

**LITWORLD INTERNATIONAL, INC.**

FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2016 AND 2015



**SOBEL & CO. LLC**

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

# **LITWORLD INTERNATIONAL, INC.**

DECEMBER 31, 2016 AND 2015

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
LitWorld International, Inc.  
New York, New York

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

We have audited the accompanying financial statements of LitWorld International, Inc. ("Organization"), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, 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 controls relevant to the preparation and fair presentation of 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization'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 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 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 LitWorld International, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 11 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Sobel & Co, LLC*  
Certified Public Accountants

Livingston, New Jersey  
July 5, 2017

**LITWORLD INTERNATIONAL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

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	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 656,538	\$ 700,714
Contributions receivable	524,367	152,848
Prepaid expenses	2,322	21,500
Security deposit and other assets	14,500	17,456
Total current assets	<u>1,197,727</u>	<u>892,518</u>
Property and equipment, net	-	250
	<u>\$ 1,197,727</u>	<u>\$ 892,768</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 7,675	\$ 27,314
Deferred revenue	-	70,568
	<u>7,675</u>	<u>97,882</u>
<b>NET ASSETS:</b>		
Unrestricted	877,948	595,921
Temporarily restricted	312,104	198,965
	<u>1,190,052</u>	<u>794,886</u>
Total Liabilities and Net Assets	<u>\$ 1,197,727</u>	<u>\$ 892,768</u>

**LITWORLD INTERNATIONAL, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Unrestricted	Temporarily Restricted	Totals	Unrestricted	Temporarily Restricted	Totals
<b>REVENUE:</b>						
Donations and contributions	\$ 1,348,772	\$ 180,000	\$ 1,528,772	\$ 1,064,494	\$ 192,784	\$ 1,257,278
In-kind revenue	547,606	-	547,606	155,408	-	155,408
Service income	124,361	-	124,361	123,781	-	123,781
Interest income	481	-	481	1,040	-	1,040
Net realized and unrealized loss on investments	(718)	-	(718)	-	-	-
Net assets released from restriction	66,861	(66,861)	-	203,419	(203,419)	-
<b>Total Revenue</b>	<b>2,087,363</b>	<b>113,139</b>	<b>2,200,502</b>	<b>1,548,142</b>	<b>(10,635)</b>	<b>1,537,507</b>
<b>EXPENSES:</b>						
Program	1,249,202	-	1,249,202	1,102,858	-	1,102,858
Management leadership	290,061	-	290,061	139,894	-	139,894
Development and fundraising	266,073	-	266,073	208,801	-	208,801
<b>Total Expenses</b>	<b>1,805,336</b>	<b>-</b>	<b>1,805,336</b>	<b>1,451,553</b>	<b>-</b>	<b>1,451,553</b>
<b>CHANGES IN NET ASSETS</b>	<b>282,027</b>	<b>113,139</b>	<b>395,166</b>	<b>96,589</b>	<b>(10,635)</b>	<b>85,954</b>
Net Assets, Beginning of year	595,921	198,965	794,886	499,332	209,600	708,932
Net Assets, End of year	\$ 877,948	\$ 312,104	\$ 1,190,052	\$ 595,921	\$ 198,965	\$ 794,886

*The accompanying notes are an integral part of these financial statements.*

**LITWORLD INTERNATIONAL, INC.**  
**STATEMENTS OF CASH FLOWS**

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	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS PROVIDED BY (USED FOR):</b>		
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ 395,166	\$ 85,954
Adjustments to reconcile changes in net assets to net cash (used for) provided by operating activities:		
Depreciation	250	2,283
Changes in certain assets and liabilities:		
Contributions receivable	(371,519)	(102,848)
Prepaid expenses	19,178	(1,500)
Security deposit and other assets	2,956	(6,071)
Accounts payable	(19,639)	40,308
Deferred income	(70,568)	50,000
Net Cash (Used by) Provided by Operating Activities	<u>(44,176)</u>	<u>68,126</u>
NET (DECREASE) INCREASE IN CASH	(44,176)	68,126
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	<u>700,714</u>	<u>632,588</u>
End of year	<u>\$ 656,538</u>	<u>\$ 700,714</u>

**LITWORLD INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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**NOTE 1 - NATURE OF ORGANIZATION:**

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LitWorld International, Inc. (“Organization”) is a not-for-profit 501(c)(3) organization located in New York, New York. The Organization runs programs to help children and families improve their academic achievement, positive sense of self and future outlook, and increase their civic engagement.

The Organization works with locally based, grassroots organizations to run and expand literacy-based programs, building sustainable outcomes for young people and their communities around the world. The Organization’s programs are designed and written by staff members with support from consultants where needed. Local community leaders manage and lead the programs after receiving training and access to the Organization’s innovative curricula.

The Organization creates permanent, positive change in the world by implementing these on-the-ground programs to address the hard-to-tackle challenge of illiteracy worldwide. The Organization uniquely combines the power of children’s own stories, access to diverse reading and writing experiences, peer-to-peer support networks and adult mentor relationships, all of which lead to productive and transformational literacy.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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***Basis of Accounting:***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

***Financial Statement Presentation:***

Net assets and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets not subject to donor-imposed stipulations and currently available for use by the Organization’s Board of Directors.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as satisfaction of time and expense restrictions.



**LITWORLD INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

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***Financial Statement Presentation: (Continued)***

**Permanently Restricted Net Assets**

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

***Cash and Cash Equivalents:***

Cash and cash equivalents consist of cash in bank accounts and money market funds.

***Contributions Receivable:***

Contributions receivable are receivables that the Organization expects to be collected within one year and are recorded at their net realizable value. The Organization charges uncollectible receivables to fundraising when determined to be uncollectible. The allowance for uncollectible receivables has been reviewed by management and it has been determined that no allowance is necessary based on historical collection trends.

***Contributions:***

Contributions, including unconditional promises to give, are recorded as received. All contributions are available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

***Deferred Revenue:***

Deferred revenue consists of amounts received in advance of services being performed which will be recognized as income in future periods when the services are performed.

***In-kind Revenue:***

Amounts are reported in the financial statements for voluntary donations of services when those services create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation. Donated property, goods and services are recorded as contributions at their estimated fair value at the date of donation.

The Organization also regularly receives services from volunteers who are not acting in a professional capacity; such volunteer services do not meet the criteria for financial statement recognition and are not included in the financial statements.

**LITWORLD INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

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***Functional Expenses:***

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management leadership expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

***Income Taxes:***

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not liable for federal and state income taxes.

The Organization follows accounting standards that provide clarification on accounting for uncertainty in income taxes recognized in the Organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return, and also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. No interest and penalties were recorded during the years ended December 31, 2016 and 2015. At December 31, 2016 and 2015, there are no significant income tax uncertainties that are expected to have a material impact on the Organization's financial statements.

***Property and Equipment:***

It is management's policy to capitalize fixed-asset purchases having a useful life. Donated assets are recorded as contributions at their estimated fair value, at the date of the gift. Depreciation is provided on a straight-line basis. The estimated useful life on property and equipment is between 5 and 7 years.

***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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

***Reclassifications:***

Certain 2015 amounts have been reclassified to conform to the 2016 presentation.

***Subsequent Events:***

The Organization has evaluated events subsequent to the statement of financial position date as of December 31, 2016 through July 5, 2017, the date that the financial statements were available to be issued.

**LITWORLD INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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**NOTE 3 - PROPERTY AND EQUIPMENT:**

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Property and equipment consist of the following:

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Computers	\$ 16,196	\$ 16,196
Furnishings and equipment	1,515	1,515
	<u>17,711</u>	<u>17,711</u>
Accumulated depreciation	17,711	17,461
Property and Equipment, Net	<u>\$ -</u>	<u>\$ 250</u>

Depreciation expense for the years ended December 31, 2016 and 2015, was \$250 and \$2,283, respectively.

**NOTE 4 - CONCENTRATIONS OF RISK:**

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The Organization maintains cash and cash equivalent balances at several financial institutions. At times, cumulative balances may exceed the insured limit per financial institution.

The Organization also periodically holds small amounts of cash in uninsured accounts.

**NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS:**

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The following temporarily restricted net assets are available for the following purposes:

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Story21	\$ 99,809	\$ 60,000
Lit! Lantern Solar Project	39,600	39,600
Development Projects	172,695	99,365
	<u>\$ 312,104</u>	<u>\$ 198,965</u>

Net assets released from time-and-use restrictions for the years ended December 31, 2016 and 2015, amounted to \$66,861, and \$203,419, respectively.

**LITWORLD INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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**NOTE 6 - PARTNERSHIP WITH SCHOLASTIC, INC.:**

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In February 2015, the Organization entered into a 4-year agreement with Scholastic, Inc. to create a summer program called “LitCamp.” The Organization, acting as a consultant and advisor, was to create a 5-week summer school curriculum for grades K-5.

Upon the mutual execution of the agreement, Scholastic, Inc. paid the Organization \$100,000 for partial payment for the curriculum. This payment included an unconditional payment of \$50,000 for curriculum development, which the Organization recognized as revenue in 2015, and a conditional payment of \$50,000, which represented the first half of a \$100,000 First Advance on curriculum revenue, which, per the agreement, is equal to 7% of Scholastic, Inc.’s net sales of the curriculum to third-parties, mainly school districts. The income on the First Advance was deferred in 2015 subject to receiving a Curriculum Sales Accounting Report from Scholastic, Inc., due March 31, 2016. The \$50,000 second half of the First Advance was received in 2016 and recorded as program income on the statements of activities and changes in net assets.

Additional advances will be paid as cumulative royalties earned from the program reach various thresholds. As of December 31, 2016, a balance of \$35,000 is due from Scholastic, Inc. for reaching the first threshold. There was no deferred revenue associated with the partnership at December 31, 2016.

**NOTE 7 - PARTNERSHIP WITH GLOBAL G.L.O.W.:**

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In September 2015, the Organization entered into an agreement with Global G.L.O.W., a 501(c)(3) organization, to create a program called “HerStory.” HerStory is an initiative that seeks to improve and empower high-risk, high-potential girls from around the world who are facing extreme challenges, through storytelling, creative expression, literacy and mentorship under the Organization’s many programs. Under the agreement, the Organization and Global G.L.O.W will share programmatic and fiscal responsibilities. For the years ended December 31, 2016 and 2015, the Global G.L.O.W. support for the HerStory program amounted to \$547,606, and \$155,408, respectively, which is included in in-kind revenue on the Organization’s statements of activities and changes in net assets.

**LITWORLD INTERNATIONAL, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2016**

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	<b>Program</b>	<b>Management Leadership</b>	<b>Development and Fundraising</b>	<b>Total</b>
Salaries	\$ 281,955	\$ 69,928	\$ 122,495	\$ 474,378
Fringe benefits	53,315	13,222	23,163	89,700
Occupancy and insurance costs	7,250	93,004	38,167	138,421
Supplies and postage	39	6,759	2,502	9,300
Printing and production costs	7,902	388	7,105	15,395
Promotion and marketing	240	-	13,917	14,157
Professional services	53,703	85,851	52,361	191,915
Staff travel, entertainment, team-building	29,509	17,244	1,554	48,307
Program, cultivation, client travel, entertainment, team-building	55,857	332	2,902	59,091
Partner payments - Litworld	232,184	-	-	232,184
Partner payments - Global G.L.O.W.	527,038	-	-	527,038
Other expenses	210	3,333	1,907	5,450
<b>Total Expenses</b>	<b>\$ 1,249,202</b>	<b>\$ 290,061</b>	<b>\$ 266,073</b>	<b>\$ 1,805,336</b>