

BARBARA BUSH FOUNDATION FOR FAMILY LITERACY, INC.

TALLAHASSEE, FLORIDA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

**BARBARA BUSH FOUNDATION FOR FAMILY LITERACY, INC.
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2017**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6

INDEPENDENT AUDITORS' REPORT

Board of Directors
Barbara Bush Foundation for Family Literacy, Inc.
Tallahassee, Florida

We have audited the accompanying financial statements of Barbara Bush Foundation for Family Literacy, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities 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 from 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 auditors' 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.

Board of Directors
Barbara Bush Foundation for Family Literacy, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Barbara Bush Foundation for Family Literacy, Inc. as of June 30, 2017, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Lakeland, Florida
September 14, 2017

BARBARA BUSH FOUNDATION FOR FAMILY LITERACY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 663,922
Prepaid Expenses and Other Assets	25,953
Investments	28,496,125
Pledges Receivable, current portion	1,506,527
Total Current Assets	<u>30,692,527</u>

PLEDGES RECEIVABLE, NET

1,681,850

OFFICE EQUIPMENT AND SOFTWARE, NET

6,942

Total Assets

\$ 32,381,319

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 4,111,735
Accrued Expenses	107,073
Total Current Liabilities	<u>4,218,808</u>

LONG TERM LIABILITY

Accrued Expenses	1,000,000
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NET ASSETS

Unrestricted:	
Undesignated	21,572,868
Designated - Contingency Fund	5,589,643
Total Net Assets	<u>27,162,511</u>

Total Liabilities and Net Assets

\$ 32,381,319

See accompanying Notes to Financial Statements.

BARBARA BUSH FOUNDATION FOR FAMILY LITERACY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 1,300,937	\$ -	\$ 1,300,937
Special Events (Net of Costs of Direct Benefits to Donors of \$125,375)	819,575	-	819,575
Nongovernmental Grants	618,336	-	618,336
Contributed Goods and Services	206,857	-	206,857
Government Grants	314,058	-	314,058
Investment Income	2,562,996	-	2,562,996
Loss on Dissolution of Subsidiary	(6,291)	-	(6,291)
Net Assets Released from Restrictions	3,152,199	(3,152,199)	-
Total Revenues and Other Support	8,968,667	(3,152,199)	5,816,468
EXPENSES			
Program Services:			
Literacy Initiative	12,571,127	-	12,571,127
Support Services:			
General and Administrative	384,199	-	384,199
Fundraising	896,147	-	896,147
Total Support Services	1,280,346	-	1,280,346
Total Expenses	13,851,473	-	13,851,473
CHANGE IN NET ASSETS	(4,882,806)	(3,152,199)	(8,035,005)
Net Assets - Beginning of Year	32,045,317	3,152,199	35,197,516
NET ASSETS - END OF YEAR	\$ 27,162,511	\$ -	\$ 27,162,511

See accompanying Notes to Financial Statements.

BARBARA BUSH FOUNDATION FOR FAMILY LITERACY, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (8,035,005)
Adjustments to Reconcile Change in Net Assets to	
Net Cash Used by Operating Activities:	
Depreciation and Amortization	5,951
Net Realized and Unrealized Gains on Investments	(1,794,193)
Change in Assets and Liabilities:	
(Increase) Decrease in Assets:	
Grants Receivable	167,124
Prepaid Expenses and Other Assets	(5,591)
Pledges Receivable	1,662,664
Increase (Decrease) in Liabilities:	
Accounts Payable	720,850
Accrued Expenses	1,019,352
Net Cash Used by Operating Activities	(6,258,848)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Office Equipment and Software	(1,393)
Purchase of Investments	(16,171,937)
Proceeds from Sale of Investments	19,329,292
Net Cash Provided by Investing Activities	3,155,962

NET CHANGE IN CASH AND CASH EQUIVALENTS

(3,102,886)

Cash and Cash Equivalents - Beginning of Year

3,766,808

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 663,922

See accompanying Notes to Financial Statements.

BARBARA BUSH FOUNDATION FOR FAMILY LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Foundation

Barbara Bush Foundation for Family Literacy, Inc. (the Foundation) is a not-for-profit Florida organization whose mission is to advocate for and establish literacy as a value in every home. The Foundation's funding is derived primarily from contributions from individuals, businesses, community support, and state funds. The Foundation has various literacy and mentoring programs.

Basis of Accounting

The Foundation uses the accrual basis of accounting. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The Foundation has adopted Financial Accounting Standards Board (FASB) Accounting Standard Codification topic, *Financial Statements of Not-For-Profit Organizations*. Under the topic, the Foundation's net assets are classified into three categories: (1) unrestricted net assets, which include no donor-imposed restrictions, (2) temporarily restricted net assets, which include donor-imposed restrictions that will expire in the future and (3) permanently restricted net assets, which include donor-imposed restrictions that the assets be maintained permanently. The unrestricted net assets consist of operating funds available for any purpose authorized by the Board of directors.

Temporarily restricted net assets are subject to donor-imposed stipulations that will either be met by actions of the Foundation or the passage of time.

Permanently restricted net assets consist of funds arising from a gift or bequest in which the donor has stipulated, as a condition of the gift, that the principal be maintained in perpetuity and only the investment income from investment of the funds be expended.

Revenue Recognition

The Foundation recognizes grants, contracts and contributions of cash or other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor's restriction expires, when a stipulated time restriction ends or the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor imposed restrictions that may be met in the same year in which the contribution, if any, are received are classified as unrestricted contributions.

The Foundation recognizes revenues from exchange transactions when the service is rendered. Receivables are recognized for outstanding invoices. The Foundation does not charge interest on outstanding accounts receivable. The Foundation considers its accounts receivables related to grants and other receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required.

BARBARA BUSH FOUNDATION FOR FAMILY LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Contributions and Donated Services

All contributions of materials and services received by the Foundation and used to service and promote its programs have been recorded as donations at their estimated value at the date of receipt. These in-kind materials and services totaled \$173,125 and \$33,732, respectively, for the year ended June 30, 2017, and have been included in the statement of activities as both revenue and expense.

Cash and Cash Equivalents

Cash and cash equivalents consist of deposits with a financial institution and deposits in highly liquid money market funds.

Office Equipment and Software

Office equipment and software is recorded at cost when purchased, less accumulated depreciation and amortization. Contributed assets are recorded at fair value at the date of contribution. Depreciation and amortization is computed using the straight-line method over their estimated useful lives of three years. The Foundation's policy is to capitalize asset acquisitions in excess of \$1,000.

Pledges Receivable

Pledges are recorded initially and subsequent to initial recognition at fair value. The fair value of contributions receivable is determined by using U.S. Treasury securities at 5-year constant maturity, quoted on investment basis. Although management uses its best judgment at estimating fair value of the contributions receivable, there are inherent limitations in any valuation technique. Therefore, the value is not necessarily indicative of the amount that could be realized in a current transaction. Future events will also affect the estimates of fair value, and the effect of such events on the estimates of fair value could be material.

Investments

The Foundation accounts for investments under FASB Accounting Standards Codification 958, *Accounting for Certain Investments Held by Not-For-Profit Organizations*. Under the topic, investments are valued at their fair values in the statement of financial position; unrealized gains and losses are included in the statement of activities. Realized gains/losses on disposition are based on the net proceeds and the adjusted carrying amounts of the securities sold using the specific identification method.

Special Events

The Foundation holds multiple Celebration of Reading Events throughout the year in order to raise additional funding and awareness for the need for family literacy. These revenues have been netted against their direct expenses on the statement of activities.

BARBARA BUSH FOUNDATION FOR FAMILY LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among programs and the supporting services benefited. Benefit costs are allocated based on a percentage of personnel time.

Advertising Expense

Advertising costs are expensed as incurred. Advertising expense totaled \$124,919 for the year ended June 30, 2017.

Fundraising Expense

The Board of Directors approved the use of interest and dividends to cover all fundraising expenses. Fundraising expenses total \$868,397 for the year ended June 30, 2017.

Income Taxes

The Foundation is a not-for-profit organization that is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for income taxes has been made in the accompanying financial statements. The Foundation recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the year ended June 30, 2017, the Foundation did not incur interest and penalties related to tax positions. The Foundation files as a tax exempt organization, should that status be challenged in the future, all years since inception would be subject to review by the IRS.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to June 30, 2017 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2017. Management has performed their analysis through September 14, 2017, the date financial statements were available to be issued, and has noted no subsequent events.

BARBARA BUSH FOUNDATION FOR FAMILY LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash deposits in various financial institutions which may, at times exceed the limit insured by the Federal Deposit Insurance Corporation (FDIC). The Foundation has not experienced any losses in such accounts.

The various investments in stocks, securities, mutual funds and other investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Foundation.

NOTE 3 PLEDGES RECEIVABLE

Pledges receivable at June 30, 2017 are summarized as follows:

Total Unconditional Pledges	\$ 3,291,000
Less: Discount on Long-Term Pledges (1.89%)	<u>(102,623)</u>
Net Pledges Receivable	<u><u>\$ 3,188,377</u></u>

Pledges receivable expected to be collected after June 30, 2017 are as follows:

Less than One Year	\$ 1,506,527
One to Five Years	<u>1,681,850</u>
Total	<u><u>\$ 3,188,377</u></u>

BARBARA BUSH FOUNDATION FOR FAMILY LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 INVESTMENTS AND PLEDGES RECEIVABLE

The Fair Value Measurement and Disclosures Topic of the FASB Accounting Standards Codification 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 the Fair Value Measurement and Disclosure Topic are described as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Investments may include money market funds, securities and bonds and are reported at fair value. The fair values of debt and equity investments that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or by quoted market prices of similar securities with similar due dates or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Fair Value Option

The Foundation elected the fair value option for pledges receivable. The fair value option election was made to simplify the record keeping. The option allows organizations to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities. Changes in fair value for assets and liabilities for which the election is made will be recognized in earnings as they occur. The fair value option is permitted on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. For certain financial instruments that are not accounted for at fair value under other applicable accounting guidance, the fair value option has been elected.

BARBARA BUSH FOUNDATION FOR FAMILY LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 INVESTMENTS (CONTINUED)

Fair Value Measured on a Recurring Basis

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2017.

	Market and Carrying Value	Level 1	Level 2	Level 3
Investments:				
Equity Securities:				
Large Cap Value	\$ 1,783,139	\$ 1,783,139	\$ -	\$ -
Large Cap Growth	1,826,687	1,826,687	-	-
Large Cap Blend	3,569,680	3,569,680	-	-
Small Cap/Mid Cap Equities	3,231,012	3,231,012	-	-
International Equities	4,069,843	4,069,843	-	-
Total Equity Securities	<u>14,480,361</u>	<u>14,480,361</u>	-	-
Debt Securities:				
1-3 Year Fixed Income	7,804,148	-	7,804,148	-
Intermediate Fixed Income	6,185,472	-	6,185,472	-
Total Debt Securities	<u>13,989,620</u>	-	<u>13,989,620</u>	-
Alternative Investments:				
Investment in LLC	<u>26,144</u>	-	-	<u>26,144</u>
Total Investments	<u>\$ 28,496,125</u>	<u>\$ 14,480,361</u>	<u>\$ 13,989,620</u>	<u>\$ 26,144</u>
Pledges Receivable	<u>\$ 3,188,377</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,188,377</u>

Investment income consists of the following at June 30, 2017:

Interest	\$ 768,803
Realized Gain	473,586
Unrealized Gain	1,320,607
Total Investment Gain	<u>\$ 2,562,996</u>

The following table provides a summary of changes in fair value of the Foundation's Level 3 financial assets for the year ended June 30, 2017:

Balance as of June 30, 2016	\$ 4,851,041
New Pledges Receivable	277,500
Purchase of Investment in LLC	26,144
Pledges Receivable Payments	(1,874,667)
Current Year Write-Offs	(60,000)
Change in Present Value Discount	(5,497)
Balance as of June 30, 2017	<u>\$ 3,214,521</u>

BARBARA BUSH FOUNDATION FOR FAMILY LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 OFFICE EQUIPMENT AND SOFTWARE

Office equipment and software consists of the following at June 30, 2017:

Computers and Equipment	\$ 57,711
Software	<u>65,606</u>
	123,317
Less: Accumulated Depreciation	<u>(116,375)</u>
Office Equipment and Software, Net	<u><u>\$ 6,942</u></u>

Depreciation and amortization expense for the year ended June 30, 2017 was \$5,951.

NOTE 6 ACCRUED EXPENSES

The Foundation has entered into a sponsorship agreement with another nonprofit organization to collaborate in order to catalyze and accelerate the development and innovation of new technologies that will help bring increased literacy to adults and families. The sponsorship agreement calls for payments related to operating costs and prize payments for the event to be payable over a period of time. The Foundation has recorded related accrued expenses which are due within the next fiscal year as current accounts payable and the portion of expenses that are due during the fiscal year ending June 30, 2019 as accrued expenses classified as a long term liability as of June 30, 2017.

NOTE 7 OPERATING LEASES

The Foundation leases storage space and office equipment. Maximum future lease payments required under the terms of the leases including sales tax are as follows for the year ending June 30:

Year	Amount
2018	<u>\$ 24,785</u>
	<u><u>\$ 24,785</u></u>

Rental expense totaled \$42,630 for the year ended June 30, 2017.

NOTE 8 RETIREMENT PLAN

The Foundation sponsors a 403(b)(7) plan covering all employees. Employer contributions are based on 8% of annual salary for all employees. Employees must be with the Foundation at least six months to be eligible.

BARBARA BUSH FOUNDATION FOR FAMILY LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donor and the passage of time. Amounts released during the year ended June 30, 2017 are \$3,152,199.

NOTE 10 RELATED PARTY TRANSACTIONS

During the year ended June 30, 2017, The Foundation received contributions of \$147,370 from board members and their affiliated entities. As of June 30, 2017, there are \$2,680,000 in pledges receivable from a board member's affiliated entity.

NOTE 11 LOSS ON DISSOLUTION OF SUBSIDIARY

On July 1, 2016, the Foundation executed an agreement with FLA3 to no longer function as a parent/subsidiary and to dissolve the business relationship. As a result, The Foundation incurred a \$6,291 loss on dissolution.

NOTE 12 FUTURE COMMITMENTS

During the year ended June 30, 2017, The Foundation committed to a \$100,000 mission-related investment in an LLC, \$26,144 of which was paid during the year. Of the remaining \$73,856, \$28,905 is due before June 30, 2018.