

**PAGE AHEAD CHILDREN'S
LITERACY PROGRAM**

FINANCIAL REPORT

AUGUST 31, 2016

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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, 2016, 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, 2016, 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 2015 financial statements, and our report dated December 10, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Petersen Sullivan LLP

December 8, 2016

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF FINANCIAL POSITION

August 31, 2016

(With Comparative Totals for 2015)

ASSETS	2016	2015
Current Assets		
Cash	\$ 577,624	\$ 431,522
Investments	100,000	100,000
Receivables	63,177	76,660
Book inventory	54,794	35,317
Scholastic book fair credits receivable	25,349	26,008
Prepaid expenses	1,573	1,490
Total current assets	822,517	670,997
Investments Held for Endowment	100,000	100,000
Security Deposits	4,475	4,146
Office Equipment, net	818	878
Total assets	<u>\$ 927,810</u>	<u>\$ 776,021</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 332,119	\$ 15,597
Net Assets		
Unrestricted	431,964	585,502
Temporarily restricted	63,727	74,922
Permanently restricted	100,000	100,000
Total net assets	595,691	760,424
Total liabilities and net assets	<u>\$ 927,810</u>	<u>\$ 776,021</u>

See Notes to Financial Statements

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2016
(With Comparative Totals for 2015)

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue (excluding in-kind activities)					
Contributions - foundations and corporations	\$ 165,511	\$ 129,764	\$ -	\$ 295,275	\$ 327,783
Contributions - general public	135,149			135,149	160,232
Special event revenue	169,707			169,707	182,917
Program share income	44,343			44,343	18,195
Miscellaneous income	14,871			14,871	12,413
Net assets released from restrictions	140,959	(140,959)			
Total support and revenue	670,540	(11,195)		659,345	701,540
Expenses					
Program services, including purchased books	681,366			681,366	488,755
Management and general	87,523			87,523	109,115
Fundraising	59,664			59,664	60,901
Total expenses (excluding in-kind activities)	828,553			828,553	658,771
Change in net assets before in-kind activities	(158,013)	(11,195)		(169,208)	42,769
In-kind activities and Scholastic book fair credits					
Books donated	77,898			77,898	72,383
Books received in-kind and distributed	(101,230)			(101,230)	(50,095)
Scholastic book fair credits	27,807			27,807	26,008
Net in-kind activities	4,475			4,475	48,296
Change in net assets	(153,538)	(11,195)		(164,733)	91,065
Net Assets, beginning of year	585,502	74,922	100,000	760,424	669,359
Net Assets, end of year	\$ 431,964	\$ 63,727	\$ 100,000	\$ 595,691	\$ 760,424

See Notes to Financial Statements

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2016

(With Comparative Totals for 2015)

	2016			Total	2015
	Program Services	Management and General	Fundraising		
Salaries and related expenses	\$ 245,160	\$ 33,813	\$ 44,419	\$ 323,392	\$ 285,357
Cost of purchased books	319,848			319,848	157,866
Occupancy	59,287	5,318	1,954	66,559	61,504
Professional fees and contract services	9,372	27,245	40	36,657	69,094
Travel and meetings	22,337	1,098	2,202	25,637	25,058
Computer technology	100	7,359	3,588	11,047	16,122
Printing and copying	7,501	305	1,662	9,468	9,037
Telephone and utilities	7,139	2,038	196	9,373	8,914
Postage and delivery	4,402	183	1,518	6,103	7,577
Fees and license	1,398	3,767	82	5,247	4,728
Miscellaneous	70	125	3,900	4,095	2,148
Insurance		2,936		2,936	2,723
Freight/UPS	2,805			2,805	852
Office supplies	1,947	595	103	2,645	4,667
Repairs and maintenance		1,936		1,936	1,755
Depreciation expense		805		805	1,369
Total expenses, excluding in-kind book activities	681,366	87,523	59,664	828,553	658,771
Books received in-kind and distributed	101,230			101,230	50,095
Total expenses - 2016	\$ 782,596	\$ 87,523	\$ 59,664	\$ 929,783	
Total expenses - 2015	\$ 538,850	\$ 109,115	\$ 60,901		\$ 708,866

See Notes to Financial Statements

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2016
(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (164,733)	\$ 91,065
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	805	1,369
Change in operating assets:		
Receivables	13,483	(24,510)
Book inventory	(19,477)	(20,258)
Scholastic book fair credits receivable	659	(26,008)
Prepaid expenses and deposits	(412)	(64)
Change in operating liabilities:		
Accounts payable and accrued expenses	<u>316,522</u>	<u>(2,123)</u>
Net cash flows from operating activities	146,847	19,471
Cash Flows from Investing Activity		
Acquisition of office equipment	<u>(745)</u>	
Net change in cash	146,102	19,471
Cash, beginning of year	<u>431,522</u>	<u>412,051</u>
Cash, end of year	<u>\$ 577,624</u>	<u>\$ 431,522</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, nearly 9,200 at-risk students in grades K-2 chose more than 110,000 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 17,800 new books to approximately 6,000 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.

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, and foundations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("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, 2016 and 2015, were \$100,000, the income from which is available for operations.

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 GAAP. Accordingly, such information should be read in conjunction with Page Ahead's financial statements as of and for the year ended August 31, 2015, from which the summarized information was derived.

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 4,000 hours were donated during each of the years ended August 31, 2016 and 2015. 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, 2016 and 2015. Investments are reported at cost plus accrued interest in the statement of financial position.

Receivables

Receivables as of August 31, 2016 and 2015, consist 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, 2016 or 2015, 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 increase in fiscal year 2016 is 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.

Subsequent Events

Page Ahead has evaluated subsequent events through the date these financial statements were available to be issued, which was December 8, 2016.

Note 2. Contributions and Pledges Receivable

For the years ended August 31, 2016 and 2015, 17% and 31% of Page Ahead's contributions were from one and two donors, respectively.

At August 31, 2016, 71% of pledges receivable were due from three donors. At August 31, 2015, 87% of pledges receivable were due from two donors.

Note 3. Office Equipment

Office equipment consist of the following as of August 31:

	<u>2016</u>	<u>2015</u>	<u>Estimated Useful Lives</u>
Office equipment	\$ 50,156	\$ 49,411	3-7 years
Accumulated depreciation	<u>(49,338)</u>	<u>(48,533)</u>	
Net property and equipment	<u>\$ 818</u>	<u>\$ 878</u>	

Note 4. Line of Credit

Page Ahead has an unsecured line of credit agreement with a bank for \$50,000. 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, 2016 or 2015.

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, 2016, the releases of the temporary restrictions were accomplished by:

Book Up Summer Program	\$	133,689
Family Involvement Program		3,650
Purchasing technology		3,245
Purchasing books within a geographical designated area		<u>375</u>
	\$	<u>140,959</u>

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

	<u>2016</u>	<u>2015</u>
Book Up Summer Program	\$ 50,000	\$ 50,000
Book Up Summer Program - Grant County	11,549	21,449
Computer equipment	2,178	2,923
Family Involvement Program		<u>550</u>
	<u>\$ 63,727</u>	<u>\$ 74,922</u>

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 prorata share of triple net charges such as property taxes and insurance. Rent expense for office space was \$63,025 and \$57,477 in 2016 and 2015, respectively.

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

2017	\$	54,570
2018		56,370
2019		58,170
2020		59,970
2021		<u>56,485</u>
	\$	<u>285,565</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 \$7,323 in the fiscal year 2016 and \$6,091 in the fiscal year 2015. 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 twelve 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, 2016 and 2015.

There were no changes in endowment net assets during the years ended August 31, 2016 or 2015.

The endowment fund as of August 31, 2016 and 2015, is invested entirely in certificates of deposit. Earnings during 2016 and 2015 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, 2016 or 2015.