

**Report of Independent Auditors
and Financial Statements**



Worldreader.org

DECEMBER 31, 2015

Worldreader.org

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Opinion

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Worldreader.org as of December 31, 2015, and the consolidated change in its net assets and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Gelman Rosenberg & Freedman

October 3, 2016

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2015

ASSETS

Cash and cash equivalents	\$3,384,116
Grants and pledges receivable, net	5,714,658
Other receivables	120,777
Prepaid expenses	14,373
Fixed assets, net of accumulated depreciation	12,403
WRM app, net of accumulated amortization	403,662

TOTAL ASSETS \$9,649,989

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 304,183
Unearned revenue	51,602
Total liabilities	<u>355,785</u>

NET ASSETS

Unrestricted	1,357,177
Temporarily restricted	7,937,027
Total net assets	<u>9,294,204</u>

TOTAL LIABILITIES AND NET ASSETS \$9,649,989

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CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE			
Contributions and grants	\$2,306,612	\$ 7,536,649	\$ 9,843,261
In-kind contributions	3,797,792	-	3,797,792
Program income	1,831,992	-	1,831,992
Net assets released from restrictions	2,015,996	(2,015,996)	-
Total revenue	<u>9,952,392</u>	<u>5,520,653</u>	<u>15,473,045</u>
EXPENSES			
Program Services	<u>7,741,485</u>	<u>-</u>	<u>7,741,485</u>
Supporting Services:			
Management and General	1,232,629	-	1,232,629
Fundraising	<u>333,768</u>	<u>-</u>	<u>333,768</u>
Total supporting services	<u>1,566,397</u>	<u>-</u>	<u>1,566,397</u>
Total expenses	<u>9,307,882</u>	<u>-</u>	<u>9,307,882</u>
Change in net assets before other item:	644,510	5,520,653	6,165,163
Other Item: loss on currency conversion	<u>(49,027)</u>	<u>(38,618)</u>	<u>(87,645)</u>
Change in net assets	595,483	5,482,035	6,077,518
Net assets at beginning of year	<u>761,694</u>	<u>2,454,992</u>	<u>3,216,686</u>
NET ASSETS AT END OF YEAR	<u>\$1,357,177</u>	<u>\$ 7,937,027</u>	<u>\$ 9,294,204</u>

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CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Reading supplies and content	\$3,736,452	\$ -	\$ 180	\$3,736,632
Compensation	1,597,257	628,312	216,842	2,442,411
Facilities	122,467	39,456	16,647	178,570
Professional fees	1,607,062	342,399	22,735	1,972,196
Travel, advertising, promotion and other	597,319	196,096	76,528	869,943
Administrative expenses	80,928	26,366	836	108,130
TOTAL	<u>\$7,741,485</u>	<u>\$1,232,629</u>	<u>\$333,768</u>	<u>\$9,307,882</u>

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 6,077,518
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Loss on disposal of fixed assets	2,519
Depreciation expense	667
Amortization expense	131,017
(Increase) decrease in:	
Grants and pledges receivable	(3,651,222)
Other receivables	69,792
Prepaid expenses	(4,333)
Inventory	31,781
Increase (decrease) in:	
Accounts payable and accrued expenses	191,961
Unearned revenue	(2,542)
Net cash provided by operating activities	<u>2,847,158</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of WRM app	(246,847)
Purchase of fixed assets	(8,151)
Net cash used by investing activities	<u>(254,998)</u>

Net increase in cash and cash equivalents	2,592,160
Cash and cash equivalents at beginning of year	<u>791,956</u>

CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,384,116</u>
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The following organizations comprise Worldreader.org:

- Worldreader.org (USA): incorporated as a non-profit organization under the laws of the United States of America.
- Fundacion Woldreader.org (Worldreader.org – Spain): incorporated as a non-profit organization under the laws of Spain.
- Worldreader.org (Worldreader.org – Ghana): a non-profit organization incorporated under the laws of Ghana.
- Worldreader (Worldreader.org - UK): - is a registered charity under the laws of the United Kingdom.

All of the aforementioned entities are under common control and are devoted to acquiring, curating and distributing digital books in order to improve literacy access to knowledge to children and families in the developing world.

Basis of presentation –

The accompanying consolidated financial statements are presented on the accrual basis of accounting and in accordance with FASB ASC 958-810, *Not-For-Profit-Entities, Consolidation*.

The consolidated financial statements include the activities of each of the respective organizations described above. All significant intercompany transactions have been eliminated in consolidation.

Cash and cash equivalents –

Worldreader.org considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts within the U.S that are maintained at one institution are insured by the FDIC up to a limit of \$250,000. At times during the year, Worldreader.org (USA) may maintain cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

At December 31, 2015, Worldreader.org had approximately \$1,050,000 of cash and cash equivalents that were held at financial institutions within Spain, Ghana and the United Kingdom. The majority of such funds were not insured. Management believes the risk associated with the investment of such funds not being insured is minimal.

Grants, pledges and accounts receivable –

Grants, pledges and accounts receivable are stated at their fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Income taxes –

- Worldreader.org (USA) is exempt from income taxes under section 501 (c) (3) of the internal Revenue Code. Worldreader.org (USA) is not a private foundation.
- Fundacion Wolrdreader.org (Worldreader.org – Spain): is exempt from taxes in accordance with Spanish law as it relates to non-profit organizations operating in Spain.
- Worldreader.org (Worldreader.org – Ghana): is exempt from income taxes in accordance with Ghanaian law as it relates to non-profit organizations operating in Ghana.
- Worldreader (Worldreader.org - UK): - as a registered charity under the laws of the United Kingdom, is exempt from income taxes.

Due to the non-profit status of all of the aforementioned organizations, no provision for income taxes has been made in the accompanying consolidated financial statements.

Uncertain tax positions –

For the year ended December 31, 2015, Worldreader.org has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Contributions and grants –

Contributions and grants are recorded as either unrestricted or temporarily restricted revenue in the year written notification of the gift is received from the donor. Grants and contributions for which future payments are anticipated as being collected at fiscal year-end and/or which are received with written donor stipulations that restrict the use of the gift, are recorded as temporarily restricted revenue.

Temporarily restricted contributions and grants are recognized as unrestricted revenue (net assets released from restrictions) only through the passage of time and/or to the extent of actual expenses incurred that satisfied the donor stipulated restrictions. Temporarily restricted contributions and grants for which amounts have not been released from restrictions are shown as temporarily restricted net assets in the accompanying financial statements.

Fixed assets –

Furniture, equipment and software purchased with unrestricted funds with a value in excess of Worldreader.org's capitalization threshold are capitalized, stated at cost and depreciated or amortized over the estimated useful lives of the assets, generally three to ten years using the straight-line method. Donated assets are capitalized at their fair market value at the date of donation and depreciated or amortized over the assets estimated useful lives, generally three years (Note 5).

In-kind contributions –

Contributed services and materials consist of donated content, devices and professional services. Contributed services and materials are recorded at their fair market value as of the date of the gift.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses –

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

2. GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable consist of pledges and awards from various foundations, individuals, and corporations. Payments expected to be collected during fiscal years 2016 and 2018 have been discounted to their present value using an interest rate of 3.25% at December 31, 2015.

Grants and pledges receivable consisted of the following at December 31, 2015:

Foundations	\$2,787,387
Corporations	10,000
Individuals	2,997,699
	<hr/>
	5,795,086
Less: Discount for present value	(80,428)
	<hr/>
TOTAL GRANTS AND PLEDGES RECEIVABLE	\$5,714,658

Following is a schedule, by maturity year, of grants and pledges receivable at December 31, 2015:

<u>Year Ending December 31,</u>	
2016	\$3,685,811
2017	1,557,216
2018	452,059
2019	100,000
	<hr/>
	5,795,086
Less: Discount for present value	(80,428)
	<hr/>
	\$5,714,658

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2015:

Grants and Programs	\$3,317,032
Time Restricted	4,452,105
Donated WRM app	167,890
	<hr/>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$7,937,027

4. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions, as of and for the year ended December 31, 2015, by either incurring expenses or through the passage of time, which satisfied the restricted purposes specified by the donors:

Grants and Programs	\$ 745,851
Passage of Time	1,150,203
Donated WRM app	119,942
	<hr/>
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	\$2,015,996

5. IN-KIND CONTRIBUTIONS

During the year ended December 31, 2015, Worldreader.org was the beneficiary of donated services, content, devices, and a mobile WRM app, all which allowed Worldreader to provide greater resources toward various programs. The WRM app has been capitalized and is being amortized over its estimated useful life of three years.

The total donated value was \$290,250 and the related accumulated amortization at December 31, 2015 was \$122,360.

Following is a summary of the in-kind contributions for the year ended December 31, 2015:

Included in Program Services Expenses	\$3,757,792
Included in Supporting Services Expenses	40,000
	<hr/>
TOTAL IN-KIND CONTRIBUTIONS	\$3,797,792

6. CONCENTRATION OF REVENUE

Approximately 60% of Worldreader.org's revenue (excluding in-kind contributions) for the year ended December 31, 2015 was derived from contributions and grants from six major donors. As of December 31, 2015, approximately 50% of the balance of contributions and pledges receivable were due from these six major donors.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015

6. CONCENTRATION OF REVENUE (Continued)

Worldreader.org has no reason to believe that relationships with these donors will be discontinued in the foreseeable future. However, any interruption of these relationships (i.e., the failure to renew grant agreements or withholding payment against pledges receivable) would adversely affect Worldreader.org's ability to finance ongoing operations.

7. FUTURE LEASE COMMITMENTS

Worldreader.org has entered into several lease agreements for office space. Following is a schedule of the future minimum lease payments required under the lease agreements as of December 31, 2015:

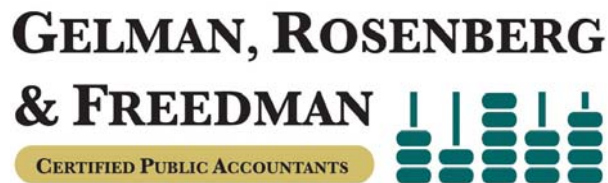
<u>Year Ended December 31,</u>	<u>Amount</u>
2016	\$150,880
2017	151,286
2018	50,923
	<u>\$353,089</u>

Rent expense for the year ended December 31, 2015 totaled approximately \$175,000.

8. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. Worldreader.org recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of financial position, including the estimates inherent in the process of preparing the financial statements. Worldreader.org's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements were available to be issued.

Worldreader.org has evaluated subsequent events through October 3, 2016, which is the date the financial statements were available to be issued.



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Worldreader.org
San Francisco, California

We have audited the accompanying consolidated financial statements of Worldreader.org, which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statement of activities and change in net assets, consolidated functional expenses and consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We did not audit the financial statements of Fundacion Wolrdreader.org (Worldreader.org – Spain) and Worldreader.org – Ghana, which reflect total assets of approximately \$463,000 as of December 31, 2015, and total expenses of approximately \$1,681,000, for the year then ended. Those statements were audited by other auditors, whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for Worldreader.org – Spain and Worldreader.org Ghana are based solely on the reports of the other auditors. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks and material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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