

**Report of Independent Auditors
and Financial Statements of U.S. Operations**



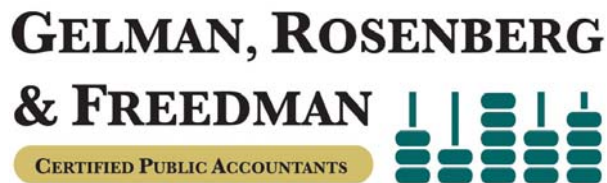
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DECEMBER 31, 2016 AND 2015

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CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 3
Financial Statements:	
Statements of Financial Position – U.S. Operations, as of December 31, 2016 and 2015	4
Statements of Activities and Changes in Net Assets – U.S. Operations, for the Years Ended December 31, 2016 and 2015	5
Statements of Functional Expenses – U.S. Operations, for the Years Ended December 31, 2016 and 2015	6
Statements of Cash Flows – U.S. Operations, for the Years Ended December 31, 2016 and 2015	7
NOTES TO FINANCIAL STATEMENTS	8 - 12



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Worldreader.org's U.S. operations, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks and 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 Worldreader.org's U.S. operations as of December 31, 2016 and 2015, 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.

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Emphasis-of-Matter Regarding Consolidated Financial Statements

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statement of financial position of Worldreader.org and its affiliates as of December 31, 2016 and 2015, and the consolidated statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements (none of which is presented herein), and we expressed an unmodified opinion on those financial statements. Such consolidated financial statements are the general purpose financial statements of Worldreader.org and its affiliates, and the financial statements of Worldreader.org's U.S. operations presented herein are not a valid substitute for those consolidated financial statements.

Gelman Rosenberg & Freedman

May 1, 2017

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STATEMENTS OF FINANCIAL POSITION – U.S. OPERATIONS AS OF DECEMBER 31, 2016 AND 2015

	ASSETS		
		2016	2015
Cash and cash equivalents		\$3,416,862	\$2,335,139
Grants, pledges and other receivables, net		4,202,151	5,012,987
Prepaid expenses		7,825	7,395
WRM app, net of accumulated amortization		44,530	167,890
	TOTAL ASSETS	\$7,671,368	\$7,523,411
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and accrued expenses		\$ 79,321	\$ 114,999
Unearned program revenue		199,980	51,602
	Total liabilities	279,301	166,601
NET ASSETS			
Unrestricted		1,761,459	1,021,356
Temporarily restricted		5,630,608	6,335,454
	Total net assets	7,392,067	7,356,810
	TOTAL LIABILITIES AND NET ASSETS	\$7,671,368	\$7,523,411

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STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS – U.S. OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE						
Contributions and grants	\$ 3,379,734	\$ 3,038,827	\$ 6,418,561	\$2,256,709	\$ 5,620,729	\$ 7,877,438
In-kind contributions	2,482,711	-	2,482,711	3,797,792	-	3,797,792
Program income	416,700	-	416,700	1,536,408	-	1,536,408
Net assets released from restrictions	3,743,673	(3,743,673)	-	1,740,267	(1,740,267)	-
Total revenue	<u>10,022,818</u>	<u>(704,846)</u>	<u>9,317,972</u>	<u>9,331,176</u>	<u>3,880,462</u>	<u>13,211,638</u>
EXPENSES						
Program Services	7,439,384	-	7,439,384	7,461,517	-	7,461,517
Supporting Services:						
Management and General	1,360,022	-	1,360,022	1,151,072	-	1,151,072
Fundraising	483,309	-	483,309	325,367	-	325,367
Total supporting services	<u>1,843,331</u>	<u>-</u>	<u>1,843,331</u>	<u>1,476,439</u>	<u>-</u>	<u>1,476,439</u>
Total expenses	<u>9,282,715</u>	<u>-</u>	<u>9,282,715</u>	<u>8,937,956</u>	<u>-</u>	<u>8,937,956</u>
Changes in net assets	740,103	(704,846)	35,257	393,220	3,880,462	4,273,682
Net assets at beginning of year	<u>1,021,356</u>	<u>6,335,454</u>	<u>7,356,810</u>	<u>628,136</u>	<u>2,454,992</u>	<u>3,083,128</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,761,459</u>	<u>\$ 5,630,608</u>	<u>\$ 7,392,067</u>	<u>\$1,021,356</u>	<u>\$ 6,335,454</u>	<u>\$ 7,356,810</u>

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STATEMENTS OF FUNCTIONAL EXPENSES – U.S. OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016			2015				
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General		Fundraising
Reading supplies and content	\$ 2,889,682	\$ -	\$ -	\$ 2,889,682	\$3,691,944	\$ -	\$ 180	\$ 3,692,124
Compensation	1,356,520	540,535	343,586	2,240,641	963,096	380,535	190,552	1,534,183
Facilities	107,501	42,168	25,614	175,283	90,421	22,703	15,811	128,935
Professional fees	367,896	193,841	5,842	567,579	1,172,070	169,920	5,910	1,347,900
Travel, advertising, promotion and other	1,137,482	121,052	85,951	1,344,485	596,942	196,096	76,528	869,566
Grants to affiliates	1,580,303	462,426	22,316	2,065,045	947,044	381,818	36,386	1,365,248
TOTAL	\$ 7,439,384	\$ 1,360,022	\$ 483,309	\$ 9,282,715	\$7,461,517	\$1,151,072	\$ 325,367	\$ 8,937,956

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STATEMENTS OF CASH FLOWS – U.S. OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 35,257	\$ 4,273,682
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Amortization expense	123,360	119,942
(Increase) decrease in:		
Advances to affiliates	-	143,753
Grants, pledges and other receivables	810,836	(2,902,775)
Prepaid expenses	(430)	(1,099)
Increase (decrease) in:		
Accounts payable and accrued expenses	(35,678)	66,772
Unearned program revenue	148,378	(2,542)
Net cash provided by operating activities	<u>1,081,723</u>	<u>1,697,733</u>
Net increase in cash and cash equivalents	1,081,723	1,697,733
Cash and cash equivalents at beginning of year	<u>2,335,139</u>	<u>637,406</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,416,862</u>	<u>\$ 2,335,139</u>

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NOTES TO FINANCIAL STATEMENTS – U.S. OPERATIONS DECEMBER 31, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Worldreader.org (Worldreader) is a non-profit organization supported by individuals and private institutions. Worldreader is devoted to acquiring, curating, and distributing digital books in order to improve literacy and access to knowledge to children and families in the developing world.

As discussed in Note 7, Worldreader is affiliated with organizations in Spain, Ghana, India and the United Kingdom. The accompanying financial statements include only the activity of Worldreader's U.S. operations.

Basis of presentation -

The accompanying financial statements of Worldreader.org's U.S. operations are presented on the accrual basis of accounting and in accordance with FASB ASC 958, *Not-For-Profit-Entities*. However, these statements are not a valid substitute for the consolidated financial statements, which are the general purpose financial statements of Worldreader.org.

The consolidated activities of all Worldreader affiliate organizations are presented in a separate set of consolidated financial statements. The audited consolidated financial statements are available upon request.

Cash and cash equivalents -

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

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

Income taxes -

Worldreader is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Worldreader is not a private foundation.

Uncertain tax positions -

For the years ended December 31, 2016 and 2015, Worldreader 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.

The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

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NOTES TO FINANCIAL STATEMENTS – U.S. OPERATIONS DECEMBER 31, 2016 AND 2015

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

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'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 generally 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.

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.

New accounting pronouncements -

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets.

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NOTES TO FINANCIAL STATEMENTS – U.S. OPERATIONS DECEMBER 31, 2016 AND 2015

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

New accounting pronouncements (continued) -

The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of Worldreader's financial statements, it is not expected to alter Worldreader's reported financial position.

Additionally, during 2016, management of Worldreader adopted and implemented Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-15 which requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entities ability to continue as a going concern within one year after the financial statements are issued. Management of Worldreader has performed such evaluation of the U.S Operations and concluded that there is no doubt about its ability to continue as a going concern.

2. GRANTS, PLEDGES AND OTHER RECEIVABLES

Grants, pledges, and other receivables consists of pledges, awards and donations from various foundations, individuals, and corporations.

Payments expected to be collected during 2016 and 2017 have been discounted to their present value using an interest rate of 3.75% and 3.25% at December 31, 2016 and 2015, respectively.

Grants and pledges receivable consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Foundations	\$ 839,157	\$2,085,716
Corporations	199,980	10,000
Individuals	<u>3,240,278</u>	<u>2,997,699</u>
	4,279,415	5,093,415
Less: Discount for present value	<u>(77,264)</u>	<u>(80,428)</u>
TOTAL GRANTS AND PLEDGES RECEIVABLE	<u>\$4,202,151</u>	<u>\$5,012,987</u>

Following is a schedule, by maturity year, of grants and pledges receivable at December 31, 2016 and 2015:

<u>Year Ending December 31,</u>	<u>2016</u>	<u>2015</u>
2016	\$ -	\$3,212,615
2017	2,671,886	1,365,800
2018	1,057,529	415,000
2019	<u>550,000</u>	<u>100,000</u>
	4,279,415	5,093,415
Less: Discount for present value	<u>(77,264)</u>	<u>(80,428)</u>
	<u>\$4,202,151</u>	<u>\$5,012,987</u>

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NOTES TO FINANCIAL STATEMENTS – U.S. OPERATIONS DECEMBER 31, 2016 AND 2015

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Grants and Programs	\$1,809,066	\$1,900,755
Time Restricted	3,777,012	4,266,809
Donated WRM app	44,530	167,890
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$5,630,608</u>	<u>\$6,335,454</u>

4. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions, as of and for the years ended December 31, 2016 and 2015, respectively, by either incurring expenses or through the passage of time, which satisfied the restricted purposes specified by the donors:

	<u>2016</u>	<u>2015</u>
Grants and Programs	\$ 445,140	\$ 531,230
Passage of Time	3,175,173	1,089,095
Donated WRM app	123,360	119,942
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	<u>\$3,743,673</u>	<u>\$1,740,267</u>

5. IN-KIND CONTRIBUTIONS

During the years ended December 31, 2016 and 2015, Worldreader was the beneficiary of donated services, content and devices, all which allowed Worldreader to provide greater resources toward various programs.

Following is a summary of the in-kind contributions for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Included in Program Services Expenses	\$2,482,711	\$3,757,792
Included in Supporting Services Expenses	-	40,000
TOTAL IN-KIND CONTRIBUTIONS	<u>\$2,482,711</u>	<u>\$3,797,792</u>

During the 2014 fiscal year, a mobile app was developed for and donated to Worldreader. The app has been capitalized and is being amortized over the life of the use agreement. The total donated value was \$290,250 and the related accumulated amortization at December 31, 2016 and 2015 was \$245,720 and \$122,360, respectively.

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NOTES TO FINANCIAL STATEMENTS – U.S. OPERATIONS DECEMBER 31, 2016 AND 2015

6. CONCENTRATION OF REVENUE

Approximately 52% and 57% of Worldreader.org's revenue (excluding in-kind contributions) for the year ended December 31, 2016 and 2015, respectively was derived from contributions and grants from five major donors. As of December 31, 2016 and 2015, approximately 56% and 46% of the balance of contributions and pledges receivable were due from these five major donors.

7. AFFILIATE TRANSACTIONS

Worldreader is affiliated with organizations in Spain, Ghana, India and the United Kingdom. The organizations work together to coordinate worldwide activities and communications.

During the years ended December 31, 2016 and 2015, Worldreader entered into formal grant agreements with certain of its affiliates. The grant expenses are reflected as grants awarded to affiliates in the accompanying financial statements.

8. FUTURE COMMITMENTS

During April 2015, Worldreader entered into a lease agreement commencing May 1, 2015 and terminating April 30, 2018. Future minimum lease payments required under the lease agreement are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2017	\$ 151,286
2018	\$ 50,923

9. 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 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'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 has evaluated subsequent events through May 1, 2017, which is the date the financial statements were available to be issued.