BookSpring
(A Nonprofit Corporation)

Report of Independent Auditor and Financial Statements

June 30, 2018 and 2017

pmb

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 statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses 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.

Auditor's 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 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 the Organization as of June 30, 2018 and 2017, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PMB HELIN DONOVAN, LLP

PMB Helin Donovan, LLP

February 4, 2019
Austin, Texas

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BOOKSPRING

(A Nonprofit Corporation)

Statements of Financial Position

As of June 30, 2018 and 2017

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$ 503,218	$ 401,149
Grants and other receivables	24,619	29,188
Inventory	60,490	52,545
Prepaid expenses and other current assets	6,313	3,776
Total current assests	594,640	486,658
AISD - Right to use property	411,631	-
Property and eqiupment, net	79,032	76,356
Total assets	$ 1,085,303	$ 563,014
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 23,793	$ 23,905
Deferred program fees	260	2,000
Capital lease obligation - current	4,762	7,200
Total current liabilities	28,815	33,105
Capital lease obligation - long term	-	2,620
Total liabilities	28,815	35,725
Net assets		
Unrestricted net assets	597,857	492,666
Temporarily restricted net assets	458,631	34,623
Permanently restricted net assets	-	-
Total net assets	1,056,488	527,289
Total liabilities and net assets	$ 1,085,303	$ 563,014

See accompanying notes and report of independent auditor.

BOOKSPRING

(A Nonprofit Corporation)

Statement of Activities

For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support				
Program fees	$ 98,931	$ -	$ -	$ 98,931
Grants and contracts	322,523	-	-	322,523
Contributions	448,207	47,000	-	495,207
Donated assets	91,233	503,793	-	595,026
In-kind revenue	110,279	-	-	110,279
Other income	99,664	-	-	99,664
Net assets released from donor imposed restrictions	126,785	(126,785)	-	-
Total revenues and other support	1,297,622	424,008	-	1,721,630
Expenses				
Early literacy programs	872,716	-	-	872,716
Fundraising	164,732	-	-	164,732
General and administrative	154,983	-	-	154,983
Total expenses	1,192,431	-	-	1,192,431
Change in net assets	105,191	424,008	-	529,199
Net Assets				
Beginning of the year	492,666	34,623	-	527,289
End of the year	$ 597,857	$ 458,631	$ -	$ 1,056,488

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	Permanently 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
Donated assets	123,861	-	-	123,861
In-kind revenue	102,413	14,040	-	116,453
Other income	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				
Early literacy programs	832,031	-	-	832,031
Fundraising	112,590	-	-	112,590
General and administrative	106,599	-	-	106,599
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)
Statements of Functional Expenses
For the Years Ended June 30, 2018 and 2017

	Literacy Programs	Fundraising	General and Administrative	Total 2018
Expenses				
Personnel costs	277,567	114,722	112,479	504,768
Direct program costs	301,785	-	-	301,785
Contractual costs	88,420	25,701	25,671	139,792
Travel and meals	9,586	314	1,676	11,576
Facilities and rental expense	101,501	9,417	10,757	121,675
Administration costs	13,126	3,854	4,400	21,380
Fundraising and development costs	80,731	10,724	-	91,455
Total expenses	$ 872,716	$ 164,732	$ 154,983	$ 1,192,431

	Literacy Programs	Fundraising	General and Administrative	Total 2017
Expenses				
Personnel costs	291,610	65,053	71,512	428,175
Direct program costs	313,402	-	-	313,402
Contractual costs	79,469	33,151	23,065	135,685
Travel and meals	11,529	1,299	551	13,379
Facilities and rental expense	42,681	3,743	3,042	49,466
Administration costs	9,842	3,930	8,429	22,201
Fundraising and development costs	83,498	5,414	-	88,912
Total expenses	$ 832,031	$ 112,590	$ 106,599	$ 1,051,220

See accompanying notes and report of independent auditor.

BOOKSPRING
(A Nonprofit Corporation)
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activites:		
Changes in net assets	$ 529,199	$ (17,555)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
(Gain) loss on disposal of property and equipment	(11,576)	338
Donated right to use property - AISD	(503,793)	-
Depreciation and amortization	111,445	35,838
(Increase) decrease in operating assets		
Grants and other receivables, net	4,569	(22,003)
Inventory, net	(7,945)	(9,881)
Prepaid expenses and other current assets	(2,537)	(2,381)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(112)	10,447
Deferred program fees	(1,740)	(3,163)
Net cash provided by (used in) operating activities	117,510	(8,360)
Cash flows from investing activities:		
Purchases of property and equipment	(10,383)	(41,877)
Net cash used in investing activities	(10,383)	(41,877)
Cash flows from financing activities		
Payments on capital lease obligation	(5,058)	(6,310)
Net cash used in financing activities	(5,058)	(6,310)
Net change in cash	102,069	(56,547)
Cash and cash equivalents		
Beginning of year	401,149	457,696
End of the year	$ 503,218	$ 401,149
Supplemental information		
Interest paid	$ 478	$ 1,766
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 number 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. There were no restricted funds as of June 30, 2018 or 2017.

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, 2018 and 2017, 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, 2018 and 2017.

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 years ended June 30, 2018 and 2017, the Organization disposed of certain property and equipment resulting in a net gain (loss) of $11,576 and ($338), respectively.

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, 2018 or 2017.

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.

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, 2018 and 2017.

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 and Donated Assets

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.

In-kind support and donated assets consist 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.

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. Fundraising and Development Costs

The Organization expenses fundraising and other development costs as they are incurred. Total fundraising and development costs incurred during the years ended June 30, 2018 and 2017 were $91,455 and $88,912, respectively.

15. 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, 2018 and 2017.

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 2015.

16. Recently Issued 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, which 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 the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhances disclosures about underwater endowments.
- 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 a reconciliation with the indirect method.
- Requires a not-for-profit to disclose 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.
- Requires reporting of expenses by function and nature as well as an analysis of expenses by both function and nature.
- Requires investment income to be reported net of external and direct internal expenses.
- Requires in-service approach to release of restrictions on gifts of capital assets.

The standard will take effect for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The Organization elected not to early adopt this ASU.

In February 2016, the FASB issued 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. For private companies, the 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 ASU 2016-02 will have on its financial position, results of operations, or cash flows.

In May 2014, the FASB issued ASU 2014-09, *Revenue Recognition* (Topic 606). This ASU provides a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that an Organization will apply to determine the measurement of revenue and the timing of revenue recognition. The new standard, as initially released, would be effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and early adoption would not be permitted. In July 2015, the FASB deferred the effective date of the new revenue standard by one year resulting in the new revenue standard being effective for fiscal years and interim periods beginning after December 15, 2018 and allowing entities to adopt one year earlier if they so elect. The new standard allows for two alternative implementation methods: the use of either (1) full retrospective application to each prior reporting period presented or (2) modified retrospective application in which the cumulative effect of initially applying the revenue standard is recognized as an adjustment to the opening balance of retained earnings in the period of adoption. The Organization plans to adopt the new standard for the fiscal year ending July 31, 2020 but has not yet determined the method by which the standard will be adopted. The Organization is currently evaluating the impact of the standard on its financial statements.

17. 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, 2018, this date was February 4, 2019.

NOTE B - CONTRIBUTED SERVICES AND DONATED ASSETS

During the years ended June 30, 2018 and 2017, the Organization received $89,514 and $92,500 in donated media coverage and other professional services associated with the Read-A-Thon program, respectively.

Effective July 1, 2017, the Organization executed a new five-year lease agreement with AISD with the possibility of 2 two-year extensions thereafter. The agreement is to retain the original two portable buildings originally purchased from AISD and 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 was recorded as an asset and a temporarily restricted contribution during the year ended June 30, 2018 and will be amortized on a straight-line basis over the initial term of the agreement. Amortization expense related to the AISD donated portable buildings and services was $92,162 and $23,544 for the years ending June 30, 2018 and 2017 and is included in facilities and rental expense in the statements of functional expenses for the years ended June 30, 2018 and 2017.

The remaining amounts of in-kind revenue and donated assets reported on the statements of activities for the years ended June 30, 2018 and 2017 represent donated books and other materials supporting the Organization's programs.

The Organization does receive substantial support from 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 C - PROPERTY AND EQUIPMENT

Property and equipment comprised the following at June 30, 3018 and 2017.

	2018	2017
Portable buildings and improvements	$ 79,428	$ 76,245
Furniture and equipment	78,701	67,125
Vehicle	33,121	55,010
Website and software	24,888	17,688
	216,138	216,068
Less accumulated depreciation and amortization	(137,106)	(139,712)
Property and equipment, net	$ 79,032	$ 76,356

Depreciation and amortization expense related to property and equipment totaled $19,283 and $12,284 for the years ended June 30, 2018 and 2017, respectively.

NOTE D - CAPITAL LEASE OBLIGATION

In October 2013, the Organization entered into a capital lease agreement for computer equipment totaling $29,401. The lease expires in November 2018 with the remaining future minimum payments totaling $4,762. Amortization of the leased property is included in depreciation and amortization expense in the accompanying statements of activities. The Organization recognized interest expense of $478 and $1,766 related to the capital lease during the years ended June 30, 2018 and 2017, respectively.

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes or periods at June 30, 2018 and 2017:

	2018	2017
ReadWell program	$ -	$ 10,966
AISD donated land and services	411,631	-
Books-For-Me program	47,000	10,543
Summer Success program	-	7,500
Other purposes	-	5,614
Total temporarily restricted net assets	$ 458,631	$ 34,623

Net assets released from temporary restrictions due to the satisfactions of requirements consisted of the following at June 30, 2018 and 2017:

	2018	2017
ReadWell program	$ 10,966	$ 79,934
AISD donated land and services	92,162	23,544
Books For Me program	10,543	106,353
Summer Success program	7,500	15,200
Volunteer and Community Partners program	-	2,466
Other purposes	5,614	39,970
Total temporarily restricted net assets	$ 126,785	$ 267,467