

BOOKS FOR AFRICA, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
JUNE 30, 2008 AND 2007

BOOKS FOR AFRICA, INC.

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

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*Certified Public Accountants & Consultants  
Meuwissen, Flygare, Kadrlik & Associates, P.A.*

To the Board of Directors  
Books For Africa, Inc.  
Saint Paul, Minnesota

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying statement of financial position of Books For Africa, Inc. (the Organization) as of June 30, 2008, and the related statement of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Books For Africa, Inc. as of June 30, 2007 were audited by other auditors whose report dated November 7, 2007, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of Books For Africa, Inc. as of June 30, 2008, and the changes in its net assets, cash flows and its functional expenses for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Meuwissen, Flygare  
Kadrlik & Associates, P.A.*

Minneapolis, Minnesota  
August 1, 2008



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Books for Africa, Inc.  
 Statements of Financial Position  
 June 30, 2008 and 2007

	2008	2007
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 323,931	\$ 293,005
Investments	633,870	495,178
Contributions receivable	447	10,000
Inventory	9,082,095	9,139,303
Other assets	2,811	9,798
Total current assets	10,043,154	9,947,284
Property and equipment	96,203	54,315
Less accumulated depreciation	(41,602)	(30,612)
Net property and equipment	54,601	23,703
Total assets	\$ 10,097,755	\$ 9,970,987
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accrued expenses	\$ 17,196	\$ 15,592
Total current liabilities	17,196	15,592
Net assets		
Unrestricted	543,808	467,625
Temporarily restricted	9,536,751	9,487,770
Total net assets	10,080,559	9,955,395
Total liabilities and net assets	\$ 10,097,755	\$ 9,970,987

See accompanying notes to financial statements.

Books for Africa, Inc.  
 Statements of Activities and Changes in Net Assets  
 For the years ended June 30, 2008 and 2007

	2008			2007
	Unrestricted	Temporarily Restricted	Total	
Support and revenue				
Books contributed	\$ 11,186,977	\$ 9,082,095	\$ 20,269,072	\$ 25,737,303
In-kind contributions	112,350	-	112,350	176,574
Contributions	968,490	725,513	1,694,003	1,296,774
Interest and dividends	22,405	-	22,405	31,125
Unrealized loss on investments	(20,889)	-	(20,889)	(3,210)
Net assets released from restriction	9,758,627	(9,758,627)	-	-
Total support and revenue	<u>22,027,960</u>	<u>48,981</u>	<u>22,076,941</u>	<u>27,238,566</u>
Expenses:				
Program services	21,714,062	-	21,714,062	17,992,037
General and administrative	88,833	-	88,833	54,903
Fundraising	148,882	-	148,882	77,947
Total expenses	<u>21,951,777</u>	<u>-</u>	<u>21,951,777</u>	<u>18,124,887</u>
Change in net assets	76,183	48,981	125,164	9,113,679
Net assets - beginning of year	467,625	9,487,770	9,955,395	841,716
Net assets - end of year	<u>\$ 543,808</u>	<u>\$ 9,536,751</u>	<u>\$ 10,080,559</u>	<u>\$ 9,955,395</u>

See accompanying notes to financial statements.

Books for Africa, Inc.  
 Statements of Cash Flows  
 For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operations		
Change in net assets	\$ 125,164	\$ 9,113,679
Adjustment to reconcile the change in net assets to net cash from operating activities		
Depreciation	10,990	8,172
Unrealized loss on investments	32,022	3,210
Loss on disposal of property and equipment	-	970
Change in assets and liabilities		
Contributions receivable	9,553	-
Inventory	57,208	(8,803,430)
Other assets	6,987	6,155
Accrued expenses	1,604	(13,672)
Net cash from operating activities	<u>243,528</u>	<u>315,084</u>
Cash flows from investing activities		
Purchase of investments	(170,714)	(175,420)
Purchase of property and equipment	<u>(41,888)</u>	<u>(6,341)</u>
Net cash from investing activities	<u>(212,602)</u>	<u>(181,761)</u>
Net change in cash and equivalents	30,926	133,323
Cash and equivalents - beginning of year	293,005	159,682
Cash and equivalents - end of year	<u>\$ 323,931</u>	<u>\$ 293,005</u>

See accompanying notes to financial statements.

Books for Africa, Inc.  
 Statements of Functional Expenses  
 For the years ended June 30, 2008 and 2007

Program services	2008			Total	2007
	General and administrative	Fundraising			
Books shipped	\$ 20,210,000	\$ -	\$ -	\$ 20,210,000	\$ 16,975,313
Special initiatives	96,260	-	-	96,260	-
Shipping costs	787,605	-	-	787,605	548,996
Partnership payments	6,200	-	-	6,200	17,690
Salaries	278,819	45,931	50,085	374,834	239,361
Payroll taxes	19,273	3,340	2,881	25,493	18,756
Employee benefits	45,437	10,306	5,893	61,636	40,434
Special events	567	-	10,767	11,334	8,516
Grants	3,000	-	-	3,000	3,000
Shipping supplies	53,388	-	-	53,388	64,470
Automobile	2,250	300	450	3,000	3,000
Office rent	5,689	1,225	1,838	8,753	5,786
Warehouse rent	100,573	-	-	100,573	68,695
Small equipment	15,215	3,043	3,478	21,736	8,238
Telephone	5,154	957	1,252	7,363	5,708
Postage	3,360	910	2,730	6,999	5,427
Printing	8,664	2,063	9,901	20,628	17,750
Promotion	7,393	-	21,043	28,436	2,043
Insurance	6,044	1,047	903	7,995	2,582
Travel	20,709	-	6,540	27,249	27,668
Workshops and conferences	7,839	-	7,839	15,678	7,296
Depreciation	9,342	1,099	550	10,990	8,172
Miscellaneous	6,968	5,099	7,587	19,654	10,447
Professional fees	11,117	10,317	11,853	33,286	20,927
Strategic initiatives	3,196	3,196	3,293	9,686	14,612
<b>Total</b>	<b>\$ 21,714,062</b>	<b>\$ 88,833</b>	<b>\$ 148,882</b>	<b>\$ 21,951,777</b>	<b>\$ 18,124,887</b>

See accompanying notes to financial statements.

1. **ORGANIZATION**

Books For Africa, Inc. is a nonprofit organization founded in 1988 with operations that began in September 1989. The Organization's administrative offices and warehouse are located in Saint Paul, Minnesota. The Organization collects books from schools, libraries, and publishers and donates them to agencies in the African Countries of Algeria, Angola, Benin, Botswana, Burkina Faso, Cameroon, Cape Verde, Chad, Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Ghana, Guinea, Guinea Bisseau, Ivory Coast, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Namibia, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Uganda, The Gambia, Zambia and Zimbabwe.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Financial Statement Presentation** - Support is classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

- Unrestricted net assets represent the portion of net assets that are not subject to donor restrictions.
- Temporarily restricted net assets arise from contributions that are restricted by donors for specific purposes or time periods.
- Permanently restricted net assets arise from contributions that are permanently restricted by donors for specific purposes. The Organization has no permanently restricted net assets.

**Cash and Equivalents** - For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**Significant Concentrations of Credit Risk** - The Organization maintains cash balances in financial institutions. From time to time, the cash balances may exceed the federally insured limit. Management regularly reviews the credit worthiness of the financial institutions and has not experienced any losses.

**Contribution Receivable** - Contributions receivable represent unconditional promises to give and are due within one year.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments** - Investments are recorded at their market value based upon quoted market values. Donated investments are initially recorded at market value on the date of donation and, thereafter, at the estimated current market value. Investment income and related gains and losses, both realized and unrealized, are accounted for within unrestricted net assets upon the absence of donor restrictions.

**Inventory** - Inventory consists of donated books and is recorded at estimated fair market value.

**Equipment** - Equipment is recorded at the lower of cost or estimated fair value. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Expenditures for equipment over \$2,500 with determinable lives are capitalized and depreciated. Maintenance and repairs are expensed as incurred; major improvements and betterments are capitalized.

**Contributed Materials** - Contributed materials are recorded as contributions, when received, at their estimated fair value where such value can be objectively and accurately determined.

**Contributed Services** - Contributed services are recorded as contributions, at their fair value, when the service creates or enhances a nonfinancial asset or the service requires specialized skills provided by an individual possessing those skills, and would need to be purchased if not provided by donation. A substantial number of volunteers donate significant amounts of their time to the Organization's program and supporting services. The value of this contributed time is not reflected in these statements since it does not meet the requirements of generally accepted accounting principles for recognition in financial statements.

**Contributions** - Contributions are recorded at their net realizable values when the donor makes an unconditional promise to give to the Organization. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as satisfaction of donor restrictions.

**Functional Expenses** - Allocations are generally made as follows:

- Salaries by time spent on principal activities of each employee
- Employee benefits and payroll taxes according to the percentage used to allocate salaries,
- All other expenses are allocated based on management estimates.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Comparative Total Column** - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

**Income Taxes** - The Organization is exempt from income taxes under Internal Revenue Code Section 501 (c) (3) and applicable Minnesota Statutes.

3. **INVESTMENTS**

Investments consist of the following at June 30:

	2008	2007
Money market funds	\$ 3,411	\$ 2,162
Equity securities	1,146	-
Certificates of deposit	380,438	75,000
Mutual funds	248,875	418,016
Total investments	\$ 633,870	\$ 495,178

4. **DONATED BOOKS INVENTORY**

If a publisher's estimate of the fair value of books donated is not available, donated books received are generally valued at \$10.00 for new books and \$2.00 for used books, which is management's estimate of the average fair value. The number of useable books shipped and on hand is a significant estimate made by management.

The Organization's ending book inventory is classified as a temporarily restricted net asset until the books are shipped, and totaled \$9,082,095 and \$9,139,303 at June 30, 2008 and 2007, respectively.

**5. DONATED SERVICES**

In addition to the receipt of donated books described in Note 4, the Organization also received and recorded donated shipping costs in the amount of \$112,350 and \$149,513 in fiscal 2008 and 2007, respectively. Legal services donated during the current year are valued at \$10,000.

Donated services provided by numerous volunteers to sort and catalog the books are not valued and have not been reported in the accompanying statement of activity, since they do not meet the criteria for recognition in the financial statements under accounting principles generally accepted in the United States of America.

**6. NET ASSETS**

Temporarily restricted net assets are restricted for the following purposes at June 30, 2008 and 2007:

	2008	2007
Books in inventory	\$ 9,082,095	\$ 9,139,303
Container sponsorships	454,656	338,467
Time restricted	-	10,000
Total	\$ 9,536,751	\$ 9,487,770

Net assets released from restrictions during fiscal 2008 were as follows:

	2008	2007
Satisfaction of donor restrictions		
Books shipped	\$ 9,139,394	\$ 335,874
Container sponsorships	609,233	375,745
Time restrictions	10,000	10,000
Total	\$ 9,758,627	\$ 721,619

**7. RETIREMENT PLANS**

The Organization has established a SEP/IRA defined contribution plan for its employees. The Organization contributes 6% to the plan on behalf of its employees. Contributions to the SEP/IRA were \$14,602 and \$9,232 in June 30, 2008 and 2007, respectively. It also sponsors a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan provides for elective employee deferrals with no contributions made by the Organization.

**8. OPERATING LEASES**

The Organization leases office space on a month to month basis. Rent expense was \$8,753 and \$5,786 for the years ended June 30, 2008 and 2007, respectively.

The Organization leases warehouse space requiring payments of \$4,463 per month expiring October 31, 2008. Rent expense for warehouse space was \$100,573 and \$56,695 for the year ended June 30, 2008 and 2007.

Future minimum lease payments under the lease are as follows:

2009	\$17,852
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**9. EXCLUSIVE AGENCY AGREEMENT**

In March 2005, BFA entered into an agreement with Better World Books (BWB) allowing BWB to act as an agent in collecting, transporting, and selling surplus books on its behalf to raise funds to advance BFA's mission. BFA receives proceeds of the sales to use in regular operations at a percentage agreed upon on a yearly basis; the percentages were 7.5% in 2008 and 2007. There is no guarantee that these funds will be received; therefore, the donations are considered conditional and will be recognized as payment is received from BWB. Contributions received under this agreement were \$553,088 and \$500,000 during the years ended June 30, 2008 and 2007, respectively.