization.

Return objectives and risk parameters:

The READ Center has investment and spending policies for endowment assets that attempt to conservatively yield returns within reasonable levels of risk. Endowment assets include those assets of donor-restricted funds that The READ Center must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Finance Committee, the endowment assets are invested in a manner that is intended to be conservative through funds with a long-term approach. The endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index or similar established broad market measures of return on investments. The Finance Committee designates a target percentage return when deciding asset allocation.

Strategies employed for achieving objectives:

To satisfy its rate-of-return objectives, The READ Center relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). The investment portfolio is allocated for long-term growth. Highly rated mutual funds with low expense components may be substituted for individual securities at the discretion of the Finance Committee.

Spending policy and how the investment objectives relate to spending policy:

In accordance with the donor agreement, The READ Center appropriates 1/2 of the earnings on the endowment funds to be utilized in the operations of The READ Center. In addition, the Board periodically reviews the investment gains on the endowment funds and may appropriate a portion of these earnings to be utilized in the operations of The READ Center.

Reading and Education for Adult Development, Inc. (The Read Center)

Notes to Financial Statements

June 30, 2019

Note 5. Endowment, Continued

The summary of changes in endowment net assets is as follows:

Endowment net assets – July 1, 2018	\$ 158,650
Return on investments	6,822
Reclassification of earnings under donor agreement	<u>(2,472)</u>
Endowment net assets - June 30, 2019	<u>\$ 163,000</u>

Note 6. Restricted Net Assets

Net assets with donor restrictions are designated for the following purposes at June 30, 2019:

Funds to be used for program salaries, wages, and benefits	\$ 6,400
Time restricted	60,000
Endowment	<u>163,000</u>
Total restricted net assets	<u>\$ 229,400</u>

Note 7. Net Assets Released from Restrictions

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes were as follows during 2019:

Funds used for program salaries, wages, and benefits	\$ 37,850
Funds used for program services and materials	79,750
Reclassification of earnings under donor agreement:	
Investment earnings transferred to unrestricted net assets	<u>2,472</u>
Total net assets released from restrictions	<u>\$ 120,072</u>

Note 8. Management of Liquidity

The following represents the READ Center's financial assets available to meet cash needs for general expenditures through June 30, 2020.

Total assets at end of year – June 30, 2019	\$ 872,282
Less: non-financial assets	
Prepaid expenses	(3,490)
Property and equipment, net	<u>(18,305)</u>
	850,487
Less amount not available to be used within one year due to donor imposed restrictions:	
Permanent endowment (see Note 5)	<u>(163,000)</u>
Financial assets available to meet cash needs for general expenditures through June 30, 2020	<u>\$ 687,487</u>

Reading and Education for Adult Development, Inc. (The Read Center)

Notes to Financial Statements

June 30, 2019

Note 8. Management of Liquidity, Continued

The READ Center receives various contributions with purpose or time restrictions from donors. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the READ Center must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the READ Center's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

As of June 30, 2019, the READ Center has approximately \$690,000 of financial assets available to meet cash needs for general expenditure consisting of cash, short term investments and contributions receivable through June 30, 2020. These current contributions receivable are subject to implied time restrictions but are expected to be collected and available for use within one year.

The READ Center has a goal to maintain financial assets on hand to meet six months of normal operating expenses, which are on average \$45,000 per month. Additionally, the READ Center has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

There is a quasi-endowment fund established by the governing board that may also be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

Note 9. Leases

The READ Center leases office space under an operating lease expiring April 30, 2021. Future minimum lease payments under this lease are \$19,201 for 2020 and \$16,186 for 2021.

Note 10. Related Parties

Members of The READ Center's Board of Directors are significant contributors to the organization. Total contributions by the Board of Directors during fiscal year ended 2019 were \$37,633.