

**PAGE AHEAD CHILDREN'S
LITERACY PROGRAM**

FINANCIAL REPORT

AUGUST 31, 2017

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1 and 2
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION.....	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF FUNCTIONAL EXPENSES	5
STATEMENT OF CASH FLOWS.....	6
NOTES TO FINANCIAL STATEMENTS	7 - 13

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, 2017, 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, 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.

Prior Year Summarized Information

We have previously audited the Page Ahead Children's Literacy Program's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Peterson Sulli LLP

December 7, 2017

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF FINANCIAL POSITION

August 31, 2017

(With Comparative Totals for 2016)

ASSETS	2017	2016
Current Assets		
Cash	\$ 229,161	\$ 577,624
Investments	100,000	100,000
Receivables	25,930	63,177
Book inventory	65,195	54,794
Scholastic book fair credits receivable	23,865	25,349
Prepaid expenses	1,621	1,573
Total current assets	445,772	822,517
Investments Held for Endowment	100,000	100,000
Security Deposits	4,475	4,475
Office Equipment, net	404	818
Total assets	<u>\$ 550,651</u>	<u>\$ 927,810</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 21,184	\$ 332,119
Net Assets		
Unrestricted	421,291	431,964
Temporarily restricted	8,176	63,727
Permanently restricted	100,000	100,000
Total net assets	529,467	595,691
Total liabilities and net assets	<u>\$ 550,651</u>	<u>\$ 927,810</u>

See Notes to Financial Statements

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2017
(With Comparative Totals for 2016)

	2017			Total	2016
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenue (excluding in-kind revenue)					
Contributions - foundations and corporations	\$ 281,047	\$ 147,658	\$ -	\$ 428,705	\$ 295,275
Contributions - general public	180,920			180,920	135,149
Special event revenue	198,834			198,834	169,707
Program share income	61,295			61,295	44,343
Miscellaneous income	1,316			1,316	7,671
Net assets released from restrictions	203,209	(203,209)			
Total support and revenue	926,621	(55,551)		871,070	652,145
Expenses					
Program services, including purchased books	790,664			790,664	681,366
Management and general	102,868			102,868	80,323
Fundraising	53,933			53,933	59,664
Total expenses (excluding in-kind expenses)	947,465			947,465	821,353
Change in Net Assets before In-Kind Activities	(20,844)	(55,551)		(76,395)	(169,208)
In-Kind Activities and Scholastic Book Fair Credits					
Books donated	74,442			74,442	77,898
Books received in-kind and distributed	(105,304)			(105,304)	(101,230)
Scholastic book fair credits	41,033			41,033	27,807
In-kind services received	7,200			7,200	7,200
In-kind services expense	(7,200)			(7,200)	(7,200)
Net in-kind activities	10,171			10,171	4,475
Change in net assets	(10,673)	(55,551)		(66,224)	(164,733)
Net Assets, beginning of year	431,964	63,727	100,000	595,691	760,424
Net Assets, end of year	\$ 421,291	\$ 8,176	\$ 100,000	\$ 529,467	\$ 595,691

See Notes to Financial Statements

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2017

(With Comparative Totals for 2016)

	2017			Total	2016
	Program Services	Management and General	Fundraising		
Cost of purchased books	\$ 438,281	\$ -	\$ -	\$ 438,281	\$ 319,848
Salaries and related expenses	229,581	48,560	37,479	315,620	323,392
Occupancy	58,863	6,004	1,936	66,803	66,559
Professional fees and contract services	14,616	29,886	41	44,543	36,657
Special event venue expenses	17,651		1,961	19,612	15,836
Other	31,672	18,418	12,516	62,606	59,061
Total expenses, excluding in-kind expenses	790,664	102,868	53,933	947,465	821,353
In-kind expenses	105,304	7,200		112,504	108,430
Total expenses - 2017	\$ 895,968	\$ 110,068	\$ 53,933	\$ 1,059,969	
Total expenses - 2016	\$ 782,596	\$ 87,523	\$ 59,664		\$ 929,783

See Notes to Financial Statements

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2017
(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (66,224)	\$ (164,733)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	414	805
Changes in operating assets and liabilities		
Receivables	37,247	13,483
Book inventory	(10,401)	(19,477)
Scholastic book fair credits receivable	1,484	659
Prepaid expenses	(48)	(412)
Accounts payable and accrued expenses	(310,935)	316,522
Net cash flows from operating activities	(348,463)	146,847
Cash Flows from Investing Activity		
Acquisition of office equipment		(745)
Net change in cash	(348,463)	146,102
Cash, beginning of year	577,624	431,522
Cash, end of year	<u>\$ 229,161</u>	<u>\$ 577,624</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 low-income children. 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, more than 13,500 at-risk students in grades K-2 chose nearly 163,000 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 16,750 new books to approximately 5,475 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 family workshops, parents learn techniques to actively support their child's early literacy development. 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 850 children and families in need received nearly 7,000 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, 2016, from which the summarized information was derived.

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 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. Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Page Ahead reports 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. Contributions and certain grants are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Expenses are reported as decreases in unrestricted net assets. Accordingly, the net assets of Page Ahead and changes therein are classified and reported as follows:

- Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of Page Ahead and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently Restricted Net Assets – Permanently restricted net assets represent endowment gifts requiring the principal be invested in perpetuity and that only the income be expended. Permanently restricted net assets at both August 31, 2017 and 2016, were \$100,000, the income from which is available for operations.

Revenue Recognition

Contributions Revenue

Contributions, including pledges receivable, are recognized as 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 4,700 hours were donated during each of the years ended August 31, 2017 and 2016. This total does not include hours donated by the Board of Directors or its committees.

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.

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.

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, 2017 and 2016. Investments are reported at cost plus accrued interest in the statement of financial position.

Receivables

Receivables as of August 31, 2017 and 2016, 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, 2017 or 2016, 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. Page Ahead values this inventory at an average value that represents the cost of books purchased and the fair value (which is considered cost for contributed books) of books donated. This value (which approximates average cost) results in an amount that is lower than the market 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.

Accounts Payable

Accounts payable represents amounts owed for book purchases and other operating expenses. The 2016 balance was due to a significant invoice from Scholastic that was paid subsequent to August 31, 2016.

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).

Allocation of Functional Expenses

The costs of carrying out Page Ahead's purpose have been summarized on a functional basis in the statement of activities, and in the statement of functional expenses. Expenses that benefit both program and supporting services have been allocated using management's cost allocation plan.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

Subsequent Events

Page Ahead has evaluated subsequent events through the date these financial statements were available to be issued, which was December 7, 2017.

Note 2. Contributions and Pledges Receivable

For the years ended August 31, 2017 and 2016, 11% and 12% of Page Ahead's contributions were from one donor, respectively.

At August 31, 2016, 40% of pledges receivable were due from one donor. There were no such concentrations for the year ended August 31, 2017.

Note 3. Office Equipment

Office equipment consist of the following as of August 31:

	<u>2017</u>	<u>2016</u>	<u>Estimated Useful Lives</u>
Office equipment	\$ 50,156	\$ 50,156	3-7 years
Accumulated depreciation	<u>(49,752)</u>	<u>(49,338)</u>	
Net property and equipment	<u>\$ 404</u>	<u>\$ 818</u>	

Note 4. Line of Credit

Page Ahead has an unsecured line of credit agreement with a bank for \$48,000 for 2017 and \$50,000 for 2016. The agreement has no stated expiration date. Borrowings would bear interest at 2.75% above the prime rate. There were no outstanding borrowings as of August 31, 2017 or 2016.

Note 5. Temporarily Restricted Net Assets

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors. For the year ended August 31, 2017, the releases of the temporary restrictions were accomplished by:

Book Up Summer Program	\$	299,107
Purchasing books within a geographical designated area		3,100
Purchasing technology		1,002
		<hr/>
	\$	<u>303,209</u>

Temporarily restricted net assets are available for the following purposes as of August 31:

	<u>2017</u>	<u>2016</u>
Book Up Summer Program	\$ 7,000	\$ 50,000
Computer equipment	1,176	2,178
Book Up Summer Program - Grant County		11,549
	<hr/>	<hr/>
	\$ 8,176	\$ 63,727
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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 \$62,458 and \$63,025 in 2017 and 2016, respectively.

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

2018	\$	56,370
2019		58,170
2020		59,970
2021		56,485
		<hr/>
	\$	<u>230,995</u>

Note 7. Retirement Plan

Page Ahead has an IRA SIMPLE MASTER plan which 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 \$6,451 in the fiscal year 2017 and \$7,323 in the fiscal year 2016. These amounts represent matching contributions based on participants' elective deferrals.

Note 8. 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, plus (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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 permanently restricted net assets at both August 31, 2017 and 2016.

There were no changes in endowment net assets during the years ended August 31, 2017 or 2016.

The endowment fund as of August 31, 2017 and 2016, is invested entirely in certificates of deposit. Earnings during 2017 and 2016 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, 2017 or 2016.