KIDS NEED TO READ

Inspiring Imagination

FINANCIAL STATEMENTS
(Audited)

YEAR ENDED MARCH 31, 2013

LOHMAN COMPANY, PLLC
Certified Public Accountants & Business Consultants

CONTENTS

LOHMAN COMPANY, PLLC
Certified Public Accountants & Business Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kids Need to Read
Mesa, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Kids Need to Read which comprise the statement of financial position as of March 31, 2013, 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 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 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kids Need to Read as of March 31, 2013, 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.

Lohman Company, PLLC

Mesa, Arizona
August 22, 2013

KIDS NEED TO READ
STATEMENT OF FINANCIAL POSITION
March 31, 2013

ASSETS		
Current assets		
Cash	$	771
Contributions receivable		14,604
Pledge receivable		50,000
Contributed books receivable		27,458
Books inventory		251,942
Prepaid insurance		396
Total current assets		345,171
Property and equipment		2,199
Less accumulated depreciation		(1,674)
Total property and equipment		525
Other assets		
Pledge receivable, less unamortized discount of $51,241		298,759
Security deposit		800
Total other assets		299,559
Total assets	$	645,255

See accompanying notes to financial statements

KIDS NEED TO READ
STATEMENT OF FINANCIAL POSITION (Continued)
March 31, 2013

LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$	10,392
Accrued expenses		9,617
Deferred revenue		374
Total current liabilities		20,383
Commitments		
Net assets		
Unrestricted		273,713
Temporarily restricted		351,159
Total net assets		624,872
Total liabilities and net assets	$	645,255

See accompanying notes to financial statements

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STATEMENT OF ACTIVITIES
Year Ended March 31, 2013

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributed books inventory	$ 149,461	$ -	$ 149,461
Contributions	47,716	13,891	61,607
Grants	16,000	-	16,000
Special event	25,375	-	25,375
Contributed services	16,650	-	16,650
Other income, net	1,689	-	1,689
Total support and revenue	256,891	13,891	270,782
Net assets released from time restrictions	50,000	(50,000)	-
Total support and revenue and reclassifications	306,891	(36,109)	270,782
Functional expenses			
Program services	279,032	-	279,032
Fundraising	16,612	-	16,612
General and administrative	54,691	-	54,691
Total functional expenses	350,335	-	350,335
Disposal of obsolete donated inventory	17,520	-	17,520
Total functional expenses and disposal	367,855	-	367,855
Change in net assets	(60,964)	(36,109)	(97,073)
Net assets, beginning balance, restated	334,677	387,268	721,945
Net assets, ending balance	$ 273,713	$ 351,159	$ 624,872

See accompanying notes to financial statements

KIDS NEED TO READ
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended March 31, 2013

	Program Services	Support Services: Fundraising	Support Services: General and Administrative	Total
Distributed books inventory	$ 194,815	$ -	$ -	$ 194,815
Salaries	51,900	3,300	26,800	82,000
Professional fees	3,650	3,850	19,650	27,150
Rent and utilities	9,836	1,093	1,214	12,143
Payroll taxes	3,970	253	2,050	6,273
Special event	-	4,878	-	4,878
Travel	4,524	-	-	4,524
Promotion	3,794	25	-	3,819
Other	314	1,264	1,937	3,515
Shipping	2,570	23	271	2,864
Materials and supplies	1,794	175	194	2,163
Equipment	1,716	104	115	1,935
Fundraising fees	-	1,630	-	1,630
Insurance	-	-	1,395	1,395
Purchased services	149	17	619	785
Depreciation	-	-	446	446
Total functional expenses	$ 279,032	$ 16,612	$ 54,691	$ 350,335

See accompanying notes to financial statements

KIDS NEED TO READ
STATEMENT OF CASH FLOWS
Year Ended March 31, 2013

Cash flows from operating activities		
Change in net assets	$	(97,073)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Contributed books receivable		(27,458)
Contributed books inventory		(122,003)
Distributed books inventory		194,815
Disposal of obsolete donated inventory		17,520
Amortization of discount on pledge receivable		(11,491)
Depreciation		447
(Increase) decrease in:		
Contributions receivable		(10,074)
Pledge receivable		50,000
Purchased books inventory		(12,245)
Prepaid insurance		1,309
Increase (decrease) in:		
Accounts payable		9,409
Accrued expenses		6,567
Deferred revenue		374
Net cash provided by operating activities		97
Cash, beginning balance		674
Cash, ending balance	$	771

See accompanying notes to financial statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of organization:

Kids Need to Read ("Organization") was incorporated on May 29, 2008 as The Kids Need to Read Foundation, a not-for-profit corporation under the laws of the State of California. On December 17, 2009, the Organization amended its articles of incorporation to change its name. The Organization's administrative office is located in Mesa, Arizona. The mission of Kids Need to Read is to create a culture of reading for children by providing inspiring books to under-funded schools, libraries and literacy programs across the United States, especially those serving disadvantaged children. The Organization is primarily supported by contributions of books from authors and publishing companies and contributions by corporations and individuals.

Basis of presentation:

The Organization's external financial statement presentation is governed by Accounting Standards Codification ("ASC") Topic 958, *Not-for-Profit Entities* ("ASC 958"). Under ASC 958, a not-for-profit organization is required to report 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 based upon the existence or absence of donor-imposed restrictions as follows:

Unrestricted	Net assets that are not subject to donor-imposed restrictions. Certain unrestricted net assets may be designated for specific purposes by action of the Board of Directors. The Organization currently does not have any Board of Directors designated unrestricted net assets.
Temporarily restricted	Net assets subject to donor-imposed restrictions that were not met as of the year end of the current reporting period and can be fulfilled by action of the Organization pursuant to those restrictions or that expire by the passage of time. See Note 5 for temporarily restricted net assets that expire by the passage of time.
Permanently restricted	Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization. The Organization currently does not have any donor-imposed permanently restricted net assets.

Contributions and pledge receivable:

Unconditional contributions and pledges receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional contributions and pledges receivable that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the contributions and pledges are received. Amortization of the discounts is included in contribution revenue. Conditional contributions and pledges are not included as support until the conditions are substantially met. As of March 31, 2013, the Organization does not have any conditional contributions and pledges receivable.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

The Organization provides an allowance for uncollectible contributions and pledges receivables by evaluating the receivables, donors' financial condition, historical collection information and current economic conditions. Management determined that no allowance was considered necessary at March 31, 2013.

Books inventory:

Books inventory consists of books and other reading materials. Contributions of books are recorded as support at their estimated fair value at the date of contribution and such items are expensed, based upon specific identification method, as program services expense when distributed to other not-for-profit corporations. Contributions of new books are valued at 80% of the retail price beginning April 1, 2012. Prior to April 1, 2012, contributions of new books were valued at the retail price. Contributions of used books are valued at half the retail price. Contributions of advanced reading copy books are valued at one fourth the retail price. Retail price is based on the publisher's listed price or, if no listed price, the fair value as reported online at the date of contribution. Contributed books with no identifiable retail price or not usable by the Organization are valued at $1.

Books purchased by the Organization are valued at cost (specific identification) or market. Market is based on the lower of replacement cost or estimated realizable value. The valuation of books inventory requires management to estimate obsolete or excess inventory. The determination of obsolete or excess inventory requires management to estimate the future demand for the Organization's books inventory. Management determined that no allowance for inventory obsolescence was necessary at March 31, 2013.

Property and equipment:

The Organization capitalizes all property and equipment with a value greater than $500 and an estimated useful life of three years or more beginning April 1, 2012. Prior to April 1, 2012, the amount was $300. Purchased property and equipment are carried at cost. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Depreciation has been provided on the straight-line method over estimated useful lives of three years. When items of property and equipment are sold or retired, the related costs and accumulated depreciation is removed from the accounts and any gain or loss is included in change in unrestricted net assets.

Repairs that significantly extend the lives of property and equipment are capitalized, while routine repairs and maintenance are expensed when incurred.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Deferred revenue:

Deferred revenue represents funds received in advance for services to be provided during a fundraiser. Such amounts are recognized as revenue when the related services are provided.

Contributions, pledges, and grants:

The Organization follows ASC 958. In accordance with ASC 958, contributions, pledges, and grants received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restriction.

All contributions, pledges, and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary 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. However, if a restriction is fulfilled in the same time period in which the contribution, pledge, or grant is received, the Organization reports the support as unrestricted.

Contributed goods and services:

Contributed goods and services are recorded as support at their estimated fair value at the date goods are contributed or services are rendered. Contributed services are recognized when the services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and typically need to be purchased if not contributed. The Organization recognized contributed services and related expenses of $16,650 for the year ended March 31, 2013.

In addition, a substantial number of volunteers have contributed significant amounts of their time to the Organization; however, the fair value of these services have not been recorded in the accompanying financial statements since the appropriate criteria for recognizing the services have not been met.

Functional expenses:

Expenses that can be identified as a program or fundraising activity are charged directly to their natural expenditure classification. Those expenses which cannot be specifically identified as a program or fundraising activity have been allocated based upon management’s best estimate of usage.

Income taxes:

The Organization has received from the Internal Revenue Service an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. It has been classified as a public charity under section 509(a)(2). A provision is made in the financial statements for income taxes on unrelated trade or business income earned, when applicable. No significant timing or other difference that would result in a material deferred income tax liability exists.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

The Organization adopted the accounting standard on accounting for uncertainty in income taxes. Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the accompanying financial statements to comply with the provisions of this guidance. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2008.

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 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events:

The Organization has evaluated subsequent events through August 22, 2013, the date on which the financial statements were available to be issued. See Note 7 for subsequent event noted.

Note 2. Recent Authoritative Accounting Guidance

In October 2012, the Financial Accounting Standards Board issued guidance which requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit entity-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities. This guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013. The adoption of this guidance is not expected to materially impact the Organization's financial statements.

Note 3. Pledge Receivable

Pledge receivable represents a donor's unconditional promise to give to the Organization and is measured at the present value of estimated future cash flows using a discount rate of 3.13%. Collection of the receivables is as follows at March 31, 2013:

Due in less than one year	$	50,000
Due in one to five years		250,000
Due in more than five years		100,000
Total		400,000
Less unamortized discount		(51,241)
	$	348,759

Pledge receivable consists of a long-term unconditional promise to give from one donor.

Note 4. Books Inventory

The following is an analysis of the activity in books inventory during the year ended March 31, 2013:

Books inventory, beginning balance	$	330,661
Adjust fair value of contributed books inventory in prior year		(632)
Books inventory, beginning restated		330,029
Contributed books inventory, less books contribution receivable of $27,458 at March 31, 2013		122,003
Distributed books inventory		(194,815)
Purchased books inventory		12,245
Disposal of obsolete donated inventory		(17,520)
Books inventory, ending balance	$	251,942

Note 5. Net Assets

Temporarily restricted net assets that expire by the passage of time are $351,159 at March 31, 2013.

Net assets released from time restrictions are $50,000 for the year ended March 31, 2013.

Note 6. Net Assets Restatement and Prior Period Adjustments

As of March 31, 2012, net assets were restated as follows:

	Unrestricted	Temporarily Restricted	Total
Net assets, beginning balance	$ 330,779	$ -	$ 330,779
Record long-term unconditional pledge, net of discount of $73,413	-	426,587	426,587
Record amortization of discount related to first payment on long-term unconditional pledge	-	10,681	10,681
Reclass net assets released from time restrictions	-	(50,000)	(50,000)
Record unconditional promises to give	4,530	-	4,530
Adjust fair value of contributed books inventory	(632)	-	(632)
Net assets, beginning balance, restated	$ 334,677	$ 387,268	$ 721,945

A long-term unconditional pledge and unconditional promises to give should have been recognized in the year the pledge and contributions were promised. These errors result in an understatement of pledge and contributions receivable and contributions revenue. In addition, the fair value of contributed books inventory was calculated incorrectly based on the Organization's policy. The error results in an overstatement of books inventory and contributed books inventory revenue. The effect of these errors results in an understatement of temporarily restricted net assets of $387,268 and an understatement of unrestricted net assets of $3,898 as of March 31, 2012. The effect of these errors results in an overstatement of the change in net assets of $34,789 for the year ended March 31, 2012.

Note 7. Commitment

Operating lease:

The Organization leases its administrative office under an operating lease that requires monthly payments of $600 plus sales tax expiring August 2013. The future minimum rental payments required under the operating lease is approximately $3,000 for the year ended March 31, 2104. Rental expense for this operating lease was $8,794 for the year ended March 31, 2013 and is included on the accompanying statement of activities.

Subsequent to the year ended March 31, 2013, the Organization amended the operating lease to extend the expiration date to August 2014 with monthly payments of $800 plus sales tax. In addition, the lessor has the option to terminate the operating lease with 60 days' written notice.