

FINANCIAL STATEMENTS

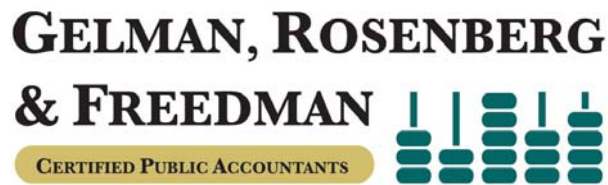


**FOR THE YEARS ENDED
DECEMBER 31, 2013 (AUDITED) AND 2012 (REVIEWED)**

WORLDREADER

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Worldreader
San Francisco, California

We have audited the accompanying financial statements of Worldreader, which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and change in net assets, functional expenses and cash flows for the year 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.

4550 MONTGOMERY AVENUE • SUITE 650 NORTH • BETHESDA, MARYLAND 20814
(301) 951-9090 • FAX: (301) 951-3570 • WWW.GRFPCA.COM

MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF CROWE HORWATH INTERNATIONAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Worldreader as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The 2012 financial statements were reviewed by us, and our report thereon, dated October 12, 2013, stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

July 21, 2014

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STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013 (AUDITED) AND 2012 (REVIEWED)

	ASSETS	<u>2013</u>	<u>2012</u>
Cash and cash equivalents		\$ 731,812	\$ 333,793
Advances to affiliates (Note 6)		52,253	106,800
Grants and pledges receivable (Note 2)		174,386	876,224
Other accounts receivable		10,594	4,717
Prepaid expenses		<u>3,852</u>	<u>-</u>
TOTAL ASSETS		<u>\$ 972,897</u>	<u>\$ 1,321,534</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and accrued expenses		<u>\$ 45,200</u>	<u>\$ 3,063</u>
Total liabilities		<u>45,200</u>	<u>3,063</u>
NET ASSETS			
Unrestricted		427,772	474,956
Temporarily restricted (Note 3)		<u>499,925</u>	<u>843,515</u>
Total net assets		<u>927,697</u>	<u>1,318,471</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 972,897</u>	<u>\$ 1,321,534</u>

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**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2013 (AUDITED) AND 2012 (REVIEWED)**

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE						
Contributions and grants	\$ 1,224,122	\$ 520,149	\$ 1,744,271	\$ 813,036	\$ 1,228,734	\$ 2,041,770
In-kind contributions (Note 5)	1,425,523	-	1,425,523	1,457,573	-	1,457,573
Program income	246,756	-	246,756	199,499	-	199,499
Interest income	472	-	472	284	-	284
Net assets released from restrictions (Note 4)	863,739	(863,739)	-	385,219	(385,219)	-
Total revenue	3,760,612	(343,590)	3,417,022	2,855,611	843,515	3,699,126
EXPENSES						
Program Services	3,242,948	-	3,242,948	2,450,255	-	2,450,255
Supporting Services:						
Management and General	405,943	-	405,943	250,578	-	250,578
Fundraising	158,905	-	158,905	112,995	-	112,995
Total supporting services	564,848	-	564,848	363,573	-	363,573
Total expenses	3,807,796	-	3,807,796	2,813,828	-	2,813,828
Changes in net assets	(47,184)	(343,590)	(390,774)	41,783	843,515	885,298
Net assets at beginning of year	474,956	843,515	1,318,471	433,173	-	433,173
NET ASSETS AT END OF YEAR	\$ 427,772	\$ 499,925	\$ 927,697	\$ 474,956	\$ 843,515	\$ 1,318,471

See accompanying notes to financial statements.

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**STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2013 (AUDITED) AND 2012 (REVIEWED)**

	2013			2012				
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Grants awarded to overseas entities (Note 6)	\$ 708,118	\$ 234,470	\$ 7,569	\$ 950,157	\$ 447,528	\$ 172,590	\$ 742	\$ 620,860
Compensation and benefits	364,854	45,676	136,062	546,592	143,524	18,851	89,995	252,370
Reading devices and content (Note 5)	1,857,616	-	-	1,857,616	1,689,584	133	-	1,689,717
Contracted labor and services (Note 5)	67,042	36,172	-	103,214	40,880	31,958	-	72,838
Travel, training and meetings	129,276	46,512	2,062	177,850	35,630	16,924	17,694	70,248
Media and technology	29,989	193	10,531	40,713	56,267	-	903	57,170
Printing and communication	72,259	12,043	2,659	86,961	23,560	3,694	3,183	30,437
Facilities and equipment	4,570	27,998	-	32,568	10,400	468	-	10,868
Insurance and other	9,224	2,879	22	12,125	2,882	5,960	478	9,320
TOTAL	\$3,242,948	\$ 405,943	\$ 158,905	\$3,807,796	\$2,450,255	\$ 250,578	\$ 112,995	\$2,813,828

See accompanying notes to financial statements.

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STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 (AUDITED) AND 2012 (REVIEWED)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (390,774)	\$ 885,298
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
(Increase) decrease in:		
Advances to affiliates	54,547	(38,034)
Grants and pledges receivable	701,838	(880,941)
Other accounts receivable	(5,877)	-
Prepaid expenses	(3,852)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	42,137	3,063
Net cash provided (used) by operating activities	398,019	(30,614)
Net increase (decrease) in cash and cash equivalents	389,019	(30,614)
Cash and cash equivalents at beginning of year	333,793	364,407
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 731,812	\$ 333,793

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 (AUDITED) AND 2012 (REVIEWED)

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.

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 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 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, 2013 and 2012, 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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 (AUDITED) AND 2012 (REVIEWED)

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

Contributions and grants (continued) –

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 –

Fixed assets purchased in excess of \$1,500 are capitalized and stated at cost and are depreciated over the estimated useful lives of the assets, which range from three to five years using the straight-line method.

Expenditures for major repairs and maintenance are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred. All equipment and devices purchased with grant funds are expensed in the year of purchase.

In-kind contributions –

Contributed services and materials consist primarily of donated content and devices. 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.

Reclassification –

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 (AUDITED) AND 2012 (REVIEWED)**

2. GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable consisted of the following at December 31, 2013 and 2012:

	2013	2012
Foundations	\$ 174,386	\$ 527,405
Individuals	-	348,819
TOTAL GRANTS AND PLEDGES RECEIVABLE	\$ 174,386	\$ 876,224

Following is a schedule, by maturity year, of grants and pledges receivable at December 31, 2013 and 2012:

<u>Year Ending December 31,</u>	2013	2012
2013	\$ -	\$ 876,224
2014	174,386	-
	\$ 174,386	\$ 876,224

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2013 and 2012:

	2013	2012
Grants and Programs	\$ 448,925	\$ 327,747
Time Restricted	51,000	515,768
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$ 499,925	\$ 843,515

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, 2013 and 2012, respectively, by either incurring expenses or through the passage of time, which satisfied the restricted purposes specified by the donors:

	2013	2012
Grants and Programs	\$ 395,971	\$ 335,219
Passage of Time	467,768	50,000
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	\$ 863,739	\$ 385,219

5. IN-KIND CONTRIBUTIONS

During the years ended December 31, 2013 and 2012, Worldreader was the beneficiary of donated services and content, and devices, all which allow Worldreader to provide greater resources toward various programs.

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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 (AUDITED) AND 2012 (REVIEWED)**

5. IN-KIND CONTRIBUTIONS (Continued)

To properly reflect total expenses, the following donations have been included in revenue and expenses for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Included in Program Services	\$1,422,774	\$1,432,445
Included in Supporting Services	<u>2,749</u>	<u>25,128</u>
TOTAL IN-KIND CONTRIBUTIONS	<u>\$1,425,523</u>	<u>\$1,457,573</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, 2013 and 2012, 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.

7. SUBSEQUENT EVENTS

In preparing these financial statements, Worldreader has evaluated events and transactions for potential recognition or disclosure through July 21, 2014, the date the financial statements were issued.