

BookSpring
Financial Statements and
Independent Auditors' Report
June 30, 2014 and 2013

BookSpring

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Dunagan★Jack LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
BookSpring

We have audited the accompanying financial statements of BookSpring (a Texas nonprofit corporation), which comprise the statements of financial position as of June 30, 2014 and 2013, 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 BookSpring as of June 30, 2014 and 2013, 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.

A handwritten signature in black ink that reads "DUNAGAN JACK LLP". The signature is stylized and written in a cursive-like font.

Austin, Texas
February 25, 2015

FINANCIAL STATEMENTS

BookSpring

STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 243,821	\$ 159,325
Accounts receivable	7,480	3,320
Inventories	57,184	109,723
Prepaid expenses and other assets	1,354	1,231
Contributions receivable (Note C)	71,532	131,795
Property and equipment (Note D)	<u>72,193</u>	<u>42,146</u>
Total assets	<u>\$ 453,564</u>	<u>\$ 447,540</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 31,926	\$ 8,027
Capital lease obligation (Note E)	<u>26,508</u>	<u>-</u>
Total liabilities	<u>58,434</u>	<u>8,027</u>
Net assets		
Unrestricted	269,234	278,874
Temporarily restricted (Note F)	125,896	160,639
Permanently restricted	<u>-</u>	<u>-</u>
Total net assets	<u>395,130</u>	<u>439,513</u>
Total liabilities and net assets	<u>\$ 453,564</u>	<u>\$ 447,540</u>

The accompanying notes are an integral part of these financial statements.

BookSpring

STATEMENTS OF ACTIVITIES

For the years ended June 30,

	<u>2014</u>	<u>2013</u>
Changes in unrestricted net assets		
Revenues		
Contributions	\$ 536,204	\$ 662,784
Program fees	56,320	49,721
Government grants and contracts	22,224	38,690
Reading is Fundamental, Inc. subcontracts (Note H)	-	55,650
Other revenues	<u>23,318</u>	<u>12,700</u>
Total unrestricted revenues	638,066	819,545
Net assets released from restrictions	<u>209,410</u>	<u>211,700</u>
Total unrestricted revenues and other support	<u>847,476</u>	<u>1,031,245</u>
Expenses		
Program services	633,030	779,998
General and administrative	148,244	128,130
Fundraising	<u>75,842</u>	<u>80,580</u>
Total expenses	<u>857,116</u>	<u>988,708</u>
(Decrease) increase in unrestricted net assets	<u>(9,640)</u>	<u>42,537</u>
Changes in temporarily restricted net assets		
Contributions	174,667	231,382
Net assets released from restrictions	<u>(209,410)</u>	<u>(211,700)</u>
(Decrease) increase in temporarily restricted net assets	<u>(34,743)</u>	<u>19,682</u>
Changes in permanently restricted net assets	<u>-</u>	<u>-</u>
Change in net assets	(44,383)	62,219
Net assets at beginning of year	<u>439,513</u>	<u>377,294</u>
Net assets at end of year	<u>\$ 395,130</u>	<u>\$ 439,513</u>

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF CASH FLOWS

For the years ended June 30,

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ (44,383)	\$ 62,219
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	10,435	8,025
(Increase) decrease in accounts receivable	(4,160)	7,218
Decrease (increase) in inventories	52,539	(27,628)
(Increase) decrease in prepaid expenses and other assets	(123)	79,702
Decrease (increase) in contributions receivable	60,263	(24,382)
Increase in accounts payable and accrued expenses	23,899	3,981
Decrease in deferred revenues	-	(79,825)
Net cash provided by operating activities	98,470	29,310
Cash flows from investing activities:		
Purchases of property and equipment	(40,482)	(800)
Net cash used by investing activities	(40,482)	(800)
Cash flows from financing activities:		
Financing of capital lease obligation	29,401	-
Payments on capital lease obligation	(2,893)	-
Net cash provided by financing activities	26,508	-
Net increase in cash and cash equivalents	84,496	28,510
Cash and cash equivalents at beginning of year	159,325	130,815
Cash and cash equivalents at end of year	\$ 243,821	\$ 159,325
Amount paid during the year for:		
Income taxes	\$ -	\$ -
Interest	\$ 3,205	\$ -

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

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NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Organization and Nature of Activities

BookSpring (Organization) is a Texas nonprofit corporation that provides reading experiences, tools, and books to children and their families so they can develop a desire to read and succeed in school and life. The Organization's programs include the following:

- Reading is Fundamental (RIF) programs motivate children and families to read together through book ownership, motivational activities, and family involvement in children's reading. RIF is implemented in childcare centers, preschools, elementary schools, high schools (with expectant and parenting teens), and through home-based parenting programs of other nonprofits.
- Reach Out and Read (ROR) programs promote early literacy and school readiness in pediatric exam rooms by giving new books to children and advice to parents about the importance of reading aloud.
- Parent Book Clubs are six week literacy training programs that improve literacy skills of both parents and children. Through role modeling, the programs encourage parents to read in family settings with their children to enhance their ability to succeed in school.
- ReBook programs place donated children's books into the hands of children in the community. Donated books are carefully sorted and distributed to children in low income medical clinics, community outreach events, children's shelters, faith based organizations, and libraries in economically disadvantaged areas.
- The BookSpring Read-A-Thon encourages community service and sharing the joy of book ownership with children in the community. During the two week event, children and book lovers read and collect donations based on the amount of pages read. Proceeds support early literacy programs in the Greater Austin area.

2. 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Presentation

Financial statement presentation follows the guidance of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-208, *Not-for-Profit Entities: Presentation of Financial Statements*. Under these standards, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

4. Cash Equivalents

The Organization considers all checking accounts, savings accounts, money market funds and certificates of deposit purchased with initial maturities of three months or less to be cash equivalents.

5. Inventories

The Organization maintains inventories of new and used books to support its programs. Inventories are stated at the lower of cost or market determined by the first-in, first-out method of expensing.

6. Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the assets once placed into service. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed into service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

7. Contributions

The Organization records contributions using the guidance of FASB ASC 958-605, *Not-for-Profit Entities: Revenue Recognition*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. As donor or time restrictions are satisfied, net assets are reclassified to unrestricted net assets. The Organization's policy is to report restricted support that is satisfied in the year of receipt as restricted and then released in the same year.

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Government Grants and Contracts

The Organization considers all its government grants and contracts to be exchange transactions and not contributions. Revenue is recognized from these transactions as services are rendered and expenses incurred. Grant advances received are reported as deferred revenue.

9. Functional Expenses

Expenses are categorized by function in the statements of activities as either (1) program services, (2) general and administrative, or (3) fundraising expenses. Expenses that are specifically identifiable to a function are allocated entirely to that function. Expenses that are not specifically identifiable to a function are allocated based upon management's estimate of time and resources devoted to each function.

10. Estimates

The preparation of the 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 and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - TAX EXEMPT STATUS

The Organization is generally exempt from federal income tax under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3). Furthermore, the Internal Revenue Service determined the Organization is not a private foundation within the meaning of Section 509(a) of the Code because it is an organization described in Sections 509(a)(1) and 170(b)(1)(A)(vi). Therefore, no provision for income taxes has been included in these financial statements.

The tax years 2010 through 2013 remain open to examination by the major taxing jurisdictions in which income tax returns are filed.

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE C - CONTRIBUTIONS RECEIVABLE

Contributions receivable comprised the following at June 30,

	<u>2014</u>	<u>2013</u>
AISD donated land and services	\$ 70,632	\$ 94,176
Other contributions receivable	<u>900</u>	<u>37,619</u>
	<u>\$ 71,532</u>	<u>\$ 131,795</u>

The contributions receivable balances at June 30, 2014 and 2013 were considered fully collectible. Therefore, there are no allowances for uncollectible receivables recorded in these financial statements. Due to the immaterial amounts of discounts calculated as of June 30, 2014 and 2013, no discounts to present value are reflected in these financial statements. As of June 30, 2014, collections of contributions receivable, exclusive of AISD donated land and services, were expected within one year.

On October 10, 2002, the Organization signed a ten-year agreement with Austin Independent School District (AISD) to maintain two portable buildings it purchased from AISD on AISD property. As part of this agreement, AISD provided electricity, water, gas, sewer, custodial and rubbish disposal services for the buildings and maintained the buildings in a structurally safe and serviceable condition, maintained and repaired the electrical, heating and air conditioning, building shell and roofs, and performed routine grounds and landscape maintenance. AISD provided the land and services free of charge to the Organization over that ten-year period, which commenced October 10, 2002. The \$180,000 value that management assigned to the use of the land and services provided by AISD was reported as a contribution receivable and as a temporarily restricted contribution. The contribution receivable was amortized on a straight line basis over the ten year term of the lease.

In December 2012, the Organization executed an agreement with AISD that extends the arrangement as discussed above through June 30, 2017. The \$111,834 value that management assigned to the use of the land and services to be provided by AISD from October 10, 2012 through June 30, 2017 has been reported as a contribution receivable and as a temporarily restricted contribution. The contribution receivable is being amortized on a straight line basis over the term of the agreement. Facilities expense totaled \$23,544 and \$22,158 for the years ended June 30, 2014 and 2013, respectively.

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment comprised the following at June 30,

	<u>2014</u>	<u>2013</u>
Portable buildings and improvements	\$ 76,245	\$ 76,245
Furniture and equipment	60,906	41,760
Vehicle	21,889	21,889
Website and software	<u>17,048</u>	<u>7,368</u>
	176,088	147,262
Less accumulated depreciation	<u>(103,895)</u>	<u>(105,116)</u>
	<u>\$ 72,193</u>	<u>\$ 42,146</u>

Depreciation expense totaled \$10,435 and \$8,025 for the years ended June 30, 2014 and 2013, respectively.

NOTE E - CAPITAL LEASE OBLIGATION

In October 2013, the Organization entered into a capital lease agreement for computer equipment. The lease expires in November 2018. For financial reporting purposes, minimum lease payments relating to the equipment have been capitalized. The equipment under this lease as of June 30, 2014 had a cost of \$29,401, accumulated amortization of \$4,067, and a net book value of \$25,334. Amortization of the leased property is included in depreciation expense. As of June 30, 2014, future minimum payments under this capital lease were as follows:

<u>Years ending June 30,</u>	<u>Payments</u>
2015	\$ 8,076
2016	8,076
2017	8,076
2018	8,076
2019	<u>2,692</u>
Minimum payments	34,996
Amount of interest	<u>(8,488)</u>
Capital lease obligation	<u>\$ 26,508</u>

The Organization recognized interest expense of \$3,163 related to the capital lease during the year ended June 30, 2014.

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes or periods at June 30,

	<u>2014</u>	<u>2013</u>
AISD donated land and services (Note C)	\$ 70,632	\$ 94,176
Literacy Programs	26,844	25,844
Reading is Fundamental Program	14,200	34,270
Reach Out and Read Program	10,000	-
Other purposes	4,220	1,349
For use in subsequent periods	<u>-</u>	<u>5,000</u>
	<u>\$ 125,896</u>	<u>\$ 160,639</u>

During the years ended June 30, 2014 and 2013, temporarily restricted net assets in the amounts of \$209,410 and \$211,700, respectively were released to unrestricted net assets due to the satisfaction of purpose and time restrictions.

NOTE G - CONTRIBUTED SERVICES

During the year ended June 30, 2013, the Organization recognized \$184,734 for advertising related to the Read-A-Thon and \$16,800 for professional services. During the year ended June 30, 2014, the Organization recognized \$38,875 for advertising related to the Read-A-Thon. The Organization also receives substantial support from other volunteers; however, these services do not meet the requirements for revenue recognition in the financial statements as set forth in FASB ASC 958-605.

NOTE H - READING IS FUNDAMENTAL, INC.

The Organization is a local affiliate of Reading Is Fundamental, Inc. (RIF). During the year ended June 30, 2013, RIF subcontracted with the Organization on two Department of Education contracts. The Organization recognized revenues of \$55,650 during the year ended June 30, 2013 related to these subcontracts. Federal funding for RIF was eliminated; therefore, the Organization did not receive similar funding during the year ended June 30, 2014.

NOTE I - SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 25, 2015, the date the financial statements were available to be issued.