

**PAGE AHEAD CHILDREN'S
LITERACY PROGRAM**

FINANCIAL REPORT

Year Ended August 31, 2014

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 - 12

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, 2014, 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, 2014, 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.

Prior Year Supplementary Information

We have previously audited the Page Ahead Children's Literacy Program's 2013 financial statements, and our report dated December 4, 2013, 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, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Peterson Sulli LLP

December 12, 2014

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF FINANCIAL POSITION

August 31, 2014

(With Comparative Totals for 2013)

ASSETS	2014	2013
Current Assets		
Cash	\$ 412,051	\$ 275,247
Investments	100,000	100,000
Receivables	52,150	168,849
Book inventory	15,059	113,776
Prepaid expenses	1,426	1,350
Total current assets	580,686	659,222
Investments Held for Endowment	100,000	100,000
Security Deposits	4,146	4,146
Property and Equipment, net	2,247	3,702
Total assets	<u>\$ 687,079</u>	<u>\$ 767,070</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 17,720	\$ 13,416
Net Assets		
Unrestricted	456,331	393,871
Temporarily restricted	113,028	259,783
Permanently restricted	100,000	100,000
Total net assets	669,359	753,654
Total liabilities and net assets	<u>\$ 687,079</u>	<u>\$ 767,070</u>

See Notes to Financial Statements

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2014
(With Comparative Totals for 2013)

	2014			Total	2013
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue (excluding in-kind book activity)					
Contributions - foundations and corporations	\$ 223,875	\$ 62,000	\$ -	\$ 285,875	\$ 469,703
Contributions - general public	256,919			256,919	234,065
Program share income	43,594			43,594	40,247
Miscellaneous income	11,943			11,943	11,529
Net assets released from restrictions	208,755	(208,755)			
Total support and revenue	745,086	(146,755)		598,331	755,544
Expenses					
Program services, including purchased books	414,907			414,907	392,596
Management and general	89,224			89,224	84,401
Fundraising	49,870			49,870	49,820
Total expenses (excluding in-kind book activity)	554,001			554,001	526,817
Change in net assets before in-kind book activity	191,085	(146,755)		44,330	228,727
In-kind book activity					
Books donated	115,251			115,251	192,246
Books received in-kind and distributed	(243,876)			(243,876)	(210,263)
Net in-kind book activity	(128,625)			(128,625)	(18,017)
Change in net assets	62,460	(146,755)		(84,295)	210,710
Net Assets, beginning of year	393,871	259,783	100,000	753,654	542,944
Net Assets, end of year	\$ 456,331	\$ 113,028	\$ 100,000	\$ 669,359	\$ 753,654

See Notes to Financial Statements

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2014

(With Comparative Totals for 2013)

	2014				2013
	Program Services	Management and General	Fundraising	Total	
Salaries and related expenses	\$ 181,208	\$ 28,682	\$ 41,131	\$ 251,021	\$ 222,636
Cost of purchased books	120,910			120,910	126,778
Occupancy	53,660	5,048	1,767	60,475	65,193
Professional fees and contract services	12,672	29,475	30	42,177	41,193
Travel and meetings	20,897	1,954	2,564	25,415	20,049
Telephone and utilities	7,291	1,504	206	9,001	8,811
In-kind expenses		7,200		7,200	7,200
Postage and delivery	3,722	1,357	1,271	6,350	4,544
Freight/UPS	5,886	16		5,902	4,985
Printing and copying	4,499	99	1,045	5,643	5,212
Fees and license	1,907	2,853	416	5,176	2,698
Computer technology	986	2,431	99	3,516	3,304
Insurance		2,582		2,582	2,484
Office supplies	1,160	1,362	34	2,556	5,963
Repairs and maintenance		2,134		2,134	1,485
Depreciation expense		1,995		1,995	1,772
Miscellaneous	109	532	1,307	1,948	2,510
Total expenses, excluding in-kind book activity	414,907	89,224	49,870	554,001	526,817
Books received in-kind and distributed	243,876			243,876	210,263
Total expenses - 2014	\$ 658,783	\$ 89,224	\$ 49,870	\$ 797,877	
Total expenses - 2013	\$ 602,859	\$ 84,401	\$ 49,820		\$ 737,080

See Notes to Financial Statements

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2014
(With Comparative Totals for 2013)

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (84,295)	\$ 210,710
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	1,995	1,772
Change in operating assets:		
Receivables	116,699	(148,012)
Book inventory	98,717	(27,990)
Prepaid expenses	(76)	(23)
Change in operating liabilities:		
Accounts payable and accrued expenses	4,304	(23,385)
Net cash flows from operating activities	<u>137,344</u>	<u>13,072</u>
Cash Flows from Investing Activity		
Acquisition of fixed assets	(540)	(2,272)
Net change in cash	136,804	10,800
Cash, beginning of year	<u>275,247</u>	<u>264,447</u>
Cash, end of year	<u>\$ 412,051</u>	<u>\$ 275,247</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:

- 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 80,000 new books to approximately 29,500 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.
- 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 and the volume of reading students do in the summer, ultimately resulting in greater reading fluency and comprehension. Through Book Up Summer, nearly 3,200 at-risk students in grades K-3 chose more than 39,000 books to take home to read over the summer.

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 ("U.S. 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 U.S. 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 or temporarily 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 August 31, 2014 and 2013, 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 U.S. GAAP. Accordingly, such information should be read in conjunction with Page Ahead's financial statements as of and for the year ended August 31, 2013, from which the summarized information was derived.

Revenue Recognition

Program Revenue

Program revenue consists primarily of donated books. Revenue is recognized when donated books are contributed.

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, 2014 and 2013. This total does not include hours donated by the Board of Directors or its committees.

Cash

Page Ahead's cash balances include checking and savings accounts with FDIC-insured banking institutions. At times, cash balances may exceed the federal insurance limits. Page Ahead does not believe it is exposed to any significant risk of loss of cash balances because of this concentration.

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.

The value of books purchased added to inventory was \$34,313 in fiscal year 2014 and \$46,459 in fiscal year 2013. The value of the books received by donation was \$115,251 in fiscal year 2014 and \$192,246 in fiscal year 2013. In future years Page Ahead's need for book inventory will decrease substantially. Changes to its program offerings, particularly the rapid expansion of Book Up Summer, necessitate the use of vendors to supply the volume of books needed to meet program goals.

Investments

Investments consist of certificates of deposit at both August 31, 2014 and 2013. Investments are reported at cost plus accrued interest in the statement of financial position.

Property and 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). Page Ahead's federal returns are open to examination for the last three years.

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.

Note 2. Contributions and Pledges Receivable

One contribution made up 14% of total contributions revenue at August 31, 2014. Three contributions made up 42% of total contributions revenue at August 31, 2013.

Pledges receivable are primarily due from one funder at August 31, 2014, and from two funders at August 31, 2013.

Note 3. Property and Equipment

Property and equipment consist of the following as of August 31:

	2014	2013	Estimated Useful Lives
Office equipment	\$ 49,411	\$ 48,870	3-7 years
Accumulated depreciation	<u>(47,164)</u>	<u>(45,168)</u>	
Net property and equipment	<u>\$ 2,247</u>	<u>\$ 3,702</u>	

Note 4. Line-of-Credit

Page Ahead has a line-of-credit agreement with a bank for \$40,000. 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, 2014 and 2013.

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, 2014, the releases of the temporary restrictions were accomplished by:

Book Up Summer Program	\$ 154,500
Books for Kids Program	37,500
Program evaluation and equipment	16,335
Purchasing miscellaneous computer equipment	<u>420</u>
	<u>\$ 208,755</u>

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

	2014	2013
Book Up Summer Program	\$ 110,000	\$ 240,000
Computer equipment	3,028	3,448
Program evaluation and equipment		<u>16,335</u>
	<u>\$ 113,028</u>	<u>\$ 259,783</u>

Note 6. Commitments

Page Ahead occupies office space under an operating lease expiring in July 2016. 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 \$56,719 in 2014 and \$61,892 in 2013.

Future minimum lease payments under operating leases are as follows:

2015	\$	51,315
2016 (11 months in 2016 under this lease)		<u>47,685</u>
	\$	<u><u>99,000</u></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 \$5,398 in the fiscal year 2014 and \$5,644 in the fiscal year 2013. These amounts represent matching contributions equal to 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 U.S. 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 manually 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 August 31, 2014 and 2013.

There were no changes in endowment net assets during the years ended August 31, 2014 and 2013.

The endowment fund as of August 31, 2014 and 2013, is invested entirely in certificates of deposit. Earnings during 2014 and 2013 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, 2014 and 2013.

Note 9. Subsequent Events

Page Ahead has evaluated subsequent events through the date these financial statements were available to be issued, which is the same date as the independent auditors' report.