KIDS NEED TO READ

Inspiring Imagination

FINANCIAL STATEMENTS
(Reviewed)

YEAR ENDED MARCH 31, 2018

LOHMAN COMPANY, PLLC

Certified Public Accountants & Business Consultants

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FINANCIAL STATEMENTS

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, 2018, 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
October 17, 2018

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STATEMENT OF FINANCIAL POSITION
March 31, 2018

ASSETS		
Current assets		
Cash	$	45,733
Pledges receivable		50,624
Books inventory		1,738,388
Prepaid expenses		5,408
Total current assets		1,840,153
Property and equipment		
Office equipment		19,633
Vehicle		26,850
		46,483
Less accumulated depreciation		(16,689)
Total property and equipment		29,794
Other assets		
Investments held by Arizona Community Foundation		28,038
Pledge receivable, less unamortized discount of $8,922		91,078
Security deposit		2,941
Total other assets		122,057
Total assets	$	1,992,004

See accompanying notes and independent accountant's review report

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STATEMENT OF FINANCIAL POSITION (Continued)
March 31, 2018

LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$	6,982
Accrued expenses		4,650
Total current liabilities		11,632
Commitment		
Net assets		
Unrestricted		1,804,533
Temporarily restricted		147,801
Permanently restricted		28,038
Total net assets		1,980,372
Total liabilities and net assets	$	1,992,004

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STATEMENT OF ACTIVITIES
Year Ended March 31, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Contributed books inventory	$ 909,983	$ -	$ -	$ 909,983
Contributions	30,496	8,023	-	38,519
Grants	68,695	5,000	-	73,695
Special event	62,933	-	-	62,933
Fundraising	11,698	-	-	11,698
Contributed services	13,100	-	-	13,100
Investment income, net	-	-	1,923	1,923
Total support and revenue	1,096,905	13,023	1,923	1,111,851
Net assets released from restrictions	58,690	(58,690)	-	-
Total support and revenue and reclassifications	1,155,595	(45,667)	1,923	1,111,851
Functional expenses				
Program services	645,580	-	-	645,580
Fundraising	36,535	-	-	36,535
General and administrative	52,302	-	-	52,302
Total functional expenses before disposal of obsolete inventory	734,417	-	-	734,417
Disposal of obsolete inventory	40,924	-	-	40,924
Total functional expenses	775,341	-	-	775,341
Change in net assets	380,254	(45,667)	1,923	336,510
Net assets, beginning balance	1,424,279	193,468	26,115	1,643,862
Net assets, ending balance	$ 1,804,533	$ 147,801	$ 28,038	$ 1,980,372

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STATEMENT OF FUNCTIONAL EXPENSES
Year Ended March 31, 2018

		Support Services		
	Program Services	Fundraising	General and Administrative	Total
Distributed books inventory	$ 532,643	$ -	$ -	$ 532,643
Salaries	69,279	22,333	14,560	106,172
In-kind professional fees	-	-	9,600	9,600
Materials and supplies	6,443	35	870	7,348
Professional fees	96	362	9,797	10,255
Rent and utilities	10,738	2,454	2,148	15,340
Shipping	13,332	494	220	14,046
Special event	2,734	5,771	-	8,505
Payroll taxes	6,479	2,142	1,447	10,068
Fundraising fees	-	1,100	-	1,100
Purchased services	-	1,601	1,736	3,337
Insurance	-	-	5,054	5,054
Equipment	-	-	1,780	1,780
Travel	-	-	201	201
Depreciation	3,836	-	3,998	7,834
Other	-	235	891	1,126
Promotion	-	8	-	8
Total functional expenses	$ 645,580	$ 36,535	$ 52,302	$ 734,417

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STATEMENT OF CASH FLOWS
Year Ended March 31, 2018

Cash flows from operating activities		
Change in net assets	$	336,510
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Contributed books inventory		(909,945)
Distributed books inventory		532,643
Disposal of obsolete inventory		40,924
Amortization of discount on pledge receivable		(5,799)
Depreciation		7,179
(Increase) decrease in:		
Contributions receivable		502
Pledges receivable		49,926
Purchased books inventory		(43,119)
Prepaid expenses		(83)
Security deposit		(1,470)
Increase (decrease) in:		
Accounts payable		1,258
Accrued expenses		(1,194)
Net cash provided by operating activities		7,332
Cash flows from investing activities		
Purchases of investments		(1,923)
Net cash used by investing activities		(1,923)
Net increase in cash		5,409
Cash, beginning balance		40,324
Cash, ending balance	$	45,733

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 6 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. See Notes 6 and 7 for 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, 2018, 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, 2018.

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 net realizable value. Net realizable value is the estimated realizable value, less reasonably predictable costs of disposal and transportation. 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, 2018.

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)

Investments:

The Organization invests its endowment fund in a professionally managed portfolio with the Arizona Community Foundation. The portfolio is held in the long-term pool which includes allocation ranges of 55 percent equities, 25 percent fixed income and 20 percent diversifying strategies investments. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Investments are stated at fair value, and unrealized holding gains and losses, net of the related investment fees, are included in the statement of activities. Realized gains and losses and declines in fair value judged to be other-than-temporary are included in the statement of activities.

The Organization evaluates investments for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. The Organization employs a systematic methodology that considers available evidence in evaluating potential impairment of its investments. In the event that the cost of an investment exceeds its fair value, the Organization evaluates, among other factors, the magnitude and duration of the decline in fair value; the expected cash flows of the securities; the financial health and business outlook for the issuer; the performance of the underlying assets for interest in securitized assets; and the Organization's intent and ability to hold the investment. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in other revenues (expenses) and a new cost basis in the investment is established. Management determined that no other-than-temporary impairment of investments existed at March 31, 2018.

Endowment Fund:

The Organization's endowment consists of funds established to support the mission of the Organization. As required by accounting principles generally accepted in the United States of America ("U.S. GAAP"), net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Annually, the Organization can elect to appropriate earnings from the endowment fund assets for expenditures of the Organization to support general activities or re-invest earnings back into the fund.

The Organization has adopted investment policies for endowment assets in which funds are invested in manner intended to emphasize long-term capital growth.

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 $9,600 for the year ended March 31, 2018.

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.

Use of estimates:

The preparation of financial statements in conformity with 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 October 17, 2018, 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 2. Recent Authoritative Accounting Guidance (Continued)

In August 2016, FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* ("Topic 958"), requiring an entity to change the way it's presenting net assets on the face of the financials, as well as requiring additional disclosures for expenses by nature and function and for the liquidity and availability of resources. The updated standard is effective for fiscal years beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted, but only for an annual fiscal period or for the first interim period within the year of adoption. In the initial year of application, entities are required to disclose the nature of any reclassifications or restatements resulting from the adoption and their effect, if any, on the change in the net asset classes for each year or period presented. The requirements must be applied retrospectively; however, entities can elect not to provide certain comparative disclosures in the year of adoption. 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, 2018:

Due in less than one year	$ 50,624
Due in one to five years	100,000
Total	150,624
Less unamortized discount	(8,922)
	$ 141,702

Note 4. Books Inventory

The following is an analysis of the activity in books inventory during the year ended March 31, 2018:

Books inventory, beginning balance	$ 1,358,891
Contributed books inventory	909,945
Distributed books inventory	(532,643)
Purchased books inventory	43,119
Disposal of obsolete donated inventory	(40,924)
Books inventory, ending balance	$ 1,738,388

Note 5. Investments

The following is a summary of the Organization's investments as of March 31, 2018:

	Cost	Gross Unrealized Gains	Fair Value
Arizona Community Foundation	$ 27,475	$ 563	$ 28,038

Investment return, net of investment fees, is summarized as follows for the year ended March 31, 2018:

Interest and dividends	$ 532
Realized gains - investments	1,380
Unrealized losses - investments	563
Investment fees	(552)
Investment return	$ 1,923

FASB ASC Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 5. Investments (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value:

Arizona Community Foundation: Valued based on unobservable inputs in the long-term pool with the Arizona Community Foundation ("ACF"), which include the fair value of the underlying assets held by ACF and the Organization's percentage interest in ACF's investments.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of March 31, 2018:

	Level 1	Level 2	Level 3	Total
Arizona Community Foundation	$ -	$ -	$ 28,038	$ 28,038
Total investments at fair value	$ -	$ -	$ 28,038	$ 28,038

The following is a reconciliation of beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the year ended March 31, 2018:

Investments, beginning balance	$ 26,115
Purchases of investments	-
Interest and dividends	532
Realized and unrealized gains	1,943
Investment fees	(552)
Investments, ending balance	$ 28,038

Note 6. Net Assets

Temporarily restricted net assets that expire by the passage of time and purchases of books are $147,801 as of March 31, 2018.

Net assets released from time restrictions are $58,690 for the year ended March 31, 2018.

Permanently restricted net assets are Board restricted endowment funds of $28,038 as of March 31, 2018.

Note 7. Endowment Funds

Endowment funds include investments held by Arizona Community Foundation. Annually, the Organization may elect to reinvest earnings from the funds in the endowment fund or appropriate the earnings for expenditures.

Endowment net asset composition as of March 31, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board restricted endowment funds	$ -	$ -	$ 28,038	$ 28,038
Total endowment funds	$ -	$ -	$ 28,038	$ 28,038

Changes in endowment net assets for the year ended March 31, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds, beginning balance	$ -	$ -	$ 26,115	$ 26,115
Interest and dividends	-	-	532	532
Realized and unrealized gains	-	-	1,943	1,943
Investment fees	-	-	(552)	(552)
Endowment funds, ending balance	$ -	$ -	$ 28,038	$ 28,038

Annually, the Organization may elect to re-invest earnings, net of investment fees, from the endowment funds or appropriate the earnings for expenditures. If the election is made to re-invest the earnings, net of investment fees, the earnings are permanently restricted within the endowment fund. For the year ended March 31, 2018, the Organization elected to re-invest earnings.

Note 8. Commitment

Operating lease:

The Organization leases its administrative office under a non-cancelable operating lease that requires monthly payments ranging from $0 to $1,917 plus sales tax, expiring October 31, 2020.

The Organization subleased a portion of its administrative office to a related party under a month-to-month agreement requiring monthly payment of half of the Organization's monthly rent plus the related party's pro rata share of utilities. Sublease was terminated during November 2017.

Rental expense for this operating lease was $16,752 for the year ended March 31, 2018 and net rental expense, after deducting rental income of $7,277 from the sublease, is $9,475 and is included in functional expenses on the accompanying statement of activities.

The future minimum rental payments required under these operating leases are as follows as of March 31, 2018:

Years Ending March 31:		
2019	$	21,481
2020		22,111
2021		13,156
	$	56,748