

READY READERS

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses.....	6
Statements of Cash Flows	8
Notes to Financial Statements	9

Independent Auditor's Report

Board of Directors
Ready Readers
St. Louis, Missouri

We have audited the accompanying financial statements of Ready Readers (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statement of activities, cash flows, and functional expenses 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 of America; 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Organization'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 Organization'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 Ready Readers as of June 30, 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 of America.

Other Matters

The financial statements of Ready Readers as of June 30, 2016 were audited by other auditors whose report dated July 29, 2016 expressed an unmodified opinion on those financial statements.

Brown Smith Wallace, LLP

St. Louis, Missouri
September 25, 2017

READY READERS

Statements of Financial Position

June 30, 2017 and 2016

(See Independent Auditor's Report)

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 575,903	\$ 506,728
Pledges receivable	10,000	20,000
Book inventory - program	76,272	71,606
Book inventory - other	6,876	4,546
Marketable securities	-	2,683
Prepaid expenses	3,985	-
Total Current Assets	673,036	605,563
Property and Equipment, net	19,934	24,872
TOTAL ASSETS	\$ 692,970	\$ 630,435
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accrued liabilities	\$ 20,128	\$ 13,831
Deferred Rent	7,829	5,333
Total Liabilities	27,957	19,164
Net Assets		
Unrestricted		
Undesignated	431,013	428,187
Board designated endowment	169,200	111,504
Temporarily restricted	64,800	71,580
Total Net Assets	665,013	611,271
TOTAL LIABILITIES AND NET ASSETS	\$ 692,970	\$ 630,435

The accompanying notes are an integral part of these financial statements.

READY READERS

Statement of Activities

Year ended June 30, 2017

(See Independent Auditor's Report)

	Unrestricted	Temporarily Restricted	Total
Support and Revenues:			
Contribution revenue	\$ 332,830	\$ 128,000	\$ 460,830
Special events, less direct expenses of \$37,287	234,791	-	234,791
In-kind contributions	23,819	-	23,819
Interest income	917	-	917
Other income, net	1,198	-	1,198
Net assets released from restrictions	134,780	(134,780)	-
	<hr/>	<hr/>	<hr/>
Total support and revenues	728,335	(6,780)	721,555
	<hr/>	<hr/>	<hr/>
Expenses:			
Program services	482,503	-	482,503
Management and general	106,550	-	106,550
Fundraising	78,760	-	78,760
	<hr/>	<hr/>	<hr/>
Total expenses	667,813	-	667,813
	<hr/>	<hr/>	<hr/>
Change in Net Assets	60,522	(6,780)	53,742
	<hr/>	<hr/>	<hr/>
Net Assets, beginning of year	539,691	71,580	611,271
	<hr/>	<hr/>	<hr/>
Net Assets, end of year	\$ 600,213	\$ 64,800	\$ 665,013
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

READY READERS

Statement of Activities

Year ended June 30, 2016

(See Independent Auditor's Report)

	Unrestricted	Temporarily Restricted	Total
Support and Revenues:			
Contribution revenue	\$ 310,555	\$ 143,830	\$ 454,385
Special events, less direct expenses of \$21,150	204,191	-	204,191
In-kind contributions	43,217	-	43,217
Interest income	725	-	725
Other income	600	-	600
Net assets released from restrictions	226,250	(226,250)	-
Total support and revenues	785,538	(82,420)	703,118
Expenses:			
Program services	443,247	-	443,247
Management and general	96,842	-	96,842
Fundraising	68,032	-	68,032
Total expenses	608,121	-	608,121
Change in Net Assets	177,417	(82,420)	94,997
Net Assets, beginning of year	362,274	154,000	516,274
Net Assets, end of year	\$ 539,691	\$ 71,580	\$ 611,271

The accompanying notes are an integral part of these financial statements.

READY READERS

Statement of Functional Expenses

Year ended June 30, 2017

(See Independent Auditor's Report)

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 153,142	\$ 56,962	\$ 56,620	\$ 266,724
Employee benefits	4,545	8,848	5,307	18,700
Payroll taxes	10,765	3,696	3,929	18,390
	<u>168,452</u>	<u>69,506</u>	<u>65,856</u>	<u>303,814</u>
Accounting fees	-	9,709	-	9,709
Book gifts to children	142,779	-	-	142,779
Book distribution supplies	2,095	-	-	2,095
Book donations to the community	17,177	-	-	17,177
Depreciation and amortization	21,000	300	-	21,300
Insurance	8,537	2,134	-	10,671
Legal fees	-	-	-	-
Marketing materials- design and printing	10,306	-	8,491	18,797
Meetings	-	3,111	3	3,114
Mileage reimbursement	2,314	-	-	2,314
Miscellaneous	1,222	4,383	-	5,605
Moving	-	-	-	-
Office supplies and equipment	11,298	2,238	130	13,666
Pilot program expansion	8,862	-	-	8,862
Postage and shipping	1,275	248	332	1,855
Professional education	2,459	987	165	3,611
Program evaluation study	23,794	-	-	23,794
Rent	40,646	10,161	-	50,807
Tech support	6,427	2,300	3,783	12,510
Telephone, internet, website	4,075	363	-	4,438
Utilities	4,490	1,110	-	5,600
Volunteer training/apprec./recruitment	5,295	-	-	5,295
TOTAL EXPENSES	<u>\$ 482,503</u>	<u>\$ 106,550</u>	<u>\$ 78,760</u>	<u>\$ 667,813</u>

The accompanying notes are an integral part of these financial statements.

READY READERS

Statement of Functional Expenses

Year ended June 30, 2016

(See Independent Auditor's Report)

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 134,996	\$ 54,331	\$ 46,668	\$ 235,995
Employee benefits	12,327	11,174	5,879	29,380
Payroll taxes	9,863	3,576	3,255	16,694
	157,186	69,081	55,802	282,069
Accounting fees	-	8,980	-	8,980
Book gifts to children	135,282	-	-	135,282
Book distribution supplies	2,899	-	-	2,899
Book donations to the community	33,645	-	-	33,645
Depreciation and amortization	21,441	398	-	21,839
Insurance	5,578	3,148	-	8,726
Legal fees	-	243	-	243
Marketing materials- design and printing	9,966	-	8,298	18,264
Meetings	254	1,849	-	2,103
Mileage reimbursement	2,987	-	-	2,987
Miscellaneous	182	921	-	1,103
Moving	3,962	1,191	-	5,153
Office supplies and equipment	9,998	1,849	-	11,847
Pilot program expansion	4,127	-	-	4,127
Postage and shipping	1,606	377	-	1,983
Professional education	1,575	109	-	1,684
Program evaluation study	13,252	-	-	13,252
Rent	19,517	4,919	-	24,436
Tech support	6,306	2,177	3,932	12,415
Telephone, internet, website	4,111	338	-	4,449
Utilities	5,044	1,262	-	6,306
Volunteer training/apprec./recruitment	4,329	-	-	4,329
TOTAL EXPENSES	\$ 443,247	\$ 96,842	\$ 68,032	\$ 608,121

The accompanying notes are an integral part of these financial statements.

READY READERS

Statements of Cash Flows

Years ended June 30, 2017 and 2016

(See Independent Auditor's Audit Report)

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 53,742	\$ 94,997
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	21,300	21,839
Loss on disposal of assets	-	2,759
(Increase) decrease in operating assets:		
Pledges receivable	10,000	20,000
Prepaid expenses	(3,985)	15,219
Book inventory	(6,996)	(30,650)
Increase in liabilities:		
Accrued liabilities	6,297	7,980
Deferred rent	2,496	-
Net cash provided by operating activities	82,854	132,144
Cash flows from investing activities:		
Purchases of furniture and equipment	(16,362)	(3,886)
Proceeds from marketable securities	2,683	(2,683)
Net cash used in investing activities	(13,679)	(6,569)
NET INCREASE IN CASH AND CASH EQUIVALENTS	69,175	125,575
Cash and cash equivalents at beginning of year	506,728	381,153
Cash and cash equivalents at end of year	\$ 575,903	\$ 506,728

The accompanying notes are an integral part of these financial statements.

READY READERS

Notes to Financial Statements

June 30, 2017

(See Independent Auditor's Report)

Note A - Nature of Activities

Ready Readers (the "Organization") began operations in September 1997. It incorporated in Missouri on January 11, 1999. The Organization's mission is to inspire preschool-age children from low-income communities to become readers by reading aloud to them, increasing their exposure to quality books, and providing literacy-related experiences. The Organization receives funding from corporate and individual donors.

Ready Readers has 500 trained and supported volunteers who read weekly to 10,000 preschool-age children who attend 194 early childhood programs in the St. Louis metropolitan and surrounding areas. Our volunteers read high-quality children's books every week for 30 minutes to a classroom of preschool children. The same volunteer always reads to the same children at the same time each week, forming strong bonds between the volunteer, the children, the teachers, and the center. In addition to weekly reading sessions, each child receives at least six high-quality, new books throughout the year. During the last school year, we gave away 68,000 books.

Ready Readers also gives the classroom teachers the same six gift books with extension activities, based on the Missouri Early Learning Goals. Ready Readers provides professional development workshops for teachers in school districts, at the St. Louis Community College, and for United4Children and Childcare Aware of Eastern Missouri. Ready Readers also provides free literacy-based fieldtrips and our new Book-A-Day program for select classrooms.

Note B - Summary of Significant Accounting Policies

Basis of Accounting

These financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Revenues and expenses are recognized in the period in which they are earned or incurred.

Basis of Presentation

Financial statement presentation follows the requirements of Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 958-205-05, which requires the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Organization has no permanently restricted net assets at June 30, 2017 and 2016.

READY READERS

Notes to Financial Statements - Continued

June 30, 2017

(See Independent Auditor's Report)

Note B - Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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.

Reclassifications

Certain reclassifications have been made to the 2016 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Cash and Cash Equivalents

The Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization's cash and cash equivalents are on deposit with a major domestic financial institution. At times, bank deposits may be in excess of federally insured limits.

Book Inventory

"Book inventory – program" consists of books on hand that are used in the Organization's programs as well as those provided to program participants. Inventory is recorded at cost if purchased, and market value if donated. "Book inventory – other" consists of books on hand for the Lending Library as well as the Book-A-Day program.

Property and Equipment

Property and equipment are recorded at cost or estimated value at the time of donation. Expenditures for repairs and maintenance are charged to expense as incurred, whereas renewals and betterments that extend the lives of property and equipment are capitalized. Depreciation is computed on a straight-line basis over various useful lives.

READY READERS

Notes to Financial Statements - Continued

June 30, 2017

(See Independent Auditor's Report)

Note B - Summary of Significant Accounting Policies (Continued)

Restricted and Unrestricted Revenues and Support

Management has determined that pledges receivable are considered fully collectible; accordingly, no allowance for doubtful accounts has been established.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence or nature of any donor restrictions. The Organization reports donations of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets.

When the satisfaction of a restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Functional Allocation of Expenses

Expenses are charged to each program based on the direct costs incurred. Shared costs are distributed proportionally and equitably to program and supporting services based upon time spent and management estimates.

In-Kind Contributions

The Organization records in-kind contributions in accordance with FASB ASC 958-605, *Revenue Recognition*. Donated materials, books, stock, equipment, and other in-kind gifts are recorded as support at their estimated values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. During the years ended June 30, 2017 and 2016, the Organization received donated books in the amount of \$23,819 and \$43,217, respectively.

The Organization received services from volunteers that have an approximate value of \$380,000 during both fiscal years 2017 and 2016. However, the nature of these services does not meet the requirements under GAAP to recognize them in the financial statements as revenue and expense. These services are essential to the Organization to fulfill its mission. If these services were allowed to be included in the financial statements, the percent of program expenses would be approximately 82% and 83% for the years ended June 30, 2017 and 2016, respectively.

READY READERS

Notes to Financial Statements - Continued

June 30, 2017

(See Independent Auditor's Report)

Note B - Summary of Significant Accounting Policies (Continued)

Income Taxes

The Organization constitutes a qualified not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and is, therefore, exempt from federal income taxes.

The Organization has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings and believes that no provision for income taxes is necessary, at this time, to cover any uncertain tax positions.

Subsequent Events

The Organization evaluated all subsequent events through September 25, 2017, the date the financial statements were available to be issued.

Note C - Property and Equipment

Property and equipment consist of:	<u>2017</u>	<u>2016</u>
Computer hardware and software	\$ 82,433	\$ 67,820
Furniture and Equipment	<u>8,251</u>	<u>6,502</u>
Total cost	90,684	74,322
Less – accumulated depreciation	<u>70,750</u>	<u>49,450</u>
Total property and equipment, net	<u>\$ 19,934</u>	<u>\$ 24,872</u>

Depreciation expense was \$21,300 and \$21,839 for the years ended June 30, 2017 and 2016, respectively.

Note D - Line-of-Credit

The Organization has a \$25,000 unsecured line-of-credit with PNC Bank. The line-of-credit expires on October 4, 2017. Interest is payable on outstanding balances at prime rate which was 4.25% and 3.25% at June 30, 2017 and 2016, respectively. There was no outstanding balance on the line of credit at June 30, 2017 and 2016, respectively.

READY READERS

Notes to Financial Statements - Continued

June 30, 2017

(See Independent Auditor's Report)

Note E - Temporarily Restricted Net Assets

	<u>2017</u>	<u>2016</u>
Temporarily restricted net assets were restricted for the following at June 30:		
Time restrictions	\$ 57,800	\$ 20,000
Book purchases	<u>7,000</u>	<u>51,580</u>
	<u>\$ 64,800</u>	<u>\$ 71,580</u>
Net assets released as of June 30:		
Time restrictions	\$ 20,000	\$ 20,000
Book purchases	<u>114,780</u>	<u>206,250</u>
	<u>\$ 134,780</u>	<u>\$ 226,250</u>

Note F - Commitments

In February 2016, the Organization entered into a lease for office space in St. Louis, Missouri that expires July 31, 2021. The lease agreement contains escalating rent increases over the life of the lease. The Organization recognizes the rent expense for these leases on a straight-line basis. Based upon this accounting policy, rent expense was \$2,496 and \$5,333 less than actual rent paid for in 2017 and 2016, respectfully. The accumulated amount is \$7,829 which is reported on the statement of financial position as rent liability as of June 30, 2017. Rent expense related to this commitment was \$31,762 and \$24,436, for the years ended June 30, 2017 and 2016, respectively.

Lease commitments for the next five years:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 32,743
2019	33,339
2020	34,168
2021	34,339
2022	2,933

READY READERS

Notes to Financial Statements - Continued

June 30, 2017

(See Independent Auditor's Report)

Note G - Board Designated Endowment Fund

During the year ended June 30 2012, the Organization adopted an endowment fund policy for the purpose of securing, strengthening, and extending the Organization's mission by receiving gifts, bequests, and other conveyances, where the intent of the donor is to make a lasting contribution to the Organization. Endowment assets only include Board designated endowments made up of unrestricted gifts of money and other property. The policy also allows the Board to establish a Donor Restricted endowment for gifts designated for specific purposes by donors.

Under this policy, the endowment assets are to be managed so as to preserve and grow the funds consistent with the objectives of the policy, and is governed by the Endowment Committee. Funds are to not to be used for operating or expenses ordinarily included in the annual budget unless otherwise specified by the Board of Directors.

Pursuant to the Missouri Uniform Prudent Management of Institutional funds Act (the "Act"), the Endowment Committee invests endowment assets in a manner consistent with total return principles reflected in the Act.

Recognizing that many charitable endowment funds establish their spending rate within a defined range, the Organization has adopted a spending policy that calls for the spending rate to be recommended and approved by the Board of Directors annually.

All endowment fund investments are in accordance with and subject to the restrictions imposed by the Act as well as invested in only instruments defined in the Endowment Fund Policy.

These policies act in accordance with accounting principles generally accepted in the United States of America and applicable laws in the state of Missouri.

Contributions to the endowment fund for the years ended June 30, 2017 and 2016 totaled \$57,697 and \$54,126 respectively, with no expenditures made during each of these years. The account balance at June 30, 2017 and 2016 was \$169,200 and \$111,503, respectively.