

# Reading Recovery Council of North America, Inc.

*Financial Statements*

As of and for the Years Ended  
June 30, 2023 and 2022



Rea & associates

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Reading Recovery Council of North America, Inc.

Opinion

We have audited the accompanying financial statements of Reading Recovery Council of North America, Inc. (the "Council"), which comprise the statements of financial position as of June 30, 2023 and 2022, the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Council as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Council and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis-of-Matter – Adoption of Accounting Standards Update

As discussed in Note 1 to the financial statements, the Council changed its method for accounting for leases due to the adoption of Accounting Standards Update ("ASU") No. 2016-02 Leases (Topic 842), effective July 1, 2022.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Council's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional

omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Council's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Rea & Associates, Inc.*

Rea & Associates, Inc.  
Dublin, Ohio  
October 17, 2023

READING RECOVERY COUNCIL OF NORTH AMERICA, INC

STATEMENTS OF FINANCIAL POSITION  
AS OF JUNE 30, 2023 AND 2022

	<u>ASSETS</u>	
	2023	2022
CURRENT ASSETS:		
Cash and cash equivalents	\$ 525,218	\$ 774,690
Cash held for others	145,079	38,039
Receivables, net	335,000	342,606
Inventory	52,288	77,174
Prepaid expenses	17,184	20,506
Total current assets	<u>1,074,769</u>	<u>1,253,015</u>
PROPERTY AND EQUIPMENT, net	20,896	32,516
PLEDGE RECEIVABLE, long-term	-	335,000
CERTIFICATES OF DEPOSIT, long-term	156,935	156,772
RIGHT-OF-USE ASSET - OPERATING LEASE, net	149,960	-
Total assets	<u>\$ 1,402,560</u>	<u>\$ 1,777,303</u>
	<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES:		
Accounts payable	\$ 145,058	\$ 120,179
Accrued expenses	30,704	83,430
Cash held for others	145,079	38,039
Deferred revenue, membership dues	47,532	105,140
Deferred revenue, conferences	32,095	6,795
Current portion of lease liabilities - operating leases	26,296	-
Total current liabilities	<u>426,764</u>	<u>353,583</u>
LEASE LIABILITIES - OPERATING LEASES, NET	134,741	-
Total liabilities	<u>561,505</u>	<u>353,583</u>
NET ASSETS:		
Without donor restriction	395,084	575,132
With donor restriction	445,971	848,588
Total net assets	<u>841,055</u>	<u>1,423,720</u>
Total liabilities and net assets	<u>\$ 1,402,560</u>	<u>\$ 1,777,303</u>

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

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
REVENUES AND SUPPORT WITHOUT DONOR RESTRICTION:		
Conferences	\$ 1,061,584	\$ 820,046
Membership dues	104,864	197,041
Grants and contributions	52,992	29,396
Products	35,076	76,670
Investment income	487	1,264
Trainer group	-	630
Miscellaneous	40,695	39,275
Advertising	2,571	5,143
Net assets released from restrictions	425,321	384,460
Total revenues and support	1,723,590	1,553,925
FUNCTIONAL EXPENSES:		
Program services	1,091,247	1,226,155
Management and general	686,075	576,915
Fundraising	126,316	140,019
Total expenses	1,903,638	1,943,089
Change in net assets without donor restriction	(180,048)	(389,164)
REVENUES AND SUPPORT WITH DONOR RESTRICTION:		
Grants and contributions	22,704	63,218
Net assets released from restrictions	(425,321)	(384,460)
Change in net assets with donor restriction	(402,617)	(321,242)
Change in net assets	(582,665)	(710,406)
NET ASSETS, beginning of the year	1,423,720	2,134,126
NET ASSETS, end of the year	\$ 841,055	\$ 1,423,720

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

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2023

	Program Services	Management and General	Fundraising	Total
FUNCTIONAL EXPENSES:				
Salaries and wages	\$ 345,148	\$ 364,068	\$ 56,809	\$ 766,025
Conferences	339,174	-	33,123	372,297
Employee benefits	116,777	108,876	28,533	254,186
Printing and publications	33,264	1,734	4,651	39,649
Scholarships	90,321	-	-	90,321
Product	43,596	-	-	43,596
Postage and shipping	13,580	3,966	2,317	19,863
Marketing	31,735	1,332	-	33,067
Consultants	4,225	6,945	-	11,170
Office and storage rent	11,916	55,186	-	67,102
Website	2,713	6,609	-	9,322
Bank charges	23,323	5,738	-	29,061
Trainer group	8,527	-	-	8,527
Legal and accounting	-	25,855	-	25,855
Other contract services	6,019	-	-	6,019
Office supplies	229	2,835	-	3,064
Computer software	446	25,743	-	26,189
General services purchased	12,077	47,180	-	59,257
Travel	5,296	4,999	-	10,295
Miscellaneous	1,381	2,509	883	4,773
Telephone	1,500	1,605	-	3,105
Equipment rental and repair	-	2,639	-	2,639
Dues and subscriptions	-	3,906	-	3,906
Insurance	-	3,416	-	3,416
Depreciation	-	11,620	-	11,620
Provision for credit losses	-	(686)	-	(686)
Total functional expenses	<u>\$ 1,091,247</u>	<u>\$ 686,075</u>	<u>\$ 126,316</u>	<u>\$ 1,903,638</u>

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

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2022

	Program Services	Management and General	Fundraising	Total
FUNCTIONAL EXPENSES:				
Salaries and wages	\$ 324,939	\$ 280,993	\$ 122,353	\$ 728,285
Conferences	230,769	-	-	230,769
Employee benefits	144,428	106,589	17,416	268,433
Printing and publications	30,987	104	-	31,091
Scholarships	49,460	-	-	49,460
Product	34,765	-	-	34,765
Postage and shipping	16,288	4,362	-	20,650
Marketing	28,314	-	-	28,314
Consultants	6,114	15,704	-	21,818
Office and storage rent	15,309	51,936	-	67,245
Website	22,456	-	-	22,456
Bank charges	16,350	11,487	-	27,837
Legal and accounting	-	24,366	-	24,366
Other contract services	900	-	-	900
Office supplies	284	9,685	-	9,969
Computer software	20,300	21,904	-	42,204
General services purchased	250,281	5,488	-	255,769
Travel	2,197	5,974	-	8,171
Miscellaneous	12,260	6,883	250	19,393
Telephone	2,244	7,526	-	9,770
Equipment rental and repair	-	3,162	-	3,162
Dues and subscriptions	-	7,949	-	7,949
Insurance	-	3,665	-	3,665
Depreciation	11,615	-	-	11,615
Provision for credit losses	-	9,138	-	9,138
Webinar	5,895	-	-	5,895
Total functional expenses	<u>\$ 1,226,155</u>	<u>\$ 576,915</u>	<u>\$ 140,019</u>	<u>\$ 1,943,089</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, 2023 AND 2022

	2023	2022
	<u>                    </u>	<u>                    </u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (582,665)	\$ (710,406)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation expense	11,620	11,615
Provision for credit losses	(686)	9,138
Reinvested interest	(163)	(716)
Noncash lease expense	28,521	-
(Increase) decrease in operating assets:		
Receivables	343,292	332,221
Inventory	24,886	(9,094)
Prepaid expenses	3,322	12,343
Increase (decrease) in operating liabilities:		
Accounts payable	24,879	83,181
Accrued expenses	(52,726)	34,218
Deferred revenue, membership dues	(57,608)	(1,769)
Deferred revenue, conference	25,300	6,795
Operating lease liability	(17,444)	-
Net cash used by operating activities	<u>(249,472)</u>	<u>(232,474)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for the purchase of property and equipment	-	(15,506)
Proceeds from maturity of certificates of deposit	156,828	-
Payment for purchase of certificates of deposit	(156,828)	-
Net cash (used) provided by investing activities	<u>-</u>	<u>(15,506)</u>
Net decrease in cash and cash equivalents	<u>(249,472)</u>	<u>(247,980)</u>
CASH AND CASH EQUIVALENTS, beginning of the year	774,690	1,022,670
CASH AND CASH EQUIVALENTS, end of the year	<u>\$ 525,218</u>	<u>\$ 774,690</u>

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.

Net Assets and 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 (“GAAP”). 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 of Directors (“Board”) designated or donor-imposed restrictions, where applicable. Accordingly, net assets and changes therein are reported as follows:

Net Assets Without Donor Restriction – Net assets without donor restrictions are available for use at the discretion of the Board and/or management for general operating purposes. From time to time, the Board may designate a portion of these net assets for specific purposes which makes them unavailable for use at management’s discretion.

Net Assets With Donor Restrictions – Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. The Council reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the statements of activities as net assets released from restrictions.

Use of Management Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

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 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.

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$163 and \$716 for the years ended June 30, 2023 and 2022, respectively.

Inventory

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

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. The allowance for doubtful accounts was \$9,314 and \$10,000 for the years ended June 30, 2023 and 2022, respectively. The opening balance of receivables was \$1,009,827 as of July 1, 2021.

Property and Equipment

Property and equipment purchases 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 revenues, gains, and other support.

Revenue Recognition and Deferred Revenue

Effective with the July 1, 2020 adoption of Accounting Standards Update ("ASU") 2014-09 entitled "Revenue from Contracts with Customers (Topic 606)," the Council recognizes revenue when its customer obtains control of promised goods or services in an amount that reflects the consideration which the Council expects to receive in exchange for those goods or services. To determine revenue recognition for contracts that the Council determines are within the scope of Topic 606, the Council performs the following five steps:

- Identify the contract(s) with a customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contract,
- Recognize revenue when (or as) the entity satisfies a performance obligation.

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition and Deferred Revenue (Continued)

Conferences

The Council records conference revenue at the point in time when the performance obligation is satisfied which is when the conference occurs. Amounts collected before a conference is held are deferred as a contract liability until the performance obligation is satisfied.

Membership Dues

Membership dues represent amounts charged by the Council to its members for the general rights of membership and providing access to valuable training and information. All membership dues are considered exchange transactions, no contribution element is present. Management considers payment of dues based on prices determined by the Council, to constitute member acceptance of the offered benefits. The receipt of membership dues are deferred as a contract liability and recognized as revenue ratably over the membership period as the Council satisfies its performance obligation to provide membership benefits. The membership dues deferred revenue balance represents unsatisfied contractual performance obligations related to membership as of June 30, 2023.

Grants

A portion of the Council's revenue is derived from cost-reimbursable contracts and grants from various agencies. Certain grants are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Council has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position. The Council's grant support activity is subject to review by the granting entities. The Council accounts for grants under Accounting Standards Codification ("ASC") 958.

Contributions

The Council receives contributions from individuals, corporations, foundations, and other charitable organizations. Contributions and gifts are recognized as revenues at fair value at the date of the donor's unconditional promise to give. These contributions and gifts are considered to be available for unrestricted use, unless specifically restricted by the donor. Conditional promises to give, specifically those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. The Council accounts for contributions under ASC 958.

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Advertising Costs

Advertising costs are expensed as incurred. The Council incurred no advertising expense during the years ended June 30, 2023 and 2022. Certain advertisements and promotional items are included in National Conference marketing expenses.

Leases

The Council determines if a contract contains a lease when the contract conveys the right to control the use of identified assets for a period in exchange for consideration. Upon identification and commencement of a lease, the Council establishes a right-of-use (ROU) asset and a lease liability. ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. Lease expense is recognized on a straight-line basis over the lease term. The Council does not recognize ROU assets and lease liabilities for leases with a term of 12 months or less.

The total lease term is determined by considering the initial term per the lease agreement, which is adjusted to include any renewal options that the Council is reasonably certain to exercise as well as any period that the Council has control over the asset before the stated initial term of the agreement. If the Council determines a reasonable certainty of exercising termination or early buyout options, then the lease terms are adjusted to account for these facts. The Council's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Council uses the risk-free rate as the discount rate for all classes of underlying assets when the interest rate is not implicitly or explicitly stated in the lease agreement at commencement date.

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, 2023 and 2022, the Council had no unrelated business income.

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

GAAP requires 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 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.

Allocation of Functional 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.

Adoption of New Accounting Standard

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, "Leases (Topic 842)," which specifies the accounting for leases. The objective is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. This ASU introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The guidance was effective for annual reporting periods beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. The adoption of the guidance impacted the Council's balance sheets by the creation of ROU assets and lease liabilities. Under the transition method selected by the Council, leases existing at, or entered into after, July 1, 2022 were required to be recognized and measured. Prior period amounts have not been adjusted and continue to be reflected in accordance with the Council's historical reporting. The adoption of this standard resulted in the recording of ROU assets and operating lease liabilities of \$184,825 as of July 1, 2022, with no related material impact on the Council's statements of activities and changes in net assets or statements of cash flows. See Note 7 to the financial statements.

The Council elected the package of practical expedients permitted under the transition guidance within the Topic 842, in which the Council does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Council has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of Topic 842 on July 1, 2022.

Recently Issued But Not Yet Effective Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which (1) significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model and (2) provides for recording credit losses on available for sale debt securities through an allowance account. The update requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model. The guidance is effective for the Council beginning July 1, 2023, with earlier adoption permitted. The Council is currently evaluating the impact that this guidance may have on the financial statements.

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The Council has evaluated subsequent events through October 17, 2023, 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 up to a coverage limit of \$250,000. As a result, the Council may have balances that exceed the insured limit.

NOTE 3: PROPERTY AND EQUIPMENT

	<u>2023</u>	<u>2022</u>
Furniture and computers	\$ 207,282	\$ 207,282
Less: accumulated depreciation	(186,386)	(174,766)
Property and equipment, net	<u>\$ 20,896</u>	<u>\$ 32,516</u>

NOTE 4: CONTRACT LIABILITIES

<u>Deferred revenue, membership dues</u>	<u>2023</u>	<u>2022</u>
Deferred revenue, beginning of year	\$ 105,140	\$ 106,909
Revenues recognized	(104,864)	(197,041)
Cash received in advance	47,256	195,272
Deferred revenue, end of year	<u>\$ 47,532</u>	<u>\$ 105,140</u>

<u>Deferred revenue, conferences</u>	<u>2023</u>	<u>2022</u>
Deferred revenue, beginning of year	\$ 6,795	\$ -
Revenues recognized	(1,061,584)	(820,046)
Cash received in advance	1,086,884	826,841
Deferred revenue, end of year	<u>\$ 32,095</u>	<u>\$ 6,795</u>

NOTE 5: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions includes the scholarship fund, the board travel fund, and the endowment fund. The Board 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. The Executive Director is responsible for reporting to the Board on an annual basis the amount of the Fund and the earnings of the Fund for the previous year. The Board reviews this policy on an annual basis to determine its continued effectiveness for the Council.

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5: NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

The components of net assets with donor restrictions are as follows as of June 30:

	<u>2023</u>	<u>2022</u>
Scholarship fund	\$ 67,465	\$ 133,608
Board travel fund	3,984	5,408
Endowment fund	39,522	39,572
Time restrictions	<u>335,000</u>	<u>670,000</u>
Net assets with donor restrictions	<u>\$ 445,971</u>	<u>\$ 848,588</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>	<u>2023</u>	<u>2022</u>
Providing scholarships to individuals and school districts	\$ 90,321	\$ 49,460
Time restriction	<u>335,000</u>	<u>335,000</u>
Net assets released from restriction	<u>\$ 425,321</u>	<u>\$ 384,460</u>

NOTE 6: LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Council's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of June 30, 2023 and 2022, because of contractual or donor-imposed restrictions or internal designations. Amounts not available include amounts set aside by the Board for growth and sustainability of the Council that could be drawn upon if the Board approves the action. The Council's financial assets available within one year of the statements of financial position date for general expenditure are as follows:

Financial assets:	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 525,218	\$ 774,690
Receivables, net	<u>335,000</u>	<u>342,606</u>
Financial assets, at year-end	860,218	1,117,296
Less: those unavailable for general expenditure within one year due to:		
Contractual or donor-imposed restrictions	<u>(110,971)</u>	<u>(513,588)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 749,247</u>	<u>\$ 603,708</u>

Liquidity Policy

As part of the Council's liquidity management, it maintains a sufficient level of operating cash to be available as its general expenditures, liabilities, and other obligations come due.

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7: OPERATING LEASES

The Council leases a building for office space that expires in April 2028. The lease contains a single renewal option for a period of three years at the market rate for comparable office spaces. The lease contains escalating payment that begin at \$2,503 to \$3,471 per month and requires the Council to pay all executory costs (property taxes, maintenance, and insurance). Termination of the lease is generally prohibited unless there is a violation under the lease agreement.

Short-Term Leases

The Council leases a copier and postage meter. The lease terms for these leases are less than 12 months, thus no corresponding ROU asset or lease liability is recorded on the balance sheets.

ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. Lease expense is recognized on a straight-line basis over the lease term.

The components of lease expense were as follows for the year ended June 30, 2023:

Operating lease cost	\$ 33,552
Variable lease expense	33,550
Short-term lease expense	<u>2,639</u>
	<u>\$ 69,741</u>

Supplemental cash flow information related to leases was as follows for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 28,820
ROU assets obtained in exchange for new operating lease liabilities	\$ 184,825

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7: OPERATING LEASES (CONTINUED)

Supplemental balance sheet information related to leases was as follows at June 30, 2023:

Operating leases	
Operating lease ROU assets	\$ 178,481
Operating lease ROU assets accumulated amortization	<u>(28,521)</u>
Operating lease ROU assets, net	<u>\$ 149,960</u>
Operating lease current liabilities	\$ 26,296
Operating lease non-current liabilities	<u>134,741</u>
	<u>\$ 161,037</u>
Other information:	
Weighted-average remaining lease term in years for operating leases	4.83
Weighted-average discount rate for operating leases	2.92%

Future undiscounted cash flows for each of the next five years and a reconciliation to the lease liabilities recognized on the balance sheet are as follows as of June 30, 2023:

Year Ending June 30,	Operating Leases
<u>2024</u>	\$ 30,596
2025	32,372
2026	37,135
2027	39,074
2028	<u>34,068</u>
Total future minimum lease payments	173,245
Less imputed interest	<u>(12,208)</u>
Total present value of lease liabilities	<u>\$ 161,037</u>

Future minimum lease commitments, as determined under Topic 840, for all non-cancelable leases are as follows as of June 30, 2022:

Year Ending June 30,	Operating Leases
<u>2024</u>	\$ 30,596
2025	32,372
2026	37,135
2027	39,073
2028	<u>34,068</u>
Total future minimum lease payments	<u>\$ 173,244</u>

READING RECOVERY COUNCIL OF NORTH AMERICA, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8: AFFILIATE GROUPS

The Council collects and holds affiliation fees for the North American Trainers Group, an affiliate group. As of June 30, 2023 and 2022, the Council held \$145,079 and \$38,039 respectively. These amounts are included in cash held for others on the statements of financial position.

NOTE 9: 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 through 2025. Each contract has its own timetable and cancellation penalties for each service. The maximum potential total cancellation liability from these contracts is approximately \$170,000 and \$400,000 as of June 30, 2023 and 2022, respectively.

NOTE 10: RETIREMENT PLANS

In addition, the Council sponsors 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, 2023 and 2022, the Council contributed \$42,240 and \$36,426, respectively, to this plan.

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. The vendor is obligated to make monthly payments to the Council of \$300. No payments on the award have been received since the year ended June 30, 2020. During the year ended June 30, 2022, management determined it was appropriate to write off the remaining balance but continues to pursue collection of the award in full.

NOTE 12: CONTINGENCY – LITERACY CURRICULUM

In July 2023, Ohio Governor Mike DeWine signed House Bill 33, the state's biennial budget bill, into law. Included in the bill was Ohio Revised Code Section 3313.6028 entitled *Literacy Curriculum* (the "statute"). The statute prohibits schools in Ohio from using curriculum or instructional materials that use the "three-cueing" approach to teach students to read beginning no later than the 2024-2025 school year. The Reading Recovery Program is often referred to or perceived as a "three-cueing" approach. The Council derives a significant portion of its membership and conference revenues from teachers and schools located in Ohio.

The Council has filed a complaint for a declaratory judgement and permanent injunctive relief on the basis that the statute is unconstitutional and was improperly included in the budget bill. The Council could experience a material adverse impact on future membership and conference revenues should the statute remain in effect.