



**Reading Recovery Council of
North America, Inc.**

Audited Financial Statements

As of and for the Years Ended
June 30, 2016 and 2015



Rea & associates

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October 27, 2016

The Board of Directors
Reading Recovery Council of North America, Inc.
500 West Wilson Bridge Road, Suite 250
Worthington, Ohio 43085

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Reading Recovery Council of North America, Inc. (the "Council"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 Council'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 Council'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 Council as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rea & Associates, Inc.

Rea & Associates, Inc.
Dublin, Ohio

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2016 AND 2015

	<u>ASSETS</u>	
	2016	2015
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,080,942	\$ 1,058,290
Cash held for others	30,084	26,514
Certificates of deposit, short-term	915,847	662,933
Receivables, net	82,407	21,565
Court settlement receivable, current portion	3,600	3,600
Inventory	50,821	53,774
Prepaid expenses	15,996	5,131
Total current assets	<u>2,179,697</u>	<u>1,831,807</u>
PROPERTY AND EQUIPMENT, net	21,111	25,634
COURT SETTLEMENT RECEIVABLE	16,938	19,938
CERTIFICATES OF DEPOSIT, long-term	150,572	500,205
Total assets	<u>\$ 2,368,318</u>	<u>\$ 2,377,584</u>
	<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES:		
Accounts payable	\$ 345,225	\$ 169,403
Accrued expenses	43,717	48,870
Cash held for others	30,084	26,514
Deferred revenue, membership dues	119,748	133,329
Deferred revenue, conferences	26,440	18,070
Total current liabilities	<u>565,214</u>	<u>396,186</u>
NET ASSETS:		
Unrestricted	1,359,714	1,585,083
Board designated, unrestricted	100,000	100,000
Temporarily restricted	297,520	250,500
Permanently restricted	45,870	45,815
Total net assets	<u>1,803,104</u>	<u>1,981,398</u>
Total liabilities and net assets	<u>\$ 2,368,318</u>	<u>\$ 2,377,584</u>

The accompanying notes are an integral part of these financial statements.

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Conferences	\$ 1,192,350	\$ -	\$ -	\$ 1,192,350
Membership dues	287,934	-	-	287,934
Grants and contributions	71,602	191,091	-	262,693
Products	47,781	-	-	47,781
Investment income	6,067	-	55	6,122
Trainer group	25,790	-	-	25,790
Webinar	12,435	-	-	12,435
Miscellaneous	7,751	-	-	7,751
Advertising	8,384	-	-	8,384
Total revenues, gains, and other support	1,660,094	191,091	55	1,851,240
NET ASSETS RELEASED FROM RESTRICTION	144,071	(144,071)	-	-
EXPENSES:				
Salaries	687,745	-	-	687,745
Conferences	277,148	-	-	277,148
Employee benefits	239,305	-	-	239,305
Printing and publications	82,612	-	-	82,612
Scholarships	202,300	-	-	202,300
Board and committee expense	58,967	-	-	58,967
Product	22,311	-	-	22,311
Postage and shipping	58,611	-	-	58,611
Marketing	65,579	-	-	65,579
Consultants	50,321	-	-	50,321
Office and storage rent	72,463	-	-	72,463
Website	12,073	-	-	12,073
Bank charges	34,121	-	-	34,121
Trainer group	13,318	-	-	13,318
Legal and accounting	20,418	-	-	20,418
Other contract services	18,677	-	-	18,677
Office supplies	11,019	-	-	11,019
Computer software	18,359	-	-	18,359
General services purchased	1,262	-	-	1,262
Travel	4,509	-	-	4,509
Miscellaneous	9,192	-	-	9,192
Webinar	3,400	-	-	3,400
Grants	28,971	-	-	28,971
Telephone	7,999	-	-	7,999
Equipment rental and repair	1,744	-	-	1,744
Bad debt	3,618	-	-	3,618
Dues and subscriptions	8,255	-	-	8,255
Insurance	5,209	-	-	5,209
Depreciation	10,028	-	-	10,028
Total expenses	2,029,534	-	-	2,029,534
CHANGE IN NET ASSETS	(225,369)	47,020	55	(178,294)
NET ASSETS, beginning of the year	1,685,083	250,500	45,815	1,981,398
NET ASSETS, end of the year	\$ 1,459,714	\$ 297,520	\$ 45,870	\$ 1,803,104

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Conferences	\$ 1,528,066	\$ -	\$ -	\$ 1,528,066
Membership dues	310,358	-	-	310,358
Grants and contributions	77,191	214,260	-	291,451
Products	165,645	-	-	165,645
Investment income	4,830	-	55	4,885
Trainer group	28,215	-	-	28,215
Webinar	12,810	-	-	12,810
Miscellaneous	8,153	-	-	8,153
Advertising	11,842	-	-	11,842
Total revenues, gains, and other support	2,147,110	214,260	55	2,361,425
NET ASSETS RELEASED FROM RESTRICTION	162,563	(162,563)	-	-
EXPENSES:				
Salaries	702,871	-	-	702,871
Conferences	445,761	-	-	445,761
Employee benefits	250,162	-	-	250,162
Printing and publications	83,491	-	-	83,491
Scholarships	141,017	-	-	141,017
Board and committee expense	32,082	-	-	32,082
Product	49,211	-	-	49,211
Postage and shipping	57,144	-	-	57,144
Consultants	39,806	-	-	39,806
Office and storage rent	57,384	-	-	57,384
Website	25,652	-	-	25,652
Bank charges	27,590	-	-	27,590
Trainer group	24,768	-	-	24,768
Legal and accounting	22,498	-	-	22,498
Other contract services	11,607	-	-	11,607
Office supplies	14,882	-	-	14,882
Computer software	40,433	-	-	40,433
General services purchased	382	-	-	382
Travel	9,446	-	-	9,446
Miscellaneous	7,430	-	-	7,430
Webinar	6,487	-	-	6,487
Grants	21,393	-	-	21,393
Telephone	7,271	-	-	7,271
Equipment rental and repair	2,781	-	-	2,781
Staff development	152	-	-	152
Bad debt	2,231	-	-	2,231
Dues and subscriptions	7,536	-	-	7,536
Insurance	4,777	-	-	4,777
Depreciation	8,992	-	-	8,992
Total expenses	2,105,237	-	-	2,105,237
CHANGE IN NET ASSETS	204,436	51,697	55	256,188
NET ASSETS, beginning of the year	1,480,647	198,803	45,760	1,725,210
NET ASSETS, end of the year	<u>\$ 1,685,083</u>	<u>\$ 250,500</u>	<u>\$ 45,815</u>	<u>\$ 1,981,398</u>

The accompanying notes are an integral part of these financial statements.

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (178,294)	\$ 256,188
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation expense	10,028	8,992
Reinvested interest	(3,283)	(912)
Bad debt expense	3,618	2,231
(Increase) decrease in operating assets:		
Receivables	(64,460)	(1,946)
Court settlement receivable	3,000	3,000
Inventory	2,953	521
Prepaid expenses	(10,865)	(2)
Increase (decrease) in operating liabilities:		
Accounts payable	175,822	33,442
Accrued expenses	(5,153)	(744)
Deferred revenue, membership dues	(13,581)	(3,970)
Deferred revenue, conference	8,370	3,487
Net cash provided (used) by operating activities	(71,845)	300,287
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for the purchase of property and equipment	(5,505)	(9,354)
Net purchases of certificates of deposit	-	(500,000)
Proceeds from maturity of certificates of deposit	100,002	56,717
Net cash provided (used) by investing activities	94,497	(452,637)
Net increase (decrease) in cash and cash equivalents	22,652	(152,350)
CASH AND CASH EQUIVALENTS, beginning of the year	1,058,290	1,210,640
CASH AND CASH EQUIVALENTS, end of the year	\$ 1,080,942	\$ 1,058,290

The accompanying notes are an integral part of these financial statements.

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Council

The Reading Recovery Council of North America, Inc. (the "Council") is a not-for-profit Council, formed in May 1996. The purpose of the Council is to preserve the integrity of the Reading Recovery Program and improve its effectiveness, to provide Reading Recovery to every child who needs individual help in learning to read and write, to strengthen the context within which Reading Recovery is implemented, and to increase knowledge about how children and teachers learn.

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting, in accordance with principles generally accepted in the United States of America. Under these principles, the Council is required to report the changes in, and totals of, each net asset class based on the existence of donor restrictions. Net assets, revenues, expenses, gains, and losses are classified based on the existence of Board designated or donor-imposed restrictions, where applicable. Accordingly, net assets and changes therein are reported as follows:

Unrestricted net assets - Net assets that are not subject to restrictions by donors or grantors, even though their use may be limited in other respects, such as by contract or by Board designation. Donor restricted contributions whose restrictions are met in the same year as the contributions are recorded as unrestricted net assets.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Council and/or the passage of time. When a restriction expires, or the funds are expensed for the intended purpose, 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.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations stating they be maintained permanently by the Council. The donors of these assets permit the Council to use all or part of the income earned on any related investments for general purposes.

Cash and Cash Equivalents

For purposes of these financial statements, the Council considers all short-term, highly liquid investments that are readily convertible to a known amount of cash and short-term debt securities purchased with an original maturity of three months or less to be cash equivalents.

Cash Held for Others

The Council records its cash held for others according to generally accepted accounting principles. The Council did not report the receipt of these funds as a contribution, since the transfer was subject to the resource providers' unilateral right to redirect the use of the assets to another beneficiary. See Note 8 for the corresponding transactions.

Certificates of Deposit

The Council values certificates of deposit at principal, plus accrued interest. Certificates of deposit with original maturities of less than one year are classified as short term. Certificates of deposit that have original maturities of greater than one year are classified as long term. Interest income attributable to the certificates of deposit is \$3,283 and \$912 for the years ended June 30, 2016 and 2015, respectively.

Inventory

Inventory consists of publications and products produced by the Council for resale, and are carried at the lower of cost or market, determined on a first in, first-out basis.

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

Receivables consist of amounts due from both members and nonmembers, for publications and products, and from conference participants. Receivables are presented net of an allowance for doubtful accounts, which represents the amount management expects to collect. Management provides for uncollectible amounts through a charge to earnings and a credit to a valuation allowance, based on its assessment of the current status of individual accounts. Receivables are considered past due when they are outstanding more than 90 days. Periodically, the Council's management reviews past due receivables and accounts for all receivables deemed uncollectible after all reasonable collection efforts have been exhausted. Receivables 90 days or more outstanding were \$7,946 and \$2,923 as of June 30, 2016 and 2015, respectively. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to bad debt. The allowance for doubtful accounts as of June 30, 2016 and 2015 was \$10,000.

Property and Equipment

Property and equipment greater than \$1,000 are carried at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Maintenance and repairs are charged to operations when incurred. Renewals and betterments of a nature considered to materially extend the useful lives of the assets are capitalized. When assets are retired or otherwise disposed of, the assets and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income.

Revenue Recognition and Deferred Revenue

The Council's revenue recognition and deferred revenue policies are as follows:

Conferences

The Council records conference revenue when earned. Amounts collected before the fiscal year end and prior to when the conference has been held are deferred and will be recognized in the following fiscal year, once the conference has been completed.

Membership Dues

Membership receipts are deferred upon collection, and recognized ratably throughout the membership period.

Contributions

Contributions and gifts are recorded at fair value at the date of the donor's promise to give, which often coincides with the date of cash receipt. These contributions and gifts are considered to be available for unrestricted use, unless specifically restricted by the donor.

Grants

The Council receives grants from various agencies. Revenue is recognized when earned, which is at the time qualifying expenses are incurred. The Council's grant support activity is subject to review by the granting entities.

Contributed Services

The Council receives donated services in the form of volunteered time for committees and conference activities. In accordance with generally accepted accounting principles, contributions of services are recognized, at their estimated fair value, if the services received a) create or enhance non-financial assets or, b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In-kind revenues are offset by recording a corresponding program expense. Contributed services and promises to give services that do not meet the aforementioned criteria are not recognized. Due to the nature and dollar amount of the Council's donated services, these values have not been recognized in the financial statements.

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

Advertising costs are expensed as incurred. The Council incurred no advertising expense during the years ended June 30, 2016 and 2015.

Leases

The Council follows generally accepted accounting principles for recording its operating leases. These principles require operating leases to be charged to expense over the lease term as they become payable. If rental payments are not made on a straight-line basis and escalate throughout the lease term, rental expense should be recognized on a straight-line basis unless another systematic basis is more representative of the time pattern in which use benefit is derived from the leased property.

Income Taxes

The Council is exempt from Federal income tax, pursuant to Internal Revenue Code Section 501(c)(3) as a public charity. Therefore, the Council has no liability for federal income tax on exempt activities. However, the Council may be subjected to tax on unrelated business income. For the years ended June 30, 2016 and 2015, the Council had no unrelated business income.

Generally accepted accounting principles require the Council to evaluate the level of uncertainty related to whether tax positions taken will be sustained upon examination. Any positions taken that do not meet the more-likely-than-not threshold must be quantified and recorded as a liability for unrecognized tax benefits in the accompanying consolidated statements of financial position along with interest and penalties that would be payable to the taxing authorities upon examination. The Council believes that none of the tax positions taken would materially impact the financial statements, and no such liabilities have been recorded.

Use of Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Recently Issued But Not Yet Effective Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02 entitled "Leases (Topic 842)," which will change the Organization's statement of financial position by adding lease-related assets and liabilities. This may affect compliance with contractual agreements and loan covenants. This new standard is effective for annual reporting periods beginning after December 15, 2018, while allowing nonpublic companies an additional year to implement this new standard. Early implementation is permitted, but not before the original implementation date for periods beginning before February 25, 2016. Management has not yet determined whether this new standard will have a material effect on its financial statements.

In May, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 entitled "Revenue from Contracts with Customers (Topic 606)," which will change the Organization's method of revenue recognition. In August 2015, the FASB deferred the effective date of the new standard by one year. This new standard is effective for annual reporting periods beginning after December 15, 2017, while allowing nonpublic companies an additional year to implement this new standard. Early implementation is permitted, but not before the original implementation date for periods beginning before December 15, 2016. The provisions of this standard will be applied retrospectively. Management has not yet determined whether this new standard will have a material effect on its financial statements.

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued But Not Yet Effective Accounting Pronouncements (Continued)

In August 2016, the FASB issued ASU No. 2016-14 entitled "Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)" which will, among other changes, change the presentation of the Organization's classifications of net assets from three classes to two (with donor restrictions and without donor restrictions) and require a schedule of expenses by both natural and functional classification. This new standard is effective for annual reporting periods beginning after December 15, 2017. Early implementation is permitted. Management has not yet determined whether this new standard will have a material effect on its financial statements.

Subsequent Events

The Council has evaluated subsequent events through October 27, 2016, the date on which the financial statements were available to be issued. Management determined that there were no transactions or events that required disclosure through the evaluation date.

NOTE 2: UNINSURED RISK – CASH DEPOSITS

The Council maintains its cash and cash equivalent balances in financial institutions located in central Ohio. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a coverage limit of \$250,000. As a result, the Council may have balances in interest-bearing accounts that exceed the insured limit.

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30:

	2016	2015
Furniture and computers	\$ 155,361	\$ 149,856
Less: accumulated depreciation	(134,250)	(124,222)
Property and equipment, net	<u>\$ 21,111</u>	<u>\$ 25,634</u>

NOTE 4: TEMPORARILY RESTRICTED NET ASSETS

The components of temporarily restricted net assets are as follows as of June 30:

	2016	2015
Scholarship fund	\$ 259,132	\$ 208,141
Advocacy fund	20,694	24,665
Board travel fund	17,694	17,694
Temporarily restricted net assets	<u>\$ 297,520</u>	<u>\$ 250,500</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during the year ended June 30:

<u>Restriction accomplished:</u>	2016	2015
Providing scholarships to individuals and school districts	\$ 115,100	\$ 141,170
Expenses incurred for airfare, parking, lodging, Consultants in the advocacy of RRCNA	28,971	18,461
Travel expenses incurred by Board Officers	-	2,932
Net assets released from restriction	<u>\$ 144,071</u>	<u>\$ 162,563</u>

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5: PERMANENTLY RESTRICTED NET ASSETS

The Board of Directors established an endowment fund (the "Fund") for the Council in February 1998. The Fund consists of funds which are either contributed to the Council for the Fund and/or those funds which are designated by the Board from other sources of revenue. The Fund shall be invested in accordance with the Council's existing investment policies. Income from the investment of the Fund may be allocated for the Council's use on an annual basis or may be retained in the Fund to support its growth. The principal of the Fund shall not be expended without a two-thirds majority vote of the Board of Directors. The Executive Director is responsible for reporting to the Board of Directors on an annual basis the amount of the Fund and the earnings of the Fund for the previous year. The Board of Directors reviews this policy on an annual basis to determine its continued effectiveness for the Council.

The components of permanently restricted net assets are as follows as of June 30:

	<u>2016</u>	<u>2015</u>
Endowment fund, beginning of the year	\$ 45,815	\$ 45,760
Interest income earned on the Fund	55	55
Endowment fund, end of the year	<u>\$ 45,870</u>	<u>\$ 45,815</u>

NOTE 6: RETIREMENT PLAN

Some of the Council's employees are covered by the Ohio Public Employees Retirement System through The Ohio State University (the "University"). The Council was originally established by the University, therefore some of the Council's personnel are employed by the University. Eligible employees are those who are employed by the University, are full-time, and have met the age requirements. The benefits are based on years of service. The Council reimburses the University for expenses related to the plan, but has no liability associated with the plan.

The Council also has a 403(b) plan covering all full-time employees employed through the University, who have met the age requirements and agree to make contributions to the plan. The Council makes no contributions to this plan.

In addition, the Council has a 401(k) plan covering all full-time employees that are not employed by the University. The Council makes annual matching contributions of up to 6% of the participant's salary. For the years ended June 30, 2016 and 2015, the Council contributed \$11,178 and \$13,507, respectively, to the plan.

NOTE 7: OPERATING LEASES

The Council has entered into certain operating lease agreements for a copier, postage meter, and office space. The leases have varying expirations through June 2019. Total expense related to these operating leases was \$56,455 and \$65,971 for the years ended June 30, 2016 and 2015, respectively.

Future minimum lease payments under operating leases for each year through expiration and in the aggregate are as follows:

<u>For the Years Ended June 30</u>	<u>Amount</u>
2017	\$ 64,075
2018	64,112
2019	65,113
	<u>\$ 193,300</u>

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7: OPERATING LEASES (Continued)

The Council's operating lease for office space in Columbus has incremental increases over the life of the lease. As a result, a liability has been recorded in the amount of \$10,123 as of June 30, 2016, and \$4,752 as of June 30, 2015 to recognize the lease payments on a straight-line basis.

NOTE 8: AFFILIATE GROUPS

The Council collects and holds affiliation fees for the North American Trainers Group, an affiliate group. As of June 30, 2016 and 2015, the Council held \$30,084 and \$26,514, respectively. These amounts are included in cash held for others on the statements of financial position.

NOTE 9: FUNCTIONAL ALLOCATION OF EXPENSES

The Council allocates costs between program, supporting services, and fundraising expenses. Expenses are allocated based on the actual or estimated time each employee spends within the function. Certain other expenses are allocated specifically. For the year ended June 30, 2016, program expenses were \$1,461,998 supporting services were \$501,638, and fundraising expenses were \$65,898. For the year ended June 30, 2015, program expenses were \$1,565,556, supporting services were \$494,970, and fundraising expenses were \$44,711.

NOTE 10: CONTRACTUAL OBLIGATIONS

The Council entered into agreements with a hotel and conference center to reserve guest rooms, meeting rooms, and food service for conferences, seminars, and meetings to be held in subsequent years. Each contract has its own timetables and cancellation penalties for each service. The maximum potential cancellation liability from these contracts is \$606,065 as of June 30, 2016.

NOTE 11: COURT SETTLEMENT

The Council was awarded a court settlement in April 2009 as a result of an agreement that was reached between the Council and one of its vendors. The court awarded the Council \$52,000, of which \$3,000 was received for each of the years ended June 30, 2016 and 2015. The remaining amount has been recorded as a receivable, and under the terms of the original settlement agreement, was to be received in full over the following two years at \$1,000 per month.

During the year ended June 30, 2011, the vendor failed to make timely payments and, as a result, the Council sought legal action against the vendor to obtain payment. This resulted in a change in the payment schedule from \$1,000 per month to \$300 per month. Although the payment schedule was altered, the vendor is still legally obligated to pay \$1,000 per month.

During the year ended June 30, 2012, the vendor again failed to make timely payments and, as a result, the Council sought additional legal action against the vendor to obtain payment. Since the legal action during 2012, the vendor began to make regular payments in the amount of \$300 again. Since the fiscal year ended June 30, 2014, the vendor has made annual payments totaling \$3,000. As of June 30, 2016, management believes the amount to be fully collectible.