

WORLDREADER.ORG

DECEMBER 31, 2019

INDEPENDENT AUDITORS' REPORT,

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

Worldreader.org

Independent Auditors' Report, Consolidated Financial Statements and Supplementary Information

Independent Auditors' Report	1 - 2
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Consolidated Financial Statements:

Consolidated Statement of Financial Position	3
Consolidated Statement of Activities and Changes in Net Assets	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 14

Supplementary Information

Consolidating Statement of Financial Position	15
Consolidating Statement of Activities and Changes in Net Assets	16



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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, 2019, 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.

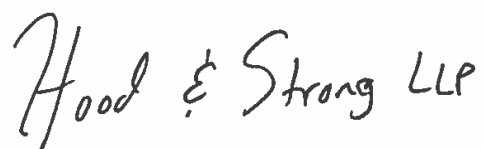
Opinion

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, 2019, 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 15 and 16) 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.

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

San Francisco, California
August 3, 2020

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Consolidated Statement of Financial Position

<i>December 31,</i>	2019
Assets:	
Cash and cash equivalents	\$ 2,194,710
Grants and pledges receivable, net	6,566,040
Software development, net	246,467
Prepaid expenses and other assets	282,394
Total assets	\$ 9,289,611
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued expenses	\$ 262,900
Grants payable	377,718
Unearned program revenue	413,816
Total liabilities	1,054,434
Net Assets:	
Without donor restrictions	1,379,802
With donor restrictions	6,855,375
Total net assets	8,235,177
Total liabilities and net assets	\$ 9,289,611

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Activities and Changes in Net Assets

Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	2019 Total
Support and revenues:			
Contributions and grants	\$ 921,774	\$ 5,260,464	\$ 6,182,238
In-kind contributions	2,369,849		2,369,849
Program income	1,056,183		1,056,183
Other income	31,563		31,563
Net assets released from restrictions	5,413,137	(5,413,137)	-
Total support and revenues	9,792,506	(152,673)	9,639,833
Expenses:			
Program services	7,663,559		7,663,559
Management and general	944,006		944,006
Fundraising	689,596		689,596
Total expenses	9,297,161	-	9,297,161
Changes in Net Assets	495,345	(152,673)	342,672
Net Assets, beginning	884,457	7,008,048	7,892,505
Net Assets, end of year	\$ 1,379,802	\$ 6,855,375	\$ 8,235,177

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Functional Expenses

Year Ended December 31, 2019

	Program Services	Supporting Services			2019 Total
		Management and General	Development	Subtotal	
Compensation, taxes and benefits	\$ 998,126	\$ 551,932	\$ 549,438	\$ 1,101,370	\$ 2,099,496
Grants	2,646,440				2,646,440
Donated good and services	2,428,351			-	2,428,351
Reading supplies and content	587,520	7,944	120	8,064	595,584
Professional fees	450,030	175,539	21,824	197,363	647,393
Occupancy costs	83,760	34,340	40,276	74,616	158,376
Postage, shipping and customs	31,202	404	471	875	32,077
Travel	103,990	86,688	20,354	107,042	211,032
Conferences, conventions, and meetings	5,614	3,707	921	4,628	10,242
Office supplies	8,020	7,299	4,725	12,024	20,044
Business licensing and fees	1,275	8,586	14,313	22,899	24,174
Marketing	45,122		5,228	5,228	50,350
Dues and subscriptions	67,865	62,313	17,766	80,079	147,944
Uncollectible contributions					-
Technology and development	177,779				177,779
Other	28,465	5,254	14,160	19,414	47,879
	\$ 7,663,559	\$ 944,006	\$ 689,596	\$ 1,633,602	\$ 9,297,161

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Cash Flows

<i>Year Ended December 31</i>	2019
Cash Flows from Operating Activities:	
Change in net assets	\$ 342,672
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:	
Amortization of license expense and software development costs	64,916
Changes in operating assets and liabilities:	
Grants and pledges receivable	(743,287)
Software development costs	(252,881)
Prepaid expenses and other assets	(7,035)
Accounts payable and accrued expenses	140,211
Grants payable	13,058
Unearned program revenue	242,661
Net cash (used) provided by operating activities	(199,685)
Net Change in Cash and Cash Equivalents	(199,685)
Cash and Cash Equivalents, beginning of year	2,394,395
Cash and Cash Equivalents, end of year	\$ 2,194,710

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

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 or the Organization).

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting

The accompanying consolidated financial statements are presented on the 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

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 unconditional 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, 2019.

e. Software Development

Software development costs consist of expenditures related to the development and improvements to the on-line and application platform used to further enhance the platform. The Organization capitalizes qualified expenses under the requirements of Accounting Standards Codification (ASC) Topic 985 and ASC Topic 350 governing the treatment for both internal and external software development. All capitalized costs are amortized over the assets estimated useful lives, generally five years. As of December 31, 2019, the total capitalized value is \$252,881 and the related accumulated amortization is was \$6,414.

f. 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.

g. 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.

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Notes to Consolidated Financial Statements

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 or performance obligation. Amounts billed or received in advance are recorded as unearned program revenue until the related services and performance obligations are fulfilled. The performance obligations may range from contract to contract, however the majority relate to the delivery of tablets with uploaded content, and training services.

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.

h. 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, 2019 are expected to be paid in 2020.

i. 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.

j. Income taxes

Worldreader is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. 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) ASC Topic 740. As of December 31, 2019, 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.

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Notes to Consolidated Financial Statements

k. 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.

l. Recent Accounting Pronouncements

Pronouncement Adopted

In June 2018, the FASB issued Accounting Standards Update (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 ASU was adopted as of January 1, 2019. The impact of adopting this guidance is reflected in the consolidated financial statements and did not have a significant impact on the consolidated financial statement disclosures.

The FASB issued authoritative guidance, *Revenue from Contracts with Customers* (Topic 606). These amendments provide that revenue should be recognized 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 guidance was adopted as of January 1, 2019. The impact of adopting this guidance is reflected in the consolidated financial statements and did not have a significant impact on the consolidated financial statements or disclosure. Furthermore, analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Pronouncements Effective in the Future

In February 2016, the 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, 2021 (i.e., January 1, 2022, for a calendar year entity), and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. Worldreader is currently evaluating the impact on this pronouncement on its consolidated financial statements.

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Notes to Consolidated Financial Statements

m. Subsequent Events

Worldreader evaluated subsequent events with respect to the consolidated financial statements for the year ended December 31, 2019 through August 3, 2020, 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 11.

Note 3 - **Grants and Pledges Receivable:**

Grants and pledges receivable, net consist of the following at December 31, 2019:

Individuals	\$ 5,062,620
Foundations	1,397,098
Corporations	164,766
Other receivables	75,097
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	6,699,581
Less: Discount for present value	(133,541)
	<hr/>
Total grants, pledges, and other receivables	\$ 6,566,040

Receivables as of December 31, 2019 are expected to be received as follows:

Year Ending December 31,	
2020	\$ 2,840,962
2021	2,011,521
2022	1,647,098
2023	100,000
2024	100,000
	<hr/>
Total	\$ 6,699,581

The Organization is the recipient of certain conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - which are not recognized until the conditions on which they depend have been met. Consequently, at December 31, 2019, contributions approximating \$252,500, have not been recognized in the accompanying consolidated Statement of Activities and Changes in Net Assets because the condition(s) on which they depend have not yet been met.

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Notes to Consolidated Financial Statements

Note 4 - Net Assets With Donor Restrictions:

Net assets with donor restrictions as of December 31, 2019 consist of the following:

Grants and programs	\$ 1,951,356
Time restricted	4,904,019
	<hr/>
	\$ 6,855,375

During 2019, net assets were released from donor restrictions by incurring expenses or through the passage of time as follows:

Grants and programs	\$ 1,221,472
Passage of time	4,191,665
	<hr/>
	\$ 5,413,137

Note 5 - 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, 2019:

Cash and cash equivalents	\$ 2,194,710
Grants and pledges receivable	6,566,040
	<hr/>
Total financial assets	8,760,750
Less net assets with donor restrictions, including long term receivables	(6,855,375)
Add net assets with donor restrictions to be met in less than a year	2,723,690
	<hr/>
Subtotal	(4,629,065)
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Financial assets available to meet general expenditures over the next twelve months	\$ 4,131,685

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

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 \$2,369,849 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, 2019, the total donated value is \$58,502 and the related accumulated amortization is was \$58,502, and are included in fixed assets on the Consolidated Statement of Financial Position.

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 are organizations are excluded from the accompanying consolidated financial statements. During the year ended December 31, 2019, Worldreader granted \$2,646,440 to these organizations. The grant expenses are reflected as grants in the accompanying consolidated financial statements.

Note 8 - Future Commitments:

Worldreader leases its office facilities in San Francisco which expires in June 30, 2021. Future minimum lease payments required under the lease agreement are as follows:

Year Ending December 31,	
2020	\$ 141,700
2021	72,500
	<hr/>
	\$ 214,200

Rent expense amounted to \$140,814 for the year ended December 31, 2019.

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Notes to Consolidated Financial Statements

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 66% of Worldreader's revenue (excluding in-kind contributions) for the year ended December 31, 2019, was derived from contributions and grants from five major donors. As of December 31, 2019, approximately 65% of the balance of grants and pledges receivable were due from these five major donors.

Note 10 - Related Party Transactions:

Contributions

Collectively, certain board members made monetary contributions totaling \$3,465,850 during the year ended December 31, 2019. Pledges receivable due from certain board members amounted to approximately \$3,784,432 at December 31, 2019.

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 - Subsequent Events:

Pandemic and Market Volatility:

On March 11, 2020, the World Health Organization publicly characterized COVID-19 as a pandemic. States of emergency have been declared in many federal, state and local jurisdictions and shelter in place orders have been instituted in many cities and states, including California, which impacts general business operations in most industries and sectors.

Worldreader has limited employee travel, postponed and canceled events, and developed contingency plans for operations depending on future developments, including having all staff work remotely during this period.

Subsequent to year end, the Organization applied for and was approved for a \$271,113 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 1%, but payments are not required to begin for 6 months after the funding of the loan. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government.

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Consolidating Statement of Financial Position (See Independent Auditors' Report)

December 31, 2019

	<u>Worldreader.org</u>	<u>Digital Reading</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
Assets:				
Cash and cash equivalents	\$ 2,194,385	\$ 325		\$ 2,194,710
Grants and pledges receivable, net	6,567,538	1,403	(2,901)	6,566,040
Software development, net	246,467			246,467
Prepaid expenses and other assets	278,035	4,359	\$	282,394
Total assets	\$ 9,286,425	\$ 6,087	\$ (2,901)	\$ 9,289,611
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	\$ 261,685	\$ 4,116	\$ (2,901)	\$ 262,900
Grants payable	377,718			377,718
Unearned program revenue	413,816			413,816
Total liabilities	1,053,219	4,116	(2,901)	1,054,434
Net Assets:				
Without donor restrictions	1,377,831	1,971		1,379,802
With donor restrictions	6,855,375			6,855,375
Total net assets	8,233,206	1,971	-	8,235,177
Total liabilities and net assets	\$ 9,286,425	\$ 6,087	\$ (2,901)	\$ 9,289,611

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Consolidating Statement of Activities and Changes in Net Assets (See Independent Auditors' Report)

Year Ended December 31, 2019

	<u>Worldreader.org</u>	<u>Digital Reading</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
Support and revenue:				
Contributions and grants	\$ 6,171,403	\$ 10,835		\$ 6,182,238
In-kind contributions	2,369,849			2,369,849
Program income	1,056,183			1,056,183
Other income	31,560	3		31,563
Total	9,628,995	10,838	\$ -	9,639,833
Expenses:				
Program services	7,660,143	3,416		7,663,559
Management and general	938,158	5,848		944,006
Fundraising	689,596			689,596
Total expenses	9,287,897	9,264	-	9,297,161
Change in Net Assets	341,098	1,574	-	342,672
Net Assets, beginning of year	7,892,108	397	-	7,892,505
Net Assets, end of year	\$ 8,233,206	\$ 1,971	\$ -	\$ 8,235,177