

**OPEN BOOKS LTD.**

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2019 AND 2018**

Board of Directors and Management  
Open Books Ltd.

In planning and performing our audit of the financial statements of Open Books Ltd. (the Organization) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in the Organization's internal control presented in the attached memorandum to be a significant deficiency.

The Organization's written response to the significant deficiency identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

# **OPEN BOOKS LTD.**

**YEARS ENDED JUNE 30, 2019 AND 2018**

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## **Independent Auditors' Report**

Board of Directors  
Open Books Ltd.

We have audited the accompanying financial statements of Open Books Ltd. (a nonprofit organization) (the Organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United 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 audits. We conducted our audits 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 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 Open Books Ltd. as of June 30, 2019 and 2018, 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.

*Ostrow Reisin Berk & Abrams, Ltd.*

January 21, 2020

# OPEN BOOKS LTD.

## STATEMENTS OF FINANCIAL POSITION

June 30,	2019	2018
<b>ASSETS</b>		
Cash	\$ 156,823	\$ 99,518
Accounts receivable	35,410	53,881
Inventory	269,176	258,025
Prepaid expense	22,274	12,134
Property and equipment, net	56,498	74,569
Deposits	6,000	6,000
Total assets	\$ 546,181	\$ 504,127
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Capital leases payable	\$ 24,422	\$ 34,041
Accounts payable and accrued expenses	126,182	108,906
Deferred rent	115,741	105,766
Deferred revenue	10,306	3,965
Total liabilities	276,651	252,678
Net assets:		
Without donor restrictions	268,564	248,390
With donor restrictions	966	3,059
Total net assets	269,530	251,449
Total liabilities and net assets	\$ 546,181	\$ 504,127

See notes to financial statements.

**OPEN BOOKS LTD.**  
STATEMENTS OF ACTIVITIES

Years ended June 30,	2019		2018	
	Without donor restrictions	With donor restrictions	Without donor restrictions	With donor restrictions
Revenue:				
Contributions and grants	\$ 861,151	\$ 500	\$ 861,651	\$ 702,319
Contributed books and merchandise	851,433		851,433	774,815
Book and merchandise sales	1,292,945		1,292,945	1,288,054
Less: cost of sales	(710,094)		(710,094)	(648,362)
Contributed goods and services				293,389
Program income	48,157		48,157	51,843
Special events:				
Gross proceeds, including contributed goods and services of \$19,294 in 2019 and \$16,962 in 2018	94,293		94,293	92,311
Less cost of direct benefit to donors, including contributed goods and services of \$19,294 in 2019 and \$16,962 in 2018	(31,979)		(31,979)	(32,104)
Rental and miscellaneous income	5,585		5,585	9,835
Net assets released from restrictions	2,593	(2,593)		7,714
			\$	(7,714)
Total revenue	2,414,084	(2,093)	2,411,991	2,539,814
				(7,714)
				2,532,100
Expenses:				
Program services	1,878,105		1,878,105	1,908,672
Management and general	286,403		286,403	351,198
Fundraising	229,402		229,402	275,417
Total expenses	2,393,910		2,393,910	2,535,287
Change in net assets	20,174	(2,093)	18,081	4,527
				(7,714)
				(3,187)
Net assets:				
Beginning of year	248,390	3,059	251,449	243,863
End of year	\$ 268,564	\$ 966	\$ 269,530	\$ 248,390
				\$ 3,059
				\$ 251,449

*See notes to financial statements.*

**OPEN BOOKS LTD.**

**STATEMENTS OF FUNCTIONAL EXPENSES**

Year ended June 30, 2019	Program services							Supporting services			Total	
	Reading Buddies	Creative Writing Workshops	Book Granting Programs	ReadThen Write	Publishing Academy	Dolly Parton Imagination Library	Book collection, processing and sales	Total program services	Management and general	Fundraising		Cost of direct benefit to donors
Account fees and bank charges	\$ 67	\$ 78	\$ 57	\$ 54	\$ 28	\$ 29	\$ 291,478	\$ 291,791	\$ 7,516	\$ 5,160	\$ -	\$ 304,467
Books donated/given to others	44	3,945	161,151	91	48		710,094	165,279	22	665		165,966
Cost of sales	2,374	2,730	1,989	1,880	988	1,025	5,004	15,990	1,129	3,074	\$ 31,979	20,193
Depreciation and amortization									16,924	19,237		68,140
Marketing, promotion and special events	20,253	23,299	16,976	16,040	8,430	8,750	218,169	311,917	16,206	8,776		336,899
Occupancy	14,115	16,235	11,830	11,177	5,874	6,097	66,069	131,397	42,427	13,671		187,495
Office and other expenses	55	64	47	44	23	24	186,255	186,512	73	118		186,703
Postage and shipping							342,770	775,219	202,106	178,701		1,156,026
Salaries and related costs	91,146	94,100	81,399	65,015	54,942	45,847						
Total expenses	128,054	140,451	273,449	94,301	70,333	61,772	1,819,839	2,588,199	286,403	229,402	31,979	3,135,983
Less expenses included with revenue in the statements of activities							(710,094)	(710,094)			(31,979)	(742,073)
Total functional expenses	\$ 128,054	\$ 140,451	\$ 273,449	\$ 94,301	\$ 70,333	\$ 61,772	\$ 1,109,745	\$ 1,878,105	\$ 286,403	\$ 229,402	\$ -	\$ 2,393,910

See notes to financial statements.



**OPEN BOOKS LTD.**

**STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)**

Year ended June 30, 2018	Program services							Supporting services			Cost of direct benefit to donors	Total
	Reading Buddies	Creative Writing Workshops	Book Granting Programs	Read/Then Write	Publishing Academy	Book collection, processing and sales	Total program services	Management and general	Fundraising			
Account fees and bank charges	\$ 36	\$ 58	\$ 156,560	\$ 31	\$ 13	\$ 291,867	\$ 292,005	\$ 9,621	\$ 4,898	\$ -	\$ 306,524	
Books donated/given to others	5	4,964	570	209	34	20	161,792	1,091	3	-	162,886	
Cost of sales	1,980	3,245	570	1,698	693	5,160	13,346	975	1,366	32,104	648,362	
Depreciation and amortization								2,929	326		3,255	
Loss on disposal of equipment								212,816	111,188		356,108	
Marketing, promotion and special events	13,330	21,841	29,897	11,434	5,100	187,672	269,274	16,103	8,723		294,100	
Occupancy	11,587	18,986	4,434	9,940	3,624	68,400	116,971	38,586	10,848		166,405	
Office and other expenses	71	117		61	25	184,272	184,546	49	115		184,710	
Postage and shipping												
Salaries and related costs	86,914	136,746	103,779	88,636	35,766	418,897	870,738	69,028	137,950		1,077,716	
Total expenses	113,923	185,957	295,240	112,009	45,255	1,804,650	2,557,034	351,198	275,417	32,104	3,215,753	
Less expenses included with revenue in the statements of activities						(648,362)	(648,362)			(32,104)	(680,466)	
Total functional expenses	\$ 113,923	\$ 185,957	\$ 295,240	\$ 112,009	\$ 45,255	\$ 1,156,288	\$ 1,908,672	\$ 351,198	\$ 275,417	\$ -	\$ 2,535,287	

See notes to financial statements.

# OPEN BOOKS LTD.

## STATEMENTS OF CASH FLOWS

Years ended June 30,	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 18,081	\$ (3,187)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	20,193	15,687
Contributed books and merchandise	(851,433)	(774,815)
Cost of sales - contributed books and merchandise	668,692	595,305
Books and goods donated/given to others	165,966	162,866
Deferred rent	9,975	11,011
Loss on disposal of equipment		3,255
(Increase) decrease in operating assets:		
Accounts receivable	18,471	(17,407)
Grants and pledges receivable		12,262
Inventory - new books	5,624	(4,982)
Prepaid expense	(10,140)	(8,224)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	17,276	13,476
Deferred revenue	6,341	(335)
Net cash provided by operating activities	69,046	4,912
Cash flows from investing activities:		
Website development expenditure		(7,500)
Purchases of property and equipment	(2,122)	(6,854)
Net cash used in investing activities	(2,122)	(14,354)

See notes to financial statements.

# OPEN BOOKS LTD.

## STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended June 30,	2019	2018
Cash flows from financing activity:		
Payments on capital leases	\$ (9,619)	\$ (8,034)
Net cash used in financing activity	(9,619)	(8,034)
Net increase (decrease) in cash	57,305	(17,476)
Cash, beginning of year	99,518	116,994
Cash, end of year	\$ 156,823	\$ 99,518
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest		\$ 1,454
Supplemental disclosure of non-cash investing and financing activity:		
Capital lease obligation for acquisition of equipment		\$ 38,477

*See notes to financial statements.*

# **OPEN BOOKS LTD.**

## **NOTES TO FINANCIAL STATEMENTS**

### **1. Organization and purpose**

Open Books Ltd. (the Organization) is a not-for-profit social venture with a mission to collect, grant and sell books, provide community programs and mobilize passionate volunteers to raise awareness about literacy, improve reading skills and spread the love of reading and writing in Chicago and beyond.

The Organization's main activity is providing a diverse group of reading and writing programs designed to build the literacy skills and to enrich the lives of thousands of students each year. The Organization operates the following programs:

**Reading Buddies** is a weekly program that allows elementary students to work one-on-one with a trained, supportive mentor to help boost reading skills such as fluency and comprehension. Twice each week, a Big Buddy and a Little Buddy pair read together in 30-minute segments.

**Creative Writing Workshops** are experiences designed to help young people develop their writing skills in meaningful and creative ways. Students write and read as a whole group, in small groups and as individuals, working with supportive writing coaches at the literacy center. They read sample work aloud, discuss it as a group and write their own prose or poetry. Field trips conclude with a trip to the Open Books bookstore where each student receives one free book.

**Book Granting Programs** donates in-classroom lending libraries, grants of children's books and reading resource materials to schools and nonprofit partners across Chicago for students to enjoy and share with their families.

**ReadThenWrite** is an immersive reading, writing and publishing experience for teenage authors. Students begin by reading relevant texts in specific genres (memoir, mystery, science fiction, etc.) and discussing them as a group. With the help of their Open Books leader and volunteer coaches, students learn about pertinent literary devices and how to apply them to writing and life experiences. Next, students write their own novella, poems or short story using the skills covered during the reading portion. They workshop their drafts with peers, then edit and polish their work with the help of the leader and coaches. Finally, the new authors present their work at a gala event at the Open Books bookstore. They finish ReadThenWrite with a published book. This program was discontinued subsequent to June 30, 2019.

# **OPEN BOOKS LTD.**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

### **1. Organization and purpose (continued)**

**Publishing Academy** is a summer writing program for aspiring teen writers. Students from across the city take part in an experience of writing and publishing their very own novel. Through genre-specific writing techniques and discussions of model texts and with the guidance of supportive and enthusiastic coaches, students are inspired to bring their imagination to life by working through the entire publishing process, from initial draft to polished prose. Students' final novels are unveiled at special gala book launches in the Open Books bookstore. In addition to receiving their own copies of their published novels, students read excerpts in front of family and friends, sign autographs and celebrate their success as new authors.

**The Dolly Parton Imagination Library** is a new program in 2019 that provides children in Chicago with access to free, age-appropriate books delivered directly to their homes. The books arrive by mail every month from birth until the child turns 5. Each one is brand new and carefully selected by a panel of experts on childhood literacy and early education. During the year ended June 30, 2019, this program was available to children living in the following zip codes: 60608, 60612, 60623, 60624, 60644, and 60651.

The Organization also actively collects books which are given to program participants, granted to community organizations, resold to raise money for programs or recycled. The Organization operates two retail bookstores and also maintains an online sales operation. Proceeds from the sale of books help support literacy initiatives.

# **OPEN BOOKS LTD.**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

### **2. Summary of significant accounting policies**

#### **Basis of accounting:**

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

#### **Net assets:**

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

**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-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 resources be maintained in perpetuity.

#### **Cash:**

The Organization maintains its cash in bank accounts which, at times, may exceed federally-insured limits. Management believes that the Organization is not exposed to any significant credit risk on cash.

#### **Accounts receivable:**

Accounts receivable consist of program fees and book sales net of an allowance for doubtful accounts. The Organization estimates the allowance based on an analysis of specific account history and experience. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. An allowance for doubtful accounts is considered unnecessary and is not provided as of June 30, 2019 and 2018.

#### **Inventory:**

Contributed book inventory and other merchandise is stated at average fair value, which is based on net sales amounts. Books that are purchased for sale are valued at the lower of cost, with cost determined by specific identification, or net realizable value.

# OPEN BOOKS LTD.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 2. Summary of significant accounting policies (continued)

#### Inventory: (continued)

The components of inventory are as follows as of June 30, 2019 and 2018.

June 30,	2019	2018
Contributed books and merchandise	\$ 262,797	\$ 248,513
Purchased books	6,379	9,512
Total	\$ 269,176	\$ 258,025

#### Property and equipment:

Property and equipment is stated at cost or, if donated, at the approximate fair value at the date of donation. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000 and with a useful life greater than one year. Depreciation expense is provided on a straight-line basis over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on a straight-line basis over the lesser of the life of the lease or the life of the asset.

The Organization 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. There were no indicators of asset impairment during the years ended June 30, 2019 and 2018.

#### Deferred rent:

The Organization records rent expense on a straight-line basis over the life of the related leases. The difference between rent expense recorded and the amount paid is charged (credited) to deferred rent.

#### Deferred revenue:

Program tuition and payments collected for future programs and events are recorded as deferred revenue until earned. Program and event income and expenses are recognized by the Organization during the period in which the program or event is held.

# OPEN BOOKS LTD.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 2. Summary of significant accounting policies (continued)

#### Contributions:

Contributions received, including unconditional promises to give, are recorded as with or without donor restrictions, depending on the existence and nature of any donor-imposed restrictions. Donor restricted support is reclassified to net assets without donor restrictions upon satisfaction of the restriction. The Organization reports donor-restricted contributions for which restrictions are met in the same reporting period as revenue without donor restrictions.

The Organization also recognizes as revenue the fair value of contributed (donated) goods and services. Donated services are recognized as contributions if the services a) create or enhance nonfinancial assets or b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization. During the years ended June 30, 2019 and 2018, the Organization received contributed goods and services as follows:

Years ended June 30,	2019	2018
Advertising		\$ 293,389
Contributed books	\$ 851,433	763,125
Contributed merchandise		11,690
Cost of direct benefit to donors	19,294	16,962
Total	\$ 870,727	\$ 1,085,166

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with other events that are not recognized as contributions in the financial statements since the recognition criteria was not met.

#### Book and merchandise sales:

Revenue from book and merchandise sales, net of sales tax, is recognized at the time of sale to customers.

#### Expense allocation:

The costs of program and supporting activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.



# **OPEN BOOKS LTD.**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

### **2. Summary of significant accounting policies (continued)**

#### **Expense allocation: (continued)**

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and related costs which are allocated on the basis of estimates of time and effort. Other expenses, such as depreciation and amortization, occupancy, and office and other expenses are allocated in the same allocable percentages as salaries and related costs. All other expenses are directly allocated.

#### **Shipping and handling:**

The Organization records shipping and handling costs as incurred in program services expenses, mainly in postage and shipping expense, but also in other accounts. Shipping and handling amounted to approximately \$244,000 and \$230,000 for the years ended June 30, 2019 and 2018, respectively.

#### **Use of 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 could differ from those estimates.

#### **Reclassifications:**

Certain amounts from the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements including approximately \$164,000 from program services expenses to management and general expenses.

#### **Subsequent events:**

Management of the Organization has reviewed and evaluated subsequent events from June 30, 2019, the financial statement date, through January 21, 2020, the date the financial statements were available to be issued.

# OPEN BOOKS LTD.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 3. Liquidity and availability

Financial assets available for general expenditure within one year include cash and accounts receivable. The Organization manages available cash to meet general expenditures following these principles:

- Meet operating and contractual commitments
- Maintain adequate liquid assets
- Maintain sufficient reserves to fund programs

The table below presents financial assets available for general expenditures within one year as at June 30, 2019:

<u>June 30, 2019</u>	
Financial assets at year-end:	
Cash	\$ 156,823
Accounts receivable	35,410
<hr/>	
Total financial assets	192,233
Less amount not available to be used within one year:	
Net assets with donor restrictions	966
<hr/>	
Financial assets available to meet general expenditures within one year	\$ 191,267

### 4. Tax status

The Organization is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. In addition, the Internal Revenue Service has determined that the Organization is not a private foundation within the meaning of Section 509(a) of the Code. The Organization has adopted the requirements for accounting for uncertain tax positions and management has determined that the Organization was not required to record a liability related to uncertain tax positions as of June 30, 2019 and 2018.

# OPEN BOOKS LTD.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 5. Property and equipment

The components of property and equipment are as follows:

June 30,	2019	2018
Computer software	\$ 6,191	\$ 6,191
Furniture and equipment	141,854	139,732
Leasehold improvements	17,220	17,220
Vehicle	10,200	10,200
Website	15,000	15,000
	<b>190,465</b>	188,343
Less accumulated depreciation and amortization	<b>(133,967)</b>	(113,774)
Property and equipment, net	<b>\$ 56,498</b>	\$ 74,569

### 6. Employees' salary deferral 401(k) plan

The Organization sponsors an employees' salary deferral 401(k) plan. Participation is voluntary and all employees who meet prescribed service requirements are eligible to defer up to 100% of their salaries or the maximum allowed under the Code. The Organization made no contributions to the plan for the years ended June 30, 2019 and 2018.

### 7. Related party transactions and concentration

During the year ended June 30, 2019, the Organization received approximately \$151,000 in contributions from the Founder and President and approximately \$225,000 in contributions from other officers and Board members of the Organization.

During the year ended June 30, 2018, the Organization received approximately \$153,000 in contributions from the Founder and President and approximately \$111,000 in contributions from other officers and Board members of the Organization.

# OPEN BOOKS LTD.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 8. Leases and other commitments

The Organization leases office, program, retail and warehouse space under various lease agreements through 2027.

Future minimum rental payments under these leases, not including the currently existing renewal option for the office lease, are as follows:

Year ending June 30:	Amount
2020	\$ 257,481
2021	265,359
2022	273,492
2023	208,890
2024	178,139
Thereafter	528,949
Total	\$ 1,712,310

Rent expense was \$294,966 and \$257,068 for the years ended June 30, 2019 and 2018, respectively.

### 9. Capital leases

The Organization financed a copier with a capitalized cost of \$38,477 during the year ended June 30, 2018. Accumulated depreciation in the statements of financial position included \$13,627 and \$4,008 relating to this leased copier as of June 30, 2019 and 2018, respectively, and depreciation and amortization expense reported in the statements of functional expenses included \$9,619 and \$4,008 for the years ended June 30, 2019 and 2018, respectively.

Future minimum payments under the lease are as follows:

Year ending June 30:	Amount
2020	\$ 9,619
2021	9,619
2022	5,184
Total	\$ 24,422

# OPEN BOOKS LTD.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 10. Net assets with donor restrictions

As of June 30, 2019 and 2018, net assets with donor restrictions include the following:

June 30,	2019	2018
Purpose restrictions:		
Pilsen Story Time	\$ 181	
Reading Buddies	785	\$ 3,059
Total net assets with donor restrictions	\$ 966	\$ 3,059

Net assets were released from donor restrictions by the passage of time or by incurring expenses satisfying purpose restrictions as follows:

Years ended June 30,	2019	2018
Purpose restricted:		
Creative Writing Workshops		\$ 3,073
Pilsen Story Time	\$ 319	
Publishing Academy scholarships		200
Reading Buddies	2,274	4,441
Total net assets released from restrictions	\$ 2,593	\$ 7,714

Board of Directors and Management  
Open Books Ltd.

In planning and performing our audit of the financial statements of Open Books Ltd. (the Organization) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in the Organization's internal control presented in the attached memorandum to be a significant deficiency.

The Organization's written response to the significant deficiency identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

This communication is intended solely for the information and use of management, the Board of Directors, and others within Open Books Ltd., and is not intended to be, and should not be, used by anyone other than these specified parties.

*Ostrow Reisin Berk & Abrams, Ltd.*

January 21, 2020

# **OPEN BOOKS LTD.**

## **COMMENT AND RECOMMENDATION**

**YEAR ENDED JUNE 30, 2019**

### **Significant deficiency**

#### **Control over inventory (repeated from prior year):**

During inventory observation and discussion with several Organization employees, we noted that the Organization does not currently utilize an inventory system for books at the warehouse that are not earmarked for online sale. This typically makes up a significant number of books and opens the Organization up to the risk that books may go missing. We recommend that the Organization utilize an inventory system for the warehouse similar to the one used for the bookstore in order to prevent misappropriation of book inventory.

During the inventory observation, it was also noted that the inventory per the bookstore counts did not reconcile to the inventory in the Booklog report, as well as the warehouse count did not reconcile to the Monsoon report.

#### *Management Response*

Management has identified a software solution for the Pilsen warehouse store that is more suitable than Booklog. The software is designed specifically for used book operations and is therefore less taxing on both capital and human resources. We anticipate putting the structures and procedures in place during the year ending June 30, 2020 and to have a significant portion of the books inventoried with necessary controls during the year ending June 30, 2020.