

MAKE WAY FOR BOOKS

AUDITED FINANCIAL STATEMENTS
Years ended June 30, 2018 and 2017



JENNIFER J. PHILLIPS, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

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Years ended June 30, 2018 and 2017

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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, 2018 and 2017 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, 2018 and 2017, 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 24, 2018

MAKE WAY FOR BOOKS
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 428,849	\$ 532,120
Grants receivable	123,993	39,936
Prepaid expenses	9,686	6,472
Other assets - Note 3	81,704	16,755
Property and equipment - Note 4	<u>1,256,131</u>	<u>1,279,841</u>
	<u>\$ 1,900,363</u>	<u>\$ 1,875,124</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 23,479	\$ 4,622
Accrued expenses	24,072	24,948
Deferred revenue - Note 5	<u>2,718</u>	<u>118,861</u>
	50,269	148,431
Net assets:		
Unrestricted		
Available for operations	195,266	160,111
Expended for property and equipment	<u>1,256,131</u>	<u>1,279,841</u>
	1,451,397	1,439,952
Temporarily restricted - Note 7	<u>398,697</u>	<u>286,741</u>
	<u>1,850,094</u>	<u>1,726,693</u>
	<u>\$ 1,900,363</u>	<u>\$ 1,875,124</u>

See Accompanying Notes.

MAKE WAY FOR BOOKS
STATEMENT OF ACTIVITIES
Year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Totals</u>
Public support and revenues:			
Contributions	\$ 179,160	\$ -	\$ 179,160
Grants and contracts	865,734	401,048	1,266,782
Fundraising events, net of direct donor benefit costs of \$15,022	2,904	-	2,904
Donated supplies	3,994	-	3,994
Miscellaneous	5,724	-	5,724
	<u>1,057,516</u>	<u>401,048</u>	<u>1,458,564</u>
Releases from restrictions	289,092	(289,092)	-
Total public support and revenues	<u>1,346,608</u>	<u>111,956</u>	<u>1,458,564</u>
Expenses:			
Program services	1,120,784	-	1,120,784
General and administrative	123,131	-	123,131
Fundraising	91,248	-	91,248
Total expenses	<u>1,335,163</u>	<u>-</u>	<u>1,335,163</u>
Change in net assets	11,445	111,956	123,401
Net assets, beginning of year	<u>1,439,952</u>	<u>286,741</u>	<u>1,726,693</u>
Net assets, end of year	<u>\$ 1,451,397</u>	<u>\$ 398,697</u>	<u>\$ 1,850,094</u>

See Accompanying Notes.

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Totals</u>
Public support and revenues:			
Contributions	\$ 230,617	\$ -	\$ 230,617
Grants and contracts	872,473	289,523	1,161,996
Fundraising events, net of direct donor benefit costs of \$0	608	-	608
Donated supplies	2,876	-	2,876
Miscellaneous	5,804	-	5,804
	<u>1,112,378</u>	<u>289,523</u>	<u>1,401,901</u>
Releases from restrictions	101,670	(101,670)	-
Total public support and revenues	<u>1,214,048</u>	<u>187,853</u>	<u>1,401,901</u>
Expenses:			
Program services	1,038,309	-	1,038,309
General and administrative	123,592	-	123,592
Fundraising	64,556	-	64,556
Total expenses	<u>1,226,457</u>	<u>-</u>	<u>1,226,457</u>
Change in net assets	(12,409)	187,853	175,444
Net assets, beginning of year	<u>1,452,361</u>	<u>98,888</u>	<u>1,551,249</u>
Net assets, end of year	<u>\$ 1,439,952</u>	<u>\$ 286,741</u>	<u>\$ 1,726,693</u>

See Accompanying Notes.

MAKE WAY FOR BOOKS
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2018

	<u>Program services</u>			General and administrative	Fundraising	Total
	Family literacy	Story project	Total program services			
Salaries and wages	\$ 307,537	\$ 368,697	\$ 676,234	\$ 79,555	\$ 58,389	\$ 814,178
Payroll taxes and benefits	53,887	63,654	117,541	13,056	9,876	140,473
	<u>361,424</u>	<u>432,351</u>	<u>793,775</u>	<u>92,611</u>	<u>68,265</u>	<u>954,651</u>
Program support services	16,121	20,269	36,390	-	-	36,390
Bank and credit card fees	1,630	1,877	3,507	261	5,748	9,516
Books	22,983	97,749	120,732	-	-	120,732
Depreciation	15,796	18,192	33,988	2,452	1,198	37,638
Direct donor benefit	-	-	-	-	15,022	15,022
Insurance	5,198	5,986	11,184	808	394	12,386
Occupancy	8,928	8,928	17,856	1,950	718	20,524
Office expenses	7,147	7,470	14,617	1,576	442	16,635
Postage and printing	4,658	5,365	10,023	10,851	3,360	24,234
Promotion	6,761	6,661	13,422	6,875	6,961	27,258
Professional services	7,045	4,549	11,594	726	428	12,748
Repairs and maintenance	1,582	1,245	2,827	273	100	3,200
Supplies	18,467	18,689	37,156	159	2,732	40,047
Travel and meetings	2,965	4,553	7,518	1,370	343	9,231
Miscellaneous	1,230	4,965	6,195	3,219	559	9,973
Total functional expenses	<u>481,935</u>	<u>638,849</u>	<u>1,120,784</u>	<u>123,131</u>	<u>106,270</u>	<u>1,350,185</u>
Less: Direct donor benefit	-	-	-	-	(15,022)	(15,022)
	<u>\$ 481,935</u>	<u>\$ 638,849</u>	<u>\$ 1,120,784</u>	<u>\$ 123,131</u>	<u>\$ 91,248</u>	<u>\$ 1,335,163</u>

See Accompanying Notes.

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

	<u>Program services</u>			General and administrative	Fundraising	Total
	Family literacy	Story project	Total program services			
Salaries and wages	\$ 268,226	\$ 334,857	\$ 603,083	\$ 76,034	\$ 43,635	\$ 722,752
Payroll taxes and benefits	50,138	57,749	107,887	12,322	7,541	127,750
	<u>318,364</u>	<u>392,606</u>	<u>710,970</u>	<u>88,356</u>	<u>51,176</u>	<u>850,502</u>
Program support services	11,110	3,637	14,747	-	-	14,747
Bank and credit card fees	-	-	-	2,410	1,635	4,045
Books	59,055	96,855	155,910	-	-	155,910
Depreciation	20,238	13,204	33,442	3,059	1,340	37,841
Direct donor benefit	-	-	-	-	-	-
Insurance	4,249	5,990	10,239	978	583	11,800
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	132	9,798
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	8,133	1,271	15,175
Total functional expenses	<u>473,165</u>	<u>565,144</u>	<u>1,038,309</u>	<u>123,592</u>	<u>64,556</u>	<u>1,226,457</u>
Less: Direct donor benefit	-	-	-	-	-	-
	<u>\$ 473,165</u>	<u>\$ 565,144</u>	<u>\$ 1,038,309</u>	<u>\$ 123,592</u>	<u>\$ 64,556</u>	<u>\$ 1,226,457</u>

See Accompanying Notes.

MAKE WAY FOR BOOKS
STATEMENTS OF CASH FLOWS
Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 123,401	\$ 175,444
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Donated stock	(2,489)	(2,531)
Proceeds from sale of donated stock	2,489	2,531
Depreciation	37,638	37,841
(Increase) decrease in operating assets:		
Grants receivable	(84,057)	27,681
Prepaid expenses	(3,214)	24
Increase (decrease) in operating liabilities:		
Accounts payable	18,857	(5,341)
Accrued expenses	(876)	(5,319)
Deferred revenue	(116,143)	1,195
Net cash provided by (used in) operating activities	<u>(24,394)</u>	<u>231,525</u>
 Cash flows from investing activities:		
Purchases of property and equipment	(13,928)	(645)
Trademarks	(5,596)	-
Mobile app development costs	(59,353)	(16,755)
Net cash (used in) investing activities	<u>(78,877)</u>	<u>(17,400)</u>
 Net change in cash and cash equivalents	(103,271)	214,125
 Cash and cash equivalents, beginning of year	<u>532,120</u>	<u>317,995</u>
 Cash and cash equivalents, end of year	<u>\$ 428,849</u>	<u>\$ 532,120</u>

Supplemental cash flow information:

No cash paid for interest or income taxes in 2018 or 2017.

See Accompanying Notes.

MAKE WAY FOR BOOKS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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.

During the year ended June 30, 2018, the IRS approved 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, 2018. Any future activity will be consolidated with the financial statements of MWFB.

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 are carried at the approximate fair value at the date of donation. MWFB capitalizes purchases in excess of \$1,000 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.

MAKE WAY FOR BOOKS
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2018 and 2017

NOTE 2 – Summary of significant accounting policies – continued

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, 2018.

Advertising

Advertising costs are expensed as incurred. Advertising costs, which are included in promotion expense, totaled \$21,952 and \$21,864 for the years ended June 30, 2018 and 2017, 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.

MAKE WAY FOR BOOKS
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2018 and 2017

NOTE 2 – Summary of significant accounting policies – continued

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).

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, 2018. 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 \$160,870 at June 30, 2018.

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.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 3 – Other assets

Beginning in March 2017, MWFB entered into a contract with a mobile application developer to expand the uses and capabilities of MWFB's early literacy app. Total costs related to application, infrastructure and graphics development of \$76,107 were capitalized through June 30, 2018. 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.

During the year ended June 30, 2018, MWFB capitalized \$5,597 in trademark costs, recorded at historical cost. Because the trademarks have indefinite lives, the costs are not amortized but will be evaluated for impairment on an annual basis. MWFB has determined that there were no indicators of asset impairment during the year ended June 30, 2018.

MAKE WAY FOR BOOKS
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2018 and 2017

NOTE 4 – Property and equipment

Property and equipment at June 30, 2018 and 2017 was as follows:

	2018	2017
Land	\$ 240,000	\$ 240,000
Building and improvements	1,102,291	1,088,363
Computer equipment and software	14,977	14,977
Office furniture and fixtures	16,696	16,696
Vehicle	28,188	28,188
	<u>1,402,152</u>	<u>1,388,224</u>
Less accumulated depreciation	<u>(146,021)</u>	<u>(108,383)</u>
	<u>\$ 1,256,131</u>	<u>\$ 1,279,841</u>

NOTE 5 – Deferred revenue

Deferred revenue consists of advances on grants and contracts in excess of amounts earned. Deferred revenue was \$2,718 and \$118,861 as of June 30, 2018 and 2017, respectively.

NOTE 6 – Retirement plan

During the year ended June 30, 2018, 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 \$10,414 and \$6,849 to the Plan for the years ended June 30, 2018 and 2017, respectively. All contributions made under the Plan are fully vested.

NOTE 7 – Temporarily restricted net assets

Temporarily restricted net asset activity consisted of the following for the year ended June 30, 2018:

	Beginning balance	Additions	Releases	Ending balance
20th anniversary report	\$ 2,500	\$ -	\$ (2,500)	\$ -
Backpacks and books	951	-	(951)	-
Blue Book House	-	1,000	-	1,000
Capital improvements	7,916	-	(7,916)	-
Cover to Cover	82,840	80,948	(69,797)	93,991
Culture of learning	-	3,000	-	3,000
Family education and literacy	-	190,000	(1,833)	188,167
Mobile app development	84,466	100,800	(104,091)	81,175
Parent pipeline	-	3,000	-	3,000
Project 110	50,000	5,000	(50,000)	5,000
Storytime	7,642	6,000	(6,044)	7,598
The Story Project	45,426	11,300	(40,960)	15,766
Volunteer appreciation	5,000	-	(5,000)	-
	<u>\$ 286,741</u>	<u>\$ 401,048</u>	<u>\$ (289,092)</u>	<u>\$ 398,697</u>

MAKE WAY FOR BOOKS
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2018 and 2017

NOTE 8 – 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, 2018, the remaining balance on the award was \$385,948; 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 9 – Subsequent events

Subsequent events have been evaluated through September 24, 2018, which is the date the financial statements were available to be issued.