KIDS NEED TO READ

Inspiring Imagination

FINANCIAL STATEMENTS
(Reviewed)

15 MONTHS ENDED MARCH 31, 2012

LOHMAN COMPANY, PLLC

Certified Public Accountants & Business Consultants

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LOHMAN COMPANY, PLLC
Certified Public Accountants & Business Consultants

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

We have reviewed the accompanying statement of financial position of Kids Need to Read as of March 31, 2012, and the related statements of activities, functional expenses and cash flows for the 15 months then ended. A review includes primarily applying analytical procedures to management’s financial data and making inquiries of the Organization’s management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Lohman Company, PLLC

Mesa, Arizona
June 28, 2012

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STATEMENT OF FINANCIAL POSITION
March 31, 2012

ASSETS		
Current assets		
Cash	$	674
Books inventory		330,661
Prepaid insurance		1,705
Total current assets		333,040
Property and equipment		2,199
Less accumulated depreciation		(1,227)
Total property and equipment		972
Security deposit		800
Total assets	$	334,812

See accompanying notes and independent accountant's review report

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STATEMENT OF FINANCIAL POSITION (Continued)
March 31, 2012

LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities		
Accounts payable	$	983
Accrued expenses		3,050
Total current liabilities		4,033
Commitments		
Unrestricted net assets		330,779
Total liabilities and unrestricted net assets	$	334,812

See accompanying notes and independent accountant's review report

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STATEMENT OF ACTIVITIES
15 Months Ended March 31, 2012

UNRESTRICTED NET ASSETS		
Support and income		
Books inventory contributed	$	200,520
Contributions		133,732
Grants		11,898
Other		6,819
Interest income		179
Total support and income		353,148
Functional expenses		
Program		227,663
Fundraising		20,808
General and administrative		41,291
Total functional expenses		289,762
Increase in unrestricted net assets		63,386
Unrestricted net assets, beginning balance		267,393
Unrestricted net assets, ending balance	$	330,779

See accompanying notes and independent accountant's review report

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STATEMENT OF FUNCTIONAL EXPENSES
15 Months Ended March 31, 2012

	Program Services	Support Services: Fundraising	Support Services: General and Administrative	Total
Distribution of books inventory	$ 142,396	$ -	$ -	$ 142,396
Salaries	56,680	3,570	29,150	89,400
Payroll taxes and benefits	3,882	246	2,033	6,161
Rent and utilities	10,133	1,126	1,251	12,510
Professional fees	325	7,559	1,630	9,514
Promotion	6,239	-	-	6,239
Other	312	-	3,567	3,879
Fundraising	-	3,590	-	3,590
Fundraising events	-	3,464	-	3,464
Shipping	2,996	163	275	3,434
Materials and supplies	2,254	250	278	2,782
Purchased services	576	703	692	1,971
Insurance	-	-	1,534	1,534
Equipment	1,237	137	153	1,527
Depreciation	-	-	728	728
Travel	633	-	-	633
Total functional expenses	$ 227,663	$ 20,808	$ 41,291	$ 289,762

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STATEMENT OF CASH FLOWS
15 Months Ended March 31, 2012

Cash flows from operating activities	
Increase in unrestricted net assets	$ 63,386
Adjustments to reconcile increase in unrestricted net assets to net cash used by operating activities	
Books inventory contributed	(200,520)
Distribution of books inventory	142,396
Depreciation	728
(Increase) decrease in:	
Books inventory purchased	(19,555)
Prepaid insurance	(449)
Security deposit	(800)
Increase (decrease) in:	
Accounts payable	983
Accrued expenses	2,075
Net cash used by operating activities	(11,756)
Cash flows from investing activities	
Purchase of property and equipment	(969)
Net cash used by investing activities	(969)
Net decrease in cash	(12,725)
Cash, beginning balance	13,399
Cash, ending balance	$ 674

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 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") Subtopic 205, *Presentation of Financial Statements* ("ASC 205"). Under ASC 205, 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. ASC 205 establishes a specific financial statement reporting format for not-for-profit organizations and requires the statement of activities to reflect all changes in net assets.

The Organization currently does not have any donor-imposed temporarily or permanently restricted net assets.

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. Contributions of new books are 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 (first-in, first-out) 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, 2012.

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

Property and equipment:

The Organization capitalizes all property and equipment with a value greater than $300 and an estimated useful life of three years or more. 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.

Contributions and grants:

The Organization follows ASC Topic 958, *Not-for-profit entities* (“ASC 958”). In accordance with ASC 958, contributions 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 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 is received, the Organization reports the support as unrestricted. During the period ended March 31, 2012, all support was unrestricted.

Contributed goods and services:

Contributed goods and services are recorded as support at their estimated fair value at the date goods contributed or services rendered. Contributed services are recognized if the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and typically need to be purchased if not contributed. Contributed services have not been recorded in the accompanying financial statements since the appropriate criteria for recognizing the services have not been met. Nevertheless, a substantial number of volunteers have contributed significant amounts of their time to the Organization.

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

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.

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. The Organization is not subject to income tax examinations by the U.S. federal, state or local tax authorities prior to the incorporation of the Organization.

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 June 28, 2012, the date on which the financial statements were available to be issued.

Note 2. 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 as follows at March 31, 2012:

Years Ending March 31:		
2013	$	7,200
2014		3,000
	$	10,200

Rental expense was $8,183 for the period ended March 31, 2012, and is included in functional expenses on the accompanying statement of activities.