BookTrust

INSPIRING KIDS' PASSION FOR READING

Financial Statements
and
Independent Auditors' Report
June 30, 2017 and 2016

EKS&H

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Book Trust
Denver, Colorado

We have audited the accompanying financial statements of Book Trust, which are comprised of the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 auditors consider 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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September 22, 2017
Fort Collins, Colorado

BOOK TRUST

Statements of Financial Position

	June 30, 2017	June 30, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 1,045,772	$ 431,548
Restricted cash	246,879	63,074
Promises to give, current portion	365,067	1,051,242
Other current assets	7,242	13,048
Total current assets	1,664,960	1,558,912
Non-current assets		
Furniture and equipment, net	24,743	29,200
Promises to give, net of current portion	73,000	10,982
Total non-current assets	97,743	40,182
Total assets	$ 1,762,703	$ 1,599,094
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 1,220	$ 42,110
Deferred rent, current portion	1,515	-
Accrued liabilities	16,988	17,990
Total current liabilities	19,723	60,100
Long-term liabilities		
Deferred rent, net of current portion	17,136	-
Total liabilities	36,859	60,100
Net assets		
Unrestricted	716,207	424,093
Temporarily restricted	1,009,637	1,114,901
Total net assets	1,725,844	1,538,994
Total liabilities and net assets	$ 1,762,703	$ 1,599,094

See notes to financial statements.

BOOK TRUST

Statements of Activities

	For the Years Ended June 30,					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and support						
Contributions						
Individuals	$ 1,089,502	$ 116,041	$ 1,205,543	$ 1,012,018	$ 12,280	$ 1,024,298
Foundations	1,494,602	320,500	1,815,102	657,272	1,007,715	1,664,987
Organizations	777,311	177,990	955,301	239,331	4,506	243,837
Corporations	75,502	2,500	78,002	28,932	2,000	30,932
Total contributions	3,436,917	617,031	4,053,948	1,937,553	1,026,501	2,964,054
Special events	554,591	-	554,591	436,107	-	436,107
In-kind contributions	489,329	-	489,329	362,016	-	362,016
	4,480,837	617,031	5,097,868	2,735,676	1,026,501	3,762,177
Net assets released from restrictions	722,295	(722,295)	-	1,243,824	(1,243,824)	-
Total revenues and support	5,203,132	(105,264)	5,097,868	3,979,500	(217,323)	3,762,177
Expenses						
Program expenses	3,996,297	-	3,996,297	2,902,828	-	2,902,828
Support services						
Administration and general	163,077	-	163,077	174,335	-	174,335
Fundraising	751,644	-	751,644	602,508	-	602,508
Total support services	914,721	-	914,721	776,843	-	776,843
Total expenses	4,911,018	-	4,911,018	3,679,671	-	3,679,671
Change in net assets	292,114	(105,264)	186,850	299,829	(217,323)	82,506
Net assets at beginning of year	424,093	1,114,901	1,538,994	124,264	1,332,224	1,456,488
Net assets at end of year	$ 716,207	$ 1,009,637	$ 1,725,844	$ 424,093	$ 1,114,901	$ 1,538,994

See notes to financial statements.

BOOK TRUST

Statements of Cash Flows

	For the Years Ended June 30,	
	2017	2016
Cash flows from operating activities		
Change in net assets	$ 186,850	$ 82,506
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Bad debt expense	1,520	980
Depreciation expense	4,311	3,214
Loss on disposal of assets	146	6,220
Changes in assets and liabilities		
Promises to give	622,637	64,216
Other current assets	5,806	(12,548)
Accounts payable	(40,890)	15,438
Accrued liabilities	(1,002)	10,673
Deferred rent	18,651	-
	611,179	88,193
Net cash provided by operating activities	798,029	170,699
Cash flows from investing activities		
Change in restricted cash	(183,805)	(9,531)
Purchase of furniture and equipment	-	(23,897)
Net cash used in investing activities	(183,805)	(33,428)
Net increase in cash and cash equivalents	614,224	137,271
Cash and cash equivalents at beginning of year	431,548	294,277
Cash and cash equivalents at end of year	$ 1,045,772	$ 431,548

See notes to financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Book Trust (the "Organization") is a non-profit corporation that empowers children from low-income families to choose and own books, inspiring a passion for reading, increasing literacy skills, and fostering lifelong learning. Book Trust teachers implement the Book Trust program in their classrooms every month with their students. They prioritize empowering student choice of reading materials, building a strong classroom culture of literacy, and engaging families in reading. The Organization was founded in 2001 and incorporated in 2006. Substantial operations began in January 2007.

The Organization works directly through schools and teachers to impact students. During the years ended June 30, 2017 and 2016, the Organization served 170 and 132 schools, representing 51,433 and 38,700 students impacted, respectively. As of June 30, 2017, the Organization had a backlog of 632 schools requesting the services provided by the Organization.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to the following three classes of net assets:

> Unrestricted amounts are those currently available at the discretion of the Board of Directors for use in the Organization's operations.
>
> Temporarily restricted amounts are monies restricted by donors specifically for certain time periods, purposes, or programs. Temporarily restricted net assets represent the net proceeds of donations, which have been restricted by the donors to be used only in specific schools, geographical areas, or future years.
>
> Permanently restricted amounts are assets that must be maintained permanently by the Organization as required by the donor, but the Organization is permitted to use or expend part or all of any income derived from those assets. The Organization does not currently maintain any permanently restricted net assets.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Organization continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. As of the statement of financial position date, and periodically throughout the year, the Organization has maintained balances in various operating accounts in excess of federally insured limits.

Restricted Cash

All donations received by the Organization and designated for Hawaii schools are required to be held at the Bank of Hawaii.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Promises to Give

Contributions are recognized when the donor makes a promise to give or a pledge receivable that is, in substance, unconditional. Conditional promises to give are recognized only when the related conditions are met and the promises become unconditional.

Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. As of June 30, 2017 and 2016, the present value discount for promises to give that are expected to be collected in future years was not recorded as the amount was considered immaterial.

The allowance method is used to determine uncollectible, unconditional promises to give. The allowance is based on management's analysis of specific promises to give. As of June 30, 2017 and 2016, there were no allowances for doubtful promises to give.

Furniture and Equipment

Furniture and equipment purchased by the Organization are recorded at cost. Donated fixed assets are also capitalized at fair value at the date of donation. Depreciation is provided on the straight-line method based upon the estimated useful lives of the assets, which is seven years.

Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by donors are reported as increases in unrestricted net assets if the restriction expires in the reporting period in which the contribution is recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets and subsequently released to unrestricted net assets when expenses have been incurred in satisfaction of those restrictions. Contributions are recognized when cash or ownership of donated assets is unconditionally promised to the Organization.

Functional Expenses

Expenses incurred directly for a program service are charged to such service. Fringe benefits and certain overhead costs are allocated to all services based on a pro rata basis of total direct salary expenses incurred.

Income Taxes

The Organization is a non-profit corporation as defined by Section 501(c)(3) of the Internal Revenue Code (the "Code") and, as such, is subject to federal income taxes on unrelated business income. The Organization had no unrelated business income during the years ended June 30, 2017 and 2016.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

The Organization applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of June 30, 2017 and 2016. If incurred, interest and penalties associated with tax positions would be recorded in the period assessed as administration and general expenses. No interest or penalties have been assessed as of June 30, 2017 and 2016.

Use of 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk

As of and for the year ended June 30, 2017, no donors composed more than both 10% of promises to give and contribution revenue. As of and for the year ended June 30, 2016, two donors composed approximately 76% of promises to give and approximately 23% of contribution revenue. Credit risk associated with promises to give is limited because a substantial portion of the amount outstanding is due from financially strong individuals with consistent payment patterns.

In-Kind Contributions

The Organization recognizes contribution revenue for certain services received at the fair value of those services when they create or enhance non-financial assets or require specialized skills, which are provided by individuals possessing those skills and would typically need to be purchased if not donated. Contributed materials and furniture and equipment are recorded at fair value at the date of donation.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendment applies to all not-for-profit entities. The amendment reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations; and requires disclosure of expenses by both their natural and functional classification on the face of the statements of activities as a separate statement or in the notes to the financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds. The amendment is effective for all fiscal years beginning after December 15, 2017 with early adoption allowed. Entities should apply the amendment in this update retrospectively to all periods presented. Management of the Organization is evaluating the impact that this ASU will have on the financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The guidance is intended to reduce the diversity in practice as to how certain cash receipts and cash payments are presented and classified on the statement of cash flows by providing guidance for several specific cash flow issues. In addition, in November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendment requires that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new rules will be effective for the Organization in 2019. The Organization does not expect the adoption of the new accounting rules to have a material impact on the Organization's cash flows.

Subsequent Events

The Organization has evaluated all subsequent events through the auditors' report date, which is the date the financial statements were available to be issued. There were no material subsequent events that required recognition or disclosure in the financial statements.

Note 2 - Furniture and Equipment

The Organization's furniture and equipment comprise the following:

	June 30, 2017	June 30, 2016
Furniture and equipment	$ 33,557	$ 33,857
Less accumulated depreciation	(8,814)	(4,657)
	$ 24,743	$ 29,200

Depreciation expense for the years ended June 30, 2017 and 2016 was $4,311 and $3,214, respectively.

Note 3 - In-Kind Contributions

Contributed materials and services are recorded on the statements of activities as in-kind contributions and program expenses. The details of recorded contributed materials, furniture and equipment, and services are summarized as follows:

	For the Years Ended June 30, 2017	For the Years Ended June 30, 2016
Discounts on books	$ 454,386	$ 336,776
Other materials and services	34,943	25,240
	$ 489,329	$ 362,016

Note 4 - Retirement Plan

The Organization has a SIMPLE IRA plan under IRS Code Section 408(p). Under the plan, employees are eligible to participate in the retirement plan upon hire, at which time the Organization may make a discretionary match of the employee's contribution up to 3% of the employee's gross salary. During the years ended June 30, 2017 and 2016, the Organization contributed $23,816 and $16,919, respectively, to the retirement plan.

Note 5 - Related Party Transactions

A foundation with related founders contributes to the Organization. Pledges and related contributions from the foundation as of June 30, 2017 and 2016 were $108,500 and $398,500, which accounted for approximately 2% and 11% of the Organization's contributions, respectively.

Note 6 - Commitments and Contingencies

The Organization leased office space under a non-cancelable operating lease that expired in June 2016. During June 2016, the Organization entered into a non-cancelable operating lease agreement for office space that expires in September 2021. Rent expense for the years ended June 30, 2017 and 2016 was $75,114 and $36,000, respectively.

Future minimum lease payments (excluding renewal option) under this lease are as follows:

For the Year Ending June 30,		
2018	$	76,629
2019		78,422
2020		80,214
2021		82,007
2022		20,614
	$	337,886