BookSpring
(A Nonprofit Corporation)

Report of Independent Auditor and Financial Statements with Supplemental Schedule

June 30,2017 and 2016

PMB Helin Donovan

BOOKSPRING
(A NONPROFIT CORPORATION)
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Report of Independent Auditor

To the Board of Directors of:
BookSpring

Report on the Financial Statements

We have audited the accompanying financial statements of BookSpring (the "Organization"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities 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 BookSpring as of June 30, 2017, 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.

PMB Helin Donovan

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses for the year ended June 30, 2017 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The financial statements of BookSpring for the year ended June 30, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on January 19, 2017.

PMB Helin Donovan, LLP

PMB Helin Donovan, LLP

Austin, Texas
November 30, 2017

BOOKSPRING
(A NONPROFIT CORPORATION)
Statements of Financial Position
As of June 30, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 401,149	$ 457,696
Grants and other receivables, net	29,188	7,185
Inventory, net	52,545	42,664
Prepaid expenses and other current assets	3,776	24,949
Total current assesets	486,658	532,494
Property and equipment, net	76,356	47,101
Total assets	$ 563,014	$ 579,595
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 23,905	$ 13,458
Deferred revenue	2,000	5,163
Capital lease obligation - current	7,200	6,310
Total current liabilities	33,105	24,931
Capital lease obligation - long term	2,620	9,820
Total liabilities	35,725	34,751
Net assets		
Unrestricted net assets	492,666	479,400
Temporarily restricted net assets	34,623	65,444
Total net assets	527,289	544,844
Total liabilities and net assets	$ 563,014	$ 579,595

See accompanying notes and report of independent auditor.

BOOKSPRING

(A NONPROFIT CORPORATION)

Statement of Activities

For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues and other support			
Program fees	$ 77,758	$ -	$ 77,758
Grants and contracts	32,395	165,775	198,170
Contributions	456,066	31,580	487,646
In-kind revenue	226,274	14,040	240,314
Other revenue	4,526	25,251	29,777
Net assets released from donor - imposed restrictions	267,467	(267,467)	-
Total revenues and other support	1,064,486	(30,821)	1,033,665
Expenses			
Program costs	831,019	-	831,019
Fundraising costs	116,409	-	116,409
General and administrative	103,792	-	103,792
Total expenses	1,051,220	-	1,051,220
Change in net assets	13,266	(30,821)	(17,555)
Net Assets			
Beginning of the year	479,400	65,444	544,844
End of the year	$ 492,666	$ 34,623	$ 527,289

See accompanying notes and report of independent auditor.

BOOKSPRING

(A NONPROFIT CORPORATION)

Statement of Activities

For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues and other support			
Program fees	$ 67,319	$ -	$ 67,319
Grants and contracts	19,025	191,841	210,866
Contributions	412,141	17,000	429,141
In-kind revenue	223,527	14,004	237,531
Other revenue	21,010	15,030	36,040
Net assets released from donor - imposed restrictions	247,161	(247,161)	-
Total revenues and other support	990,183	(9,286)	980,897
Expenses			
Program costs	753,694	-	753,694
Fundraising costs	103,127	-	103,127
General and administrative	89,379	-	89,379
Total expenses	946,200	-	946,200
Change in net assets	43,983	(9,286)	34,697
Net Assets			
Beginning of the year	435,417	74,730	510,147
End of the year	$ 479,400	$ 65,444	$ 544,844

See accompanying notes and report of independent auditor.

BOOKSPRING
(A NONPROFIT CORPORATION)
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activites:		
Changes in net assets	$ (17,555)	$ 34,697
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Loss on disposal of property and equipment	338	-
Depreciation and amortization	12,284	14,049
(Increase) decrease in operating assets		
Grants and other receivables, net	(22,003)	17,084
Inventory, net	(9,881)	(7,526)
Prepaid expenses and other current assets	21,173	23,093
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	10,447	1,105
Deferred revenue	(3,163)	5,163
Net cash (used in) provided by operating activities	(8,360)	87,665
Cash flows from investing activities:		
Purchases of property and equipment	(41,877)	(1,040)
Net cash used in investing activities	(41,877)	(1,040)
Cash flows from financing activities		
Payments on capital lease obligation	(6,310)	(5,531)
Net cash used in financing activities	(6,310)	(5,531)
Net (decrease) increase in cash	(56,547)	81,094
Cash and cash equivalents		
Beginning of the year	457,696	376,602
End of the year	$ 401,149	$ 457,696
Supplemental information		
Interest paid	$ 1,766	$ 2,546
Income taxes paid	$ -	$ -

See accompanying notes and report of independent auditor.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization and Nature of Activities

BookSpring (the "Organization") is a Texas nonprofit corporation that provides access to quality, developmentally appropriate print and digital book ownership as a means of developing the lifelong motivation to read and learn. We envision a world where families read and succeed together. To that end, the Organization supports and inspires parents and caregivers to real aloud and engagement with children though language every day. The Organization builds early literacy through healthcare (BookSpringRx), education (BookSpringEd), and community (BookSpringGo) programs that include the following:

- Books For Me (modeled on Reading is Fundamental) programs motivate children and families to read together through book ownership, motivational activities, and family involvement in children's reading. Books For Me is implemented in childcare centers, preschools, elementary schools, high schools (with expectant and parenting teens), and through home-based parenting programs of other nonprofits.

- ReadWell (modeled on Reach Out and Read) 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 and Training of Trainers are six week literacy training programs for parents and toddlers 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. We are now offering trainings and materials for sites to replicate this program.

- 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.

- Summer Success programs, modeled on a national pilot program developed by Reading is Fundamental, offer a classroom-based curriculum for 1st and 2nd grade teachers to provide reading support such as vocabulary and oral comprehension, together with a distribution to the students of eight STEAM-themed books before the summer break.

- 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 Presentation and Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

3. Net Asset Classifications

In accordance with GAAP, the Organization classifies its net assets into three categories as follows:

Permanently Restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on the investment of these funds for general or specified purposes. These are often referred to as endowments.

Temporarily Restricted - Net assets the use of which is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time.

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be used for any purpose or designated for specific purposes by action of the Board of Directors.

4. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure 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 estimated. Significant estimates include the allowance for doubtful receivables, functional expense allocations, and useful lives of fixed assets for determining depreciation.

5. Cash and cash equivalents

For the purposes of the statements of cash flows, the Organization considers all temporary investments with original purchased maturities of three months or less to be cash equivalents.

6. Grants and other receivables

Grants and other receivables consist of programs fees, grants, and other receivables. Grants and other receivables are considered past due based upon contractual terms of the underlying agreement. The Organization analyzes grants and other receivables individually for purposes of determining collectability at year end. At June 30, 2017 and 2016, no allowance for doubtful accounts is required.

7. Inventory

The Organization maintains inventories of new and used books to support its programs. Inventory is stated at the lower of cost or market determined by the first-in, first-out method of expensing. Due to the nature of the materials and length of time they are held, the Organization did not provide for an allowance for obsolescence or decline in market value for new and used books as of June 30, 2017 and 2016.

8. Property and equipment

Property and equipment purchased for or exceeding $1,000 is recorded at cost. The Organization does not recognize depreciation on construction in progress until assets are placed in service. Depreciation for other property and equipment is provided using the straight-line method over the useful lives of the assets as follows: buildings and improvements forty years, equipment five years and technology equipment three years. During the year ended June 30, 2017, the Organization disposed of property and equipment totaling $700 that had accumulated depreciation of $362 at the time of disposal for a net loss of $338. There were no disposals of property and equipment during the year ended June 30, 2016.

9. Long-Lived Assets

Long-lived assets held and used by the Organization are reviewed for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. When such factors and circumstances exist, the Organization compares the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets and is recorded in the period in which the determination was made. No indicators of impairment existed at June 30, 2017 or 2016.

10. Contributions

Contributions received (including unconditional pledges) are recorded as unrestricted, temporarily restricted, or permanently restricted support in the period received depending on the existence or nature of any donor restrictions. Conditional promises to give to the Organization are recognized as the conditions upon which they depend are substantially met. Promises to give are recognized as revenue only if sufficient evidence exists in the form of verifiable documentation that a promise was made and received. Support that is not restricted by the donor is reported as an increase in unrestricted net assets in the reporting period in which the support is recognized.

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.

The Organization reports contributions as restricted support if the support is received with donor restrictions that limit the use of the donated assets. When and if a donor restriction expires this is when a stipulated time restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. 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.

Pledges with maturity dates due within 12 months are recorded at net realizable value, whole pledges with maturity dates in subsequent years are recorded at the present value of their net realizable value using a risk-free interest rate. The Organization evaluates the collectability of its pledges and adequacy of its allowance for doubtful receivables on a periodic basis. The evaluation includes historical loss experience, length of time the pledges are past due and adverse situations that may affect the donor's ability to honor its pledge. The Organization records and adjusts its allowance as necessary. There was no allowance for doubtful receivables as of June 30, 2017 and 2016.

11. 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.

12. Functional Expense Classification

The expense information contained in the statements of activities is presented on a functional basis. Accordingly, certain expenses are allocated between functional categories based on management's estimates.

13. In-Kind Support

In-Kind support consists of donated books (new and gently used), promotional services, professional services, program and motivation supplies, leased property, and janitorial and utility services.

Donated services are recognized if the services received (a) create or enhance nonfinancial assets and (b) require specialized skills that are provided by an individual possessing those skills and would typically need to be purchased if not provided by donation. For those services meeting the criteria for recognition as contributed services, they are recognized pursuant to accounting principles generally accepted in the United States of America. During the years ended June 30, 2017 and 2016, the Organization received $93,630 and $120,600 in contributed services, respectively.

The Organization reports contributions of land, buildings, and equipment as unrestricted, unless explicit donor restrictions specify how the donated assets must be used. Gifts of assets with explicit restrictions that specify how the assets are to be used are accounted for as restricted support. The Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

14. Income tax

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. The Corporation has also been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). There was no unrelated business income for the years ended June 30, 2017 and 2016.

FASB ASC Section 740 requires extensive disclosures about uncertain tax positions. The requirements of this standard are applicable to nonprofit organizations. The Organization evaluates any uncertain tax positions using the provisions of FASB ASC 450, Contingencies. Accordingly, a loss contingency is recognized when it is probably that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management’s judgment with respect to the likely outcome of each uncertain tax position.

The Organization does not believe that it has engaged in any situation that would result in an uncertain tax position. As a result, management does not believe that any uncertain tax positions currently exist and therefore, no loss contingency has been recognized in the accompanying financial statements. Federal and state income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination. Currently, the Organization has no open examinations with the Internal Revenue Service or state taxing authorities. The Organization’s policy is to record any income tax related penalties and interest incurred as general and administrative expense. There are no income tax related penalties and interest included in the accompanying financial statements.

The Organization is generally no longer subject to tax examinations relating to U.S. federal tax returns for years prior to 2014.

15. Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). This ASU requires a lessee to recognize on its balance sheet a right-of-use asset and a lease liability under most operating leases. This ASU is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The Organization is currently evaluating the effects that the adoption of this ASU 2016-02 will have on its financial position, results of operations and cash flows.

ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, decreases the number of net asset classes from three to two. The new classes will be net assets with donor restrictions and net assets without donor restrictions. The standard also:

- Requires reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature.
- Requires a not-for-profit to provide in the notes qualitative information on how it manages its liquid available resources and liquidity risks. Quantitative information that communicates the availability of a not-for-profit's financial assets at the balance sheet date to meet cash needs for general expenditures within one year is required to be presented on the face of the financial statement and/or in the notes.
- Continues to allow preparers to choose between the direct method and indirect method for presenting operating cash flows, eliminating the requirement for those who use the direct method to perform reconciliation with the indirect method.
- Requires reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhances disclosures about underwater endowments.

The standard will take effect for annual financial statements issued for fiscal years beginning after Dec. 15, 2017. Application to interim financial statements is permitted but not required in the initial year of application, and early application of the standard is permitted. The Organization has elected not to early adopt this ASU as of June 30, 2017.

16. Management's Review

The Organization evaluates events that occur subsequent to the statement of financial position date of periodic reports, but before financial statements are issued for periods ending on such dates, for possible adjustment to such financial statements or other disclosure. This evaluation generally occurs through the date at which the Organization's financial statements are issued. For the financial statements as of and for the year ending June 30, 2017, this date was November 30, 2017.

NOTE B - CONTRIBUTED SERVICES

During the year ended June 30, 2016, the Organization recognized $83,000 for donated media coverage related to the Read-A-Thon, and $37,600 for donated professional services. During the year ended June 30, 2017, the Organization recognized $83,000 for donated media coverage related to the Read-A-Thon, and $10,630 for donated professional services. The remaining amounts of in-kind revenue reported on the statements of activities for the years ended June 30, 2017 and 2016 represent donated books and other materials. 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.

In December 2012, the Organization executed an agreement with Austin Independent School District (AISD) to maintain two portable buildings it purchased from AISD on AISD property 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 was reported with other assets and as a temporarily restricted contribution. The asset was amortized on a straight-line basis over the term of the agreement. Facilities expense of $23,544 has been reported in these financial statements for each of the years ended June 30, 2017 and 2016.

The Organization executed a new lease agreement with AISD effective July 1, 2017 for a five-year term, with the possibility of 2 two-year extensions thereafter.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment comprised the following at June 30,

	2017	2016
Portable buildings and improvements	$ 76,245	$ 76,245
Furniture and equipment	67,125	61,946
Vehicle	55,010	21,889
Website and software	17,688	14,816
	216,068	174,896
Less accumulated depreciation and amortization	(139,712)	(127,795)
	$ 76,356	$ 47,101

Depreciation and amortization expense related to property and equipment totaled $12,284 and $14,049 for the years ended June 30, 2017 and 2016, respectively.

Amortization expense related to the AISD donated portable buildings and services was $23,544 for the years ending June 30, 2017 and 2016 and is included in facilities and rental expense in the schedule of functional expenses for the years ended June 30, 2017 and 2016.

NOTE D - 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, 2017 and 2016, had a cost of $29,401 and $29,401, accumulated amortization of $21,708 and $15,827, and a net book value of $7,693 and $13,574, respectively. Amortization of the leased property is included in depreciation and amortization expense in the accompanying statements of activities. As of June 30, 2017, future minimum payments under this capital lease were as follows:

Years ending June 30,	Payments
2018	8,076
2019	2,693
Minimum payments	10,769
Amount of interest	(949)
	9,820
Less current portion	(7,200)
Long-term portion	$ 2,620

The Organization recognized interest expense of $1,766 and $2,546 related to the capital lease during the years ended June 30, 2017 and 2016, respectively.

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes or periods at June 30, 2017 and 2016:

	2017	2016
ReadWell program	$ 10,966	$ 26,000
AISD donated land and services	-	23,544
Books For Me program	10,543	8,400
Summer Success program	7,500	7,500
Other purposes	5,614	-
Total temporarily restricted net assets	$ 34,623	$ 65,444

Net assets released from temporary restrictions due to the satisfactions of requirements consisted of the following at June 30, 2017 and 2016:

		2017		**2016**
ReadWell program	$	79,934	$	85,182
AISD donated land and services		23,544		23,544
Books For Me program		106,353		123,589
Summer Success program		15,200		-
Volunteer and Community Partners program		2,466		-
Other purposes		39,970		14,846
Total temporarily restricted net assets	$	267,467	$	247,161

NOTE F - SUBSEQUENT EVENTS

The Organization executed a new lease agreement with AISD, effective July 1, 2017, for a five-year term with the possibility of 2 two-year extensions thereafter. The agreement is to maintain the original two portable buildings originally purchased from AISD and additionally for the use and maintenance of one additional portable building already on the AISD site. The Organization has estimated the net present value of these future services for the initial five-year term to be $503,793, which will be recorded as an other asset and a temporarily restricted contribution and will be amortized on a straight-line basis over the initial term of the agreement.

BOOKSPRING
(A NONPROFIT CORPORATION)
Schedule of Functional Expenses
For the Year Ended June 30, 2017
(With Comparative Totals From 2016)

	Program Costs	Fundraising Costs	General and Administrative	Total 2017	Total 2016
Expenses					
Salaries and wages	$ 233,367	$ 50,581	$ 56,140	$ 340,088	$ 329,227
Employee benefits	56,467	13,155	15,372	84,994	74,009
Employee development	1,776	1,317	-	3,093	2,870
Total personnel costs	291,610	65,053	71,512	428,175	406,106
Direct program costs	192,054	-	-	192,054	151,084
Contractual costs	79,469	33,151	23,065	135,685	85,064
Travel and meals	11,529	1,299	551	13,379	10,239
Facilities and rental expense	33,381	2,251	1,550	37,182	37,077
Depreciation and amortization expense	9,300	1,492	1,492	12,284	14,049
Administration costs	5,630	2,248	4,822	12,700	14,251
Fundraising and development costs	-	4,032	-	4,032	13,689
In-kind expense	208,046	6,883	800	215,729	214,641
Total expenses	$ 831,019	$ 116,409	$ 103,792	$ 1,051,220	$ 946,200

See accompanying notes and report of independent auditor.