

Book Trust

Financial Statements

June 30, 2020

With Comparative Totals for June 30, 2019

(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, 2020, 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, 2020, 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

We previously audited the Book Trust's 2019 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 25, 2019. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Kennedys, Carda & Congle, P.C.

October 30, 2020

Book Trust
Statement of Financial Position
June 30, 2020
(With Comparative Totals as of June 30, 2019)

| | 2020 | 2019 |
|--|--------------|-----------|
| Assets | | |
| Cash and cash equivalents | \$ 2,862,385 | 1,626,201 |
| Accounts receivable, net | – | 106,202 |
| Contributions and grants receivable (note 3) | 142,289 | 31,119 |
| Prepaid expenses and other assets | 11,308 | 30,008 |
| Furniture and equipment, net (note 4) | 15,712 | 15,167 |
| Total assets | \$ 3,031,694 | 1,808,697 |
| Liabilities and Net Assets | | |
| Accounts payable | \$ 304,838 | 48,421 |
| Accrued payroll liabilities | 12,755 | 2,800 |
| Deferred revenue | 12,500 | 42,680 |
| Deferred rent | 8,728 | 13,827 |
| Paycheck Protection Program loan (note 5) | 138,625 | – |
| Total liabilities | 477,446 | 107,728 |
| Net assets | | |
| Without donor restrictions | 2,061,416 | 1,597,147 |
| With donor restrictions (note 6) | 492,832 | 103,822 |
| Total net assets | 2,554,248 | 1,700,969 |
| Commitments (notes 7 and 8) | | |
| Total liabilities and net assets | \$ 3,031,694 | 1,808,697 |

See the accompanying notes to the financial statements.

Book Trust
Statement of Activities
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

| | Without Donor <u>Restrictions</u> | With Donor <u>Restrictions</u> | 2020 <u>Total</u> | 2019 <u>Total</u> |
|--|---|--------------------------------------|----------------------|----------------------|
| Revenue and Support | | | | |
| Contributions and grants: | | | | |
| Individuals | \$ 957,759 | – | 957,759 | 1,000,761 |
| Foundations | 964,337 | 1,194,655 | 2,158,992 | 1,537,603 |
| Organizations | 205,454 | – | 205,454 | 212,728 |
| Corporations | 315,764 | – | 315,764 | 425,016 |
| Total contributions and grants | <u>2,443,314</u> | <u>1,194,655</u> | <u>3,637,969</u> | <u>3,176,108</u> |
| Program service revenue | 692,980 | – | 692,980 | 770,600 |
| Special events revenue | 272,185 | – | 272,185 | 524,336 |
| Less costs of direct benefit to donor | (75,520) | – | (75,520) | (133,425) |
| In-kind contributions | 477,131 | – | 477,131 | 603,368 |
| Other income | 10,670 | – | 10,670 | 30,263 |
| | <u>3,820,760</u> | <u>1,194,655</u> | <u>5,015,415</u> | <u>4,971,250</u> |
| Net assets released from restrictions | 805,645 | (805,645) | – | – |
| Total revenue and support | <u>4,626,405</u> | <u>389,010</u> | <u>5,015,415</u> | <u>4,971,250</u> |
| Expenses | | | | |
| Program expenses | 3,667,928 | – | 3,667,928 | 4,262,518 |
| Supporting services: | | | | |
| Management and general | 79,714 | – | 79,714 | 165,928 |
| Fund raising | 414,494 | – | 414,494 | 532,960 |
| Total supporting services | <u>494,208</u> | <u>–</u> | <u>494,208</u> | <u>698,888</u> |
| Total expenses | <u>4,162,136</u> | <u>–</u> | <u>4,162,136</u> | <u>4,961,406</u> |
| Change in net assets | 464,269 | 389,010 | 853,279 | 9,844 |
| Net assets at beginning of year | <u>1,597,147</u> | <u>103,822</u> | <u>1,700,969</u> | <u>1,691,125</u> |
| Net assets at end of year | <u>\$ 2,061,416</u> | <u>492,832</u> | <u>2,554,248</u> | <u>1,700,969</u> |

See the accompanying notes to the financial statements.

Book Trust
Statement of Functional Expenses
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

| | Program Services | | | Supporting Services | | | 2020 Total | 2019 Total |
|---|------------------|---|--|------------------------------|--------------------------------|-----------------|---------------|---------------|
| | Books | Teacher training and resources | Program evaluation and operations | Total program services | Manage- ment and general | Fund raising | | |
| Books | \$ 2,357,771 | – | – | 2,357,771 | – | – | 2,357,771 | 2,726,333 |
| Discounts on books | 412,961 | – | – | 412,961 | – | – | 412,961 | 481,194 |
| Total book costs | 2,770,732 | – | – | 2,770,732 | – | – | 2,770,732 | 3,207,527 |
| Salaries and related benefits | – | 523,801 | – | 523,801 | 22,535 | 221,008 | 243,543 | 957,458 |
| Professional and contract services | – | 29,796 | 40,955 | 70,751 | 15,072 | 95,537 | 110,609 | 263,918 |
| Fundraising event expense | – | – | – | – | – | 75,520 | 75,520 | 133,425 |
| Donated goods and services | 64,170 | – | – | 64,170 | – | – | 64,170 | 122,174 |
| Other office expenses | – | 1,378 | 38,139 | 39,517 | 11,927 | 24,935 | 36,862 | 90,143 |
| Occupancy | – | – | 77,219 | 77,219 | (1,421) | 13,626 | 12,205 | 89,424 |
| Payroll taxes | – | 37,395 | – | 37,395 | 1,460 | 16,943 | 18,403 | 55,798 |
| Travel and school visits | – | 31,701 | – | 31,701 | 15 | 27,965 | 27,980 | 59,681 |
| Information technology/software | – | 39,353 | – | 39,353 | 1,074 | 10,266 | 11,340 | 50,693 |
| Communications | – | 1,976 | – | 1,976 | – | – | 1,976 | 22,084 |
| Bank fees | – | – | – | – | – | 3,251 | 3,251 | 7,398 |
| Insurance | – | 2,776 | 8,537 | 11,313 | 241 | 963 | 1,204 | 12,517 |
| Uncollectible accounts expense | – | – | – | – | 23,400 | – | 23,400 | 23,400 |
| Depreciation | – | – | – | – | 5,411 | – | 5,411 | 4,788 |
| Total functional expenses | 2,834,902 | 668,176 | 164,850 | 3,667,928 | 79,714 | 490,014 | 569,728 | 4,237,656 |
| Less expenses included with revenue in the statement of activities | – | – | – | – | – | (75,520) | (75,520) | (75,520) |
| Total expenses | \$ 2,834,902 | 668,176 | 164,850 | 3,667,928 | 79,714 | 414,494 | 494,208 | 4,162,136 |

See the accompanying notes to the financial statements.

Book Trust
Statement of Cash Flows
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

| | 2020 | 2019 |
|--|--------------|-----------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 853,279 | 9,844 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Uncollectible accounts expense | 23,400 | 5,800 |
| Depreciation expense | 5,411 | 4,788 |
| Loss on disposal of fixed assets | 4,424 | – |
| Change in operating assets and liabilities | | |
| Accounts receivable | 82,802 | (16,927) |
| Contributions and grants receivable | (111,170) | 473,425 |
| Prepaid expenses and other assets | 18,700 | (20,840) |
| Accounts payable | 256,417 | (294,814) |
| Accrued payroll liabilities | 9,955 | 1,472 |
| Deferred revenue | (30,180) | 8,680 |
| Deferred rent | (5,099) | (3,308) |
| Net cash provided by operating activities | 1,107,939 | 168,120 |
| Cash flows from investing activities | | |
| Purchases of fixed assets | (10,380) | – |
| Net cash used in investing activities | (10,380) | – |
| Cash flows from financing activities | | |
| Proceeds from Paycheck Protection Program loan | 138,625 | – |
| Net cash provided by investing activities | 138,625 | – |
| Net increase in cash and cash equivalents | 1,236,184 | 168,120 |
| Cash and cash equivalents, beginning of year | 1,626,201 | 1,458,081 |
| Cash and cash equivalents, end of year | \$ 2,862,385 | 1,626,201 |

See the accompanying notes to the financial statements.

Book Trust

Notes to Financial Statements

June 30, 2020

(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 2019-2020 school year, 57,000 Book Trust elementary students in 203 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 2019-2020, 2,945 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, 2020, the Organization has no 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 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.

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(h)). If a significant reduction of this support occurs, it may have an effect on the Organization's programs and activities.

(f) 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.

(g) Revenue Recognition

Contributions and Grants

Contributions and grants are recognized when cash, securities or other assets, or unconditional promises to give are received. Conditional promises to give, that is, 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 substantially met. Payments received in advance of conditions being met are recorded as a refundable advance in the statement of financial position.

Book Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) Revenue Recognition, Continued

Contributions and Grants, Continued

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 support, including pledges, is 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, 2020, there is no allowance for doubtful amounts.

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 \$12,500 at June 30, 2020.

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, 2020, the allowance for doubtful accounts receivable totals \$7,400.

Special Events

Special events is comprised of revenue from exchange transactions equal to the cost of direct benefits to donors, and contribution revenue for amounts received in excess of direct costs. Contribution revenue is recognized following the revenue recognition policies discussed above. Exchange transaction revenue is recognized when the event is held.

(h) 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.

Book Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(h) Donated Materials and Services, Continued

During the year ended June 30, 2020, in-kind contributions consisted of the following:

| | |
|--------------------|-------------------|
| Discounts on books | \$ 412,961 |
| Donated books | <u>64,170</u> |
| | \$ <u>477,131</u> |

(i) 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.

(j) 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.

(k) 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. For the year ended June 30, 2020, 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, 2017.

Book Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(l) 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, 2019 from which the summarized information was derived.

(m) Subsequent Events

The Organization has evaluated subsequent events through October 30, 2020, the date the financial statements were available to be issued.

(n) New Accounting Pronouncements

Effective July 1, 2019, Book Trust adopted Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. Book Trust has implemented the provisions of ASU 2018-08 under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

Effective July 1, 2019, Book Trust adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the modified retrospective method. The update supersedes the revenue recognition requirements in *Revenue Recognition (Topic 605)* and requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Analysis of various provisions of this standard resulted in no significant changes in the way Book Trust recognizes revenue, and therefore no changes to the previously issued financial statements were required on a retrospective basis. The presentation and disclosure of revenue has been enhanced in accordance with the standard.

(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, 2020:

| | |
|---|---------------------|
| Cash and cash equivalents | \$ 2,862,385 |
| Contributions and grants receivable | <u>142,289</u> |
| Financial assets available to meet cash expenditures over the next year | \$ <u>3,004,674</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.

Book Trust

Notes to Financial Statements, Continued

(2) Liquidity and Availability of Financial Assets, Continued

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, 2020, contributions and grants receivable total \$142,289, are due within one year, and are considered fully collectable.

During 2019, the Organization received a four-year grant award for implementation of the Book Trust program in the School District of Philadelphia. In order to receive grant payments, the Organization must achieve specific deliverables. During the year ended June 30, 2020, the Organization met certain required conditions and received a \$500,000 grant payment, which has been recorded as contribution revenue in 2020. The \$800,000 balance of the grant has not been recorded because the remaining conditions have not been met.

(4) Furniture and Equipment

At June 30, 2020, furniture and equipment consisted of the following:

| | |
|-------------------------------|------------------|
| Furniture and equipment | \$ 33,320 |
| Less accumulated depreciation | (17,608) |
| Furniture and equipment, net | \$ <u>15,712</u> |

Depreciation expense for the year ended June 30, 2020 was \$5,411.

(5) Paycheck Protection Program Loan

In May 2020, the Organization received a \$138,625 loan under the U.S. Small Business Administration's (SBA) Paycheck Protection Program (PPP) authorized under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). Under the program, this loan may be partially or fully forgiven if certain eligibility requirements are met, including that 60% of the loan must be spent on payroll. The loan is being treated as a refundable advance of a conditional contribution until such time that the loan has been explicitly forgiven by the SBA. At such time that the loan is forgiven, the conditions will be considered met and the Organization will recognize contribution revenue in the amount of the loan forgiveness.

In the case that the loan is not forgiven, the loan is payable in equal amounts required to fully amortize the principal amount outstanding on the note by the maturity date of May 6, 2022. The loan is unsecured, and interest is charged at 1% per annum.

(6) Net Assets with Donor Restrictions

At June 30, 2020, net assets with donor restrictions total \$492,832 and consist of unspent donations that are restricted for program implementation in specific areas and/or schools.

During 2020, net assets with donor restrictions totaling \$805,645 were released from restrictions by incurring expenses satisfying the restricted purposes or the passage of time.

Book Trust

Notes to Financial Statements, Continued

(7) 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, 2020, the Organization's contribution to the plan was \$12,110.

(8) Operating Leases

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

| | |
|------|-------------------|
| 2021 | \$ 84,606 |
| 2022 | <u>20,614</u> |
| | \$ <u>105,220</u> |

Total rent expense for the operating leases for the year ended June 30, 2020 was \$80,648.

(9) Impact of COVID 19

The COVID-19 pandemic has caused business disruption and economic uncertainties in numerous sectors of the economy. The related financial impact and duration cannot be reasonably estimated at this time. Management and the Board of Directors continue to monitor the situation.