

BookSpring
Financial Statements and
Independent Auditors' Report
June 30, 2016 and 2015

BookSpring

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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, 2016 and 2015, 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, 2016 and 2015, 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.

Dunagan Jack LLP

Austin, Texas
January 19, 2017

FINANCIAL STATEMENTS

BookSpring

STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 457,696	\$ 376,602
Accounts receivable	2,185	19,986
Inventories	42,664	35,138
Prepaid expenses and other assets	1,405	954
Contributions receivable	28,544	51,371
Property and equipment	<u>47,101</u>	<u>60,110</u>
Total assets	<u>\$ 579,595</u>	<u>\$ 544,161</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 13,458	\$ 12,353
Deferred program fees	5,163	-
Capital lease obligation	<u>16,130</u>	<u>21,661</u>
Total liabilities	<u>34,751</u>	<u>34,014</u>
Net assets		
Unrestricted	479,400	435,417
Temporarily restricted	65,444	74,730
Permanently restricted	<u>-</u>	<u>-</u>
Total net assets	<u>544,844</u>	<u>510,147</u>
Total liabilities and net assets	<u>\$ 579,595</u>	<u>\$ 544,161</u>

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

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STATEMENTS OF ACTIVITIES

For the years ended June 30,

	<u>2016</u>	<u>2015</u>
Changes in unrestricted net assets		
Revenues		
Contributions	\$ 647,377	\$ 619,230
Program fees	67,319	41,911
Special event, net of direct expenses	37,923	52,222
Government grants and contracts	-	15,587
Other revenues	<u>2,503</u>	<u>1,943</u>
Total unrestricted revenues	755,122	730,893
Net assets released from restrictions	<u>247,161</u>	<u>277,042</u>
Total unrestricted revenues and other support	<u>1,002,283</u>	<u>1,007,935</u>
Expenses		
Program services	753,695	644,909
General and administrative	89,379	127,315
Fundraising	<u>115,226</u>	<u>69,528</u>
Total expenses	<u>958,300</u>	<u>841,752</u>
Increase in unrestricted net assets	<u>43,983</u>	<u>166,183</u>
Changes in temporarily restricted net assets		
Contributions	237,875	225,876
Net assets released from restrictions	<u>(247,161)</u>	<u>(277,042)</u>
Decrease in temporarily restricted net assets	<u>(9,286)</u>	<u>(51,166)</u>
Changes in permanently restricted net assets	<u>-</u>	<u>-</u>
Change in net assets	34,697	115,017
Net assets at beginning of year	<u>510,147</u>	<u>395,130</u>
Net assets at end of year	<u>\$ 544,844</u>	<u>\$ 510,147</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,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 34,697	\$ 115,017
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	14,049	12,083
Decrease (increase) in accounts receivable	17,801	(12,506)
(Increase) decrease in inventories	(7,526)	22,046
(Increase) decrease in prepaid expenses and other assets	(451)	400
Decrease in contributions receivable	22,827	20,161
Increase (decrease) in accounts payable and accrued expenses	1,105	(19,573)
Increase in deferred program fees	<u>5,163</u>	<u>-</u>
Net cash provided by operating activities	<u>87,665</u>	<u>137,628</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(1,040)</u>	<u>-</u>
Net cash used by investing activities	<u>(1,040)</u>	<u>-</u>
Cash flows from financing activities:		
Payments on capital lease obligation	<u>(5,531)</u>	<u>(4,847)</u>
Net cash used by financing activities	<u>(5,531)</u>	<u>(4,847)</u>
Net increase in cash and cash equivalents	81,094	132,781
Cash and cash equivalents at beginning of year	<u>376,602</u>	<u>243,821</u>
Cash and cash equivalents at end of year	<u>\$ 457,696</u>	<u>\$ 376,602</u>
Amount paid during the year for:		
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Interest	<u>\$ 2,546</u>	<u>\$ 3,229</u>

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, 2016 and 2015

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Organization and Nature of Activities

BookSpring (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. The Organization supports and inspires parents and caregivers to read aloud and engage with children through language every day. The Organization builds early literacy through healthcare (BookSpringRx), education (BookSpringEd), and community (BookSpringGo) programs that include the following:

- Books For Me (formerly 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 (formerly 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 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, 2016 and 2015

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016 and 2015

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 certain reported amounts and disclosures. Actual results could differ from those estimates.

11. Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date of ASU 2014-09 for one year. The standard is effective retrospectively for fiscal years beginning after December 15, 2018 and early adoption is permitted. The Organization is currently evaluating the impact the new standard will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which amended the existing accounting standards for leases. The amendments require lessees to record, at lease inception, a lease liability for the obligation to make lease payments and a right-of-use (ROU) asset for the right to use the underlying asset for the lease term on their balance sheets. Lessees may elect to not recognize lease liabilities and ROU assets for most leases with terms of 12 month or less.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016 and 2015

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The lease liability is measured at the present value of the lease payments over the lease term. The ROU asset will be based on the liability, adjusted for lease prepayments, lease incentives received, and the lessee's initial direct costs. For finance leases, lease expense will be the sum of interest on the lease obligation and amortization of the ROU asset, resulting in a front-loaded expense pattern. For operating leases, lease expense will generally be recognized on a straight-line basis over the lease term. The standard also modifies the classification criteria and accounting for sales-type and direct financing leases by lessors. The standard is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Organization is currently evaluating the impact the new standard will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The standard was issued to simplify and improve how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The standard is effective for fiscal years beginning after December 15, 2017 and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application and early adoption is permitted. The Organization is currently evaluating the impact the new standard will have on its financial statements.

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 2012 through 2015 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, 2016 and 2015

NOTE C - CONTRIBUTIONS RECEIVABLE

Contributions receivable comprised the following at June 30,

	<u>2016</u>	<u>2015</u>
AISD donated land and services	\$ 23,544	\$ 47,088
Other contributions receivable	<u>5,000</u>	<u>4,283</u>
	<u>\$ 28,544</u>	<u>\$ 51,371</u>

The contributions receivable balances at June 30, 2016 and 2015 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, 2016 and 2015, no discounts to present value are reflected in these financial statements. As of June 30, 2016, 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.

In December 2012, the Organization executed an agreement with AISD that extended 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 of \$23,544 has been reported in these financial statements for each of the years ended June 30, 2016 and 2015.

The Organization is currently in discussions with AISD to extend the current lease through 2022 at similar terms.

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016 and 2015

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment comprised the following at June 30,

	<u>2016</u>	<u>2015</u>
Portable buildings and improvements	\$ 76,245	\$ 76,245
Furniture and equipment	61,946	60,906
Vehicle	21,889	21,889
Website and software	<u>14,816</u>	<u>17,048</u>
	174,896	176,088
Less accumulated depreciation	<u>(127,795)</u>	<u>(115,978)</u>
	<u>\$ 47,101</u>	<u>\$ 60,110</u>

Depreciation expense totaled \$14,049 and \$12,083 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, had a cost of \$29,401 and \$29,401, accumulated amortization of \$15,827 and \$9,947, and a net book value of \$13,574 and \$19,454, respectively. Amortization of the leased property is included in depreciation expense. As of June 30, 2016, future minimum payments under this capital lease were as follows:

<u>Years ending June 30,</u>	<u>Payments</u>
2017	8,076
2018	8,076
2019	<u>2,692</u>
Minimum payments	18,844
Amount of interest	<u>(2,714)</u>
Capital lease obligation	<u>\$ 16,130</u>

The Organization recognized interest expense of \$2,546 and \$3,229 related to the capital lease during the years ended June 30, 2016 and 2015, respectively.

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016 and 2015

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2016</u>	<u>2015</u>
ReadWell Program	\$ 26,000	\$ -
AISD donated land and services	23,544	47,088
Books For Me Program	15,900	21,800
Other purposes	<u>-</u>	<u>5,842</u>
	<u>\$ 65,444</u>	<u>\$ 74,730</u>

During the years ended June 30, 2016 and 2015, temporarily restricted net assets in the amounts of \$247,161 and \$277,042, 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, 2015, the Organization recognized \$90,560 for donated media coverage related to the Read-A-Thon and other events and \$5,678 for donated professional services. During the year ended June 30, 2016, the Organization recognized \$83,000 for donated media coverage related to the Read-A-Thon, and \$36,750 for donated professional services. 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 - CONCENTRATION

All of a depositor's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, are insured by the FDIC up to the maximum deposit insurance amount (\$250,000). As of June 30, 2016 and 2015, the Organization's uninsured cash balances totaled approximately \$84,000 and \$131,500, respectively.

NOTE I - SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 19, 2017, the date the financial statements were available to be issued.