

FINANCIAL STATEMENTS



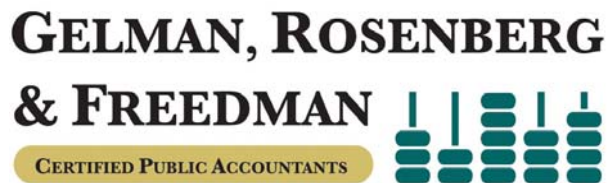
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**FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Worldreader.org, which comprise the statements of financial position as of December 31, 2014 and 2013, 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 as of December 31, 2014 and 2013, 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.

May 19, 2015

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STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 637,406	\$ 731,812
Advances to affiliates (Note 6)	143,753	52,253
Grants and pledges receivable, net (Note 2)	2,063,436	174,386
Accounts receivable	46,776	10,594
Prepaid expenses	6,296	3,852
WRM app, net of accumulated amortization (Note 5)	287,832	-
TOTAL ASSETS	<u>\$3,185,499</u>	<u>\$ 972,897</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 48,227	\$ 45,200
Unearned revenue	54,144	-
Total liabilities	<u>102,371</u>	<u>45,200</u>
NET ASSETS		
Unrestricted	628,136	427,772
Temporarily restricted (Note 3)	2,454,992	499,925
Total net assets	<u>3,083,128</u>	<u>927,697</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$3,185,499</u>	<u>\$ 972,897</u>

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STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE						
Contributions and grants	\$2,090,000	\$2,252,865	\$4,342,865	\$1,224,122	\$ 520,149	\$1,744,271
In-kind contributions (Note 5)	1,072,601	290,250	1,362,851	1,425,523	-	1,425,523
Program income	258,322	-	258,322	247,228	-	247,228
Net assets released from restrictions (Note 4)	588,048	(588,048)	-	863,739	(863,739)	-
Total revenue	4,008,971	1,955,067	5,964,038	3,760,612	(343,590)	3,417,022
EXPENSES						
Program Services	3,131,525	-	3,131,525	3,242,948	-	3,242,948
Supporting Services:						
Management and General	478,270	-	478,270	405,943	-	405,943
Fundraising	198,812	-	198,812	158,905	-	158,905
Total supporting services	677,082	-	677,802	564,848	-	564,848
Total expenses	3,808,607	-	3,808,607	3,807,796	-	3,807,796
Changes in net assets	200,364	1,955,067	2,155,431	(47,184)	(343,590)	(390,774)
Net assets at beginning of year	427,772	499,925	927,697	474,956	843,515	1,318,471
NET ASSETS AT END OF YEAR	\$ 628,136	\$2,454,992	\$3,083,128	\$ 427,772	\$ 499,925	\$ 927,697

See accompanying notes to financial statements.

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STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014			2013				
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Grants awarded to overseas entities (Note 6)	\$ 910,172	\$121,983	\$ -	\$1,032,155	\$ 708,118	\$234,470	\$ 7,569	\$ 950,157
Compensation and benefits	657,241	186,711	154,437	998,389	364,854	45,676	136,062	546,592
Reading devices and content (Note 5)	1,344,862	-	-	1,344,862	1,857,616	-	-	1,857,616
Contracted labor and services (Note 5)	72,556	71,858	7	144,421	67,042	36,172	-	103,214
Travel, training and meetings	83,118	26,260	14,890	124,268	129,276	46,512	2,062	177,850
Media and technology	18,702	-	15,211	33,913	29,989	193	10,531	40,713
Printing and communication	37,631	24,567	5,065	67,263	72,259	12,043	2,659	86,961
Facilities and equipment	5,746	27,850	-	33,596	4,570	27,998	-	32,568
Insurance and other	1,497	19,041	9,202	29,740	9,224	2,879	22	12,125
TOTAL	\$3,131,525	\$478,270	\$198,812	\$3,808,607	\$3,242,948	\$405,943	\$158,905	\$3,807,796

See accompanying notes to financial statements.

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**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 2,155,431	\$(390,774)
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities:		
Donated WRM app	(290,250)	-
Amortization expense	2,418	-
(Increase) decrease in:		
Advances to affiliates	(91,500)	54,547
Grants and pledges receivable	(1,889,050)	701,838
Accounts receivable	(36,182)	(5,877)
Prepaid expenses	(2,444)	(3,852)
Increase (decrease) in:		
Accounts payable and accrued expenses	3,027	42,137
Unearned revenue	54,144	-
Net cash (used) provided by operating activities	(94,406)	398,019
Net (decrease) increase in cash and cash equivalents	(94,406)	389,019
Cash and cash equivalents at beginning of year	731,812	333,793
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 637,406	\$ 731,812

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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 6, Worldreader is affiliated with network organizations in Spain and Ghana. The accompanying financial statements include only the activity of Worldreader's U.S. operations.

Basis of presentation –

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

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 at one institution will be 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, 2014 and 2013, 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.

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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

Contributions and grants (continued) –

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 will be capitalized and 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.

In-kind contributions –

Contributed services and materials consist of donated content, devices, professional services and a mobile app. 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.

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 2016 and 2017 have been discounted to their present value using an interest rate of 3.25% at December 31, 2014. Grants and pledges receivable consisted of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Foundations	\$ 434,640	\$174,386
Corporations	75,000	-
Individuals	<u>1,610,001</u>	<u>-</u>
	2,119,641	174,386
Less: Discount for present value	<u>(56,205)</u>	<u>-</u>
TOTAL GRANTS AND PLEDGES RECEIVABLE	<u><u>\$2,063,436</u></u>	<u><u>\$174,386</u></u>

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

2. GRANTS AND PLEDGES RECEIVABLE (Continued)

Following is a schedule, by maturity year, of grants and pledges receivable at December 31, 2014 and 2013:

<u>Year Ending December 31,</u>	<u>2014</u>	<u>2013</u>
2014	\$ -	\$174,386
2015	931,307	-
2016	571,667	-
2017	616,667	-
	<hr/>	<hr/>
	2,119,641	174,386
Less: Discount for present value	(56,205)	-
	<hr/>	<hr/>
	\$2,063,436	\$174,386

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Grants and Programs	\$ 571,197	\$448,925
Time Restricted	1,883,795	51,000
	<hr/>	<hr/>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$2,454,992	\$499,925

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, 2014 and 2013, respectively, by either incurring expenses or through the passage of time, which satisfied the restricted purposes specified by the donors:

	<u>2014</u>	<u>2013</u>
Grants and Programs	\$ 51,000	\$395,971
Passage of Time	537,048	467,768
	<hr/>	<hr/>
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	\$588,048	\$863,739

5. IN-KIND CONTRIBUTIONS

During the years ended December 31, 2014 and 2013, Worldreader was the beneficiary of donated services, content, devices, and a mobile app, all which allowed Worldreader to provide greater resources toward various programs.

During 2014, a mobile app was developed for and donated to Worldreader. The app has been capitalized and is being amortized over its estimated useful life of 10 years. The total donated value was \$290,250 and the related accumulated amortization at December 31, 2014 was \$2,418.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

5. IN-KIND CONTRIBUTIONS (Continued)

Following is a summary of the in-kind contributions for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Included in Assets – WRM App	\$ 290,250	\$ -
Included in Program Services Expenses	1,037,408	1,422,774
Included in Supporting Services Expenses	<u>35,193</u>	<u>2,749</u>
TOTAL IN-KIND CONTRIBUTIONS	<u>\$1,362,851</u>	<u>\$1,425,523</u>

6. AFFILIATE TRANSACTIONS

Worldreader is a network organization with offices in the USA, Spain and Ghana. The organizations work together to coordinate worldwide activities and communications.

During the years ended December 31, 2014 and 2013, Worldreader entered into formal grant agreements with its affiliates. The grant expenditures are reflected as grants awarded to overseas entities in the accompanying financial statements and include actual expenditures as reported to Worldreader by the affiliates. Any unspent funds at the fiscal year end are reported as advances to affiliates in the accompanying financial statements.

The accompanying financial statements include certain expenses under grants awarded to overseas entities under the heading of "Management and General". In accordance with Internal Revenue Service (IRS) guidance, such expenditures must be reported as program service expense on the IRS Form 990, "Return of Organization Exempt from Income Tax".

7. SUBSEQUENT EVENTS

In preparing these financial statements, management of Worldreader evaluated events and transactions for potential recognition and disclosure through May 19, 2015, the date the financial statements were issued. Based upon management's evaluation, the following lease commitment required disclosure.

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>
2015	\$ 84,000
2016	\$ 146,880
2017	\$ 151,286
2018	\$ 50,923