



**FINANCIAL STATEMENTS
(Reviewed)**

YEAR ENDED MARCH 31, 2022



LOHMAN COMPANY, PLLC
Certified Public Accountants & Business Consultants

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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, 2022, 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.

We are required to be independent of Kids Need to Read and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

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.



Mesa, Arizona
August 4, 2022

KIDS NEED TO READ
STATEMENT OF FINANCIAL POSITION
March 31, 2022

ASSETS

Current assets

Cash	\$ 83,395
Contributions receivable	460
Books inventory	1,664,750
Prepaid expenses	<u>1,904</u>

Total current assets 1,750,509

Property and equipment

Office equipment	4,698
Vehicle	26,850
Leasehold improvements	<u>2,625</u>

34,173

Less accumulated depreciation and amortization (31,297)

Total property and equipment 2,876

Other assets

Investments held by Arizona Community Foundation	36,202
Security deposit	<u>2,941</u>

Total other assets 39,143

Total assets \$ 1,792,528

See accompanying notes and independent accountant's review report

KIDS NEED TO READ
STATEMENT OF FINANCIAL POSITION (Continued)
March 31, 2022

LIABILITIES AND NET ASSETS

Current liabilities

Credit cards payable	\$ 5,010
Accrued expenses	<u>3,936</u>

Total current liabilities 8,946

Commitments

Net assets

Net assets without donor restrictions	1,747,380
Net assets with donor restrictions	<u>36,202</u>

Total net assets 1,783,582

Total liabilities and net assets \$ 1,792,528

See accompanying notes and independent accountant's review report

KIDS NEED TO READ
STATEMENT OF ACTIVITIES
Year Ended March 31, 2022

	<u>Net Assets without Donor Restrictions</u>	<u>Net Assets with Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Contributed books inventory	\$ 409,373	\$ -	\$ 409,373
Contributions	76,433	-	76,433
Grants	88,427	-	88,427
Fundraising	14,774	-	14,774
Paycheck Protection Program loan forgiven	17,175	-	17,175
Contributed services	7,250	-	7,250
Investment income	25	1,778	1,803
	<hr/>	<hr/>	<hr/>
Total support and revenue	613,457	1,778	615,235
Net assets released from restrictions	-	-	-
	<hr/>	<hr/>	<hr/>
Total support and revenue and reclassifications	613,457	1,778	615,235
	<hr/>	<hr/>	<hr/>
Functional expenses			
Program services	1,309,232	-	1,309,232
Fundraising	22,880	-	22,880
General and administrative	43,840	-	43,840
	<hr/>	<hr/>	<hr/>
Total functional expenses	1,375,952	-	1,375,952
	<hr/>	<hr/>	<hr/>
Change in net assets	(762,495)	1,778	(760,717)
Net assets, beginning balance	2,509,875	34,424	2,544,299
	<hr/>	<hr/>	<hr/>
Net assets, ending balance	<u>\$ 1,747,380</u>	<u>\$ 36,202</u>	<u>\$ 1,783,582</u>

See accompanying notes and independent accountant's review report

KIDS NEED TO READ
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended March 31, 2022

	Program Services	Support Services		Total
		Fundraising	General and Administrative	
Distributed books inventory	\$ 1,207,196	\$ -	\$ -	\$ 1,207,196
Salaries	43,128	15,868	12,248	71,244
In-kind professional fees	-	-	7,250	7,250
Materials and supplies	7,905	-	756	8,661
Professional fees	-	-	8,143	8,143
Rent and utilities	29,591	2,052	2,468	34,111
Shipping	14,223	142	39	14,404
Payroll taxes	3,314	1,220	908	5,442
Fundraising fees	-	369	-	369
Purchased services	-	3,149	4,525	7,674
Insurance	-	-	5,309	5,309
Equipment	-	-	768	768
Depreciation and amortization	3,836	-	298	4,134
Promotion	39	-	-	39
Other	-	80	1,128	1,208
Total functional expenses	\$ 1,309,232	\$ 22,880	\$ 43,840	\$ 1,375,952

See accompanying notes and independent accountant's review report

**KIDS NEED TO READ
STATEMENT OF CASH FLOWS
Year Ended March 31, 2022**

Cash flows from operating activities

Change in net assets \$ (760,717)

*Adjustments to reconcile change in net assets
to net cash used by operating activities*

Contributed books inventory (409,373)

Distributed books inventory 1,207,196

Depreciation and amortization 4,134

Investment income (1,778)

Paycheck Protection Program loan forgiveness (17,175)

(Increase) decrease in:

Contributions receivable (460)

Purchased books inventory (27,179)

Prepaid expenses (175)

Increase (decrease) in:

Accounts payable (1,615)

Credit cards payable 1,215

Accrued expenses 354

Net cash used by operating activities (5,573)

Cash flows from financing activities

Repayments on Economic Injury Disaster loan (20,000)

Net cash used by financing activities (20,000)

Net decrease in cash (25,573)

Cash, beginning balance 108,968

Cash, ending balance \$ 83,395

See accompanying notes and independent accountant's review report

KIDS NEED TO READ
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 help children discover the joy of reading and the power of a literate mind by providing inspiring books and literacy programs to underfunded schools, libraries, and community agencies 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 two classes of net assets: net assets without donor restrictions and net asset with donor restrictions, based upon the existence or absence of donor-imposed restrictions as follows:

Net assets without donor restrictions	Net assets that are not subject to donor-imposed restrictions. Certain net assets may be designated for specific purposes by action of the Board of Directors. As of March 31, 2022, the Organization does not have any Board of Directors designated net assets.
Net assets with donor restrictions	Net assets subject to donor-imposed restrictions. Restrictions may be temporary or permanent subject to time and/or purpose. See Note 5 for net assets with donor restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions.

Liquidity and funds availability:

The Organization has \$83,855 of financial assets available within one year of the financial position date to meet cash needs for general expenditures consisting of cash and contributions receivable. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the financial position date. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

See accompanying independent accountant’s review report

KIDS NEED TO READ
NOTES TO FINANCIAL STATEMENTS

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

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, 2022, the Organization does not have any conditional contributions and pledges receivable.

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, 2022.

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. Contributions of used books are valued at half the retail price. Contributions of advanced reading copy books are valued at \$1. 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, 2022.

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 net assets without donor restrictions 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.

KIDS NEED TO READ
NOTES TO FINANCIAL STATEMENTS

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

Depreciation has been provided on the straight-line method over estimated useful lives of three to seven years. Leasehold improvements are stated at cost and amortized over the shorter of the estimated useful life of the improvement or the remaining lease term utilizing the straight-line method. When items of property and equipment are sold or retired, the related costs and accumulated depreciation and amortization is removed from the accounts and any gain or loss is included in change in net assets without donor restrictions.

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

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, 2022.

KIDS NEED TO READ
NOTES TO FINANCIAL STATEMENTS

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

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.

Revenue recognition:

In accordance with ASC 606, the Organization recognizes revenue by applying the following five step model: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to performance obligations in the contract, and (5) recognize revenue as performance obligations are satisfied.

Special events- The Organization attends an annual event designed to attract donors and raise awareness. Special event revenue is recognized when the event takes place.

Contributions, pledges, and grants:

Under Accounting Standards Update ("ASU") 2018-08, contributions, pledges and grant arrangements constitute contributions since the donor does not receive commensurate value for the consideration received by the Organization. Contributions, pledges and grants, including promises to give, are received and recorded as revenue and net assets with or without donor restrictions depending on the existence and/or nature of any donor-imposed restrictions.

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 donor restricted support that increases that net asset class. When a temporary restriction expires, net assets are reclassified to net assets without donor restrictions 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 net assets without donor restrictions.

KIDS NEED TO READ
NOTES TO FINANCIAL STATEMENTS

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

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 \$7,250 for the year ended March 31, 2022.

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.

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 August 4, 2022, the date on which the financial statements were available to be issued.

KIDS NEED TO READ
NOTES TO FINANCIAL STATEMENTS

Note 2. Recent Authoritative Accounting Guidance (Continued)

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 GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In May 2020, FASB voted to extend by one year the effective date of ASU 2016-02 to all nonpublic entities. The updated standard will be effective for annual reporting periods beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022. The Company selected the new transition alternative method effective April 1, 2022 and the effects are not expected to be significant.

Note 3. Books Inventory

The following is an analysis of the activity in books inventory during the year ended March 31, 2022:

Books inventory, beginning balance	\$ 2,435,394
Contributed books inventory	409,373
Distributed books inventory	(1,207,196)
Purchased books inventory	27,179
Books inventory, ending balance	<u>\$ 1,664,750</u>

Note 4. Investments

The following is a summary of the Organization's investments as of March 31, 2022:

	Cost	Gross Unrealized Gain	Fair Value
Arizona Community Foundation	<u>\$ 36,182</u>	<u>\$ 20</u>	<u>\$ 36,202</u>

Investment return, net of investment fees, is summarized as follows for the year ended March 31, 2022:

Interest and dividends	\$ 615
Realized gains	1,972
Unrealized gains	20
Investment fees	(829)
	<u>\$ 1,778</u>

KIDS NEED TO READ
NOTES TO FINANCIAL STATEMENTS

Note 4. Investments (Continued)

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.

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.

KIDS NEED TO READ
NOTES TO FINANCIAL STATEMENTS

Note 4. Investments (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of March 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Arizona Community Foundation	\$ -	\$ -	\$ 36,202	\$ 36,202
Total investments at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,202</u>	<u>\$ 36,202</u>

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, 2022:

Investments, beginning balance	\$ 34,424
Interest and dividends	615
Realized and unrealized gains	1,992
Investment fees	<u>(829)</u>
Investments, ending balance	<u>\$ 36,202</u>

Note 5. Net Assets

Net assets with donor restrictions subject to restriction in perpetuity are endowment funds of \$36,202 as of March 31, 2022.

KIDS NEED TO READ
NOTES TO FINANCIAL STATEMENTS

Note 6. 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, 2022 is as follows:

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Board restricted endowment funds	\$ -	\$ 36,202	\$ 36,202
Total endowment funds	<u>\$ -</u>	<u>\$ 36,202</u>	<u>\$ 36,202</u>

Changes in endowment net assets for the year ended March 31, 2022 are as follows:

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Endowment funds, beginning balance	\$ -	\$ 34,424	\$ 34,424
Interest and dividends	-	615	615
Realized and unrealized gains	-	1,992	1,992
Investment fees	-	(829)	(829)
Endowment funds, ending balance	<u>\$ -</u>	<u>\$ 36,202</u>	<u>\$ 36,202</u>

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 restricted in perpetuity within the endowment fund. For the year ended March 31, 2022, the Organization elected to re-invest earnings.

KIDS NEED TO READ
NOTES TO FINANCIAL STATEMENTS

Note 7. Commitment

Operating lease:

The Organization leases its administrative office under a non-cancelable operating lease that requires monthly payments ranging from \$1,970 to \$2,731, plus sales tax and CAM charges, expiring October 31, 2023.

Rental expense for this operating lease was \$28,435 for the year ended March 31, 2022 and is included in functional expenses on the accompanying statement of activities.

The following is a schedule by year of future minimum lease payments required under this operating lease as of March 31, 2022.

Years ending March 31:

2023	\$	32,221
2024		19,117
	\$	<u>51,338</u>

Note 8. COVID-19 Pandemic

In March 2020, the President of the United States of America (“President”) declared the outbreak of the novel coronavirus (“COVID-19”) a national emergency. As a result of this declaration, there have been significant disruptions to businesses in Arizona and throughout the United States. There has not been a significant change in the Organization’s activities; however, any related future potential negative financial impact to the Organization’s financial results or financial condition cannot be reasonably estimated.

On March 27, 2020, the President enacted the Coronavirus Aid, Relief, and Economics Security (“CARES”) Act which included the Paycheck Protection Program (“PPP”) administered by the Small Business Administration. In January 2021, the Organization received PPP loan proceeds of \$17,175. Portions of the loan, up to 100%, are forgivable if certain criteria are met. The first payment of the unforgiven portion of the loan is due when forgiveness is determined and includes interest at 1.00%. In August 2021, the Organization was notified of complete forgiveness on this loan by the SBA, and is included in support and revenue on the accompanying statement of activities.

In July 2020, the Organization received approval for an Economic Injury Disaster Loan (“EIDL”) from the U.S. Small Business Administration with available proceeds up to \$20,000. Monthly payments of \$86, including interest at 2.75%, maturing July 2051 are scheduled to begin in July 2021, unless repaid. The Organization repaid the EIDL in full during August 2021.