MAKE WAY FOR BOOKS

AUDITED FINANCIAL STATEMENTS
Year ended June 30, 2019

JENNIFER J. PHILLIPS, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

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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, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year 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 audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit 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, 2019, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of matter

As disclosed in Note 13 to the financial statements, Make Way For Books implemented ASU 2016-14, Not-for-Profit Entities (Topic 958), during the year ended June 30, 2019.

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The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return.

Jennifer J Phillips, CPA, PLLC

JENNIFER J. PHILLIPS, CPA, PLLC
Tucson, Arizona

September 19, 2019

MAKE WAY FOR BOOKS

STATEMENT OF FINANCIAL POSITION

June 30, 2019

ASSETS

Cash and cash equivalents	$ 804,261
Grants receivable	159,978
Prepaid expenses	11,504
Other assets - Note 4	68,775
Property and equipment - Note 5	1,225,046
	$ 2,269,564

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	$ 26,718
Accrued expenses	29,548
Deferred revenue - Note 6	287,253
	343,519
Net assets:	
Without donor restrictions:	
Available for operations	254,492
Expended for property and equipment	1,225,046
	1,479,538
With donor restrictions - Note 9	446,507
	1,926,045
	$ 2,269,564

See Accompanying Notes.

MAKE WAY FOR BOOKS
STATEMENT OF ACTIVITIES
Year ended June 30, 2019

	Without donor restrictions	With donor restrictions	Totals
Public support and revenues:			
Contributions	$ 174,594	$ 100,800	$ 275,394
Grants and contracts	1,051,859	334,665	1,386,524
Fundraising events, net of direct donor benefit costs of $2,189	6,336	-	6,336
In-kind contributions - Note 10	28,927	-	28,927
Miscellaneous	3,727	-	3,727
	1,265,443	435,465	1,700,908
Releases from restrictions	387,655	(387,655)	-
Total public support and revenues	1,653,098	47,810	1,700,908
Expenses:			
Program services	1,378,749	-	1,378,749
General and administrative	135,640	-	135,640
Fundraising	110,568	-	110,568
Total expenses	1,624,957	-	1,624,957
Change in net assets	28,141	47,810	75,951
Net assets, beginning of year	1,451,397	398,697	1,850,094
Net assets, end of year	$ 1,479,538	$ 446,507	$ 1,926,045

See Accompanying Notes.

MAKE WAY FOR BOOKS
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2019

	Program services					
	Family literacy	Story project	Total program services	General and administrative	Fundraising	Total
Salaries and wages	$ 372,462	$ 419,716	$ 792,178	$ 81,860	$ 81,838	$ 955,876
Payroll taxes and benefits	63,190	79,710	142,900	15,659	16,011	174,570
	435,652	499,426	935,078	97,519	97,849	1,130,446
Program support services	1,500	-	1,500	6,377	-	7,877
Bank and credit card fees	2,265	2,118	4,383	258	1,787	6,428
Books	52,316	169,398	221,714	132	-	221,846
Depreciation and amortization	26,465	24,744	51,209	3,012	2,581	56,802
Direct donor benefit	-	-	-	-	2,189	2,189
Insurance	5,812	5,434	11,246	662	567	12,475
Occupancy	8,621	8,577	17,198	1,813	705	19,716
Office expenses	5,472	5,116	10,588	861	534	11,983
Postage and printing	5,375	5,025	10,400	4,870	3,657	18,927
Promotion	8,762	9,618	18,380	17,255	300	35,935
Professional services	42,723	4,948	47,671	728	671	49,070
Repairs and maintenance	2,624	1,976	4,600	431	159	5,190
Supplies	14,004	14,801	28,805	191	1,199	30,195
Travel and meetings	2,520	4,254	6,774	1,442	174	8,390
Miscellaneous	4,460	4,743	9,203	89	385	9,677
Total functional expenses	618,571	760,178	1,378,749	135,640	112,757	1,627,146
Less: Direct donor benefit	-	-	-	-	(2,189)	(2,189)
	$ 618,571	$ 760,178	$ 1,378,749	$ 135,640	$ 110,568	$ 1,624,957

See Accompanying Notes.

MAKE WAY FOR BOOKS
STATEMENT OF CASH FLOWS
Year ended June 30, 2019

Cash flows from operating activities:		
Change in net assets	$	75,951
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Donated stock		(2,594)
Proceeds from sale of donated stock		2,594
Depreciation and amortization		56,802
(Increase) decrease in operating assets:		
Grants receivable		(35,985)
Prepaid expenses		(1,818)
Increase (decrease) in operating liabilities:		
Accounts payable		3,239
Accrued expenses		5,476
Deferred revenue		284,535
Net cash provided by operating activities		388,200
Cash flows from investing activities:		
Purchases of property and equipment		(6,951)
Mobile app development costs		(5,837)
Net cash (used in) investing activities		(12,788)
Net change in cash and cash equivalents		375,412
Cash and cash equivalents, beginning of year		428,849
Cash and cash equivalents, end of year	$	804,261

Supplemental cash flow information:
No cash paid for interest or income taxes in 2019

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.

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, 2019. Any future activity will be consolidated with the financial statements of MWFB.

NOTE 2 – Summary of significant accounting policies

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.

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, 2019.

Net assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

NOTE 2 – Summary of significant accounting policies – continued

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that the resources be maintained in perpetuity.

MWFB reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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.

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.

Functional allocation of expenses

Costs are allocated to various programs, grants, contracts, agreements and functions of the organization. The general approach of the plan follows:

- All allowable direct costs are charged to programs, grants, activities and functions;

- Allowable direct costs that can be identified to more than one program are prorated individually as direct costs using a base more appropriate to the particular cost being prorated;

- All other allowable general and administrative costs (costs that benefit all programs and cannot be identified to a specific program) are allocated using a base that results in an equitable distribution.

NOTE 2 – Summary of significant accounting policies – continued

Advertising

Advertising costs are expensed as incurred. Advertising costs, which are included in promotion expense, totaled $54,354 for the year ended June 30, 2019.

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.

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, 2019.

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.

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 $529,467 at June 30, 2019.

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 – Liquidity and availability

As part of MWFB's liquidity management plan, cash in excess of annual operating requirements is invested in savings and money market funds.

NOTE 3 – Liquidity and availability – continued

MWFB has no internally designated net assets. Financial assets available for general expenditure (without donor or other restrictions limiting their use) within one year of the statement of financial position date comprise the following:

Cash and cash equivalents	$ 70,501
Grants receivable	159,978
	$ 230,479

NOTE 4 – 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 $81,887 were capitalized through June 30, 2019. During the year ended June 30, 2019, the project was completed . Amortization is computed using the straight-line method over the estimated useful life of the app of four years. 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, 2019.

NOTE 5 – Property and equipment

Property and equipment at June 30, 2019 was as follows:

Land	$ 240,000
Building and improvements	1,109,242
Computer equipment and software	14,977
Office furniture and fixtures	16,696
Vehicle	28,188
	1,409,103
Less accumulated depreciation	(184,057)
	$ 1,225,046

NOTE 6 – Deferred revenue

Deferred revenue consists of advances on grants and contracts in excess of amounts earned. Deferred revenue was $287,253 as of June 30, 2019.

NOTE 7 – Line of credit

MWFB has an unsecured $100,000 revolving line of credit with a financial institution maturing April 2020. The interest rate is variable, 7.5% at June 30, 2019. There was no outstanding balance on the line of credit at June 30, 2019.

NOTE 8 – Retirement plan

During the year ended June 30, 2019, 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 $12,681 to the Plan for the year ended June 30, 2019. All contributions made under the Plan are fully vested.

NOTE 9 – Net assets with donor restrictions

Net assets with donor-specified purpose restrictions were as follows for the year ended June 30, 2019:

	Beginning balance	Additions	Releases	Ending balance
Blue Book House	$ 1,000	$ 500	$ (1,028)	$ 472
Cover to Cover	93,991	70,288	(27,042)	137,237
Culture of learning	3,000	-	(3,000)	-
Employee gifts	-	2,500	(1,968)	532
Family education and literacy	188,167	159,877	(194,685)	153,359
Make Way for Kindergarten	-	10,000	(7,647)	2,353
Mobile app development	81,175	100,800	(128,082)	53,893
Parent pipeline	3,000	-	(3,000)	-
Project 110	5,000	5,000	(5,000)	5,000
Storytime	7,598	6,000	(6,000)	7,598
The Story Project	15,766	500	(10,203)	6,063
The Story School	-	80,000	-	80,000
	$ 398,697	$ 435,465	$ (387,655)	$ 446,507

NOTE 10 – In-kind contributions

MWFB received in-kind contributions which are in included in the statement of functional expenses as follows for the year ended June 30, 2019:

Books	$ 3,705
Promotion	21,960
Supplies	3,262
	$ 28,927

NOTE 11 – 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, 2019, the remaining balance on the award was $336,678; 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 12 – Subsequent events

Subsequent events have been evaluated through September 19, 2019, which is the date the financial statements were available to be issued.

NOTE 13 – Change in accounting principle

On August 18, 2016, The Financial Accounting Standards Board issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. This guidance is effective for the year ended June 30, 2019. MWFB has adjusted the presentation in these financial statements accordingly. There was no cumulative effect adjustment to beginning net assets as a result of this change.