KIDS NEED TO READ

Inspiring Imagination

FINANCIAL STATEMENTS
(Reviewed)

YEAR ENDED MARCH 31, 2016

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 financial statements of Kids Need to Read, which comprise the statement of financial position as of March 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of 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'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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with *Statements on Standards for Accounting and Review Services* promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

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 accordance with accounting principles generally accepted in the United States of America.

Lohman Company, PLLC

Mesa, Arizona
August 19, 2016

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STATEMENT OF FINANCIAL POSITION
March 31, 2016

ASSETS		
Current assets		
Cash	$	70,863
Pledges receivable		51,082
Books inventory		358,893
Prepaid expenses		4,258
Total current assets		485,096
Property and equipment		
Office equipment		4,698
Vehicle		26,850
		31,548
Less accumulated depreciation		(3,574)
Total property and equipment		27,974
Other assets		
Pledge receivable, less unamortized discount of $21,862		178,138
Security deposit		1,471
Total other assets		179,609
Total assets	$	692,679

See accompanying notes and independent accountant's review report

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STATEMENT OF FINANCIAL POSITION (Continued)
March 31, 2016

LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$	7,468
Accrued expenses		3,621
Total current liabilities		11,089
Commitment		
Net assets		
Unrestricted		452,370
Temporarily restricted		229,220
Total net assets		681,590
Total liabilities and net assets	$	692,679

See accompanying notes and independent accountant's review report

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STATEMENT OF ACTIVITIES
Year Ended March 31, 2016

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributed books inventory	$ 280,755	$ -	$ 280,755
Contributions	71,082	9,524	80,606
Grants	85,950	-	85,950
Special event	28,577	-	28,577
Fundraising	15,867	-	15,867
Contributed services	41,361	-	41,361
Total support and revenue	523,592	9,524	533,116
Net assets released from restrictions	50,000	(50,000)	-
Total support and revenue and reclassifications	573,592	(40,476)	533,116
Functional expenses			
Program services	355,538	-	355,538
Fundraising	34,603	-	34,603
General and administrative	70,682	-	70,682
Total functional expenses	460,823	-	460,823
Change in net assets	112,769	(40,476)	72,293
Net assets, beginning balance	339,601	269,696	609,297
Net assets, ending balance	$ 452,370	$ 229,220	$ 681,590

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STATEMENT OF FUNCTIONAL EXPENSES
Year Ended March 31, 2016

	Program Services	Support Services: Fundraising	Support Services: General and Administrative	Total
Distributed books inventory	$ 266,071	$ -	$ -	$ 266,071
Salaries	49,735	18,103	9,775	77,613
In-kind professional fees	-	-	38,766	38,766
Materials and supplies	10,820	511	1,385	12,716
Professional fees	1,482	1,453	8,982	11,917
Rent and utilities	8,060	1,842	1,612	11,514
Shipping	9,938	900	341	11,179
Special event	4,852	3,341	-	8,193
Payroll taxes	3,621	1,350	737	5,708
Fundraising fees	-	5,074	-	5,074
Purchased services	-	462	2,612	3,074
Insurance	-	-	2,445	2,445
Equipment	-	-	1,967	1,967
Travel	-	1,493	-	1,493
Depreciation	959	-	524	1,483
Other	-	74	736	810
Donations	-	-	800	800
Total functional expenses	$ 355,538	$ 34,603	$ 70,682	$ 460,823

See accompanying notes and independent accountant's review report

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STATEMENT OF CASH FLOWS
Year Ended March 31, 2016

Cash flows from operating activities		
Change in net assets	$	72,293
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Contributed books inventory		(280,755)
Distributed books inventory		266,071
Amortization of discount on pledge receivable		(8,442)
Donation of property and equipment		800
Depreciation		1,482
(Increase) decrease in:		
Pledges receivable		48,918
Purchased books inventory		(63,262)
Prepaid expenses		(1,624)
Increase (decrease) in:		
Accounts payable		5,422
Accrued expenses		1,254
Net cash provided by operating activities		42,157
Cash flows from investing activities		
Purchases of property and equipment		(26,850)
Net cash used by investing activities		(26,850)
Net increase in cash		15,307
Cash, beginning balance		55,556
Cash, ending balance	$	70,863

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, 2016, 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, 2016.

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, 2016.

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 $41,361 for the year ended March 31, 2016.

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 2011.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events:

The Organization has evaluated subsequent events through August 19, 2016, the date on which the financial statements were available to be issued.

Note 2. Recent Authoritative Accounting Guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), requiring an entity that leases assets – or lessees – to recognize assets and liabilities on their statement of financial position for leases with lease terms of more than 12 months. The updated standard will replace most existing lease recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early adoption is permitted for all organizations. The Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

Note 3. Pledges Receivable

Pledges receivable represent a long-term and short-term promise to give to the Organization. The long-term portion of the unconditional promise to give to the Organization is measured at the present value of estimated future cash flows using a discount rate of 3.13%. Pledges receivable is as follows at March 31, 2016:

Due in less than one year	$ 51,082
Due in one to five years	200,000
Total	251,082
Less unamortized discount	(21,862)
	$ 229,220

Note 4. Books Inventory

The following is an analysis of the activity in books inventory during the year ended March 31, 2016:

Books inventory, beginning balance	$ 280,947
Contributed books inventory	280,755
Distributed books inventory	(266,071)
Purchased books inventory	63,262
Books inventory, ending balance	$ 358,893

Note 5. Net Assets

Temporarily restricted net assets that expire by the passage of time are $229,220 at March 31, 2016.

Net assets released from time restrictions are $50,000 for the year ended March 31, 2016.

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.

The Organization subleases a portion of its 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.

Note 6. Commitment (Continued)

Rental expense for this operating lease was $17,118 for the year ended March 31, 2016 and net rental expense, after deducting rental income of $11,321 from the sublease, is $5,797 and is included in functional expenses on the accompanying statement of activities.

The future minimum rental payments required under this operating lease is as follows as of March 31, 2016:

Years Ending March 31:	
2017	$ 17,253
2018	7,353
	$ 24,606