

**Report of Independent Auditors  
and Consolidated Financial Statements**



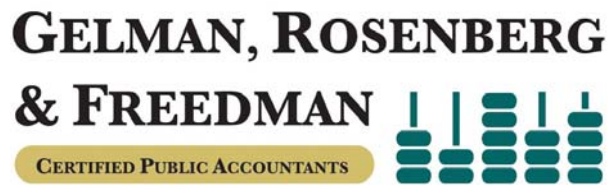
**Worldreader.org and  
Subsidiary**

**DECEMBER 31, 2017 AND 2016**

# Worldreader

## CONTENTS

	<b>PAGE NO.</b>
INDEPENDENT AUDITOR'S REPORT	2-3
Financial Statements:	
Consolidated Statements of Financial Position as of December 31, 2017 and 2016	4
Consolidated Statements of Activities and Changes in Net Assets for the Years Ended December 31, 2017 and 2016	5
Consolidated Statements of Functional Expenses for the Years Ended December 31, 2017 and 2016	6
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017 and 2016	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8 - 13



## 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 and subsidiary (collectively, Worldreader) which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years 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 these 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 these consolidated 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 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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## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Worldreader as of December 31, 2017 and 2016, and the consolidated changes in its net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Gelman Rosenberg & Freedman*

September 5, 2018

# Worldreader

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$1,811,393	\$3,416,862
Grants, pledges and other receivables, net	5,588,396	4,202,151
Prepaid expenses	177,439	6,974
Fixed assets, net	119,193	45,381
<b>TOTAL ASSETS</b>	<b><u>\$7,696,421</u></b>	<b><u>\$7,671,368</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 142,619	\$ 79,321
Unearned program revenue	155,250	199,980
Total liabilities	<u>297,869</u>	<u>279,301</u>
<b>NET ASSETS</b>		
Unrestricted	542,059	1,761,459
Temporarily restricted	6,856,493	5,630,608
Total net assets	<u>7,398,552</u>	<u>7,392,067</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$7,696,421</u></b>	<b><u>\$7,671,368</u></b>

# Worldreader

## CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUE</b>						
Contributions and grants	\$ 1,028,425	\$ 6,073,333	\$ 7,101,758	\$ 3,379,734	\$ 3,038,827	\$6,418,561
In-kind contributions	1,935,269	175,668	2,110,937	2,482,711	-	2,482,711
Program income	391,746	-	391,746	416,700	-	416,700
Net assets released from restrictions	5,023,116	(5,023,116)	-	3,743,673	(3,743,673)	-
Total revenue	8,378,556	1,225,885	9,604,441	10,022,818	(704,846)	9,317,972
<b>EXPENSES</b>						
Reading supplies and content	727,242	-	727,242	2,889,682	-	2,889,682
Compensation	2,483,086	-	2,483,086	2,240,641	-	2,240,641
Facilities	260,497	-	260,497	175,283	-	175,283
Professional fees	977,103	-	977,103	567,579	-	567,579
Travel, advertising, promotion and other	2,505,425	-	2,505,425	1,344,485	-	1,344,485
Grants to affiliates	2,644,603	-	2,644,603	2,065,045	-	2,065,045
Total expenses	9,597,956	-	9,597,956	9,282,715	-	9,282,715
Changes in net assets	(1,219,400)	1,225,885	6,485	740,103	(704,846)	35,257
Net assets at beginning of year	1,761,459	5,630,608	7,392,067	1,021,356	6,335,454	7,356,810
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 542,059</b>	<b>\$ 6,856,493</b>	<b>\$7,398,552</b>	<b>\$ 1,761,459</b>	<b>\$ 5,630,608</b>	<b>\$7,392,067</b>

# Worldreader

## CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016				
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Reading supplies and content	\$ 727,181	\$ -	\$ 61	\$ 727,242	\$2,889,682	\$ -	\$ -	\$2,889,682
Compensation	1,142,549	866,260	474,277	2,483,086	1,356,520	540,535	343,586	2,240,641
Facilities	160,435	62,364	37,698	260,497	107,501	42,168	25,614	175,283
Professional fees	635,579	308,185	33,339	977,103	367,896	193,841	5,842	567,579
Travel, advertising, promotion and other	2,269,476	160,306	75,643	2,505,425	1,137,482	121,052	85,951	1,344,485
Grants to affiliates	2,036,643	461,032	146,928	2,644,603	1,580,303	462,426	22,316	2,065,045
<b>TOTAL</b>	<b><u>\$6,971,863</u></b>	<b><u>\$1,858,147</u></b>	<b><u>\$767,946</u></b>	<b><u>\$9,597,956</u></b>	<b><u>\$7,439,384</u></b>	<b><u>\$1,360,022</u></b>	<b><u>\$483,309</u></b>	<b><u>\$9,282,715</u></b>

See accompanying notes to financial statements.

# Worldreader

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 6,485	\$ 35,257
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities:		
Donated software licenses	(175,668)	-
Amortization expense	103,270	123,360
(Increase) decrease in:		
Grants, pledges and other receivables	(1,386,245)	810,836
Prepaid expenses	(170,465)	421
Increase (decrease) in:		
Accounts payable and accrued expenses	63,298	(35,678)
Unearned program revenue	(44,730)	148,378
Net cash (used) provided by operating activities	<u>(1,604,055)</u>	<u>1,082,574</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	<u>(1,414)</u>	<u>(851)</u>
Net cash used by investing activities	<u>(1,414)</u>	<u>(851)</u>
Net (decrease) increase in cash and cash equivalents	(1,605,469)	1,081,723
Cash and cash equivalents at beginning of year	<u>3,416,862</u>	<u>2,335,139</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 1,811,393</u></b>	<b><u>\$ 3,416,862</u></b>



# Worldreader

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

#### Organization -

Worldreader.org is a non-profit organization supported by individuals and private institutions. Worldreader.org 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.

Worldreader.org has a majority owned not-for-profit subsidiary, Digital Reading Foundation. Digital Reading Foundation was registered as a limited-shares private company under the Companies Act 2013, section 7 and incorporated under rule 8 of the Companies Rules, 2014 by the Government of India to advance the mission of Worldreader.org within India.

As further discussed in Note 7, Worldreader is affiliated with organizations in Spain, Ghana and the United Kingdom. Because management of Worldreader does not exert control over the affiliated entities in Spain, Ghana and the United Kingdom, the accompanying consolidated financial statements include only the activity of Worldreader.org and its controlled subsidiary in India.

#### Basis of presentation and principles of consolidation -

The accompanying consolidated financial statements of Worldreader are presented on the accrual basis of accounting and in accordance with FASB ASC 958-810, Not-for-Profit Entities, Consolidation. All material intercompany accounts and transactions have been eliminated in consolidation.

#### 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 several institutions and are insured by the FDIC up to a limit of \$250,000 at each institution. At times during the year, Worldreader's accounts may maintain cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

#### Grants, pledges and other receivables -

Grants, pledges and other receivables 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.org is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Worldreader.org is not a private foundation.

Digital Reading Foundation is formed under Section 8 of the Companies Rule which designates the organization as a not-for-profit in India. Digital Reading Foundation is currently in the process of applying for their official tax exempt status.

Based upon the aforementioned, no provision for income taxes has been made in the accompanying consolidated financial statements.

# Worldreader

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

#### Uncertain tax positions -

For the years ended December 31, 2017 and 2016, 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 consolidated 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.

#### 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 released from restrictions only through the passage of time and/or upon satisfaction of 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 consolidated 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, software licenses, 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 the consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

# Worldreader

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

#### Functional allocation of expenses -

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

#### New accounting pronouncements (not yet adopted) –

In August 2016, the FASB issued 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 Combined Statements of Activities and Changes in Net Assets. 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 consolidated financial statements, it is not expected to alter their reported consolidated financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018. Early adoption is permitted. Worldreader is currently evaluating the effect that the updated standard will have on its consolidated financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Combined Statements of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

Worldreader plans to adopt the new ASUs at the respective required implementation dates.

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 entity's ability to continue as a going concern within one year after the consolidated 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.

# Worldreader

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### 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 in future years have been discounted to their present value using an interest rate of 4.5% and 3.75% at December 31, 2017 and 2016, respectively.

Grants and pledges receivable consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Foundations	\$ 1,467,932	\$ 839,157
Corporations	76,475	199,980
Individuals	4,087,259	3,240,278
	5,631,666	4,279,415
Less: Discount for present value	<u>(43,270)</u>	<u>(77,264)</u>
<b>TOTAL GRANTS AND PLEDGES RECEIVABLE</b>	<b><u>\$5,588,396</u></b>	<b><u>\$4,202,151</u></b>

Following is a schedule, by maturity year, of grants and pledges receivable at December 31, 2017 and 2016:

<u>Year Ending December 31,</u>	<u>2017</u>	<u>2016</u>
2017	\$ -	\$2,671,886
2018	4,626,836	1,057,529
2019	1,004,830	550,000
	5,631,666	4,279,415
Less: Discount for present value	<u>(43,270)</u>	<u>(77,264)</u>
	<b><u>\$5,588,396</u></b>	<b><u>\$4,202,151</u></b>

### 3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Purpose Restricted	\$2,553,388	\$1,800,965
Time Restricted	4,229,443	3,862,377
Donated Software licenses	116,932	-
Donated WRM app	-	44,530
	6,899,763	5,707,872
Less: Discount for present value on LT pledges	<u>(43,270)</u>	<u>(77,264)</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b><u>\$6,856,493</u></b>	<b><u>\$5,630,608</u></b>

# Worldreader

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### 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, 2017 and 2016, respectively, by either incurring expenses or through the passage of time, which satisfied the restricted purposes specified by the donors:

	<u>2017</u>	<u>2016</u>
Grants and Programs	\$2,023,821	\$ 445,140
Passage of Time	2,896,029	3,175,173
Donated Software licenses	58,736	-
Donated WRM app	44,530	123,360
<b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b><u>\$5,023,116</u></b>	<b><u>\$3,743,673</u></b>

### 5. IN-KIND CONTRIBUTIONS

During the years ended December 31, 2017 and 2016, Worldreader was the beneficiary of donated services, content and devices, legal services, and software licenses, 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Included in Program Services Expenses	\$1,935,269	\$2,482,711
Included in Supporting Services Expenses	-	-
Included in fixed assets	175,668	-
<b>TOTAL IN-KIND CONTRIBUTIONS</b>	<b><u>\$2,110,937</u></b>	<b><u>\$2,482,711</u></b>

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, 2017 and 2016 was \$290,250 and \$245,720, respectively.

During the fiscal year ended December 31, 2017, software licenses were donated to Worldreader. The licenses have been capitalized and are being amortized over the life of the licenses. The total donated value was \$175,668 and the related accumulated amortization at December 31, 2017 was \$58,736.

### 6. CONCENTRATION OF REVENUE

Approximately 69% and 52% of Worldreader's revenue (excluding in-kind contributions) for the year ended December 31, 2017 and 2016, respectively was derived from contributions and grants from five major donors. As of December 31, 2017 and 2016, approximately 80% and 56% of the balance of contributions and pledges receivable were due from these five major donors.

# Worldreader

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### 7. AFFILIATE TRANSACTIONS

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

During the years ended December 31, 2017 and 2016, Worldreader entered into formal grant agreements with certain of its affiliates. The grant expenses are reflected as grants awarded to affiliates in the accompanying consolidated financial statements.

### 8. FUTURE COMMITMENTS

During April 2015, Worldreader entered into a lease agreement commencing May 1, 2015 and which was set to terminate on April 30, 2018; however, in April 2018, the lease agreement was extended and the termination date is now set for June 30, 2019. Future minimum lease commitments as of December 31, 2017 under the lease agreement are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2018	\$ 156,843
2019	<u>79,440</u>
	<u><b>\$ 236,283</b></u>

### 9. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before the consolidated financial statements are issued. Worldreader recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statements of financial position, including the estimates inherent in the process of preparing the consolidated financial statements.

Worldreader's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements were available to be issued.

Worldreader has evaluated subsequent events through September 5, 2018, which is the date the consolidated financial statements were available to be issued.