

Book Trust

Financial Statements

June 30, 2019

With Comparative Totals for June 30, 2018

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Independent Auditor's Report

Board of Directors Book Trust

Report on the Financial Statements

We have audited the accompanying financial statements of Book Trust, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Book Trust as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Board of Directors
Book Trust**

Report on Summarized Comparative Information

The financial statements of the Book Trust for the year ended June 30, 2018 were audited by another auditor, who expressed an unmodified opinion on those financial statements on October 12, 2018. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As discussed in note 1, Book Trust adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. The requirements of the ASU have been applied retrospectively for all years presented. Our opinion is not modified with respect to this matter.

Kennedinger, Carda & Congle, P.C.

October 25, 2019

Book Trust
Statement of Financial Position
June 30, 2019
(With Comparative Totals as of June 30, 2018)

	2019	2018
Assets		
Cash and cash equivalents	\$ 1,626,201	1,458,081
Accounts receivable	106,202	89,275
Contributions and grants receivable (note 3)	31,119	510,344
Prepaid expenses and other assets	30,008	9,168
Furniture and equipment, net (note 4)	15,167	19,955
Total assets	\$ 1,808,697	2,086,823
Liabilities and Net Assets		
Accounts payable	\$ 48,421	343,235
Accrued liabilities	2,800	1,328
Deferred revenue	42,680	34,000
Deferred rent	13,827	17,135
Total liabilities	107,728	395,698
Net assets		
Without donor restrictions	1,597,147	1,031,675
With donor restrictions (note 5)	103,822	659,450
Total net assets	1,700,969	1,691,125
Commitments (notes 6 and 7)		
Total liabilities and net assets	\$ 1,808,697	2,086,823

See the accompanying notes to the financial statements.

Book Trust
Statement of Activities
Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Revenue and Support				
Contributions and grants:				
Individuals	\$ 1,000,761	–	1,000,761	1,269,843
Foundations	1,433,781	103,822	1,537,603	1,942,384
Organizations	212,728	–	212,728	90,043
Corporations	425,016	–	425,016	122,560
Total contributions and grants	<u>3,072,286</u>	<u>103,822</u>	<u>3,176,108</u>	<u>3,424,830</u>
Program service revenue	770,600	–	770,600	629,500
Special events revenue	524,336	–	524,336	572,457
Less costs of direct benefit to donor	(133,425)	–	(133,425)	(119,864)
In-kind contributions	603,368	–	603,368	588,425
Other income	30,263	–	30,263	20,775
	<u>4,867,428</u>	<u>103,822</u>	<u>4,971,250</u>	<u>5,116,123</u>
Net assets released from restrictions	659,450	(659,450)	–	–
Total revenue and support	<u>5,526,878</u>	<u>(555,628)</u>	<u>4,971,250</u>	<u>5,116,123</u>
Expenses				
Program expenses	4,262,518	–	4,262,518	4,266,213
Supporting services:				
Management and general	165,928	–	165,928	168,591
Fund raising	532,960	–	532,960	716,038
Total supporting services	<u>698,888</u>	<u>–</u>	<u>698,888</u>	<u>884,629</u>
Total expenses	<u>4,961,406</u>	<u>–</u>	<u>4,961,406</u>	<u>5,150,842</u>
Change in net assets	565,472	(555,628)	9,844	(34,719)
Net assets at beginning of year	<u>1,031,675</u>	<u>659,450</u>	<u>1,691,125</u>	<u>1,725,844</u>
Net assets at end of year	<u>\$ 1,597,147</u>	<u>103,822</u>	<u>1,700,969</u>	<u>1,691,125</u>

See the accompanying notes to the financial statements.

Book Trust
Statement of Functional Expenses
Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	Program Services			Supporting Services			2019 Total	2018 Total	
	Books	Teacher training and resources	Program evaluation and operations	Total program services	Manage- ment and general	Fund raising			Total supporting services
Books	\$ 2,726,333	–	–	2,726,333	–	–	–	2,726,333	2,708,418
Discounts on books	481,194	–	–	481,194	–	–	–	481,194	476,878
Total book costs	<u>3,207,527</u>	–	–	<u>3,207,527</u>	–	–	–	<u>3,207,527</u>	<u>3,185,296</u>
Salaries and related benefits	–	561,998	1,100	563,098	25,385	368,975	394,360	957,458	1,222,613
Professional and contract services	–	–	225,803	225,803	15,030	23,085	38,115	263,918	202,008
Fundraising event expense	–	–	–	–	–	133,425	133,425	133,425	119,864
Donated goods and services	19,699	–	–	19,699	93,000	9,475	102,475	122,174	111,048
Other office expenses	–	9,280	29,790	39,070	17,865	33,208	51,073	90,143	100,004
Occupancy	–	–	74,488	74,488	216	14,243	14,459	88,947	90,924
Payroll taxes	–	41,310	–	41,310	1,883	27,860	29,743	71,053	88,317
Travel and school visits	–	33,900	–	33,900	155	28,601	28,756	62,656	63,730
Information technology/software	–	35,288	–	35,288	1,612	13,961	15,573	50,861	33,740
Communications	–	17,084	–	17,084	–	5,000	5,000	22,084	24,720
Bank fees	–	–	–	–	–	7,398	7,398	7,398	18,691
Insurance	–	1,623	3,628	5,251	194	1,154	1,348	6,599	4,963
Uncollectible accounts expense	–	–	–	–	5,800	–	5,800	5,800	–
Depreciation	–	–	–	–	4,788	–	4,788	4,788	4,788
Total functional expenses	<u>3,227,226</u>	<u>700,483</u>	<u>334,809</u>	<u>4,262,518</u>	<u>165,928</u>	<u>666,385</u>	<u>832,313</u>	<u>5,094,831</u>	<u>5,270,706</u>
Less expenses included with revenue in the statement of activities	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(133,425)</u>	<u>(133,425)</u>	<u>(133,425)</u>	<u>(119,864)</u>
Total expenses	<u>\$ 3,227,226</u>	<u>700,483</u>	<u>334,809</u>	<u>4,262,518</u>	<u>165,928</u>	<u>532,960</u>	<u>698,888</u>	<u>4,961,406</u>	<u>5,150,842</u>

See the accompanying notes to the financial statements.

Book Trust
Statement of Cash Flows
Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 9,844	(34,719)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Uncollectible accounts expense	5,800	—
Depreciation expense	4,788	4,788
Change in operating assets and liabilities		
Accounts receivable	(16,927)	(68,500)
Contributions and grants receivable	473,425	(93,052)
Prepaid expenses and other assets	(20,840)	(1,926)
Accounts payable	(294,814)	342,015
Accrued liabilities	1,472	(15,660)
Deferred revenue	8,680	34,000
Deferred rent	(3,308)	(1,516)
Net cash provided by operating activities	<u>168,120</u>	<u>165,430</u>
Net increase in cash and cash equivalents	168,120	165,430
Cash and cash equivalents, beginning of year	<u>1,458,081</u>	<u>1,292,651</u>
Cash and cash equivalents, end of year	<u>\$ 1,626,201</u>	<u>1,458,081</u>

See the accompanying notes to the financial statements.

Book Trust

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies

(a) Organization

Book Trust, (the “Organization”), is a national early literacy non-profit organization that works to engage every child in book choice and ownership, cultivating literacy-rich communities. The Organization was founded by Adrienne Schatz and the Schatz family in Ft. Collins, CO in 2001 and incorporated in 2006. Since the organization’s founding, Book Trust has grown from serving 170 students in Colorado to serving over 57,000 elementary students across 21 states. The key program components of the Organization are as follows:

Books – Book Trust is a teacher-led, student-driven national early literacy program which includes a step-by-step supported and evaluated process to ensure students have the opportunity to discover the joy and power of reading. In the 2018-2019 school year, 57,000 Book Trust elementary students in 184 schools across 21 states, selected and received nearly 1 million new Scholastic books.

Teacher Training and Resources – Managers and teachers at partner schools volunteer their time to implement Book Trust’s program every month of the school year. These managers and teachers receive literacy tools for early reading tactics, family engagement, and the benefits of playing an active role in daily reading in the classroom and at home. In 2018-2019, 2,899 partner managers and teachers across 21 states received Book Trust’s program training, on-going program support, and monthly literacy resources to engage students in book choice, ownership, and celebration.

Program Evaluation and Operations – The Book Trust provides monthly program monitoring and evaluation to ensure effective and quality program implementation and impact. Book Trust’s qualitative and quantitative evaluation process throughout the year includes; but is not limited to, school site visits, program monitoring tools, annual surveys, focus groups, academic research, and third-party evaluations. In addition, the Organization provides necessary administrative and operational support to partner schools and teachers to implement the Book Trust program.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

The Organization is required to present information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and board of directors.

Book Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(c) Financial Statement Presentation, Continued

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor imposed restrictions are temporary in nature; those donor restrictions will be met by actions of the Organization or by the passage of time. Other donor imposed restriction are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. At June 30, 2019, the Organization has not net assets with perpetual donor restrictions.

(d) Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(e) Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable, and contributions and grants receivable. The Organization places its cash and cash equivalents with creditworthy, high-quality financial institutions. At times, a portion of the cash funds may not be insured by the Federal Deposit Insurance Corporation or related entity. Management monitors the cash balances and believes that they are adequate to support the long-term welfare of the Organization.

Credit risk with respect to the contributions and grants receivable is limited due to the number and credit worthiness of the donors from whom the amounts are due. Credit risk with regard to accounts receivable is limited based on the payment policies in place and the historical high collectability experience.

The Organization purchases all of the books for its programs from one company. This company provides a 15% discount on all book purchases (see note 1(j)). If a significant reduction of this support occurs, it may have an effect on the Organization's programs and activities.

(f) Accounts Receivable

Accounts receivable represent amounts due to the Organization for services provided to schools. Management uses the allowance method to determine uncollectable amounts. The allowance for doubtful accounts is based on past experience and on an analysis of the collectability of current accounts. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. Accounts receivable are considered to be past due based on contractual terms. As of June 30, 2019, the Organization did not have an allowance for doubtful accounts.

(g) Contributions and Grants Receivable and Contributions

Contributions and grants are recognized when cash, securities or other assets, or unconditional promises to give are received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Book Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) Contributions and Grants Receivable and Contributions, Continued

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. 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 received. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction end or a 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.

Contributions and grants receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. The Organization considers all contributions and grants receivable to be fully collectable; accordingly, as of June 30, 2019, there is no allowance for doubtful amounts.

(h) Furniture and Equipment

Furniture and equipment is recorded at cost, or if donated, at fair value at date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is seven years. The Organization capitalizes all fixed asset purchases and fixed asset donations over \$2,000 with an estimated useful life of more than one year.

(i) Program Service Revenue

Program service revenue represents program fees which are charged to schools on an annual basis for services provided by the Organization and are recognized as revenue on the statement of activities in the year in which the service is provided. Payments received in advance are deferred and recognized as revenue when earned. These school program fees allow for the Organization's education partners to contribute a portion of the annual program costs, illustrating critical school buy-in, and long-term sustainability. Deferred program fees total \$42,680 at June 30, 2019.

(j) Donated Materials and Services

Donated goods and services are reflected as contributions and corresponding expenses at their estimated fair value at date of donation. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise need to be purchased. A number of volunteers have donated a significant number of hours in assisting the Organization's activities. These services are not recognized in the financial statements because they do not meet the criteria for recognition. During the year ended June 30, 2019, in-kind contributions consisted of the following:

Discounts on books	\$ 481,194
Donated professional services	102,475
Donated books	<u>19,699</u>
	\$ <u>603,368</u>

Book Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(k) Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the accompanying statement of functional expenses. The Organization incurs expenses that directly relate to, and can be assigned to, either a program or a supporting activity. The Organization also conducts a number of activities which benefit both its program objectives as well as supporting services (i.e. fund raising and management and general activities). These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited, based on either financial or nonfinancial data, such as estimates of time and effort incurred by personnel.

(l) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(m) Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Income arising from activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. The Organization is subject to income tax on transportation fringe benefits under the Tax Cuts and Jobs Act of 2017. For the year ended June 30, 2019, the Organization did not incur any income taxes for unrelated trade or business income.

Management is required to evaluate tax positions taken by the Organization and to recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management believes that it has appropriate support for any tax positions taken and that none would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing authorities; however, there are currently no audits in progress for any tax periods. Management believes the Organization is no longer subject to income tax examinations for years prior to June 30, 2016.

(n) Prior Period Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

(o) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. The reclassifications had no effect on net assets or the change in net assets.

Book Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(p) Subsequent Events

The Organization has evaluated subsequent events through October 25, 2019, the date the financial statements were available to be issued.

(q) Not-for-Profit Financial Statement Presentation

During the year ended June 30, 2019, the Organization adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets previously presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk (note 2).

(2) Liquidity and Availability of Financial Assets

The following represents the Organization's financial assets available for general expenditures within one year as of June 30, 2019:

Cash and cash equivalents	\$ 1,626,201
Accounts receivable	106,202
Contributions and grants receivable	<u>31,119</u>
Financial assets available to meet cash expenditures over the next twelve months	\$ <u>1,763,522</u>

The Organization receives significant contributions restricted by donors and considers contributions for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. In addition, donated volunteer services fund a large part of the tasks associated with carrying out the Book Trust program. To manage liquidity, the Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of the Organization's liquidity management plan, cash in excess of daily requirements is invested in an interest-bearing savings account.

(3) Contributions and Grants Receivable

At June 30, 2019, contributions and grants receivable total \$31,119, are due within one year, and are considered fully collectable.

During 2019, the Organization received a \$1,300,000 four-year grant award for implementation of the Book Trust program in the School District of Philadelphia. The grant payments are conditioned upon the Organization achieving specific deliverables before payments will be made. Accordingly, the balance of the grant has not been recorded because the conditions have not been met.

Book Trust

Notes to Financial Statements, Continued

(4) Furniture and Equipment

At June 30, 2019, furniture and equipment consisted of the following:

Furniture and equipment	\$ 33,557
Less accumulated depreciation	(18,390)
Furniture and equipment, net	\$ <u>15,167</u>

Depreciation expense for the year ended June 30, 2019 was \$4,788.

(5) Net Assets with Donor Restrictions

At June 30, 2019, net assets with donor restrictions total \$103,822 and consist of unspent donations that are restricted for program implementation in specific areas and/or schools.

During 2019, net assets with donor restrictions totaling \$659,450 were released from restrictions by incurring expenses satisfying the restricted purposes or the passage of time.

(6) Retirement Plan

The Organization has a SIMPLE IRA plan under IRS Code Section 408(p) under which employees are eligible to participate upon hire. Based upon its own discretion, the Organization may match eligible employee contributions up to 3% of gross salary. During the year ended June 30, 2019, the Organization's contribution to the plan was \$11,741.

(7) Operating Leases

The Organization has non-cancelable operating leases for office space and a copier that expire over the next three years. Future minimum lease payments required under these operating leases are as follows for the years ending June 30:

2020	\$ 83,333
2021	84,606
2022	<u>20,614</u>
	\$ <u>188,553</u>

Total rent expense for the operating leases for the year ended June 30, 2019 was \$81,134.