

THE READING LEAGUE, INC.

FINANCIAL STATEMENTS

December 31, 2022 and 2021



grossman st. amour

CERTIFIED PUBLIC ACCOUNTANTS PLLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Reading League, Inc.
Syracuse, New York

Opinion

We have audited the financial statements of The Reading League, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, 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 Reading League, Inc. as of December 31, 2022 and 2021, 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 Reading League, Inc. 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.

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 Reading League, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are 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 Reading League, Inc.'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 Reading League, Inc.'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.

Grossman St. Amour CPA

Syracuse, New York
August 28, 2023

THE READING LEAGUE, INC.
Statements of Financial Position

	December 31,	
	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,718,111	\$ 3,661,266
Accounts and memberships receivable	286,146	189,320
Prepaid expenses	140,112	166,957
Inventory	200,742	45,397
Funds held outside the organization	14,744	92,363
Total current assets	4,359,855	4,155,303
Digital asset, net of amortization	345,039	97,601
Certificate of deposit	1,002,581	-
Leasehold improvements and equipment, net of accumulated depreciation	512,587	555,552
Operating right-of-use assets	394,567	-
Total assets	\$ 6,614,629	\$ 4,808,456
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 40,745	\$ 58,556
Operating lease liability, current portion	64,709	-
Other accrued liabilities	75,692	43,136
Deferred revenue, current portion	450,548	116,350
Total current liabilities	631,694	218,042
Operating lease liability, net of current portion	338,768	-
Deferred revenue, net of current portion	2,734,394	2,759,236
Total liabilities	3,704,856	2,977,278
Net assets:		
Without donor restriction	2,908,598	1,830,453
With donor restriction	1,175	725
Total net assets	2,909,773	1,831,178
Total liabilities and net assets	\$ 6,614,629	\$ 4,808,456

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

THE READING LEAGUE, INC.

Statement of Activities

For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions	\$ 350,834	\$ 600	\$ 351,434
Merchandise sales, net	397,480	-	397,480
Journal revenue	365,876	-	365,876
Grant revenue	901,257	-	901,257
Service fee revenue	1,476,274	-	1,476,274
Conference revenue	645,640	-	645,640
Miscellaneous revenue	43,074	-	43,074
Net asset released from restrictions	150	(150)	-
Total support and revenue	<u>4,180,585</u>	<u>450</u>	<u>4,181,035</u>
Expenses:			
Program services	2,540,277	-	2,540,277
Fundraising	84,694	-	84,694
Management and general	477,469	-	477,469
Total expenses	<u>3,102,440</u>	<u>-</u>	<u>3,102,440</u>
Change in net assets	1,078,145	450	1,078,595
Net assets at beginning of year	<u>1,830,453</u>	<u>725</u>	<u>1,831,178</u>
Net assets at end of year	<u>\$ 2,908,598</u>	<u>\$ 1,175</u>	<u>\$ 2,909,773</u>

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

THE READING LEAGUE, INC.

Statement of Activities

For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions	\$ 43,459	\$ 615	\$ 44,074
Merchandise sales, net	20,631	-	20,631
Journal revenue	295,650	-	295,650
Grant revenue	715,097	-	715,097
Service fee revenue	1,065,336	-	1,065,336
Conference revenue	471,067	-	471,067
Miscellaneous revenue	5,322	-	5,322
Forgiveness of Paycheck Protection Program loan	165,525	-	165,525
Total support and revenue	<u>2,782,087</u>	<u>615</u>	<u>2,782,702</u>
Expenses:			
Program services	1,829,926	-	1,829,926
Fundraising	95,504	-	95,504
Management and general	310,855	-	310,855
Total expenses	<u>2,236,285</u>	<u>-</u>	<u>2,236,285</u>
Change in net assets	545,802	615	546,417
Net assets at beginning of year	<u>1,284,651</u>	<u>110</u>	<u>1,284,761</u>
Net assets at end of year	<u>\$ 1,830,453</u>	<u>\$ 725</u>	<u>\$ 1,831,178</u>

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

THE READING LEAGUE
Statements of Functional Expenses

	For the year ended December 31, 2022				For the year ended December 31, 2021			
	Program Services	Fundraising / Marketing	Management and General	Total	Program Services	Fundraising / Marketing	Management and General	Total
Salaries	\$ 1,002,979	\$ 47,044	\$ 314,021	\$ 1,364,044	\$ 816,729	\$ 43,351	\$ 182,017	\$ 1,042,097
Benefits	217,224	9,573	63,898	290,695	162,114	8,605	36,129	206,848
Total salaries and benefits	1,220,203	56,617	377,919	1,654,739	978,843	51,956	218,146	1,248,945
Contractors	428,250	3,428	18,458	450,136	207,501	16,142	11,108	234,751
Repairs and maintenance	42,503	4,423	26,777	73,703	31,589	4,174	11,825	47,588
Advertising and marketing	6,765	283	1,890	8,938	139,646	6,381	28,529	174,556
Office expenses	24,004	2,421	5,995	32,420	18,761	857	3,833	23,451
Chapter expenses	6,592	-	-	6,592	16,193	-	-	16,193
Conferences, meetings and event expenses	272,605	-	-	272,605	62,931	-	-	62,931
Meeting expenses	7,169	658	1,053	8,880	15,926	52	958	16,936
Insurance	4,204	176	1,174	5,554	4,070	186	831	5,087
Journal expenses	121,530	-	-	121,530	127,283	-	-	127,283
Trade shows and travel	64,251	1,106	7,385	72,742	48,570	565	2,527	51,662
Miscellaneous	11,619	486	4,119	16,224	13,982	450	11,366	25,798
Dues and subscriptions	2,188	10,266	455	12,909	1,512	9,942	278	11,732
Program costs	15,725	290	1,935	17,950	10,468	165	738	11,371
Rent and occupancy	56,762	2,074	13,847	72,683	46,783	2,028	9,067	57,878
Total expenses before depreciation and amortization	2,284,370	82,228	461,007	2,827,605	1,724,058	92,898	299,206	2,116,162
Amortization	196,988	-	-	196,988	48,846	-	-	48,846
Depreciation	58,919	2,466	16,462	77,847	57,022	2,606	11,649	71,277
Total expenses	<u>\$ 2,540,277</u>	<u>\$ 84,694</u>	<u>\$ 477,469</u>	<u>\$ 3,102,440</u>	<u>\$ 1,829,926</u>	<u>\$ 95,504</u>	<u>\$ 310,855</u>	<u>\$ 2,236,285</u>

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

THE READING LEAGUE, INC.

Statements of Cash Flows

	Years ended December 31,	
	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 1,078,595	\$ 546,417
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	77,847	71,277
Amortization	196,988	48,846
Changes in operating assets and liabilities:		
Accounts and memberships receivable	(96,826)	(50,727)
Prepaid expenses	26,845	(41,438)
Inventory	(155,345)	(31,008)
Accounts payable and accrued liabilities	14,745	34,204
Deferred revenue	309,356	1,240,674
Operating right-of-use assets	66,776	-
Operating lease liability	(57,866)	-
Net cash provided by operating activities	<u>1,461,115</u>	<u>1,818,245</u>
Cash flows from investing activities:		
Draws on funds held outside the organization	1,165,000	2,609,354
Contributions to funds held outside the organization	(1,087,381)	(1,324,682)
Purchase of leasehold improvements and equipment	(34,882)	(22,770)
Purchase of digital assets	(444,426)	(146,447)
Purchase of certificates of deposits	(1,002,581)	-
Net cash provided by (used in) investing activities	<u>(1,404,270)</u>	<u>1,115,455</u>
Net increase in cash and cash equivalents	56,845	2,933,700
Cash and cash equivalents at beginning of year	\$ 3,661,266	727,566
Cash and cash equivalents at end of year	<u>\$ 3,718,111</u>	<u>\$ 3,661,266</u>
Supplemental schedule of noncash investing activities:		
Purchase of leasehold improvements and equipment in accounts payable	\$ -	\$ 28,195
Supplemental disclosure of non-cash information:		
Initial recognition of operating right-of-use assets	\$ 461,343	\$ -
Initial recognition of operating lease liability	\$ 461,343	\$ -

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

THE READING LEAGUE, INC.

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Nature of Operations

The Reading League, Inc. (the Organization) is a not-for-profit organization focused on advancing the awareness, understanding, and use of evidence-aligned reading instruction to improve student literacy outcomes. The Organization intends to bridge the gap between the research performed to improve literacy in students and educators teaching reading in order to achieve maximum instructional impact. The Organization offers educational events, an annual conference, a social media presence, a journal, multiple web-based services, a television show, a compilation of resources for professional learning, and an opportunity to partner with individual schools and districts in order to accomplish their mission.

The Organization has Chapter and licensing agreements with Chapter Organizations (“Chapters”) throughout the United States. The Chapters are separate nonprofit entities unrelated to the Organization. The Chapters pay the Organization an annual affiliation fee which provides access to Organization branded materials and processes as well as assistance in developing Chapter activities and events. The affiliation fees range from ten to twenty percent of Chapter revenue based on the number of years the Chapter has been in the affiliation agreement. Affiliation fee revenue is recorded in miscellaneous income on the accompanying statement of activities and is recognized equally throughout the affiliation agreement period. Affiliation fee revenue amounted to approximately \$4,100 and \$1,000 for the years ended December 31, 2022 and 2021, respectively. The Organization had 24 and 19 active Chapters as of December 31, 2022 and 2021, respectively.

Basis of Accounting

The Organization follows the guidelines and accounting policies outlined in the AICPA Audit and Accounting Guide, “Not-for-Profit Organizations.” The accompanying financial statements have been prepared on the accrual basis of accounting.

Classification of Net Assets

The net assets of the Organization have been classified as without donor restrictions or with donor restrictions on the basis of the existence and/or nature of any donor-imposed restrictions. When the donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as contributions and net assets without donor restrictions. Net assets with donor restrictions were \$1,175 and \$725 at December 31, 2022 and 2021, respectively.

Liquidity

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in certificates of deposit, savings or money market accounts, and an agency fund as discussed further in Note 2.

THE READING LEAGUE, INC.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Availability of Resources

The following represents the Organization's financial assets at December 31 available to meet cash needs for general expenditure within one year:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 4,720,692	\$ 3,661,266
Funds held outside the Organization	14,744	92,363
Inventory	200,742	45,397
Accounts and memberships receivable	<u>286,146</u>	<u>189,320</u>
Subtotal	5,222,324	3,988,346
Less: net assets with donor restrictions	<u>(1,175)</u>	<u>(725)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 5,221,149</u></u>	<u><u>\$ 3,987,621</u></u>

Risks and Uncertainties

The Organization is subject to various risks and uncertainties in the ordinary course of business that could have adverse impacts on its operating results and financial condition. Future operations could be affected by changes in the economy or other conditions in the geographical area where the Organization is located.

Methods Used for Allocation of Expenses Among Program and Supporting Services

The financial statements present expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Organization are reported as expenses of those functional areas. Certain categories of expenses that are attributable to one or more program or administrative services of the Organization are allocated based on estimates based on management's estimate of time spent on each program.

New Accounting Pronouncements - Leases

For the year ended December 31, 2022, the Organization adopted the Financial Accounting Standard Board's Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842). In February 2016, the FASB issued this standard relating to leases to increase transparency and comparability among organizations by requiring the recognition of assets and liabilities on the statements of financial position for the rights and obligations created by long-term leases. This ASU also requires additional qualitative and quantitative disclosures about leasing arrangements, and provides clarifications surrounding the presentation of the effects of leases in the statements of activities and cash flows. Most prominent among the changes in the standard is the recognition of the right-of-use (ROU) assets and liabilities by lessee for those leases classified as operating leases under current U.S. GAAP.

THE READING LEAGUE, INC.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued).

New Accounting Pronouncements – Leases (continued)

In addition, the FASB issued ASU 2018-11, Leases Targeted Improvements, which provides an additional transition method that allows entities to apply the new lease standard at adoption date. The Organization elected and applied the following transition practical expedients when initially adopting the standard:

- To apply the provisions of the lease standard at adoption date, instead of applying them to the earliest comparative period presented in the financial statements.
- The package of practical expedients permitting Organization to not reassess the (i) the lease classification of existing leases, (ii) whether existing and expired contracts are or contain leases, and (iii) initial direct costs for expired leases.

The Organization adopted this new transition method when it adopted Topic 842 on January 1, 2022. Accordingly, all periods prior to January 1, 2022 were presented in accordance with the previous ASC Topic 840, Leases, and no retrospective adjustments were made to the comparative periods presented. Upon adoption on January 1, 2022, total assets and liabilities increased due to the recording of operating right-of-use assets and lease liabilities amounting to \$461,343.

The Organization presents its lease assets and lease liabilities for operating leases separately on its statement of financial position. All contracts that implicitly involve property and equipment are evaluated to determine whether they are or contain a lease. The Organization did not have any finance leases at December 31, 2022 or 2021. See Note 6 for further details.

New Accounting Pronouncements - Nonfinancial Contributions

The Organization has adopted FASB ASU 2020-07 Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets for the year ended December 31, 2022. This ASU increases the transparency of contributed nonfinancial assets through enhanced presentation and disclosure and requires nonfinancial assets to be presented as separate line items on the statements of activities. In addition, the standard requires additional disclosures to include description, valuation techniques, and disaggregation of amounts by contributed category. Adoption of the new standard did not have a material impact on the Organization's financial statements.

The Organization receives donated services from a variety of unpaid volunteers throughout the year. No amounts have been recognized in the financial statements for these services since they do not meet the criteria for recognition under the FASB's authoritative guidance on accounting for contributions received and contributions made.

Cash and Cash Equivalents

The Organization considers all short-term investments purchased with a maturity of three months or less to be considered cash and cash equivalents. The Organization has cash balances in various financial institutions, which may, at times, exceed federally insured limits.

THE READING LEAGUE, INC.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued).

Accounts and Memberships Receivable

The Organization considers receivables to be fully collectible based on management's review of individual accounts outstanding. If collection becomes doubtful, an allowance for doubtful accounts will be established when that determination is made by management. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received. There was no bad debt expense recognized by the Organization for the years ended December 31, 2022 and 2021.

Revenue Recognition

The Organization follows ASC 606, Revenue from Contracts with Customers, which requires the recognition of revenue related to the transfer of goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled to in exchange for those goods or services, as well as additional qualitative and quantitative disclosures about revenues. The Organization's significant revenue streams are as follows:

Contributions received are recorded as without donor restrictions or with donor restrictions support based on the nature of donor restriction. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as in an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Grants are recorded as without donor restrictions or with donor restrictions support based on the nature of donor restrictions. Grants are recognized when the Organization incurs expenses related to the contract. Generally, the funds are not remitted until a voucher for services provided or expenses incurred have been submitted for reimbursement. Funds received in advance of services provided are recorded as deferred revenue in the accompanying statements of financial position.

Conference and service fee revenue is recognized at the time the associated event occurs. Any payments of deposits or tickets sold prior to the events are recorded in deferred revenue in the accompanying statements of financial position.

Sale of merchandise primarily consists of sales of inventory throughout the year. Revenue is recognized at the time the sale is made. Sales of merchandise are recorded net of cost of sales of approximately \$452,600 and \$27,400 for the years ended December 31, 2022 and 2021, respectively.

THE READING LEAGUE, INC.

Notes to Financial Statements

1. **Summary of Significant Accounting Policies** (continued).

Revenue Recognition and Contributions (continued)

The Organization sells subscriptions for The Reading League Journal and each subscription provides access to three editions of the journal. As each edition is made available to the customer, one third of the annual subscription cost is recognized as revenue. The remaining amount of the annual subscription cost is recorded in deferred revenue. Journal advertising is paid in advance and recorded as deferred revenue in the accompanying statements of financial position until the journal is published, and the corresponding revenue is recognized.

The following table presents the opening and closing account balances for accounts receivable and deferred income:

	2022	2021
Contract Assets:		
Accounts receivable as of January 1:	\$ 189,320	\$ 138,593
Accounts receivable as of December 31:	\$ 286,146	\$ 189,320
Contract Liabilities:		
Deferred revenue as of January 1:	\$ 2,875,586	\$ 1,634,913
Deferred revenue as of December 31	\$ 3,184,942	\$ 2,875,586

Deferred Revenue

Deferred revenue consists of amounts received in advance from grants and contributions, sponsorship and advertising for upcoming conferences and events, and for upcoming professional development, and is recognized during the period of the respective event. In addition, subscriptions received in advance are deferred and recognized over equally over the journal subscription period.

Inventory

Inventory consists of merchandise for sale, stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Leasehold Improvements and Equipment

It is the policy of the Organization to capitalize assets over \$2,500. Property and equipment is stated at cost and depreciated using the straight-line method over its useful life. Leasehold improvements are amortized over the shorter of the lease terms or the estimated useful lives of the assets using the straight-line method. The useful lives of property and equipment range from five to ten years.

THE READING LEAGUE, INC.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued).

Leasehold Improvements and Equipment (continued)

The Organization reviews its investment in property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by comparison of the carrying amount of the property to the future net undiscounted cash flow expected to be generated by the property including the low-income housing tax credits and any estimated proceeds from the eventual disposition of the property. If the property is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the property exceeds the fair value of such property. There was no impairment loss recognized in 2022 or 2021.

Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expenses were approximately \$8,900 and \$174,600 for the years ended December 31, 2022 and 2021, respectively.

Use of 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 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.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private Organization within the meaning of Section 509(a) of the Code. The Organization evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of December 31, 2022, the Organization does not believe that it has taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next year.

The Organization's tax returns are generally open for examination by federal and local taxing authorities for a period of three years from the date they are filed. It is the Organization's policy to recognize any interest and penalties as expenses in the year assessed.

2. Certificates of Deposit

The Organization held a 24 month certificate of deposit earning 4% interest with a value of \$1,002,581 as of December 31, 2022. There were no certificates of deposit held on December 31, 2021.

THE READING LEAGUE, INC.

Notes to Financial Statements

3. Funds Held Outside the Organization

The Organization made a gift to the Central New York Community Foundation (the Foundation) to establish the Reading League Fund (the Fund). The Organization originally deposited advance funding received from a multi-year grant from the Pleasant Rowland Foundation (the Grant) of \$1,719,054 in the Fund during 2018. In addition, donors may contribute directly to the Fund for the benefit of the Organization. In accordance with the agreement, the Organization may request funds as deemed necessary. During 2022, Grant proceeds of \$1,087,381 were deposited to the Fund by the Organization, and the Organization took distributions from the Fund of \$1,165,000 to cover program expenses and transferred excess funds to a certificate of deposit for future investment. The agency fund held \$14,744 and \$92,363 at December 31, 2022 and 2021, respectively. The assets are recorded in the assets and liabilities of the Foundation and are reflected in the accompanying statements of financial position.

4. Pension Plan

The Organization has a 403(b) retirement plan. The retirement plan is available to all employees upon employment with the Organization. The Organization matches the employee's contribution up to a maximum of 5% of the employee's gross salary, after the employee completes 6 months of service. Retirement plan expense was approximately \$47,000 and \$42,000 for the years ended December 31, 2022 and 2021, respectively, and included within benefits on the statements of functional expenses

5. Leasehold Improvements and Equipment

Leasehold improvements and equipment consist of the following as of December 31:

	<u>2022</u>	<u>2021</u>
Leasehold Improvements	\$ 479,148	\$ 479,148
Furniture and Equipment	<u>287,682</u>	<u>252,800</u>
	766,830	731,948
Accumulated Depreciation	<u>(254,243)</u>	<u>(176,396)</u>
	<u>\$ 512,587</u>	<u>\$ 555,552</u>

Depreciation expense was approximately \$77,900 and \$71,300 for the years ended December 31, 2022 and 2021, respectively.

6. Digital Assets

The Organization accounts for expenditures incurred to develop and produce a television series and digital content according to FASB ASU 2019-02, Entertainment, Films, Other Assets, Film Costs. Total costs of \$590,873 and \$146,447 associated with developing and producing the first two seasons of the digital television show, The Reading League's Reading Buddies™ (the show), have been capitalized within digital assets on the statements of financial position as of December 31, 2022 and 2021, respectively. Amortization is calculated on a straight-line basis over the show's estimated useful life of 3 years. Amortization expense was approximately \$197,000 and \$48,800 for the year ended December 31, 2022 and 2021, respectively.

THE READING LEAGUE, INC.

Notes to Financial Statements

7. Leases

The Organization has entered into several operating leases as follows:

- Ten-year operating lease for office space with the Near Westside Initiative beginning June 1, 2019 through May 31, 2029 with initial rent for \$4,384 per month. The rental expense increases approximately 2% in years two through ten.
- Storage space is also rented from the Near Westside Initiative beginning in September 2019 for \$50 per month and increasing to \$100 per month in November 2020. The agreement is a month to month lease.
- Distribution room space is leased from Near Westside Initiative beginning September 2021 for \$600 per month. The lease remains in effect until either party gives notice to terminate.
- A copier lease with a five-year term. Monthly payments are dependent on copier usage.

For the year ending December 31, 2021, the Organization recognized rent expense of \$57,878 on the statement of functional expenses. Subsequent to the adoption of ASU 2016-02, effective January 1, 2022, the Organization recognized a separate right-of-use asset and operating lease liability based on the present value of future lease payments. Lease expense of \$72,683 was recognized for the year ending December 31, 2022 on the statement of functional expenses.

At lease commencement, the Organization recognizes a lease liability measured at the present value of future lease payments, and a corresponding right-of-use asset equal to the lease liability, adjusted for any lease credits or incentives. The Organization has elected and applied the practical expedients available to lessees, and remeasures lease liabilities and related right-of-use assets whenever there is a change to the lease term and/or if there is a change in the amount of future lease payments, but only when such modification does not qualify to be accounted for as a separate contract.

For accounting purposes, the Organization's leases commence on the earlier of (i) the date upon which the Organization obtains control for the underlying asset and (ii) the contractual effective date of the lease. Lease commencement for the Organization's leases typically coincides with the contractual effective date.

The Organization determines an appropriate discount rate to apply when determining the present value of the remaining lease payments for purposes of measuring or remeasuring lease liabilities. As the rate implicit in the lease is not readily determinable, the Organization utilized the risk-free interest rate at lease adoption.

The weighted average discount rate for the Organization's operating leases is approximately 1.74%, and the weighted average remaining lease term is approximately 73 months.

THE READING LEAGUE, INC.

Notes to Financial Statements

7. Leases (continued)

The following provides financial information about the Organization's operating right-of-use assets and lease liabilities as of December 31, 2022:

Right-of-use asset	<u>\$ 394,567</u>
Operating lease liability:	
Current portion	64,709
Non-current portion	<u>338,768</u>
	<u>\$ 403,477</u>

Future minimum lease payments on operating lease obligations are as follows for the years ending December 31:

	2023	\$ 71,212
	2024	72,029
	2025	73,156
	2026	59,928
	2027	61,130
	Thereafter	<u>88,514</u>
		425,969
	Less: adjustment for present value	<u>(22,492)</u>
Present value of operating lease liability	\$	<u>403,477</u>
Current portion of operating lease liability		<u>(64,709)</u>
Non-current operating lease liability	\$	<u>338,768</u>

8. Economic Dependency and Concentration of Credit Risk

The Organization is a recipient of a grant from the Pleasant Rowland Foundation (the Foundation) for a total of \$4,125,000 to be received from 2018 through 2023. The Organization derived approximately 14% and 17% of its revenues from the Pleasant Rowland Foundation for the years ended December 31, 2022 and 2021, respectively. The Organization has advances on the Foundation grant of approximately \$2,540,900 and \$2,051,000 at December 31, 2022 and 2021, respectively, included within deferred revenue on the statements of financial position. Revenue will be recognized upon satisfaction of performance obligations under the grant.

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9. Paycheck Protection Program Loan

On February 2, 2021, the Organization was granted \$165,525 from Chase Bank through the Small Business Association (SBA), pursuant to the Paycheck Protection Program (PPP) Second Draw under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), which was enacted March 27, 2020. The PPP provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. Under the terms of the PPP, the loan balance can be forgiven, in full or part, based on the use of the funds for qualifying expenses in accordance with the requirements of the CARES Act. The Organizations received notification from Chase Bank on January 3, 2022 that the SBA has approved its application for loan forgiveness in full. The balance forgiven of \$165,525 was recognized as revenue within the statement of activities for the year ended December 31, 2021.

10. Subsequent Events

Management has evaluated subsequent events through August 28, 2023 which is the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.