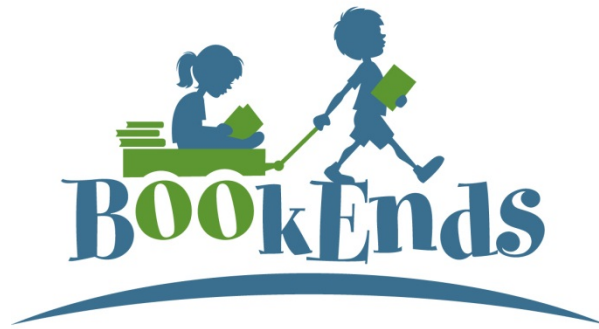


KEVIN E. FORDYCE, CPA



Financial Statements for the
Year Ended June 30, 2013



Financial Statements for the
Year Ended June 30, 2013

**BookEnds
Financial Statements
Year Ended June 30, 2013**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of BookEnds:

We have audited the accompanying financial statements of BookEnds, which comprise the statement of financial position as of June 30, 2013, 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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 the 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BookEnds as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Glendale, California
November 4, 2013

BookEnds
Statement of Financial Position
June 30, 2013
(With Summarized June 30, 2012 Totals)

| | <u>2013</u> <u>Total</u> | <u>2012</u> <u>Total</u> |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 36,639 | \$ - |
| Grants and accounts receivable | 3,709 | 62,500 |
| Book inventory | 229,100 | 17,340 |
| Prepaid expenses and deposit | 4,350 | 7,739 |
| Total current assets | <u>273,798</u> | <u>87,579</u> |
| Property and equipment (net of accumulated depreciation of \$8,529) | <u>4,709</u> | <u>8,245</u> |
| Total assets | <u><u>\$ 278,507</u></u> | <u><u>\$ 95,824</u></u> |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 3,847 | \$ 1,186 |
| Unrestricted net assets | <u>274,660</u> | <u>94,638</u> |
| Total liabilities and net assets | <u><u>\$ 278,507</u></u> | <u><u>\$ 95,824</u></u> |

The accompanying notes are an integral part of these financial statements.

BookEnds
Statement of Activities
Year Ended June 30, 2013
(With 2012 Summarized Totals)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>2013 Total</u> | <u>2012 Summarized Total</u> |
|--|---------------------|-----------------------------------|-----------------------|--------------------------------------|
| Support and revenue | | | | |
| Donated books | \$ 2,190,684 | \$ - | \$ 2,190,684 | 1,251,830 |
| Contributions: | | | | |
| Corporate and business grants | 27,247 | - | 27,247 | 17,500 |
| Foundation and trust grants | 183,963 | - | 183,963 | 194,030 |
| Nonprofit organization grants | 38,300 | - | 38,300 | 27,941 |
| Individuals and board members | 40,736 | - | 40,736 | 36,795 |
| Contract Revenue | 19,800 | - | 19,800 | - |
| Special events (net of expenses of \$28,279) | 67,042 | - | 67,042 | 69,569 |
| Contributed storage space | 25,000 | - | 25,000 | - |
| Net assets released from restrictions | 10,000 | (10,000) | - | - |
| Total support and revenue | <u>2,602,772</u> | <u>(10,000)</u> | <u>2,592,772</u> | <u>1,597,665</u> |
| Expenses | | | | |
| Program services | 2,248,184 | - | 2,248,184 | 1,513,989 |
| Supporting services: | | | | |
| Management and general | 82,666 | - | 82,666 | 73,540 |
| Fundraising | 81,900 | - | 81,900 | 82,921 |
| Total expenses | <u>2,412,750</u> | <u>-</u> | <u>2,412,750</u> | <u>1,670,450</u> |
| Increase/(Decrease) in net assets | 190,022 | (10,000) | 180,022 | (72,785) |
| Net assets at beginning of year | <u>84,638</u> | <u>10,000</u> | <u>94,638</u> | <u>167,423</u> |
| Net assets and end of year | <u>\$ 274,660</u> | <u>\$ -</u> | <u>\$ 274,660</u> | <u>\$ 94,638</u> |

The accompanying notes are an integral part of these financial statements.

BookEnds
Statement of Functional Expenses
Year Ended June 30, 2013
(With Summarized Year Ended June 30, 2012 Totals)

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>2013 Total</u> | <u>2012 Summarized Total</u> |
|--|-----------------------------|-----------------------------------|--------------------|-----------------------|--------------------------------------|
| Personnel: | | | | | |
| Salaries | \$ 155,250 | \$ 38,250 | \$ 31,500 | \$ 225,000 | \$ 211,140 |
| Payroll taxes | 13,072 | 3,221 | 2,652 | 18,945 | 19,200 |
| Employee benefits | 18,174 | 4,478 | 3,688 | 26,340 | 19,546 |
| Total personnel costs | <u>186,496</u> | <u>45,949</u> | <u>37,840</u> | <u>270,285</u> | <u>249,886</u> |
| Books distributed and grants | 1,978,924 | - | - | 1,978,924 | 1,739,417 |
| Operations: | | | | | |
| Development | - | - | 32,332 | 32,332 | 19,501 |
| Occupancy | 19,372 | 4,773 | 3,931 | 28,076 | 23,383 |
| Donated Rent | 25,000 | - | - | 25,000 | - |
| Office expenses | 13,290 | 3,275 | 2,697 | 19,262 | 22,150 |
| Accounting | - | 10,655 | - | 10,655 | 10,989 |
| Information technology | 6,597 | 1,625 | 1,338 | 9,560 | 25,283 |
| Insurance | - | 9,459 | - | 9,459 | 9,892 |
| Conferences, conventions, and meetings | 7,420 | 1,309 | - | 8,729 | 4,593 |
| Travel | 5,018 | 1,236 | 1,018 | 7,272 | 10,087 |
| Depreciation | 2,440 | 601 | 495 | 3,536 | 3,730 |
| Partner expenses | 2,909 | 513 | - | 3,422 | - |
| Bank charges | - | 2,229 | - | 2,229 | 1,780 |
| Holiday appeal | - | - | 2,103 | 2,103 | 16,998 |
| Legal | - | 865 | - | 865 | 10,989 |
| Miscellaneous | 718 | 177 | 146 | 1,041 | 632 |
| Advertising and promotion | - | - | - | - | 9,685 |
| Total operations | <u>82,764</u> | <u>36,717</u> | <u>44,060</u> | <u>163,541</u> | <u>169,692</u> |
| Total expenses | <u>\$ 2,248,184</u> | <u>\$ 82,666</u> | <u>\$ 81,900</u> | <u>\$ 2,412,750</u> | <u>\$ 2,158,995</u> |

The accompanying notes are an integral part of these financial statements.

BookEnds
Statement of Cash Flows
Year Ended June 30, 2013
(With Summarized Year Ended June 30, 2012 Totals)

| | <u>2013</u> | <u>2012</u> |
|--|-------------------------|--------------------|
| Cash flows from operating activities: | | |
| Decrease in net assets | \$ 180,022 | \$ (72,785) |
| Adjustment to reconcile increase in net assets to net cash provided by operating activities | | |
| Depreciation | 3,536 | 3,537 |
| Change in: | | |
| Grants receivable | 58,791 | (38,727) |
| Inventory | (211,760) | 27,006 |
| Prepaid expenses | 3,389 | 315 |
| Accounts payable and accrued expenses | 2,661 | (58) |
| Net cash provided by/(used in) operating activities | <u>36,639</u> | <u>(80,712)</u> |
| Cash Flows From Investing Activities | | |
| Purchase of Furnitures, Fixtures and Equipment | <u>-</u> | <u>(1,532)</u> |
| Net increase/(decrease) in cash | 36,639 | (82,244) |
| Cash at beginning of year | <u>-</u> | <u>82,244</u> |
| Cash at end of year | <u><u>\$ 36,639</u></u> | <u><u>\$ -</u></u> |

The accompanying notes are an integral part of these financial statements.

BookEnds
Notes to Financial Statements
June 30, 2013

Note 1 – Organization and Summary of Significant Accounting Policies

Organization – BookEnds (the “Organization”) is a California tax-exempt public benefit corporation. Its mission is to increase the educational opportunities provided by a book-rich environment for young people at the lowest end of the educational and economic scales, through empowering young people in meaningful community service and facilitating community and corporate partnerships.

BookEnds is about kids helping kids. The primary source of books for BookEnds is student-run book drives, a concept developed by an eight-year-old, which have resulted in the donation of more than two million books to date. BookEnds identifies recipient organizations that have the educational and literacy programs to help a child with a book become a reader. BookEnds diverse recipients include more than 604,000 youth served at inner-city schools, youth centers, homeless shelters, family literacy centers, after-school enrichment programs, children’s group homes, and juvenile detention facilities.

Financial Statement Presentation and Contributions – BookEnds recognized contributions, including unconditional promises to give, as revenue in the period received. Contributions and net assets are classified on the existence or absence of donor-imposed restrictions. The net assets of BookEnds and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in the primary objectives of the Organization.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. BookEnds did not have any temporarily restricted net assets at June 30, 2013.

Permanently restricted net assets – Net assets that are restricted by the donors for investment in perpetuity. The investment income is available for general support of the Organization’s programs and operations. BookEnds did not have any permanently restricted net assets at June 30, 2013.

It is the policy of BookEnds to record restricted support as unrestricted support where the donor-restrictions have been satisfied within the reporting period.

Cash Equivalents – BookEnds considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventory – Inventory consists of new and gently-used books donated to BookEnds primarily through student run book drives. Inventory, donated books revenue and books distributed expense are valued at fair value, using market-based estimation techniques.

Equipment – Equipment is stated at cost when purchased or at estimated fair market value at the date of the gift. Depreciation is calculated using the straight-line method over the estimated life of the asset. Individual equipment items valued at less than \$1,000 with a useful life of one year or less are expensed when purchased or donated.

Income Taxes – BookEnds is a nonprofit organization exempt from income taxes under section 501(c)(3) of the Internal Revenue Code, and Section 23701(d) of the California State Revenue and Taxation Code. Accordingly, no provision for federal or state income taxes is included in the financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a)(1) of the Internal Revenue Code.

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

The Organization has analyzed the tax positions taken in its filings with the Internal Revenue Service and state jurisdictions where it operates. The Organization believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2013.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2008.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Concentrations of Credit Risk – Financial instruments which potentially subject BookEnds to concentrations of credit risk consist of cash and cash equivalents and grants receivable. BookEnds maintains cash balances at a high quality financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

Donated Assets and Services – Contributions of donated assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

Revenue Recognition – Donor contributions are recognized as revenues when they are received or unconditionally pledged, whichever event occurs first. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets.

Government contracts and grants are generally considered to be exchange contracts. Revenues from exchange contracts are not recognized until they are earned. Depending on the terms of the grant or contract, revenue may be earned by the Organization by accomplishing a set of specific contract deliverables, or by performing a service over a period of time. Revenues and expenses from exchange contracts are classified as unrestricted.

Functional Allocation of Expenses – The costs of providing the program and supporting services 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 the supporting services in reasonable ratios as determined by management.

Prior-Period Information – The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles in the United States of America. Accordingly, such information should be read in conjunction with BookEnds' financial statements for the year ended June 30, 2012, from which the summarized information was derived.

Note 2 – Grants Receivable

All grants receivable are unrestricted and expected to be collected within one year.

BookEnds
Notes to Financial Statements
June 30, 2013

Note 3 – Fixed Assets

| | |
|--------------------------------|-----------------|
| Furniture and equipment | \$ 9,375 |
| Leasehold improvements | 7,399 |
| | <u>16,774</u> |
| Less: Accumulated depreciation | (12,065) |
| Total Property and equipment | <u>\$ 4,709</u> |

Depreciation expense for the year totaled \$3,536.

Note 4 – Donated Books

BookEnds primary source of books is student-run book drives. BookEnds facilitates these student-driven community service projects to foster volunteerism and place critically-needed books onto classroom bookshelves. In addition, substantial book donations are received periodically from BookEnds' partnerships with other literary organizations.

BookEnds values the books that are contributed to the Organization by taking the average book price for similar books sold in the online marketplace and applying that average book value to each book received during the year. This method yields the estimated fair value for all books received during the current year in a manner that is consistent with the fair value requirements of ASC Topic 820 *Fair Value*.

More than 19,000 students participated in the collection of books through 70 BookEnds book drives and over 52,000 students received books through the book drive program. Sources of donations of new and gently-used books during the year ended June 30, 2013 is as follows:

| | |
|----------------------------|-----------------------|
| Student book drives | 127,587 |
| Individual book donations | 29,384 |
| Partnership book donations | <u>105,701</u> |
| Total book donations | <u><u>262,672</u></u> |

Donated books that were distributed during the year ended June 30, 2013:

| | |
|--------------------------------|-----------------------|
| Classroom and school libraries | 204,951 |
| Residential libraries | <u>32,113</u> |
| Total grant books distributed | <u><u>237,064</u></u> |

Note 5 – Donated Warehouse Space

In the current year, BookEnds received donated warehouse space in Calabasas, California for the purpose of storing extra books that exceeded the capacity of the West Los Angeles office location. Management estimates that the fair value for the space that was donated is \$2,500 per month. The Organization used the space for ten months during the year and as a result, has recognized gift in kind revenue of \$25,000 on the statement of financial position.

BookEnds
Notes to Financial Statements
June 30, 2013

Note 6 – Retirement Plan

BookEnds employees may participate in a Simple IRA retirement plan (the “Plan”) which originated in March 2003. The plan covers all full-time employees with annual earnings of \$5,000 or more and provides for voluntary employee contributions of an amount up to that prescribed by the Internal Revenue Service (\$12,000 in the calendar year ended December 31, 2013 and \$11,500 in the calendar year ended December 31, 2012). On an annual basis, the management of BookEnds makes a discretionary employer contribution to the participants in the Plan, based on a fixed percentage of each employee’s compensation. Employees vest in their employer contribution immediately. During the year ended June 30, 2013 BookEnds made employer contributions to the Plan totaling \$4,500.

Note 7 – Subsequent Events

BookEnds evaluated its June 30, 2013 financial statements for subsequent events through November 4, 2013 the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the accompanying financial statements or further note disclosure.