

Book Trust

Financial Statements

June 30, 2022

With Comparative Totals for June 30, 2021

(With Independent Auditor's Report Thereon)

*Kundinger, Corder
& Montoya, P.C.*

Certified Public Accountants



Independent Auditor's Report

Board of Directors Book Trust

Opinion

We have audited the accompanying financial statements of Book Trust, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Book Trust and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 Book Trust's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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, including omissions, 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.

Board of Directors
Book Trust

In performing an audit in accordance with generally accepted auditing standards, 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 Book Trust'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 Book Trust'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.

Report on Summarized Comparative Information

We have previously audited Book Trust's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 29, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Kundinger, Corder & Montoya, P.C.

October 28, 2022

Book Trust
Statement of Financial Position
June 30, 2022
(With Comparative Totals as of June 30, 2021)

	2022	2021
Assets		
Cash and cash equivalents	\$ 4,422,514	4,010,225
Contributions and grants receivable (note 3)	379,200	7,022
Prepaid expenses and other assets	18,731	13,179
Furniture and equipment, net (note 4)	868	7,758
Total assets	\$ 4,821,313	4,038,184
Liabilities and Net Assets		
Accounts payable	\$ 367,985	357,499
Accrued payroll liabilities	50,652	21,759
Deferred revenue	30,753	-
Deferred rent	-	1,835
Paycheck Protection Program loan (note 5)	-	138,625
Total liabilities	449,390	519,718
Net assets		
Without donor restrictions	3,787,801	3,043,961
With donor restrictions (note 6)	584,122	474,505
Total net assets	4,371,923	3,518,466
Commitments (note 7)		
Total liabilities and net assets	\$ 4,821,313	4,038,184

See the accompanying notes to the financial statements.

Book Trust
Statement of Activities
Year Ended June 30, 2022
(With Comparative Totals for the Year Ended June 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Revenue and Support				
Contributions and grants:				
Individuals	\$ 740,008	225,000	965,008	927,183
Foundations	1,253,809	498,263	1,752,072	1,805,950
Organizations	31,412	–	31,412	39,800
Corporations	298,458	–	298,458	325,593
Forgiveness of PPP loan (note 5)	138,625	–	138,625	–
Total contributions and grants	<u>2,462,312</u>	<u>723,263</u>	<u>3,185,575</u>	<u>3,098,526</u>
Program service revenue	832,009	–	832,009	552,357
Special events revenue	60,817	–	60,817	130,545
Less costs of direct benefit to donors	(12,177)	–	(12,177)	(16,590)
In-kind donations	2,249	–	2,249	1,650
Other income	3,448	–	3,448	10,258
	<u>3,348,658</u>	<u>723,263</u>	<u>4,071,921</u>	<u>3,776,746</u>
Net assets released from restrictions (note 6)	613,646	(613,646)	–	–
Total revenue and support	<u>3,962,304</u>	<u>109,617</u>	<u>4,071,921</u>	<u>3,776,746</u>
Expenses				
Program expenses	2,455,389	–	2,455,389	2,151,642
Supporting services:				
Management and general	298,189	–	298,189	289,069
Fund raising	464,886	–	464,886	371,817
Total supporting services	<u>763,075</u>	<u>–</u>	<u>763,075</u>	<u>660,886</u>
Total expenses	<u>3,218,464</u>	<u>–</u>	<u>3,218,464</u>	<u>2,812,528</u>
Change in net assets	743,840	109,617	853,457	964,218
Net assets at beginning of year	<u>3,043,961</u>	<u>474,505</u>	<u>3,518,466</u>	<u>2,554,248</u>
Net assets at end of year	<u>\$ 3,787,801</u>	<u>584,122</u>	<u>4,371,923</u>	<u>3,518,466</u>

See the accompanying notes to the financial statements.

Book Trust
Statement of Functional Expenses
Year Ended June 30, 2022
(With Comparative Totals for the Year Ended June 30, 2021)

	Program Services			Supporting Services			2022 Total	2021 Total
	Books	Program Operations	Total program services	Manage- ment and general	Fund raising	Total supporting services		
Book costs	\$ 2,226,601	–	2,226,601	–	–	–	2,226,601	1,912,499
Discounts on books	(327,712)	–	(327,712)	–	–	–	(327,712)	(291,066)
Book costs, net	<u>1,898,889</u>	–	<u>1,898,889</u>	–	–	–	<u>1,898,889</u>	<u>1,621,433</u>
Salaries and related benefits	–	315,067	315,067	124,910	195,697	320,607	635,674	618,261
Professional and contract services	–	120,514	120,514	131,018	210,201	341,219	461,733	290,303
Fundraising event expense	–	–	–	–	36,635	36,635	36,635	16,590
Other office expenses	–	37,220	37,220	25,003	3,530	28,533	65,753	53,266
Occupancy	–	17,604	17,604	1,430	2,547	3,977	21,581	82,449
Payroll taxes	–	21,709	21,709	11,626	14,376	26,002	47,711	43,029
Travel and school visits	–	–	–	–	–	–	–	2,859
Information technology/software	–	39,474	39,474	–	7,561	7,561	47,035	52,675
Communications	–	–	–	–	–	–	–	29,206
Bank fees	–	–	–	–	5,823	5,823	5,823	5,670
Insurance	–	4,912	4,912	173	693	866	5,778	5,424
Depreciation	–	–	–	4,029	–	4,029	4,029	7,953
Total functional expenses	<u>1,898,889</u>	<u>556,500</u>	<u>2,455,389</u>	<u>298,189</u>	<u>477,063</u>	<u>775,252</u>	<u>3,230,641</u>	<u>2,829,118</u>
Less expenses included with revenue in the statement of activities	–	–	–	–	(12,177)	(12,177)	(12,177)	(16,590)
Total expenses	<u>\$ 1,898,889</u>	<u>556,500</u>	<u>2,455,389</u>	<u>298,189</u>	<u>464,886</u>	<u>763,075</u>	<u>3,218,464</u>	<u>2,812,528</u>

See the accompanying notes to the financial statements.

Book Trust
Statement of Cash Flows
Year Ended June 30, 2022
(With Comparative Totals for the Year Ended June 30, 2021)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ 853,457	964,218
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	4,029	7,953
Loss on disposal of fixed assets	2,861	–
Forgiveness of Paycheck Protection Program Loan	(138,625)	–
Change in operating assets and liabilities		
Contributions and grants receivable	(372,178)	135,267
Prepaid expenses and other assets	(5,552)	(1,870)
Accounts payable	10,486	52,661
Accrued payroll liabilities	28,893	9,004
Deferred revenue	30,753	(12,500)
Deferred rent	(1,835)	(6,893)
Net cash provided by operating activities	<u>412,289</u>	<u>1,147,840</u>
Net increase in cash and cash equivalents	412,289	1,147,840
Cash and cash equivalents, beginning of year	<u>4,010,225</u>	<u>2,862,385</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,422,514</u></u>	<u><u>4,010,225</u></u>

See the accompanying notes to the financial statements.

Book Trust

Notes to Financial Statements

June 30, 2022

(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 41,000 elementary students across 17 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 2021-2022 school year, 41,000 Book Trust elementary students in 145 schools across 21 states, selected and received nearly 1 million new Scholastic books.

Program Operations – 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 2021-2022, 2,264 partner managers and teachers across 21 states received Book Trust’s program training, ongoing program support, and monthly literacy resources to engage students in book choice, ownership, and celebration. 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, 2022, 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 to the Organization a 15% discount on all book purchases. If a significant reduction of this support occurs, it may have an effect on the Organization's programs and activities. During the year ended June 30, 2022, the discount totaled \$327,712 and is netted against the cost of the books.

(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, 2022, 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, 2022, there were \$10,278 in 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, 2022, there were no accounts receivable.

Special Events

Special events are 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

(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, 2022, 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, 2019.

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, 2021 from which the summarized information was derived.

(m) Subsequent Events

The Organization has evaluated subsequent events through October 28, 2022, the date the financial statements were available to be issued.

(n) 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.

(o) Adoption of New Accounting Pronouncement

During 2022, the Organization adopted Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard is aimed at increasing the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. The provisions of ASU No. 2020-07 have been implemented in the accompanying financial statements on a retrospective basis. The amendments under this accounting standard update do not change the recognition and measurement requirements for contributed nonfinancial assets. Accordingly, there is no effect on net assets in connection with the implementation of ASU No. 2020-07.

(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, 2022:

Cash and cash equivalents	\$ 4,422,514
Contributions and grants receivable within one year	<u>204,200</u>
Financial assets available to meet cash expenditures over the next year	\$ <u>4,626,714</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.

Book Trust

Notes to Financial Statements, Continued

(3) Contributions and Grants Receivable

At June 30, 2022, contributions and grants consist of the following:

	<u>2022</u>
Multi-year general operating contribution receivable	\$ 350,000
Greeley school district grant receivable	27,639
Other contribution and grants receivable	<u>1,561</u>
Total contributions and grants receivable	\$ <u>379,200</u>
Amounts due:	
Within one year	\$ 204,200
One to five years	<u>175,000</u>
Total contributions and grants receivable	\$ <u>379,200</u>

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, 2022, the Organization met certain required conditions and received a \$300,000 grant payment, which has been recorded as contribution revenue in 2022. The \$150,000 balance of the grant has not been recorded as of June 30, 2022 because the remaining conditions have not been met.

(4) Furniture and Equipment

At June 30, 2022, furniture and equipment consisted of the following:

Furniture and equipment	\$ 10,380
Less accumulated depreciation	<u>(9,512)</u>
Furniture and equipment, net	\$ <u>868</u>

Depreciation expense for the year ended June 30, 2022 was \$4,029.

(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. In August 2021, the Organization received forgiveness in full and recognized \$138,625 as a contribution during the year ended June 30, 2022.

(6) Net Assets with Donor Restrictions

At June 30, 2022, net assets with donor restrictions total \$584,122 and consist of unspent donations that are restricted for program implementation in specific areas and/or schools and time restricted donations.

During 2022, net assets with donor restrictions totaling \$613,646 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, 2022, the Organization's contribution to the plan was \$14,783.

(8) Operating Leases

The Organization had a non-cancelable operating lease for office space that expired on September 30, 2021 and was not renewed.

Total rent expense for the year ended June 30, 2022 was \$21,831.