

**PAGE AHEAD CHILDREN'S
LITERACY PROGRAM**

FINANCIAL REPORT

August 31, 2015

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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, 2015, 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, 2015, 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 2014 financial statements, and our report dated December 12, 2014, 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in blue ink that reads "Peterson Sullivan LLP". The signature is written in a cursive, flowing style.

December 10, 2015

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF FINANCIAL POSITION

August 31, 2015

(With Comparative Totals for 2014)

ASSETS	2015	2014
Current Assets		
Cash	\$ 431,522	\$ 412,051
Investments	100,000	100,000
Receivables	76,660	52,150
Book inventory	35,317	15,059
Scholastic book fair credits receivable	26,008	
Prepaid expenses	1,490	1,426
Total current assets	670,997	580,686
Investments Held for Endowment	100,000	100,000
Security Deposits	4,146	4,146
Office Equipment, net	878	2,247
Total assets	<u>\$ 776,021</u>	<u>\$ 687,079</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 15,597	\$ 17,720
Net Assets		
Unrestricted	585,502	456,331
Temporarily restricted	74,922	113,028
Permanently restricted	100,000	100,000
Total net assets	760,424	669,359
Total liabilities and net assets	<u>\$ 776,021</u>	<u>\$ 687,079</u>

See Notes to Financial Statements

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2015
(With Comparative Totals for 2014)

	2015			Total	2014
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue (excluding in-kind activities)					
Contributions - foundations and corporations	\$ 169,386	\$ 158,397	\$ -	\$ 327,783	\$ 285,875
Contributions - general public	160,232			160,232	119,460
Special event revenue	182,917			182,917	137,459
Program share income	18,195			18,195	43,594
Miscellaneous income	12,413			12,413	11,943
Net assets released from restrictions	196,503	(196,503)			
Total support and revenue	739,646	(38,106)		701,540	598,331
Expenses					
Program services, including purchased books	488,755			488,755	414,907
Management and general	109,115			109,115	89,224
Fundraising	60,901			60,901	49,870
Total expenses (excluding in-kind activities)	658,771			658,771	554,001
Change in net assets before in-kind activities	80,875	(38,106)		42,769	44,330
In-kind activities and Scholastic book fair credits					
Books donated	72,383			72,383	115,251
Books received in-kind and distributed	(50,095)			(50,095)	(243,876)
Scholastic book fair credits	26,008			26,008	
Net in-kind activities	48,296			48,296	(128,625)
Change in net assets	129,171	(38,106)		91,065	(84,295)
Net Assets, beginning of year	456,331	113,028	100,000	669,359	753,654
Net Assets, end of year	\$ 585,502	\$ 74,922	\$ 100,000	\$ 760,424	\$ 669,359

See Notes to Financial Statements

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2015

(With Comparative Totals for 2014)

	2015			Total	2014
	Program Services	Management and General	Fundraising		
Salaries and related expenses	\$ 221,273	\$ 23,168	\$ 40,916	\$ 285,357	\$ 251,021
Cost of purchased books	157,866			157,866	120,910
Professional fees and contract services	13,042	56,012	40	69,094	42,177
Occupancy	54,332	5,385	1,787	61,504	60,475
Travel and meetings	22,147	703	2,208	25,058	25,415
Printing and copying	6,927	60	2,050	9,037	5,643
Computer technology		210	8,712	8,922	3,516
Telephone and utilities	6,876	1,846	192	8,914	9,001
Postage and delivery	2,941	3,702	934	7,577	6,350
In-kind expenses		7,200		7,200	7,200
Fees and license	456	2,448	1,824	4,728	5,176
Office supplies	1,901	2,106	660	4,667	2,556
Insurance		2,723		2,723	2,582
Miscellaneous	109	461	1,578	2,148	1,948
Repairs and maintenance	33	1,722		1,755	2,134
Depreciation expense		1,369		1,369	1,995
Freight/UPS	852			852	5,902
Total expenses, excluding in-kind activities	488,755	109,115	60,901	658,771	554,001
Books received in-kind and distributed	50,095			50,095	243,876
Total expenses - 2015	\$ 538,850	\$ 109,115	\$ 60,901	\$ 708,866	
Total expenses - 2014	\$ 658,783	\$ 89,224	\$ 49,870		\$ 797,877

See Notes to Financial Statements

PAGE AHEAD CHILDREN'S LITERACY PROGRAM

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2015
(With Comparative Totals for 2014)

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 91,065	\$ (84,295)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	1,369	1,995
Change in operating assets:		
Receivables	(24,510)	116,699
Book inventory	(20,258)	98,717
Scholastic book fair credits receivable	(26,008)	
Prepaid expenses	(64)	(76)
Change in operating liabilities:		
Accounts payable and accrued expenses	(2,123)	4,304
Net cash flows from operating activities	<u>19,471</u>	<u>137,344</u>
Cash Flows from Investing Activity		
Acquisition of office equipment		(540)
Net change in cash	19,471	136,804
Cash, beginning of year	<u>412,051</u>	<u>275,247</u>
Cash, end of year	<u>\$ 431,522</u>	<u>\$ 412,051</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 5,000 at-risk students in grades K-2 chose more than 59,000 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 14,400 new books to approximately 5,500 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.

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 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, 2015 and 2014, 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, 2014, 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, 2015 and 2014. 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 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.

Investments

Investments consist of certificates of deposit at both August 31, 2015 and 2014. Investments are reported at cost plus accrued interest in the statement of financial position.

Receivables

Receivables as of August 31, 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, 2015 and 2014, and all receivables are scheduled 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.

Due to the rapid expansion of programs like Book Up Summer, Page Ahead's need for donated books in inventory and the distribution of those physical books has been significantly reduced. Instead, vendors are utilized to supply the volume of books needed to meet program goals, which is reflected in the increase of purchased books in the financial statements.

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).

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 balances in the prior year consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications have no impact on the net assets and the changes in net assets as previously reported.

Subsequent Events

Page Ahead has evaluated subsequent events through the date these financial statements were available to be issued, which was December 10, 2015.

Note 2. Contributions and Pledges Receivable

For the years ended August 31, 2015 and 2014, 31% and 14% of Page Ahead's contributions were from two donors and one donor, respectively.

At August 31, 2015, 87% of pledges receivable were due from two donors. At August 31, 2014, 86% of pledges receivable were due from one donor.

Note 3. Office Equipment

Office equipment consist of the following as of August 31:

	2015	2014	Estimated Useful Lives
Office equipment	\$ 49,411	\$ 49,411	3-7 years
Accumulated depreciation	(48,533)	(47,164)	
Net property and equipment	<u>\$ 878</u>	<u>\$ 2,247</u>	

Note 4. Line of Credit

Page Ahead has an unsecured 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, 2015 and 2014.

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, 2015, the releases of the temporary restrictions were accomplished by:

Book Up Summer Program	\$	187,051
Family Involvement Program		4,450
Purchasing books within a geographical designated area		3,397
Purchasing books for children		1,500
Purchasing miscellaneous computer equipment		105
		<u>196,503</u>
	\$	<u>196,503</u>

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

	<u>2015</u>	<u>2014</u>
Book Up Summer Program	\$ 50,000	\$ 110,000
Book Up Summer Program - Grant County	21,449	
Computer equipment	2,923	3,028
Family Involvement Program	550	
	<u>74,922</u>	<u>113,028</u>
	\$ <u>74,922</u>	\$ <u>113,028</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 \$57,477 in 2015 and \$56,719 in 2014. Future minimum lease payments under this total \$53,334 in 2016.

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 \$6,091 in the fiscal year 2015 and \$5,398 in the fiscal year 2014. 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 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, 2015 and 2014.

There were no changes in endowment net assets during the years ended August 31, 2015 and 2014.

The endowment fund as of August 31, 2015 and 2014, is invested entirely in certificates of deposit. Earnings during 2015 and 2014 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, 2015 or 2014.