

**PAGE AHEAD CHILDREN'S
LITERACY PROGRAM**

FINANCIAL REPORT

AUGUST 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Page Ahead Children's Literacy Program
Seattle, Washington

We have audited the accompanying financial statements of Page Ahead Children's Literacy Program, which comprise the statement of financial position as of August 31, 2019, and the related statements of activities, functional expenses, 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; 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. 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 Page Ahead Children's Literacy Program as of August 31, 2019, 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.

Prior Year Summarized Information

We have previously audited the Page Ahead Children's Literacy Program's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 13, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of a Matter – Recent Accounting Pronouncement Adopted

As discussed in Note 1 to the financial statements, during the year ended August 31, 2019, Page Ahead adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Peterson Sullivan LLP.

December 12, 2019

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF FINANCIAL POSITION

August 31, 2019

(With Comparative Totals for 2018)

ASSETS	2019	2018
Current Assets		
Cash	\$ 513,541	\$ 378,550
Investments	100,000	100,000
Receivables	31,979	81,931
Book inventory	86,869	65,139
Scholastic book fair credits receivable	9,510	20,568
Prepaid expenses	5,637	1,672
Total current assets	747,536	647,860
Investments Held for Endowment	100,000	100,000
Security Deposits	4,475	4,475
Office Equipment, net	3,191	156
Total assets	<u>\$ 855,202</u>	<u>\$ 752,491</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 24,763	\$ 12,555
Net Assets		
Without donor restrictions	636,947	511,196
With donor restrictions	193,492	228,740
Total net assets	830,439	739,936
Total liabilities and net assets	<u>\$ 855,202</u>	<u>\$ 752,491</u>

See Notes to Financial Statements

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2019
(With Comparative Totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and Revenue (excluding in-kind revenue)				
Contributions - general public	\$ 397,299	\$ 7,250	\$ 404,549	\$ 238,271
Contributions - foundations and corporations	212,460	109,000	321,460	497,829
Special event revenue	232,512		232,512	244,914
Less: special event direct benefit to donor	(21,814)		(21,814)	(29,408)
Bequests	100,000		100,000	200,000
Program share income	74,965		74,965	79,045
Other income	1,988		1,988	4,784
Net assets released from restrictions	151,498	(151,498)		
Total support and revenue	1,148,908	(35,248)	1,113,660	1,235,435
Expenses				
Program services, including purchased books	796,229		796,229	808,836
Management and general	111,686		111,686	115,851
Fundraising	85,754		85,754	74,355
Total expenses (excluding in-kind expenses)	993,669		993,669	999,042
Change in net assets before in-kind activities	155,239	(35,248)	119,991	236,393
In-Kind Activities and Scholastic Book Fair Credits				
Books donated	31,904		31,904	41,953
Books received in-kind and distributed	(65,618)		(65,618)	(70,317)
Scholastic book fair credits	4,226		4,226	2,440
In-kind services received	3,600		3,600	7,200
In-kind services expense	(3,600)		(3,600)	(7,200)
Net in-kind activities	(29,488)		(29,488)	(25,924)
Change in net assets	125,751	(35,248)	90,503	210,469
Net Assets, beginning of year	511,196	228,740	739,936	529,467
Net Assets, end of year	<u>\$ 636,947</u>	<u>\$ 193,492</u>	<u>\$ 830,439</u>	<u>\$ 739,936</u>

See Notes to Financial Statements

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2019

(With Comparative Totals for 2018)

	2019			Total	2018
	Program Services	Management and General	Fundraising		
Cost of purchased books	\$ 515,673	\$ -	\$ -	\$ 515,673	\$ 503,457
Salaries and related expenses	151,520	51,460	63,945	266,925	310,138
Occupancy	64,731	6,303	2,125	73,159	71,917
Professional fees and contract services	20,623	36,633	1,622	58,878	34,995
Special event venue expenses			21,814	21,814	29,408
Other	43,682	17,290	18,062	79,034	78,535
Total expenses, excluding in-kind expenses	796,229	111,686	107,568	1,015,483	1,028,450
Less: direct benefit to donor			21,814	21,814	29,408
Total expenses included in expense section on the statement of activities	796,229	111,686	85,754	993,669	999,042
In-kind expenses	65,618	3,600		69,218	77,517
Total expenses - 2019	<u>\$ 861,847</u>	<u>\$ 115,286</u>	<u>\$ 85,754</u>	<u>\$ 1,062,887</u>	
Total expenses - 2018	<u>\$ 905,601</u>	<u>\$ 123,051</u>	<u>\$ 77,315</u>		<u>\$ 1,076,559</u>

See Notes to Financial Statements

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2019

(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 90,503	\$ 210,469
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	291	248
Changes in operating assets and liabilities		
Receivables	49,952	(56,001)
Book inventory	(21,730)	56
Scholastic book fair credits receivable	11,058	3,297
Prepaid expenses	(3,965)	(51)
Accounts payable and accrued expenses	12,208	(8,629)
Net cash flows from operating activities	<u>138,317</u>	<u>149,389</u>
Cash Flows from Investing Activity		
Purchases of property and equipment	<u>(3,326)</u>	
Net change in cash	134,991	149,389
Cash, beginning of year	<u>378,550</u>	<u>229,161</u>
Cash, end of year	<u><u>\$ 513,541</u></u>	<u><u>\$ 378,550</u></u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Organization/Activities

Page Ahead Children's Literacy Program ("Page Ahead") was incorporated as a nonprofit corporation on March 22, 1993, under the laws of the State of Washington, to provide literacy services to at-risk children. Page Ahead, also known as Books for Kids, accomplishes its mission of promoting literacy primarily through the following programs:

- Book Up Summer aims to mitigate the summer learning loss experienced primarily by children from low-income families. This evidence-based program is designed to increase access to books, inspire children to read by allowing them to choose the books they want and, ultimately, reduce the literacy achievement gap in Washington. Through Book Up Summer, 15,000₁ students in grades K-2 chose nearly 180,000₁ books to take home to read over the summer.
- The Books for Kids program gives new books to children at motivational events in collaboration with partner sites. In the past year, Page Ahead distributed approximately 5,700₁ new books to approximately 2,750₁ at-risk children. Sites are selected based upon the need of the population served at each site.
- The Family Involvement Program provides educational support for parents and encourages early language development in children. Through story times, trained volunteers engage preschool and kindergarten students in positive reading experiences for learners of all types.
- Over the course of a year, low-income preschoolers hear 8 million fewer words than children from affluent families. Page Ahead's newest program, Story Leaders, aims to close this word gap by empowering families in need through literacy training and access to books. Last year, more than 930₁ children and families in need received nearly 8,200₁ new books.

Page Ahead has its main office facilities in Seattle, Washington, and operates throughout Washington state. Support for Page Ahead comes from monetary and in-kind donations from individuals, corporations, municipalities, and foundations.

Summarized Information from Prior Year

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States ("GAAP"). Accordingly, such information should be read in conjunction with Page Ahead's financial statements as of and for the year ended August 31, 2018, from which the summarized information was derived.

₁ Figures are unaudited

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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 estimates.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with GAAP. Page Ahead reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Contributions and certain grants are recorded depending on the existence and/or nature of any donor restrictions. Expenses are reported as decreases in net assets without donor restrictions.

Net Assets with Donor Restrictions

Some net assets with donor restrictions are temporary in nature and consist of unexpended contributions restricted for particular programs or time periods. Other net assets have perpetual donor restrictions, where the principal of the contributions is restricted in perpetuity and the income from which is utilized for the purposes specified by the donors. Net assets with temporary donor restrictions are transferred to net assets without donor restrictions as expenditures are incurred for the restricted programs or as time restrictions are met.

Net assets with donor restrictions are as follows at August 31:

	<u>2019</u>	<u>2018</u>
Net assets with purpose or time restrictions		
Book Up Summer Program	\$ 67,372	\$ 103,444
Story Leaders Program	21,120	24,120
Story Time Program	5,000	
Computer equipment		1,176
Net assets with perpetual restrictions		
Perpetual endowment restrictions	<u>100,000</u>	<u>100,000</u>
	<u>\$ 193,492</u>	<u>\$ 228,740</u>

Revenue Recognition

Contributions Revenue

Contributions, including pledges receivable, are recognized as they are made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Many individuals donate significant amounts of time to the daily operations of Page Ahead. The value of their contributed time is not reflected in the accompanying financial statements because their tasks do not require specialized skills. About 5,700 and 6,200 hours were donated during the years ended August 31, 2019 and 2018, respectively. This total does not include hours donated by the Board of Directors or its committees.

Special Event Revenue

Page Ahead hosts events to raise funds for its operations and recognizes revenue from the events when the event takes place or when donations are received.

Bequests

Page Ahead recognizes revenue from bequests when (1) the bequest becomes an unconditional promise to give and (2) when the amount to be received can be estimated. This is usually when the deceased person's will has gone through probate. In both 2019 and 2018, Page Ahead received one bequest.

Program Share Income

Program share income consists primarily of an administrative fee collected from participating schools or school districts. The fee is based on the number of children served at the partner school.

Scholastic Book Fair Credits

Scholastic book fair credits are generated through book fairs held by an unrelated company, Scholastic Corporation ("Scholastic"). Area companies host book fairs for their employees and for each book sold, Page Ahead receives half the sales price as credits from Scholastic to purchase books. Revenue is recognized when the credits are acknowledged by Scholastic.

Cash

Page Ahead's cash balances include checking and savings accounts with federally insured banking institutions. Page Ahead actively monitors cash balances so that they do not exceed federally insured limits.

Investments

Investments consist of certificates of deposit at both August 31, 2019 and 2018. Investments are reported at cost plus accrued interest in the statement of financial position.

Receivables

Receivables as of August 31, 2019 and 2018, consist primarily of pledges and grants receivable. Management reviews the collectibility of receivables on a periodic basis and determines the appropriate amount of any allowance. Page Ahead charges off receivables to the allowance when management determines that a receivable is not collectible. No allowance was considered necessary at August 31, 2019 or 2018, and all receivables are expected to be collected during the next year.

Book Inventory

Inventory consists of new books that are either purchased or donated. Purchased books are valued at the cost Page Ahead pays to purchase the books. Donated books are valued on a weighted average, using the prior year ending average cost. This value results in an amount that is lower than the net realizable value of the book inventory.

Office Equipment and Depreciation

Fixed assets are stated at cost, if purchased, and at estimated fair value, if donated, and are depreciated on the straight-line method over the estimated useful lives of the assets. Fixed assets with a cost greater than \$500 are capitalized. Donations of fixed assets are recognized as unrestricted support in the year of the donation.

Federal Income Tax

Page Ahead is a nonprofit organization as defined in Internal Revenue Code Section 501(c)(3) and is exempt from federal income taxes under Internal Revenue Code Section 501(a).

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain expenses are attributed to more than one program or supporting function. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. The expenses that are allocated include salaries and related expenses which are allocated on the basis of estimates of time and effort, and occupancy costs which are allocated on a square footage basis. Professional fees and contract services expenditures are based on actual expenses charged to each program or supporting function.

Recent Accounting Pronouncement Adopted

During the year ended August 31, 2019, Page Ahead adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Page Ahead has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability of resources note (see Note 2).

Subsequent Events

Page Ahead has evaluated subsequent events through the date these financial statements were available to be issued, which was December 12, 2019.

Note 2. Liquidity and Availability of Resources

Page Ahead strives to maintain liquid financial assets sufficient to cover 120 days of general expenditures. Increasing cash reserves are used to expand future programming sustainably. Financial assets in excess of daily cash requirements are invested in certificates of deposit, money market funds, and other short-term investments.

Page Ahead has net assets with donor restrictions that are designated for activities planned and budgeted for during the next 12 months.

The following table reflects Page Ahead's financial assets as of August 31, 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of donor time restrictions greater than one year.

Financial assets at year-end:		
Cash	\$	513,541
Investments		100,000
Receivables		<u>31,979</u>
Total financial assets		645,520
Less amounts not available to be used within one year:		
Net assets with donor restrictions greater than one year		<u>(61,167)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u><u>584,353</u></u>

Note 3. Concentrations

For the years ended August 31, 2019, and 2018, 15% of Page Ahead's total revenue was from one donor each year. It was a different donor each year.

At August 31, 2018, 37% of receivables were due from one donor. There were no such concentrations at August 31, 2019.

Note 4. Office Equipment

Office equipment consists of the following as of August 31:

	<u>2019</u>	<u>2018</u>	<u>Estimated Useful Lives</u>
Office equipment	\$ 41,838	\$ 38,512	3-7 years
Accumulated depreciation	<u>(38,647)</u>	<u>(38,356)</u>	
Net property and equipment	<u><u>\$ 3,191</u></u>	<u><u>\$ 156</u></u>	

Note 5. Line of Credit

Page Ahead has an unsecured line of credit agreement with a bank for \$40,000 for both 2019 and 2018. The agreement has no stated expiration date. Borrowings would bear interest at the daily finance charge rate as determined by the financial institution. There were no outstanding borrowings as of August 31, 2019 or 2018.

Note 6. Commitments

Page Ahead occupies office space under an operating lease expiring in July 2021. The lease contains escalating lease rates and requires Page Ahead to pay its pro rata share of triple net charges such as property taxes and insurance. Rent expense for office space was \$68,755 and \$67,995 in 2019 and 2018, respectively.

Future minimum lease payments are as follows for the years ending August 31:

2020	\$	59,970
2021		56,485
		<hr/>
	\$	116,455
		<hr/> <hr/>

Note 7. Retirement Plan

Page Ahead has an IRA SIMPLE Master plan that covers substantially all employees. Employer matching contributions may range from 1% to 3% of compensation for each calendar year and are 100% vested at all times. Employer contributions amounted to \$5,281 in the fiscal year 2019 and \$7,029 in the fiscal year 2018. These amounts represent matching contributions based on participants' elective deferrals.

Note 8. Related Party Transactions

Page Ahead receives donations from board members and faculty. As of August 31, 2019 and 2018, the total contributions received during the year from board members and faculty totaled \$21,215 and \$20,493, respectively.

Note 9. Endowment

Page Ahead's endowment consists of funds donated subject to a donor-imposed restriction that the principal amount donated must be maintained in an investment account and cannot be used by Page Ahead, but the income earned on the account may be used for purposes specified by the donor. As required by GAAP, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of Page Ahead has interpreted the State of Washington Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Page Ahead classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, plus (b) the original value of subsequent gifts to the endowment. The remaining portion of the donor-restricted endowment fund that is not classified as perpetually restricted is classified as unappropriated endowment earnings until those amounts are appropriated for expenditure by Page Ahead in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Page Ahead considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the endowment fund
- The purposes of the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of Page Ahead
- The investment policies of Page Ahead

Return Objectives and Risk Parameters

Page Ahead has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Page Ahead must hold in perpetuity or for a donor-specified period.

Strategies Employed for Achieving Objectives

To satisfy its objectives, Page Ahead relies on a total return strategy in which investment returns are achieved through current yield (interest). Page Ahead targets fixed-income investments to achieve its return objectives within prudent risk constraints. The endowment investments are made exclusively with certificates of deposit (institution rated AA or better with maturities of 12 months or less).

Spending Policy and How the Investment Objectives Relate to Spending Policy

Page Ahead has a policy of retaining principal and distributing any income. The distributions are to be made annually in an amount equal to the income from the previous year. If the income is not to be distributed immediately following the year in which they were earned, then the amount equal to the income shall be retained within the endowment fund for distribution within the next two years. This is consistent with Page Ahead's objective to maintain the purchasing power of the endowment assets held in perpetuity while providing a predictable stream of funding to programs.

Summary of Endowment Activity

Endowment net assets consisted of \$100,000 of donor-restricted endowment funds and are classified as net assets with donor restrictions at both August 31, 2019 and 2018.

There were no changes in endowment net assets during the years ended August 31, 2019 or 2018.

The endowment fund as of August 31, 2019 and 2018, is invested entirely in certificates of deposit. Earnings during 2019 and 2018 were not significant.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires. There were no deficiencies of this nature at August 31, 2019 or 2018.