# MAKE WAY FOR BOOKS

**AUDITED FINANCIAL STATEMENTS**
**Years ended June 30, 2017 and 2016**


JENNIFER J. PHILLIPS, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

**MAKE WAY FOR BOOKS**
AUDITED FINANCIAL STATEMENTS
Years ended June 30, 2017 and 2016

## TABLE OF CONTENTS

JENNIFER J. PHILLIPS, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

## INDEPENDENT AUDITOR'S REPORT

Board of Directors
Make Way For Books
Tucson, Arizona

I have audited the accompanying financial statements of Make Way For Books (an Arizona nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

**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 State 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 of material misstatement, whether due to fraud or error.

**Auditor's responsibility**

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Make Way For Books as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Jennifer J Phillips, CPA, PLLC

JENNIFER J. PHILLIPS, CPA, PLLC
Tucson, Arizona

September 7, 2017

P.O. Box 17257 | Tucson, Arizona 85731 | Phone: (520) 247-7087 | Fax: (520) 647-3492
Website: JenniferPhillipsCPA.com | Email: Jennifer@JenniferPhillipsCPA.com

**MAKE WAY FOR BOOKS**
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 532,120 | $ 317,995 |
| Grants receivable | 39,936 | 67,617 |
| Prepaid expenses | 6,472 | 6,496 |
| Development costs - Note 3 | 16,755 | - |
| Property and equipment - Note 4 | 1,279,841 | 1,317,037 |
| | $ 1,875,124 | $ 1,709,145 |
| **LIABILITIES AND NET ASSETS** | | |
| Liabilities: | | |
| Accounts payable | $ 4,622 | $ 9,963 |
| Accrued expenses | 24,948 | 30,267 |
| Deferred revenue - Note 5 | 118,861 | 117,666 |
| | 148,431 | 157,896 |
| Net assets: | | |
| Unrestricted | | |
| Available for operations | 160,111 | 135,324 |
| Expended for property and equipment | 1,279,841 | 1,317,037 |
| | 1,439,952 | 1,452,361 |
| Temporarily restricted - Note 7 | 286,741 | 98,888 |
| | 1,726,693 | 1,551,249 |
| | $ 1,875,124 | $ 1,709,145 |

See Accompanying Notes.

**MAKE WAY FOR BOOKS**
STATEMENT OF ACTIVITIES
Year ended June 30, 2017

| | Unrestricted | Temporarily restricted | Totals |
|---|---|---|---|
| Public support and revenues: | | | |
| Contributions | $ 230,617 | $ - | $ 230,617 |
| Grants and contracts | 872,473 | 289,523 | 1,161,996 |
| Donated supplies | 2,876 | - | 2,876 |
| Miscellaneous | 6,412 | - | 6,412 |
| | 1,112,378 | 289,523 | 1,401,901 |
| Releases from restrictions | 101,670 | (101,670) | - |
| Total public support and revenues | 1,214,048 | 187,853 | 1,401,901 |
| Expenses: | | | |
| Program services | 1,038,309 | - | 1,038,309 |
| General and administrative | 123,592 | - | 123,592 |
| Fundraising | 64,556 | - | 64,556 |
| Total expenses | 1,226,457 | - | 1,226,457 |
| Change in net assets | (12,409) | 187,853 | 175,444 |
| Net assets, beginning of year | 1,452,361 | 98,888 | 1,551,249 |
| Net assets, end of year | $ 1,439,952 | $ 286,741 | $ 1,726,693 |

See Accompanying Notes.

**MAKE WAY FOR BOOKS**
STATEMENT OF ACTIVITIES
Year ended June 30, 2016

| | Unrestricted | Temporarily restricted | Totals |
|---|---|---|---|
| Public support and revenues: | | | |
| Contributions | $ 94,626 | $ - | $ 94,626 |
| Grants and contracts | 1,274,500 | 72,250 | 1,346,750 |
| Donated supplies | 553 | - | 553 |
| Miscellaneous | 12,053 | - | 12,053 |
| | 1,381,732 | 72,250 | 1,453,982 |
| Releases from restrictions | 169,343 | (169,343) | - |
| Total public support and revenues | 1,551,075 | (97,093) | 1,453,982 |
| Expenses: | | | |
| Program services | 939,754 | - | 939,754 |
| General and administrative | 123,431 | - | 123,431 |
| Fundraising | 69,558 | - | 69,558 |
| Total expenses | 1,132,743 | - | 1,132,743 |
| Change in net assets | 418,332 | (97,093) | 321,239 |
| Net assets, beginning of year | 1,034,029 | 195,981 | 1,230,010 |
| Net assets, end of year | $ 1,452,361 | $ 98,888 | $ 1,551,249 |

See Accompanying Notes.

**MAKE WAY FOR BOOKS**
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2017

| | Program services | | | | | |
|---|---|---|---|---|---|---|
| | **Family literacy** | **Story project** | **Total program services** | **General and administrative** | **Fundraising** | **Total** |
| Salaries and wages | $ 268,226 | $ 334,857 | $ 603,083 | $ 76,035 | $ 43,635 | $ 722,753 |
| Payroll taxes and benefits | 50,138 | 57,749 | 107,887 | 12,322 | 7,541 | 127,750 |
| | 318,364 | 392,606 | 710,970 | 88,357 | 51,176 | 850,503 |
| Program support services | 11,110 | 3,637 | 14,747 | - | - | 14,747 |
| Books | 59,055 | 96,855 | 155,910 | - | - | 155,910 |
| Depreciation | 20,238 | 13,204 | 33,442 | 3,059 | 1,340 | 37,841 |
| Insurance | 4,249 | 5,990 | 10,239 | 978 | 583 | 11,800 |
| Interest | - | - | - | - | - | - |
| Occupancy | 9,506 | 7,309 | 16,815 | 1,778 | 738 | 19,331 |
| Office expenses | 3,422 | 5,171 | 8,593 | 787 | 470 | 9,850 |
| Postage and printing | 6,495 | 6,257 | 12,752 | 5,895 | 3,283 | 21,930 |
| Promotion | 15,645 | 3,093 | 18,738 | 4,639 | 2,316 | 25,693 |
| Professional services | 1,681 | 1,354 | 3,035 | 6,631 | 1,767 | 11,433 |
| Repairs and maintenance | 1,998 | 794 | 2,792 | 200 | 80 | 3,072 |
| Supplies | 17,892 | 18,144 | 36,036 | 177 | 111 | 36,324 |
| Travel and meetings | 2,434 | 6,035 | 8,469 | 549 | 1,421 | 10,439 |
| Miscellaneous | 1,076 | 4,695 | 5,771 | 10,542 | 1,271 | 17,584 |
| | $ 473,165 | $ 565,144 | $ 1,038,309 | $ 123,592 | $ 64,556 | $ 1,226,457 |

See Accompanying Notes.

**MAKE WAY FOR BOOKS**

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2016

| | Program services | | | | | |
|---|---|---|---|---|---|---|
| | Family literacy | Story project | Total program services | General and administrative | Fundraising | Total |
| Salaries and wages | $ 203,533 | $ 272,893 | $ 476,426 | $ 75,284 | $ 42,974 | $ 594,684 |
| Payroll taxes and benefits | 29,263 | 40,869 | 70,132 | 10,266 | 6,377 | 86,775 |
| | 232,796 | 313,762 | 546,558 | 85,550 | 49,351 | 681,459 |
| Program support services | 22,526 | 8,638 | 31,164 | 135 | - | 31,299 |
| Books | 49,254 | 101,530 | 150,784 | - | - | 150,784 |
| Depreciation | 20,135 | 13,572 | 33,707 | 3,174 | 1,405 | 38,286 |
| Insurance | 3,340 | 4,945 | 8,285 | 1,003 | 587 | 9,875 |
| Interest | 10,146 | 7,428 | 17,574 | 1,874 | 752 | 20,200 |
| Occupancy | 15,900 | 12,003 | 27,903 | 2,992 | 1,228 | 32,123 |
| Office expenses | 4,832 | 6,291 | 11,123 | 1,277 | 747 | 13,147 |
| Postage and printing | 6,200 | 5,807 | 12,007 | 6,364 | 3,914 | 22,285 |
| Promotion | 30,738 | 8,774 | 39,512 | 8,543 | 4,433 | 52,488 |
| Professional services | 5,656 | 1,594 | 7,250 | 7,217 | 1,794 | 16,261 |
| Repairs and maintenance | 1,439 | 645 | 2,084 | 164 | 65 | 2,313 |
| Supplies | 20,815 | 13,830 | 34,645 | 387 | 215 | 35,247 |
| Travel and meetings | 3,169 | 7,165 | 10,334 | 1,498 | 1,380 | 13,212 |
| Miscellaneous | 2,380 | 4,444 | 6,824 | 3,253 | 3,687 | 13,764 |
| | $ 429,326 | $ 510,428 | $ 939,754 | $ 123,431 | $ 69,558 | $ 1,132,743 |

See Accompanying Notes.

**MAKE WAY FOR BOOKS**

STATEMENTS OF CASH FLOWS

Years ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 175,444 | $ 321,239 |
| Adjustment to reconcile change in net assets to net cash provided by operating activities: | | |
| Donated stock | (2,531) | (2,461) |
| Proceeds from sale of donated stock | 2,531 | 2,461 |
| Contribution - retirement of note payable | - | (485,413) |
| Depreciation | 37,841 | 38,286 |
| (Increase) decrease in operating assets: | | |
| Grants receivable | 27,681 | 20,607 |
| Prepaid expenses | 24 | 918 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | (5,341) | (4,536) |
| Accrued expenses | (5,319) | (2,683) |
| Deferred revenue | 1,195 | 75,446 |
| Net cash provided by (used in) operating activities | 231,525 | (36,136) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (645) | (611) |
| Mobile app development costs | (16,755) | - |
| Net cash (used in) investing activities | (17,400) | (611) |
| Cash flows (used in) financing activities - Payments on note payable | - | (18,713) |
| Net change in cash and cash equivalents | 214,125 | (55,460) |
| Cash and cash equivalents, beginning of year | 317,995 | 373,455 |
| Cash and cash equivalents, end of year | $ 532,120 | $ 317,995 |
| Supplemental cash flow information: | | |
| No cash paid for income taxes in 2017 or 2016. | | |
| Cash paid for interest | $ - | $ 20,200 |
| Non-cash transactions: | | |
| Grant received to retire note payable | $ - | $ 485,413 |

See Accompanying Notes.

## NOTE 1 – Organization and purpose

Make Way For Books is a not-for-profit organization incorporated under the laws of Arizona on January 9, 1998. The purpose of Make Way for Books (MWFB) is to give children the chance to read and succeed. MWFB is committed to giving young children the opportunity to develop emergent literacy skills that help them to thrive in the classroom and throughout life. MWFB fosters the success of children through cultivating the love of books and reading. MWFB's highest priority is to serve economically disadvantaged young children and families in southern Arizona. Since 1998, MWFB has provided a comprehensive continuum of services to strengthen a culture of literacy in the community by developing and implementing research-based early literacy programs and resources that reach young children and families at low-resource preschools/childcare centers and at other community locations. MWFB uses a variety of proven strategies to empower children with the skills they need to thrive by reaching them with quality early literacy experiences before they enter kindergarten.

## NOTE 2 – Summary of significant accounting policies

*Financial statement presentation*

Under generally accepted accounting principles, MWFB is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

*Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and cash equivalents*

MWFB considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents.

*Grants receivable*

Grants receivable are stated at the amount management expects to collect from outstanding balances. All receivables are due within one year. Management believes that all receivables are collectible, and, accordingly, has recorded no allowance for uncollectible amounts.

*Property and equipment*

Purchased property and equipment is carried at cost. Donated property and equipment is carried at the approximate fair value at the date of donation. MWFB capitalizes purchases in excess of $500 with a useful life of more than one year. Maintenance, repairs and minor renewals are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

MWFB reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. MWFB has determined that there were no indicators of asset impairment during the year ended June 30, 2017.

**NOTE 2 – Summary of significant accounting policies –** continued

*Advertising*

Advertising costs are expensed as incurred. Advertising costs, which are included in promotion expense, totaled $21,864 and $29,965 for the years ended June 30, 2017 and 2016, respectively.

*Revenue and revenue recognition*

Revenue is recognized when earned. Program service fees and payments received under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities, an unconditional pledge or other assets are received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

*Recognition of donor restrictions*

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets in accordance with generally accepted accounting principles.

*Donated goods, facilities and services*

Donated goods and facilities are valued at their fair market value. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Although MWFB uses the services of volunteers, the fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

*Library costs*

The cost of circulating books and other library materials are not recorded as collections, but are recorded as an expense in the year purchased, as the useful lives of such items are relatively short.

*Expense allocation*

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on an analysis of personnel time and space utilized for the related activities.

*Income tax status*

MWFB is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to MWFB's tax-exempt purpose may be subject to taxation as unrelated business income. In addition, MWFB qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

**NOTE 2 – Summary of significant accounting policies –** continued

Management of MWFB considers the likelihood of changes by taxing authorities in its filed tax returns and recognizes a liability for or discloses potential significant changes if management believes it is more likely than not for a change to occur, including changes to the organization's status as a not-for-profit entity. Management believes that MWFB met the requirements to maintain its tax-exempt status and has no income subject to unrelated business income tax, therefore, no provision for income taxes has been provided in these financial statements. Accordingly, MWFB has not filed an *Exempt Organization Business Income Tax Return* (Form 990-T) with the Internal Revenue Service (IRS) for the year ended June 30, 2017. MWFB's Form 990, *Return of Organization Exempt from Income Taxes,* is generally subject to examination by the IRS for three years after the date the return was filed.

*Financial instruments and credit risk*

MWFB manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, MWFB has not experienced losses in any of these accounts. Uninsured cash totaled $276,922 at June 30, 2017.

Credit risk associated with receivables is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies supportive of MWFB's mission; however there is a potential credit risk and accounting loss that could occur if all parties to the receivables fail to perform their obligations for the stated amounts. These amounts contain no collateral provisions for collection.

**NOTE 3 – Development costs**

Beginning in March 2017, MWFB entered into a $77,000 contract with a mobile application developer to expand the uses and capabilities of MWFB's early literacy app. The contract is in effect through February 28, 2018. Costs related to application, infrastructure and graphics development totaling $16,755 were capitalized during the year ending June 30, 2017. Upon completion of the project, amortization will be computed using the straight-line method over the estimated useful life of the app. Content development and operating costs are expensed as incurred.

**NOTE 4 – Property and equipment**

Property and equipment at June 30, 2017 and 2016 was as follows:

| | 2017 | 2016 |
|---|---|---|
| Land | $ 240,000 | $ 240,000 |
| Building and improvements | 1,088,363 | 1,088,363 |
| Computer equipment and software | 14,977 | 17,715 |
| Office furniture and fixtures | 16,696 | 16,696 |
| Vehicle | 28,188 | 28,188 |
| | 1,388,224 | 1,390,962 |
| Less accumulated depreciation | (108,383) | (73,925) |
| | $ 1,279,841 | $ 1,317,037 |

**NOTE 5 – Deferred revenue**

Deferred revenue consists of advances on grants and contracts in excess of amounts earned. Deferred revenue was $118,861 and $117,666 as of June 30, 2017 and 2016, respectively.

**NOTE 6 – Contingencies**

During the year ended June 30, 2016, MWFB was awarded a grant in the amount of $492,700 from Angel Charity for Children for the full and complete payment of MWFB's mortgage note payable. As a condition of the grant, a lien was placed on the property, forgivable on a pro-rata basis over ten years if MWFB continues to use the property for its children and youth programs prior to April 27, 2026. As of June 30, 2017, the remaining balance on the award was $435,218; however MWFB was in compliance with the terms of the funding agreement.

MWFB is substantially funded by the State of Arizona and United Way of Tucson and Southern Arizona. A significant reduction in this level of support, if this were to occur, could have a material effect on the programs and activities of MWFB. MWFB may be subject to compliance audits by the grantor agencies. The nature and extent of such audits is uncertain and assessments, if any, which could result would be recorded when they become determinable.

**NOTE 7 – Temporarily restricted net assets**

Temporarily restricted net asset activity consisted of the following for the year ended June 30, 2017:

| | Beginning balance | Additions | Releases | Ending balance |
|---|---|---|---|---|
| 20th anniversary report | $ - | $ 2,500 | $ - | $ 2,500 |
| Backpacks and books | - | 1,500 | (549) | 951 |
| Blue Book House | 750 | - | (750) | - |
| Capital improvements | 9,528 | - | (1,612) | 7,916 |
| Cover to Cover | 3,000 | 83,723 | (3,883) | 82,840 |
| Mobile app development | - | 100,000 | (15,534) | 84,466 |
| Storytime | 8,500 | 8,000 | (8,858) | 7,642 |
| The Story Project | 67,110 | 38,800 | (60,484) | 45,426 |
| Project 110 | 10,000 | 50,000 | (10,000) | 50,000 |
| Volunteer appreciation | - | 5,000 | - | 5,000 |
| | $ 98,888 | $ 289,523 | $ (101,670) | $ 286,741 |

**NOTE 8 – Retirement plan**

During the year ended June 30, 2017, MWFB implemented a SIMPLE retirement plan (Plan) available for all employees to defer compensation. MWFB must make matching employer contributions to the Plan of up to 3% of the employee's compensation for the year. MWFB made contributions of $6,849 to the Plan for the year ended June 30, 2017. All contributions made under the Plan are fully vested.

**NOTE 9 – Subsequent events**

On August 24, 2017, the IRS retroactively approved (to February 2017) the tax exempt status of Make Way for Good, Inc., a Section 509(a)(3) supporting organization of MWFB. Make Way for Good had no activity for the year ended June 30, 2017. Any future activity will be consolidated with the financial statements of MWFB.

Subsequent events have been evaluated through September 7, 2017, which is the date the financial statements were available to be issued.