

WORLDREADER.ORG

DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT,

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

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## Independent Auditors' Report, Consolidated Financial Statements and Supplementary Information

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## **Independent Auditors' Report**

THE BOARD OF DIRECTORS  
WORLDREADER.ORG  
San Francisco, California

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of **WORLDREADER.ORG (Worldreader or the Organization)** which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, and 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 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 consolidated 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 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 of 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 Organization'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 Organization'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.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2018, and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Supplementary Information*

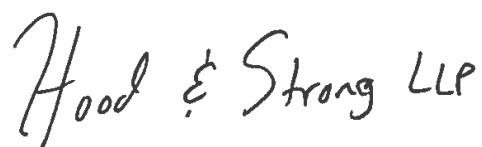
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information (pages 16 and 17) is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

### **Emphasis of Matter**

As discussed in Note 11 to the consolidated financial statements, opening net assets as of January 1, 2018 on the financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

### **Effect of Adopting New Accounting Standard**

As described in Note 2(k), the Organization adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14: *Not-for-Profit Entities – Presentation of Financial Statements of Not-for-Profit (Topic 958)*. Accordingly, the accounting change has been retrospectively applied to all periods presented. Our opinion is not modified with respect to that matter.

Handwritten signature in cursive script that reads "Hood & Strong LLP".

San Francisco, California  
November 18, 2019

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## Consolidated Statement of Financial Position

<i>December 31,</i>	2018
<b>Assets</b>	
Cash and cash equivalents	\$ 2,394,395
Grants and pledges receivable, net	5,822,753
Prepaid expenses and other assets	275,359
Fixed assets, net	58,502
<b>Total assets</b>	<b>\$ 8,551,009</b>
<b>Liabilities and Net Assets</b>	
<b>Liabilities:</b>	
Accounts payable and accrued expenses	\$ 122,689
Grants payable	364,660
Unearned program revenue	171,155
<b>Total liabilities</b>	<b>658,504</b>
<b>Net Assets:</b>	
Without donor restrictions	884,457
With donor restrictions	7,008,048
<b>Total net assets</b>	<b>7,892,505</b>
<b>Total liabilities and net assets</b>	<b>\$ 8,551,009</b>

See accompanying notes to consolidated financial statements.

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## Consolidated Statement of Activities and Changes in Net Assets

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	2018 Total
<b>Support and revenues:</b>			
Contributions and grants	\$ 1,963,617	\$ 6,547,277	\$ 8,510,894
In-kind contributions	2,757,442		2,757,442
Program income	774,913		774,913
Other income	17,013		17,013
Net assets released from restrictions	5,617,506	(5,617,506)	-
<b>Total support and revenues</b>	<b>11,130,491</b>	<b>929,771</b>	<b>12,060,262</b>
<b>Expenses:</b>			
Program services	8,819,382		8,819,382
Management and general	834,319		834,319
Fundraising	1,130,867		1,130,867
<b>Total expenses</b>	<b>10,784,568</b>	<b>-</b>	<b>10,784,568</b>
<b>Changes in Net Assets</b>	<b>345,923</b>	<b>929,771</b>	<b>1,275,694</b>
<b>Net Assets</b> , beginning of year as previously stated	542,059	6,856,493	7,398,552
Prior period adjustment (Note 11)	(3,525)	(778,216)	(781,741)
<b>Net Assets</b> , beginning of year as restated	<b>538,534</b>	<b>6,078,277</b>	<b>6,616,811</b>
<b>Net Assets</b> , end of year	\$ 884,457	\$ 7,008,048	\$ 7,892,505

See accompanying notes to consolidated financial statements.

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## Consolidated Statement of Functional Expenses

*Year Ended December 31, 2018*

	Program Services	Supporting Services			2018 Total
		Management and General	Development	Subtotal	
Compensation, taxes and benefits	\$ 1,507,130	\$ 437,500	\$ 787,022	\$ 1,224,522	\$ 2,731,652
Grants to affiliates	2,883,447			-	2,883,447
Donated good and services	2,815,872			-	2,815,872
Reading supplies and content	613,807	2,429		2,429	616,236
Professional fees	482,879	106,755	4,634	111,389	594,268
Occupancy costs	91,823	63,598	44,183	107,781	199,604
Postage, shipping and customs	96,250	1,096	723	1,819	98,069
Travel	151,345	113,151	41,003	154,154	305,499
Conferences, conventions, and meetings	19,802	10,141	7,724	17,865	37,667
Office supplies	13,501	9,475	6,287	15,762	29,263
Business licensing and fees	12,463	3,971	14,295	18,266	30,729
Marketing	30,480	227	2,750	2,977	33,457
Dues and subscriptions	63,888	71,039	16,749	87,788	151,676
Uncollectible contributions			194,269	194,269	194,269
Other	36,695	14,937	11,228	26,165	62,860
	\$ 8,819,382	\$ 834,319	\$ 1,130,867	\$ 1,965,186	\$ 10,784,568

See accompanying notes to consolidated financial statements.

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## Consolidated Statement of Cash Flows

<i>Year Ended December 31,</i>	2018
<b>Cash Flows from Operating Activities:</b>	
Change in net assets	\$ 1,275,694
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Amortization of license expense	60,691
changes in operating assets and liabilities	
Grants and pledges receivable	(1,016,098)
Prepaid expenses and other assets	(97,920)
Accounts payable and accrued expenses	(19,930)
Grants payable	364,660
Unearned program revenue	15,905
Net cash provided by operating activities	583,002
<b>Net Change in Cash and Cash Equivalents</b>	583,002
<b>Cash and Cash Equivalents, beginning of year</b>	1,811,393
<b>Cash and Cash Equivalents, end of year</b>	\$ 2,394,395

See accompanying notes to consolidated financial statements.



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## Notes to Consolidated Financial Statements

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### Note 1 - Organization:

Worldreader.org (Worldreader or the Organization), established in 2010 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.

Worldreader 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 within India.

Worldreader is affiliated with organizations in Spain, Ghana and the United Kingdom. Worldreader does not exert control over the affiliated entities in Spain, Ghana and the United Kingdom, therefore the activity of those are organizations are excluded from the accompanying consolidated financial statements.

The accompanying consolidated financial statements include all the amounts and operations of Worldreader.org and Digital Reading Foundation (collectively Worldreader).

### Note 2 - Summary of Significant Accounting Policies:

#### a. Basis of Accounting

The accompanying consolidated financial statements are presented on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Worldreader reports information regarding its financial position and activities according to two classes of net assets:

*Net Assets Without Donor Restrictions* – The portion of net assets not subject to time or donor-imposed restrictions and may be expended for any purpose in performing the primary objective of Worldreader.

*Net Assets With Donor Restrictions* – The portion of net assets of which use by Worldreader is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Worldreader.

#### b. Principles of Consolidation

All significant intercompany accounts and transactions have been eliminated in consolidation.

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## Notes to Consolidated Financial Statements

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c. 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.

d. Grants and Pledges Receivable

Grants and pledges receivable consist primarily of commitments made by individuals and foundations. Long term receivables are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using market rates applicable in the year in which those promises are received. Amortization of the discount is recorded as contribution revenue in accordance with the donor's restrictions, if any.

Worldreader uses the allowance method to account for uncollectible contributions based on historical experience and an evaluation of the outstanding receivables at the end of the year. Management has determined that an allowance for uncollectible receivables was not necessary at December 31, 2018.

e. Fixed Assets

Furniture, equipment and software 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.

f. Revenue Recognition

Grants and contributions are recognized as revenue when received or unconditionally promised. Worldreader reports contributions as increases in net assets with donor restrictions if such grants and contributions are received with donor stipulations that limit the use of the donation. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Program income primarily represents earnings on government grants and professional service contracts and are recognized when Worldreader incurs the expenditures related to the required services. Amounts billed or received in advance are recorded as unearned program revenue until the related services are performed.

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## Notes to Consolidated Financial Statements

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In-kind contributions 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.

g. Grants and Grants Payable

Grants are made to tax-exempt organizations or equivalent entities with objectives consistent with the mission of Worldreader. Grant expenses are recorded when Worldreader makes an unconditional promise to give. Conditional promises to give are recognized as grant expense in the period in which the recipient meets the terms of the condition. Grant cancellations or unspent funds are recorded in the year cancelled or the funds returned.

Grants payable as of December 31, 2018 includes \$364,660 expected to be paid in 2019.

h. Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets. Expenses such as salaries, benefits, and office supplies are allocated among program services, general and administrative and fundraising based on actual use. Facility, operational and depreciation expenses have been allocated on the basis of full-time equivalency of staffing in each function.

i. Income taxes

Worldreader is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Worldreader 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. The Digital Reading Foundation is currently in the process of applying for their official tax-exempt status.

Worldreader follows the guidance on accounting for uncertainty in income taxes according to Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 740. As of December 31, 2018, management has evaluated Worldreader's tax positions and concluded that Worldreader had maintained its tax-exempt status and has no uncertain tax positions that require adjustment to the consolidated financial statements.

j. Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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## Notes to Consolidated Financial Statements

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### k. Recent Accounting Pronouncements

#### *Pronouncement Adopted*

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this update make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. As of January 1, 2018, Worldreader has adopted this pronouncement and presented these consolidated financial statements in accordance with the ASU.

The adoption of this accounting standard changed the terminology used in describing net assets and added a new disclosure (Note 3) that discusses Worldreader's availability of financial assets and liquidity.

#### *Pronouncements effective in the future*

In February 2016, FASB issued ASU 2016-02, *Leases*. Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: 1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020, for a calendar year entity), and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. Worldreader is currently evaluating the impact on this pronouncement on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The amendments in the ASU are effective for fiscal years beginning after December 15, 2018. Worldreader is currently evaluating the impact of this pronouncement on its consolidated financial statements.

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## Notes to Consolidated Financial Statements

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### 1. Subsequent Events

Worldreader evaluated subsequent events with respect to the consolidated financial statements for the year ended December 31, 2018 through November 18, 2019, the date the consolidated financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying consolidated financial statements nor have any subsequent events occurred, the nature of which would require disclosure, except as discussed in Note 8.

### **Note 3 - Availability of Financial Assets and Liquidity:**

Worldreader's financial assets available within one year of the consolidated statement of financial position date for general expenditures are as follows:

Financial assets at December 31, 2018:	
Cash and cash equivalents	\$ 2,394,395
Grants and pledges receivable	5,822,753
	<hr/>
Total financial assets	8,217,148
	<hr/>
Less amounts not available to be used within one year:	
Net assets with donor restrictions, including long-term receivables	(7,008,048)
Add amounts available to be used within one year:	
Net assets with donor restrictions to be met in less than a year	5,407,681
	<hr/>
	(1,600,367)
	<hr/>
Financial assets available to meet general expenditures over the next twelve months	\$ 6,616,781
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As part of its liquidity plan, excess cash is invested in short-term liquid products, including money market accounts and high-yield money market accounts.

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## Notes to Consolidated Financial Statements

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### Note 4 - Grants and Pledges Receivables:

Grants and pledges receivable, net consist of the following at December 31, 2018:

Foundations	\$ 1,600,000
Corporations	87,500
Individuals	4,255,781
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	5,943,281
Less: Discount for present value	(120,528)
	<hr/>
Total grants, pledges, and other receivables	\$ 5,822,753

Receivables as of December 31, 2018 are expected to be received as follows:

Year Ending December 31,	
2019	\$ 4,189,115
2020	937,000
2021	416,666
2022	400,000
	<hr/>
Total	\$ 5,943,281

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## Notes to Consolidated Financial Statements

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### Note 5 - Net Assets With Donor Restrictions:

Net assets with donor restrictions as of December 31, 2018 consist of the following:

Purpose restricted	\$ 2,756,326
Time restricted	4,193,220
Donated software licenses	58,502
	<hr/>
	\$ 7,008,048
	<hr/>

During 2018, net assets were released from donor restrictions by incurring expenses or through the passage of time as follows:

Grants and programs	\$ 1,614,534
Passage of time	3,944,542
Donated software licenses	58,430
	<hr/>
	\$ 5,617,506
	<hr/>

### Note 6 - In-Kind Contributions:

Contributions of donated noncash assets are recorded at their fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. The amount of \$2,757,442 has been reflected in the consolidated financial statements for content and devices, legal services and software licenses, all which allowed the Organization to provide greater resources toward its program activities.

In a prior year, software licenses were donated to Worldreader. The licenses are capitalized and are being amortized over the life of the licenses. At December 31, 2018, the total donated value is \$175,668 and the related accumulated amortization is was \$117,166, and are included in fixed assets on the Consolidated Statement of Financial Position.

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## Notes to Consolidated Financial Statements

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### Note 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. Worldreader does not exert control over the affiliated entities, therefore the activity of those organizations are excluded from the accompanying consolidated financial statements. During the year ended December 31, 2018, Worldreader granted \$2,883,447 to these organizations. The grant expenses are reflected as grants awarded to affiliates in the accompanying consolidated financial statements.

### Note 8 - Future Commitments:

Worldreader leases its office facilities in San Francisco which expired in June 2019. Subsequent to year end, Worldreader extended its operating lease to June 30, 2021. Future minimum lease payments required under the lease agreement are as follows:

Year Ending December 31,	
2019	\$ 136,700
2020	117,700
2021	60,500
	<hr/>
	\$ 314,900

### Note 9 - Concentration of Credit Risk:

Worldreader has identified its financial instruments which are potentially subject to credit risk. These financial instruments consist principally of cash and receivables.

Periodically, throughout the year, Worldreader has maintained balances in various operating bank accounts in excess of federally insured limits. Worldreader invests its excess cash in money market funds and high-yield money market accounts with major financial institutions.

Approximately 75% of Worldreader's revenue (excluding in-kind contributions) for the year ended December 31, 2018, was derived from contributions and grants from five major donors. As of December 31, 2018, approximately 79% of the balance of grants and pledges receivable were due from these five major donors.



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## Notes to Consolidated Financial Statements

### Note 10 - Related Party Transactions:

#### Contributions

Collectively, certain board members made monetary contributions totaling \$3,785,000 during the year ended December 31, 2018. Pledges receivable due from certain board members amounted to approximately \$3,941,000 at December 31, 2018.

#### Relationship with Affiliates

Certain members of Worldreader's Board of Directors serve as board members of certain affiliates of which Worldreader grants to these affiliates.

### Note 11 - Prior Period Adjustment:

Net assets as of January 1, 2018 were restated as a result of a change in management's analysis of its revenue recognition and to record the net assets of Digital Reading Foundation. As a result of the analysis, management corrected the presentation of net assets. Following is a summary of the prior period adjustment:

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Net assets</b> , beginning of year (as previously stated)	\$ 542,059	\$ 6,856,493	\$ 7,398,552
<b>Adjustments:</b>			
Net assets of Digital Reading Foundation	(6,045)		(6,045)
Correct net assets to agree with general ledger system	2,520		2,520
Correct revenue recognition for an exchange contract		(778,216)	(778,216)
<b>Subtotal</b>	<b>(3,525)</b>	<b>(778,216)</b>	<b>(781,741)</b>
<b>Net assets</b> , beginning of year (as restated)	\$ 538,534	\$ 6,078,277	\$ 6,616,811

The impact of this prior period adjustment on 2017 is a decrease to Change in Net Assets from \$6,485 to \$(775,256).

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## Consolidating Statement of Financial Position

December 31, 2018

	<u>Worldreader.org</u>	<u>Digital Reading</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 2,393,998	\$ 397		\$ 2,394,395
Grants and pledges receivable, net	5,822,753			5,822,753
Prepaid expenses and other assets	273,947	2,851	\$ (1,439)	275,359
Fixed assets, net	58,502			58,502
<b>Total assets</b>	<b>\$ 8,549,200</b>	<b>\$ 3,248</b>	<b>\$ (1,439)</b>	<b>\$ 8,551,009</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities:</b>				
Accounts payable and accrued expenses	\$ 121,277	\$ 2,851	\$ (1,439)	\$ 122,689
Grants payable	364,660			364,660
Unearned program revenue	171,155			171,155
<b>Total liabilities</b>	<b>657,092</b>	<b>2,851</b>	<b>(1,439)</b>	<b>658,504</b>
<b>Net Assets:</b>				
Without donor restrictions	884,060	397		884,457
With donor restrictions	7,008,048			7,008,048
<b>Total net assets</b>	<b>7,892,108</b>	<b>397</b>	<b>-</b>	<b>7,892,505</b>
<b>Total liabilities and net assets</b>	<b>\$ 8,549,200</b>	<b>\$ 3,248</b>	<b>\$ (1,439)</b>	<b>\$ 8,551,009</b>

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## Consolidating Statement of Activities and Changes in Net Assets

Year Ended December 31, 2018

	<u>Worldreader.org</u>	<u>Digital Reading</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
<b>Support and revenue:</b>				
Contributions and grants	\$ 8,498,302	\$ 12,592		\$ 8,510,894
In-kind contributions	2,757,442			2,757,442
Program income	774,913			774,913
Other income	17,013			17,013
<b>Total</b>	<b>12,047,670</b>	<b>12,592</b>	<b>\$ -</b>	<b>12,060,262</b>
<b>Expenses:</b>				
Program services	8,814,987	4,395		8,819,382
Management and general	832,564	1,755		834,319
Fundraising	1,130,867			1,130,867
<b>Total expenses</b>	<b>10,778,418</b>	<b>6,150</b>	<b>-</b>	<b>10,784,568</b>
<b>Change in Net Assets</b>	<b>1,269,252</b>	<b>6,442</b>	<b>-</b>	<b>1,275,694</b>
<b>Net Assets, beginning of year as previously stated</b>	<b>7,398,552</b>			<b>7,398,552</b>
Prior period adjustment (Note 11)	(775,696)	(6,045)		(781,741)
<b>Net Assets, beginning of year as restated</b>	<b>6,622,856</b>	<b>(6,045)</b>	<b>-</b>	<b>6,616,811</b>
<b>Net Assets, end of year</b>	<b>\$ 7,892,108</b>	<b>\$ 397</b>	<b>\$ -</b>	<b>\$ 7,892,505</b>