



First Book

Financial Statements and Independent
Auditor's Report
Years Ended December 31, 2023 and 2022

First Book

Financial Statements and Independent Auditor's Report
Years Ended December 31, 2023 and 2022

First Book

Contents

| | |
|-------------------------------------|-------|
| Independent Auditor's Report | 3 - 4 |
| Financial Statements | |
| Statements of Financial Position | 5 |
| Statements of Activities | 6-7 |
| Statements of Functional Expenses | 8-9 |
| Statements of Cash Flows | 10 |
| Notes to Financial Statements | 11-18 |



Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive, Suite 800
McLean, VA 22102

Independent Auditor's Report

Board of Directors
First Book
Washington, D.C.

Opinion

We have audited the financial statements of First Book (the Organization), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinions, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, P.C.

McLean, Virginia
July 29, 2024

Financial Statements

First Book

Statements of Financial Position

| December 31, | 2023 | 2022 |
|--|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 6,565,256 | \$ 10,159,347 |
| Accounts receivable, net of credit losses of \$18,424 and \$32,823, respectively | 1,214,696 | 1,427,141 |
| Contributions receivable, net of allowance of \$33,754 and \$0, respectively | 6,389,779 | 1,004,493 |
| Prepaid expenses and other current assets | 603,331 | 438,640 |
| Inventory | | |
| Donated inventory | 15,624,452 | 21,264,213 |
| Purchased inventory | 3,353,573 | 3,644,428 |
| Right-of-use asset | 1,898,244 | 842,911 |
| Total assets | \$ 35,649,331 | \$ 38,781,173 |
| Liabilities | | |
| Accounts payable | \$ 3,223,263 | \$ 3,582,880 |
| Accrued expenses | 534,208 | 481,714 |
| Grants payable | 1,035,250 | 1,801,750 |
| Deferred revenue | 479,451 | 357,799 |
| Operating lease liability | 1,907,354 | 827,179 |
| Total liabilities | 7,179,526 | 7,051,322 |
| Net assets | | |
| Without donor restrictions | 14,603,419 | 23,225,339 |
| With donor restrictions | 13,866,386 | 8,504,512 |
| Total net assets | 28,469,805 | 31,729,851 |
| Total liabilities and net assets | \$ 35,649,331 | \$ 38,781,173 |

See accompanying notes to financial statements.

First Book

Statements of Activities

| <i>Year Ended December 31, 2023</i> | Without donor Restrictions | With donor Restrictions | Total |
|---------------------------------------|-------------------------------|----------------------------|----------------------|
| Support and Revenue | | | |
| Contributed goods | \$ 46,458,497 | \$ 1,530,000 | \$ 47,988,497 |
| Contributions, grants and contracts | 3,875,188 | 16,874,881 | 20,750,069 |
| Marketplace activity | 16,199,446 | - | 16,199,446 |
| Other income | 188,606 | - | 188,606 |
| Net assets released from restrictions | 13,043,007 | (13,043,007) | - |
| Total support and revenue | 79,764,744 | 5,361,874 | 85,126,618 |
| Expenses | | | |
| Program services | 82,365,082 | - | 82,365,082 |
| Management and general | 3,198,440 | - | 3,198,440 |
| Fundraising | 2,823,142 | - | 2,823,142 |
| Total expenses | 88,386,664 | - | 88,386,664 |
| Change in net assets | (8,621,920) | 5,361,874 | (3,260,046) |
| Net assets, beginning of year | 23,225,339 | 8,504,512 | 31,729,851 |
| Net assets, end of year | \$ 14,603,419 | \$ 13,866,386 | \$ 28,469,805 |

See accompanying notes to financial statements.

First Book

Statements of Activities

| <i>Year Ended December 31, 2022</i> | Without donor Restrictions | With donor Restrictions | Total |
|---------------------------------------|-------------------------------|----------------------------|---------------|
| Support and Revenue | | | |
| Contributed goods | \$ 66,915,172 | \$ - | \$ 66,915,172 |
| Contributions | 8,078,451 | 14,784,809 | 22,863,260 |
| Marketplace activity | 14,837,577 | - | 14,837,577 |
| Other income | 42,393 | - | 42,393 |
| Net assets released from restrictions | 12,438,473 | (12,438,473) | - |
| Total support and revenue | 102,312,066 | 2,346,336 | 104,658,402 |
| Expenses | | | |
| Program services | 116,089,636 | - | 116,089,636 |
| Management and general | 2,238,561 | - | 2,238,561 |
| Fundraising | 2,130,975 | - | 2,130,975 |
| Total expenses | 120,459,172 | - | 120,459,172 |
| Change in net assets | (18,147,106) | 2,346,336 | (15,800,770) |
| Net assets, beginning of year | 41,372,445 | 6,158,176 | 47,530,621 |
| Net assets, end of year | \$ 23,225,339 | \$ 8,504,512 | \$ 31,729,851 |

See accompanying notes to financial statements.

First Book

Statements of Functional Expenses

| <i>Year Ended December 31, 2023</i> | Program Services | Management and General | Fundraising | Total Expenses |
|---|----------------------|---------------------------|---------------------|----------------------|
| Donated books and other educational materials | \$ 52,098,258 | \$ - | \$ - | \$ 52,098,258 |
| Purchased books and other educational materials | 14,337,580 | - | - | 14,337,580 |
| Salaries | 4,801,600 | 1,892,702 | 1,250,519 | 7,944,821 |
| Shipping | 4,027,444 | - | - | 4,027,444 |
| Consulting | 1,784,273 | 178,686 | 459,842 | 2,422,801 |
| Warehouse and fulfillment | 2,266,792 | - | - | 2,266,792 |
| Employee benefits and taxes | 1,056,720 | 416,539 | 275,210 | 1,748,469 |
| Equipment and technology | 500,868 | 115,822 | 76,512 | 693,202 |
| Contract labor | 62,179 | 234,249 | 294,942 | 591,370 |
| Rent | 295,503 | 109,008 | 140,528 | 545,039 |
| Marketing and advertising | 256,505 | 44,539 | 40,318 | 341,362 |
| Dues and subscriptions | 119,233 | 46,999 | 31,053 | 197,285 |
| Travel and lodging | 103,419 | 42,994 | 28,407 | 174,820 |
| Professional fees | 10,150 | 1,450 | 149,531 | 161,131 |
| Other marketplace fees | 129,698 | - | - | 129,698 |
| Telephone and utilities | 66,936 | 26,385 | 17,433 | 110,754 |
| Printing and publications | 65,266 | 25,727 | 16,998 | 107,991 |
| Subgrants | 93,180 | - | - | 93,180 |
| Meetings and conferences | 49,222 | 19,402 | 12,819 | 81,443 |
| Bank charges | 48,569 | 19,145 | 12,649 | 80,363 |
| Program supplies | 79,964 | - | - | 79,964 |
| Insurance | 38,951 | 15,354 | 10,144 | 64,449 |
| Office supplies | 23,947 | 9,439 | 6,237 | 39,623 |
| Bad debt | 29,606 | - | - | 29,606 |
| Fees, licenses and permits | 19,219 | - | - | 19,219 |
| | \$ 82,365,082 | \$ 3,198,440 | \$ 2,823,142 | \$ 88,386,664 |

See accompanying notes to financial statements.

First Book

Statements of Functional Expenses

| <i>Year Ended December 31, 2022</i> | Program Services | Management and General | Fundraising | Total Expenses |
|---|---------------------|---------------------------|--------------|-------------------|
| Donated books and other educational materials | \$ 84,757,033 | \$ - | \$ - | \$ 84,757,033 |
| Purchased books and other educational materials | 14,582,186 | - | - | 14,582,186 |
| Salaries | 4,426,998 | 1,358,475 | 1,244,741 | 7,030,214 |
| Shipping | 4,177,046 | - | - | 4,177,046 |
| Consulting | 1,500,197 | 123,269 | 211,708 | 1,835,174 |
| Warehouse and fulfillment | 2,515,954 | - | - | 2,515,954 |
| Employee benefits and taxes | 917,953 | 281,684 | 258,101 | 1,457,738 |
| Equipment and technology | 760,451 | 69,838 | 166,664 | 996,953 |
| Contract labor | 190,541 | 9,808 | 46,284 | 246,633 |
| Rent | 278,667 | 190,667 | 19,556 | 488,890 |
| Advertising | 225,515 | 25,105 | 32,218 | 282,838 |
| Dues and subscriptions | 136,801 | 41,979 | 38,464 | 217,244 |
| Travel and lodging | 53,729 | 16,487 | 15,107 | 85,323 |
| Professional fees | 71,572 | 28,044 | 12,729 | 112,345 |
| Other marketplace fees | 585,225 | - | - | 585,225 |
| Telephone and utilities | 73,016 | 22,406 | 20,530 | 115,952 |
| Printing and publications | 56,384 | 17,302 | 15,854 | 89,540 |
| Subgrants | 421,933 | - | - | 421,933 |
| Meetings and conferences | 12,189 | 3,740 | 3,427 | 19,356 |
| Bank charges | 73,139 | 22,444 | 20,565 | 116,148 |
| Program supplies | 25,577 | - | - | 25,577 |
| Insurance | 36,891 | 11,320 | 10,373 | 58,584 |
| Office supplies | 52,116 | 15,993 | 14,654 | 82,763 |
| Bad debt | 32,175 | - | - | 32,175 |
| Fees, licenses and permits | 12,227 | - | - | 12,227 |
| Miscellaneous | 89,074 | - | - | 89,074 |
| Interest | 25,047 | - | - | 25,047 |
| | \$ 116,089,636 | \$ 2,238,561 | \$ 2,130,975 | \$ 120,459,172 |

See accompanying notes to financial statements.

First Book

Statements of Cash Flows

| Years Ended December 31, | 2023 | 2022 |
|--|---------------------|----------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (3,260,046) | \$ (15,800,770) |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| In-kind contributions of donated inventory | (46,458,497) | (66,915,172) |
| Distribution of donated inventory | 51,703,824 | 83,729,423 |
| Write-off of donated inventory | 394,434 | 1,027,610 |
| Net change in allowance for credit losses | 18,424 | 19,621 |
| Loss on disposal of property and equipment | - | 120,374 |
| Non-cash lease expense | 519,331 | 525,387 |
| (Increase) decrease in assets: | | |
| Accounts receivable | 194,021 | (375,062) |
| Contributions receivable | (5,385,286) | 560,267 |
| Prepaid expenses and other current assets | (164,691) | (59,768) |
| Purchased inventory | 290,855 | 707,076 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (359,617) | 108,965 |
| Accrued expenses | 52,494 | (63,950) |
| Grants payable | (766,500) | (515,750) |
| Deferred revenue | 121,652 | (266,779) |
| Operating lease liability | (494,489) | (541,119) |
| Net cash (used in) provided by operating activities | (3,594,091) | 2,260,353 |
| Cash flows from financing activity: | | |
| Repayment of borrowings under bank line-of-credit | - | (1,500,000) |
| Net cash used in financing activity | - | (1,500,000) |
| Net change in cash and cash equivalents | (3,594,091) | 760,353 |
| Cash and cash equivalents, beginning of year | 10,159,347 | 9,398,994 |
| Cash and cash equivalents, end of year | \$ 6,565,256 | \$ 10,159,347 |
| Supplemental cash flow information: | | |
| Right-of-use asset obtained in exchange for operating lease liability - at inception | \$ - | \$ 1,368,298 |
| Cash paid for interest | \$ - | \$ 25,047 |

See accompanying notes to financial statements.

First Book

Notes to the Financial Statements

1. Organization and Summary of Significant Accounting Policies

First Book (the Organization) was organized as a District of Columbia (DC) nonprofit Organization in 1992. First Book believes that education transforms lives. The Organization addresses the barriers to education faced by children living in low-income communities - all of which are essential to educational equity. To assist in this mission, a broad array of books and resources are made available, either free or at low cost, to the Organization's member network of more than 575,000 educators who exclusively serve kids in need.

Since 1992, First Book has distributed more than 225 million books and educational resources to programs and schools serving children from low-income communities in all 50 states and provinces in Canada. First Book reaches an average of 5 million children every year and supports more than a third of the estimated 1.3 million classrooms and programs serving children in need.

First Book also has a research program, First Book Research & Insights, which performs qualitative and quantitative studies regarding the challenges and needs of educators serving children in poverty across the United States of America. To further support the needs of these educators, the Organization also operates The Accelerator, a program that provides access to leading experts in critical fields relevant to the educators and the children they serve.

Basis of Accounting

The accompanying financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and are presented on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash includes currency on hand, as well as demand deposits with banks. The Organization considers all highly liquid financial instruments purchased with original maturities of three months or less to be cash equivalents. The carrying value of these instruments approximates fair value due to the nature of the investments and the maturity period.

Accounts Receivable

Accounts receivable consist of amounts owed to the Organization for program-related purchases. The Organization provides for allowances on accounts receivable using the credit loss method. The allowance is determined based on historical collection experience. Under this method, First book records credit losses based on financial condition, credit history, and current economic conditions. Management has recorded an allowance for credit losses based on the credit losses expected to arise over the life of the asset balances that remain outstanding after the Organization has used reasonable collection efforts are written off.

First Book

Notes to the Financial Statements

Contributions Receivable

Contributions receivable consist of unconditional promises to give, which are recorded as contribution revenue upon receipt of the promise. Promises that are expected to be collected within one year are recorded at their net realizable value. Promises that are expected to be collected beyond one year are recorded at their net present value. Management records an allowance for doubtful accounts based on historical analysis.

Inventory

Inventory primarily consists of books and other educational resources that are both donated and purchased. As the inventory is shipped, it is released from inventory and classified as books and other educational resources expense in the accompanying statements of activities and functional expenses.

Purchased inventory is stated at the lower of cost or net realizable value. The donated inventory has been stated at fair value, determined through an annual market pricing assessment and recorded as a discounted percentage of the estimated retail value to approximate the wholesale value.

Management regularly reviews its inventory and provides for write downs when items are deemed obsolete and unrealizable at their stated carrying value. The write downs of the value of donated inventory are included in the donated books in the accompanying statement of functional expenses. The Organization recorded \$394,434 and \$1,027,610 in donated inventory write downs for the years ended December 31, 2023 and 2022, respectively. The Organization makes every effort to distribute all books and resources directly to children in need in accordance with their mission.

Prepaid Expenses and Other Current Assets

As of December 31, 2023 and 2022, prepaid expenses and other current assets primarily consist of insurance, software license costs, and other various services. Expenses paid prior to the related services being rendered are recorded as prepaid expenses.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$5,000 per item. Items that met the capitalization policy threshold are classified as furniture and equipment and are recorded at cost, while donated assets are recorded at fair value on the date of donation. The Organization depreciates furniture and equipment over five years. As of December 31, 2023 and 2022, the Organization did not have any property and equipment.

Leases

The Organization determines if an arrangement is a lease at inception and classifies its leases at commencement. Operating leases are presented as right-of-use (ROU) assets and the corresponding lease liabilities are included in operating lease liabilities on the statement of financial position. Operating lease liabilities represent the Organization's obligation for lease payments in exchange for the ability to use the asset for the duration of the lease term and the ROU assets represent the operating lease liability adjusted for initial direct costs and lease incentives.

ROU assets and lease liabilities are recognized at the commencement date of the lease and determined using the present value of the future minimum lease payments over the lease term. The Organization uses a discount rate based on the risk-free rate for the lease, as the Organization has

First Book

Notes to the Financial Statements

elected the practical expedient outlined in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, *Leases* (ASU 2016-02). The risk-free rate for each lease was determined by using the U.S. treasury bill rates for the remaining lease duration as of January 1, 2022, which is the date of initial application of the new guidance or the effective rate as of the date of any new leases or amendments. The lease term may include options to extend when it is reasonably certain that the Organization will exercise that option. In addition, the Organization does not recognize short-term leases that have a term of twelve months or less as ROU assets or lease liabilities. The Organization recognizes operating lease expense on a straight-line basis over the lease term.

The Organization has lease agreements which contain both lease and non-lease components, which it has elected to account for as a single lease component when the payments are fixed. As such, variable lease payments, including those not dependent on an index or rate, such as real estate taxes, common area maintenance, and other costs that are subject to fluctuation from period to period are not included in the measurement of the lease liability and ROU asset. For the years ended December 31, 2023 and 2022 there were no variable lease payments.

Grants Payable

Grants payable are amounts owed to grantees for program implementation in future years in accordance with unconditional agreements or conditional agreements once the grantee has met the related conditions.

Deferred revenue

Deferred revenue represents cash received related to unearned marketplace revenue until the Organization has met the related performance obligations.

Net Assets Without Donor Restrictions

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

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed stipulations. Donor imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the purpose for which the resource was restricted has been fulfilled, or both. Net assets with donor restrictions are restricted for the following purposes:

| <i>December 31,</i> | 2023 | 2022 |
|---------------------|----------------------|---------------------|
| Education equity | \$ 12,016,387 | \$ 5,794,012 |
| Youth empowerment | 1,850,000 | 2,710,500 |
| | \$ 13,866,387 | \$ 8,504,512 |

First Book

Notes to the Financial Statements

Net assets with donor restrictions were released from restriction for the following purposes during the years ended:

| <i>December 31,</i> | | 2023 | | 2022 |
|---------------------|----|-------------------|----|-------------------|
| Education equity | \$ | 11,895,507 | \$ | 10,723,223 |
| Youth empowerment | | 1,147,500 | | 1,715,250 |
| | \$ | 13,043,007 | \$ | 12,438,473 |

Revenue Recognition

Contributed Goods

Contributed goods include non-cash contributions of books of \$37,050,154 and \$60,871,846 and other education materials of \$10,938,343 and \$6,043,326 for the years ended December 31, 2023 and 2022, respectively. The Organization treats contributed goods as contributions without donor restrictions unless the donor imposes a restriction outside of the general mission of the Organization, resulting in the contribution being recorded as with donor restrictions. Contributed goods are recorded at a discounted percentage of the estimated retail value at the date of donation, which approximates fair value.

In-kind contributions of services are recognized if the services received create or enhance nonfinancial assets or if the services require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. In-kind contributions of services are recognized at their fair value at the time the services are rendered. There were no in-kind contributions of services recognized for the years ended December 31, 2023 or 2022.

Contribution of goods are recorded as in-kind revenue at fair value when received and expensed at fair value when distributed. Receipt of donated goods in one year not being distributed until the next year has an impact on change in net assets in a given year but has no impact over time as the revenue and expense recorded offset each other once the goods are distributed.

The Organization distributes all contributed goods for program services and those contributed goods are not monetized.

Contributions of Cash and Other Financial Assets

Contributions, including unconditional promises to give, are recognized on the date received and recorded at fair value. Support that is restricted by the donor is reported as an increase in net assets with donor restrictions, as applicable. Amounts are reclassified to net assets without restrictions once restrictions expire or the donor restriction has been satisfied. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. The interest rate used in computing the discount of the estimated future cash flows was 4.13% for pledges received in 2023. The discount will be recognized as contributions revenue in future fiscal years as the discount is amortized over the duration of the contributions. Conditional promises to give are recognized when the conditions are substantially met. As of December 31, 2023 and 2022, the Organization has no conditional contributions for which the conditions have not yet been met.

First Book

Notes to the Financial Statements

Marketplace Activity

Marketplace activity revenue relates to the eCommerce sale of books and other educational resources. Revenue is recognized when the performance obligation of transferring the products is met through shipment of the books or other tangible goods. The Organization does not accept returns and all orders from the Marketplace are final. As of December 31, 2023 and 2022, the Organization has deferred revenue totally \$479,451 and \$357,799 in which the performance obligation of transferring the product has not yet been fulfilled.

Functional Expenses

Expenses are recognized by the Organization during the period in which they are incurred. The costs of providing various programs and supporting services have been allocated on a functional basis. Costs that can be identified with a specific program or support service are charged directly. Other costs are allocated in the proportion benefited among the program and supporting services in the statement of activities. Salary related costs are allocated between the functions based on a labor study analysis. Costs related to the office space are allocated between the functions based on headcount.

Following is a description of the Organization's program and support services:

Program Services

The Organization provides access to new books and educational resources through a network of educators serving programs and classrooms throughout the United States. Through First Book Research & Insights, the Organization conducts studies that aggregate their voices to identify barriers to equitable education and inform strategic solutions. The Organization also operates The Accelerator, a program that provides access to leading experts in critical fields relevant to the educators and the children they serve.

Management and General Services

Management and general service expenditures include expenses necessary to provide for the management of staff, facilities, and the financial controls of the Organization.

Fundraising

Provides the structure necessary to encourage and secure financial support from individuals, foundations, corporations, and other grant makers.

Income Taxes

The Organization has been determined to be exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization is classified as a public charity and not a private foundation, therefore, contributions made to the Organization are tax deductible by the donors.

Management has evaluated the Organization's tax positions for open tax years (tax years subsequent to 2020) and concluded that a provision for uncertain tax positions is not required. The Organization has taken no uncertain tax positions nor are there any unrelated penalties or interest that require adjustment to the accompanying financial statements.

First Book

Notes to the Financial Statements

Recently Adopted Authoritative Guidance

On January 1, 2023 management adopted FASB ASU No. 2016-13, *Financial Instruments - Credit Losses* (Topic 326), using the modified retrospective transition method. This update changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model based on historical experience, current conditions, and reasonable and supportable forecasts. The adoption of this standard did not have a material impact on First Book's financial statements.

The Organization has assessed other accounting pronouncements issued or effective during the years ended December 31, 2023 and 2022, and deemed they were not applicable to the Organization and are not anticipated to have a material effect on the financial statements.

Reclassifications

Certain of the 2022 comparative amounts were reclassified to conform to the 2023 presentation. These reclassifications had no effect on the previously reported net assets or the change in net assets.

2. Concentrations and Credit Risks

Credit Risks

The Organization maintains demand deposits and money market funds at financial institutions. At times, certain balances held within these accounts may exceed Federal Deposit Insurance Corporation (FDIC) limits. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. The failure of an underlying institution could result in financial loss to the Organization, however, the Organization has not experienced losses on these accounts in the past, and management believes the risk of loss, if any, to be minimal. The amount not insured by FDIC is \$3,595,666 and \$5,887,583 as of December 31, 2023 and 2022, respectively.

Concentrations

One donor contributed 29% and 30% of the Organization's total support and revenue for the years ended December 31, 2023 and 2022, respectively. This donor has a long-term relationship with the Organization and management does not anticipate a change in the relationship.

3. Retirement Plans

The Organization sponsors a defined contribution 401(k) plan (the Plan) with an annual employer option profit share benefit. The plan covers all full-time employees, not considered leased employees, who have completed one year of service, are employed on the last day of the year, and have completed 1,000 hours of service. When applicable, the Organization, on behalf of each eligible participant, according to employee class, makes contributions to the plan. The Organization recorded contributions to the Plan during the years ended December 31, 2023 and 2022, of \$339,816 and \$311,780, respectively. This amount is included in payroll taxes and employee benefits in the statements of functional expenses. Participants become 50% vested in employer contributions after the completion of two years of employment and 100% vested after the completion of the third year of employment.

First Book

Notes to the Financial Statements

4. Related Parties

The Organization has a Canadian affiliate, First Book/Le Premiere Livre (LPL), which provides books to children in need throughout Canada. LPL is a registered charity under paragraph 149(1)(f) of the Income Tax Act in Canada. LPL maintains a separate Board of Directors, reflecting majority representation by independent, Canadian-based board members. Two of the Organization's board members are on the LPL board.

As of December 31, 2023 and 2022, LPL owed the Organization a balance of \$527,347 and \$578,653, respectively. The amount is included in accounts receivable on the statements of financial position. In 2023, the board of directors of the Organization approved a payment plan from LPL to reduce the balance owed in quarterly payments through the second quarter of 2026.

In 2021, First Book received a contribution with a focus on youth empowerment. Using the funding from this contribution, First Book entered into a subgrant agreement to collaborate with a leading nonprofit partner in this area. An officer of First Book serves on the board of the subgrantee. In 2023 and 2022, First Book has paid \$756,500 and \$809,000 to this partner related to the agreement. At December 31, 2023 and 2022, First Book has future payments of \$743,000 and \$1,499,500 due to the subgrantee which is included in grants payable in the accompanying statements of financial position and will be paid through 2025.

5. Leases

The Organization has a lease for office space that was extended through July 31, 2027. The lease agreement does not provide an implicit borrowing rate. Therefore, the Organization elected to apply a risk-free rate as of January 1, 2022, to derive an appropriate rate to discount remaining lease payments by class of underlying asset for the initial and subsequent measurement of lease liabilities. The Organization's used a risk-free rate of 1.04% with a remaining lease term of 1.6 years. Cash paid for rent during the years ended December 2023 and 2022 was \$520,035 and \$503,004 and expense of \$545,039 and \$488,890 was recorded, respectively, as rent expense in the statements of functional expenses.

There are no cash payments related to short-term leases.

On December 6, 2023, the Organization signed an amendment to extend their office lease through July 31, 2027. Similar to the prior lease agreement, it does not provide an implicit borrowing rate. The Organization elected to apply a risk-free rate as of December 6, 2023. The amended lease has monthly rent payments that start at \$53,017 and escalate annually to \$56,246 and includes rent abatement two months out of each lease year.

First Book

Notes to the Financial Statements

Minimum future rental payments under non-cancellable operating leases having remaining terms exceeding one year as of December 31, 2023 are as follows:

| <i>Years Ending December 31,</i> | |
|--------------------------------------|----------------|
| 2024 | \$ 528,456 |
| 2025 | 536,536 |
| 2026 | 552,633 |
| 2027 | 337,477 |
| Total minimum future rental payments | 1,955,102 |
| Less: imputed interest | (47,748) |
| Operating lease liability | \$ \$1,907,354 |

6. Liquidity and Availability

The following reflects management's financial assets as of the statement of financial position date, reduced by the amounts not available for general use because of restrictions:

| <i>December 31,</i> | 2023 | 2022 |
|--|--------------|---------------|
| Cash and cash equivalents | \$ 6,565,256 | \$ 10,159,347 |
| Accounts receivable | 1,214,696 | 1,427,141 |
| Contributions receivable | 6,389,779 | 1,004,493 |
| Financial assets at year-end | 14,169,731 | 12,590,981 |
| Less: | | |
| Assets restricted by donor for time or purpose | (13,866,387) | (8,504,512) |
| Financial assets available to meet cash needs for general expenditures within one year | \$ 303,344 | \$ 4,086,469 |

The Organization maintains a policy of structuring its financial assets to be available as general expenditures, liabilities, and other obligations come due. For purposes of analyzing resources available to meet general expenditures within one year, the Organization considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities, and general and administrative expenses, to be general expenditures.

7. Subsequent Events

The Organization has evaluated subsequent events through July 29, 2024, the date the financial statements are available to be issued. There were no events that would require recognition or disclosure in the financial statements.