

Book Trust

Financial Statements

June 30, 2021

With Comparative Totals for June 30, 2020

(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, 2021, 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, 2021, 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 2020 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 30, 2020. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Kennedinger, Carda & Congle, P.C.

October 29, 2021

Book Trust
Statement of Financial Position
June 30, 2021
(With Comparative Totals as of June 30, 2020)

	2021	2020
Assets		
Cash and cash equivalents	\$ 4,010,225	2,862,385
Contributions and grants receivable (note 3)	7,022	142,289
Prepaid expenses and other assets	13,179	11,308
Furniture and equipment, net (note 4)	7,758	15,712
Total assets	\$ 4,038,184	3,031,694
Liabilities and Net Assets		
Accounts payable	\$ 357,499	304,838
Accrued payroll liabilities	21,759	12,755
Deferred revenue	—	12,500
Deferred rent	1,835	8,728
Paycheck Protection Program loan (note 5)	138,625	138,625
Total liabilities	519,718	477,446
Net assets		
Without donor restrictions	3,043,961	2,061,416
With donor restrictions (note 6)	474,505	492,832
Total net assets	3,518,466	2,554,248
Commitments (notes 7 and 8)		
Total liabilities and net assets	\$ 4,038,184	3,031,694

See the accompanying notes to the financial statements.

Book Trust
Statement of Activities
Year Ended June 30, 2021
(With Comparative Totals for the Year Ended June 30, 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Revenue and Support				
Contributions and grants:				
Individuals	\$ 927,183	–	927,183	957,759
Foundations	993,950	812,000	1,805,950	2,158,992
Organizations	39,800	–	39,800	205,454
Corporations	325,593	–	325,593	315,764
Total contributions and grants	<u>2,286,526</u>	<u>812,000</u>	<u>3,098,526</u>	<u>3,637,969</u>
Program service revenue	552,357	–	552,357	692,980
Special events revenue	130,545	–	130,545	272,185
Less costs of direct benefit to donor	(16,590)	–	(16,590)	(75,520)
In-kind contributions	292,716	–	292,716	477,131
Other income	10,258	–	10,258	10,670
	<u>3,255,812</u>	<u>812,000</u>	<u>4,067,812</u>	<u>5,015,415</u>
Net assets released from restrictions	830,327	(830,327)	–	–
Total revenue and support	<u>4,086,139</u>	<u>(18,327)</u>	<u>4,067,812</u>	<u>5,015,415</u>
Expenses				
Program expenses	2,442,708	–	2,442,708	3,667,928
Supporting services:				
Management and general	289,069	–	289,069	79,714
Fund raising	371,817	–	371,817	414,494
Total supporting services	<u>660,886</u>	<u>–</u>	<u>660,886</u>	<u>494,208</u>
Total expenses	<u>3,103,594</u>	<u>–</u>	<u>3,103,594</u>	<u>4,162,136</u>
Change in net assets	982,545	(18,327)	964,218	853,279
Net assets at beginning of year	<u>2,061,416</u>	<u>492,832</u>	<u>2,554,248</u>	<u>1,700,969</u>
Net assets at end of year	<u>\$ 3,043,961</u>	<u>474,505</u>	<u>3,518,466</u>	<u>2,554,248</u>

See the accompanying notes to the financial statements.

Book Trust
Statement of Functional Expenses
Year Ended June 30, 2021
(With Comparative Totals for the Year Ended June 30, 2020)

	Program Services			Supporting Services			2021 Total	2020 Total	
	Books	Teacher training and resources	Program evaluation and operations	Total program services	Manage- ment and general	Fund raising			Total supporting services
Books	\$ 1,621,433	–	–	1,621,433	–	–	–	1,621,433	2,357,771
Discounts on books	291,066	–	–	291,066	–	–	–	291,066	412,961
Total book costs	<u>1,912,499</u>	–	–	<u>1,912,499</u>	–	–	–	<u>1,912,499</u>	<u>2,770,732</u>
Salaries and related benefits	–	289,653	–	289,653	142,866	185,742	328,608	618,261	767,344
Professional and contract services	–	5,744	42,000	47,744	111,517	131,042	242,559	290,303	181,360
Fundraising event expense	–	–	–	–	–	16,590	16,590	16,590	75,520
Donated goods and services	–	–	–	–	–	–	–	–	64,170
Other office expenses	–	–	21,544	21,544	13,157	18,565	31,722	53,266	76,379
Occupancy	–	–	69,621	69,621	2,273	10,555	12,828	82,449	89,424
Payroll taxes	–	20,640	–	20,640	10,084	12,305	22,389	43,029	55,798
Travel and school visits	–	2,731	–	2,731	19	109	128	2,859	59,681
Information technology/software	–	44,470	–	44,470	1,037	7,168	8,205	52,675	50,693
Communications	–	29,196	–	29,196	–	10	10	29,206	1,976
Bank fees	–	–	–	–	–	5,670	5,670	5,670	3,251
Insurance	–	1,416	3,194	4,610	163	651	814	5,424	12,517
Uncollectible accounts expense	–	–	–	–	–	–	–	–	23,400
Depreciation	–	–	–	–	7,953	–	7,953	7,953	5,411
Total functional expenses	<u>1,912,499</u>	<u>393,850</u>	<u>136,359</u>	<u>2,442,708</u>	<u>289,069</u>	<u>388,407</u>	<u>677,476</u>	<u>3,120,184</u>	<u>4,237,656</u>
Less expenses included with revenue in the statement of activities	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(16,590)</u>	<u>(16,590)</u>	<u>(16,590)</u>	<u>(75,520)</u>
Total expenses	<u>\$ 1,912,499</u>	<u>393,850</u>	<u>136,359</u>	<u>2,442,708</u>	<u>289,069</u>	<u>371,817</u>	<u>660,886</u>	<u>3,103,594</u>	<u>4,162,136</u>

See the accompanying notes to the financial statements.

Book Trust
Statement of Cash Flows
Year Ended June 30, 2021
(With Comparative Totals for the Year Ended June 30, 2020)

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 964,218	853,279
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Uncollectible accounts expense	–	23,400
Depreciation expense	7,953	5,411
Loss on disposal of fixed assets	–	4,424
Change in operating assets and liabilities		
Accounts receivable	–	82,802
Contributions and grants receivable	135,267	(111,170)
Prepaid expenses and other assets	(1,870)	18,700
Accounts payable	52,661	256,417
Accrued payroll liabilities	9,004	9,955
Deferred revenue	(12,500)	(30,180)
Deferred rent	(6,893)	(5,099)
Net cash provided by operating activities	1,147,840	1,107,939
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	1,147,840	1,236,184
Cash and cash equivalents, beginning of year	2,862,385	1,626,201
Cash and cash equivalents, end of year	\$ 4,010,225	2,862,385

See the accompanying notes to the financial statements.

Book Trust

Notes to Financial Statements

June 30, 2021

(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 2020-2021 school year, 39,000 Book Trust elementary students in 168 schools across 20 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 2020-2021, 1,851 partner managers and teachers across 20 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 restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. At June 30, 2021, 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 the 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 ends 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 collectible; accordingly, as of June 30, 2021, 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. At June 30, 2021, there were no deferred program fees.

Accounts receivable represent amounts due to the Organization for services provided to schools. Management uses the allowance method to determine uncollectible 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, 2021, there were no accounts receivable.

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, 2021, in-kind contributions consisted of discounts on books totaling \$291,066 and donated video production services for Books on Tap totaling \$1,650.

(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, 2021, 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, 2018.

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, 2020 from which the summarized information was derived.

(m) Subsequent Events

The Organization has evaluated subsequent events through October 29, 2021, the date the financial statements were available to be issued.

(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, 2021:

Cash and cash equivalents	\$ 4,010,225
Contributions and grants receivable	<u>7,022</u>
Financial assets available to meet cash expenditures over the next year	<u>\$ 4,017,247</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, 2021, contributions and grants receivable totaling \$7,022 are due within one year and are considered fully collectible.

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, 2021, the Organization met certain required conditions and received a \$350,000 grant payment, which has been recorded as contribution revenue in 2021. The \$450,000 balance of the grant has not been recorded because the remaining conditions have not been met.

Book Trust

Notes to Financial Statements, Continued

(4) Furniture and Equipment

At June 30, 2021, furniture and equipment consisted of the following:

Furniture and equipment	\$ 33,320
Less accumulated depreciation	(25,562)
Furniture and equipment, net	\$ <u>7,758</u>

Depreciation expense for the year ended June 30, 2021 was \$7,953.

(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. The loan is 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.

Subsequent to year end, in August 2021, the Organization received forgiveness in full and has recognized a contribution.

(6) Net Assets with Donor Restrictions

At June 30, 2021, net assets with donor restrictions total \$474,505 and consist of unspent donations that are restricted for program implementation in specific areas and/or schools.

During 2021, net assets with donor restrictions totaling \$830,327 were released from restrictions by incurring expenses satisfying the restricted purposes or the passage of time.

(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, 2021, the Organization's contribution to the plan was \$15,134.

(8) Operating Leases

The Organization had a non-cancelable operating lease for office space that expired on September 30, 2021. Future minimum lease payments required under this operating lease are \$20,614.

Total rent expense for the year ended June 30, 2021 was \$82,449.