KIDS NEED TO READ

Inspiring Imagination

FINANCIAL STATEMENTS
(Reviewed)

YEAR ENDED MARCH 31, 2015

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, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization 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 1, 2015

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STATEMENT OF FINANCIAL POSITION
March 31, 2015

ASSETS		
Current assets		
Cash	$	55,556
Pledge receivable		50,000
Books inventory		280,947
Prepaid expenses		2,634
Total current assets		389,137
Property and equipment		5,698
Less accumulated depreciation		(2,292)
Total property and equipment		3,406
Other assets		
Pledge receivable, less unamortized discount of $30,304		219,696
Security deposit		1,471
Total other assets		221,167
Total assets	$	613,710

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STATEMENT OF FINANCIAL POSITION (Continued)
March 31, 2015

LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$	2,046
Accrued expenses		2,367
Total current liabilities		4,413
Commitment		
Net assets		
Unrestricted		339,601
Temporarily restricted		269,696
Total net assets		609,297
Total liabilities and net assets	$	613,710

See accompanying notes and independent accountant's review report

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STATEMENT OF ACTIVITIES
Year Ended March 31, 2015

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributed books inventory	$ 254,238	$ -	$ 254,238
Contributions	111,486	9,651	121,137
Grants	5,238	-	5,238
Special event	27,230	-	27,230
Contributed services	107,479	-	107,479
Other income, net	15,228	-	15,228
Total support and revenue	520,899	9,651	530,550
Net assets released from time restrictions	54,800	(54,800)	-
Total support and revenue and reclassifications	575,699	(45,149)	530,550
Functional expenses			
Program services	360,474	-	360,474
Fundraising	20,966	-	20,966
General and administrative	68,767	-	68,767
Total functional expenses	450,207	-	450,207
Disposal of obsolete donated inventory	468	-	468
Total functional expenses and disposal	450,675	-	450,675
Change in net assets	125,024	(45,149)	79,875
Net assets, beginning balance	214,577	314,845	529,422
Net assets, ending balance	$ 339,601	$ 269,696	$ 609,297

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STATEMENT OF FUNCTIONAL EXPENSES
Year Ended March 31, 2015

		Support Services		
	Program Services	Fundraising	General and Administrative	Total
Distributed books inventory	$ 200,380	$ -	$ -	$ 200,380
Professional fees	75,000	-	42,863	117,863
Salaries	50,930	12,076	12,831	75,837
Promotion	13,190	-	-	13,190
Rent and utilities	7,785	1,780	1,557	11,122
Materials and supplies	3,084	-	2,716	5,800
Payroll taxes	3,813	944	998	5,755
Shipping	3,449	334	272	4,055
Fundraising fees	-	3,672	-	3,672
Purchased services	-	652	2,098	2,750
Special event	1,050	1,445	-	2,495
Equipment	-	-	2,302	2,302
Travel	1,793	-	-	1,793
Insurance	-	-	1,724	1,724
Other	-	63	1,206	1,269
Depreciation	-	-	200	200
Total functional expenses	$ 360,474	$ 20,966	$ 68,767	$ 450,207

See accompanying notes and independent accountant's review report

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STATEMENT OF CASH FLOWS
Year Ended March 31, 2015

Cash flows from operating activities		
Change in net assets	$	79,875
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Contributed books inventory		(254,238)
Distributed books inventory		200,380
Disposal of obsolete donated inventory		468
Amortization of discount on pledge receivable		(9,651)
Depreciation		200
(Increase) decrease in:		
Contributions receivable		5,724
Pledge receivable		50,000
Purchased books inventory		(13,043)
Prepaid expenses		(234)
Security deposit		(671)
Increase (decrease) in:		
Accounts payable		(965)
Accrued expenses		895
Deferred revenue		(12,523)
Net cash provided by operating activities		46,217
Cash flows from investing activities		
Purchases of property and equipment		(3,498)
Net cash used by investing activities		(3,498)
Net increase in cash		42,719
Cash, beginning balance		12,837
Cash, ending balance	$	55,556

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 monetary contributions from 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, 2015, 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, 2015.

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 the 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, 2015.

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. 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 to seven 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)

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 professional fee expenses of $107,479 for the year ended March 31, 2015.

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)

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 2010.

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 1, 2015, the date on which the financial statements were available to be issued.

Note 2. Recent Authoritative Accounting Guidance

In October 2012, the Financial Accounting Standards Board issued new accounting guidance Accounting Standards Update ("ASU") 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows (a Consensus of the FASB Emerging Issues Task Force)* 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 did not 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, 2015:

Due in less than one year	$	50,000
Due in one to five years		250,000
Total		300,000
Less unamortized discount		(30,304)
	$	269,696

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, 2015:

Books inventory, beginning balance	$	214,514
Contributed books inventory		254,238
Distributed books inventory		(200,380)
Purchased books inventory		13,043
Disposal of obsolete donated inventory		(468)
Books inventory, ending balance	$	280,947

Note 5. Net Assets

Temporarily restricted net assets that expire by the passage of time are $269,696 at March 31, 2015.

Net assets released from time restrictions are $54,800 for the year ended March 31, 2015.

Note 6. Commitment

Operating lease:

The Organization leases its administrative office under a non-cancelable operating lease that requires monthly payments ranging from $0 to $1,471 plus sales tax, expiring August 2017.

During September 2014, the Organization subleased a portion of it administrative office to a related party under a month-to-month agreement requiring monthly payment of $685 plus the related party's pro rata share of utilities.

Rental expense for this operating lease was $13,568 for the year ended March 31, 2015 and net rental expense, after deducting rental income of $6,151 from the sublease, is $7,417 and is included in functional expenses on the accompanying statement of activities.

Note 6. Commitment (Continued)

The future minimum rental payments required under this operating lease is as follows as of March 31, 2015:

Years Ending March 31:		
2016	$	16,307
2017		17,253
2018		7,353
	$	40,913