

**LITWORLD INTERNATIONAL, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016



**SOBEL & CO. LLC**

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

# **LITWORLD INTERNATIONAL, INC.**

DECEMBER 31, 2017 AND 2016

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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, 2017 and 2016, 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 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, 2017 and 2016, and the changes in its net assets, and its functional expenses, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Sobel & Co, LLC*

Certified Public Accountants

Livingston, New Jersey  
June 19, 2018

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

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	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,123,253	\$ 656,538
Contributions receivable, net	113,703	524,367
Prepaid expenses	116,369	2,322
Security deposit	14,500	14,500
Total Assets	<u>\$ 1,367,825</u>	<u>\$ 1,197,727</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	<u>\$ 10,459</u>	<u>\$ 7,675</u>
 <b>NET ASSETS:</b>		
Unrestricted	1,095,053	877,948
Temporarily restricted	262,313	312,104
	<u>1,357,366</u>	<u>1,190,052</u>
Total Liabilities and Net Assets	<u>\$ 1,367,825</u>	<u>\$ 1,197,727</u>

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

	Year Ended December 31, 2017			Year Ended December 31, 2016		
	Unrestricted	Temporarily Restricted	Totals	Unrestricted	Temporarily Restricted	Totals
<b>REVENUE:</b>						
Donations and contributions	\$ 1,279,930	\$ 105,000	\$ 1,384,930	\$ 1,348,772	\$ 180,000	\$ 1,528,772
In-kind revenue	718,561	-	718,561	547,606	-	547,606
Service income	250,174	-	250,174	124,361	-	124,361
Interest income	477	-	477	481	-	481
Net realized and unrealized gain (loss) on investments	153	-	153	(718)	-	(718)
Net assets released from restriction	154,791	(154,791)	-	66,861	(66,861)	-
Total Revenue	2,404,086	(49,791)	2,354,295	2,087,363	113,139	2,200,502
<b>EXPENSES:</b>						
Program	1,470,919	-	1,470,919	1,249,202	-	1,249,202
Management leadership	412,753	-	412,753	290,061	-	290,061
Development and fundraising	303,309	-	303,309	266,073	-	266,073
Total Expenses	2,186,981	-	2,186,981	1,805,336	-	1,805,336
<b>CHANGES IN NET ASSETS</b>	217,105	(49,791)	167,314	282,027	113,139	395,166
Net Assets, Beginning of year	877,948	312,104	1,190,052	595,921	198,965	794,886
Net Assets, End of year	\$ 1,095,053	\$ 262,313	\$ 1,357,366	\$ 877,948	\$ 312,104	\$ 1,190,052

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

**LITWORLD INTERNATIONAL, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**

	Year Ended December 31, 2017				Year Ended December 31, 2016			
	Program	Management Leadership	Development and Fundraising	Total	Program	Management Leadership	Development and Fundraising	Total
Salaries	\$ 271,078	\$ 178,389	\$ 91,724	\$ 541,191	\$ 281,955	\$ 69,928	\$ 122,495	\$ 474,378
Fringe benefits	46,611	29,526	17,754	93,891	53,315	13,222	23,163	89,700
Occupancy and insurance costs	20,000	104,589	-	124,589	7,250	93,004	38,167	138,421
Supplies and postage	9,014	5,550	10,854	25,418	39	6,759	2,502	9,300
Printing and production costs	5,662	307	3,051	9,020	7,902	388	7,105	15,395
Promotion and marketing	1,006	1,275	73,780	76,061	240	-	13,917	14,157
Professional services	62,079	76,647	96,162	234,888	53,703	85,851	52,361	191,915
Staff travel, entertainment, team-building	27,341	8,296	5,401	41,038	29,509	17,244	1,554	48,307
Program, cultivation, client travel, entertainment, team-building	18,959	433	2,406	21,798	55,857	332	2,902	59,091
Grants to foreign partners	290,496	-	-	290,496	232,184	-	-	232,184
Partner payments - Global G.L.O.W.	718,561	-	-	718,561	527,038	-	-	527,038
Other expenses	112	7,741	2,177	10,030	210	3,333	1,907	5,450
<b>Total Expenses</b>	<b>\$ 1,470,919</b>	<b>\$ 412,753</b>	<b>\$ 303,309</b>	<b>\$ 2,186,981</b>	<b>\$ 1,249,202</b>	<b>\$ 290,061</b>	<b>\$ 266,073</b>	<b>\$ 1,805,336</b>

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

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	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS PROVIDED BY (USED FOR):</b>		
<b>OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 167,314	\$ 395,166
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:		
Depreciation	-	250
Provision for uncollectible accounts	(6,000)	-
Changes in certain assets and liabilities:		
Contributions receivable	416,664	(371,519)
Prepaid expenses	(114,047)	19,178
Security deposit and other assets	-	2,956
Accounts payable and accrued expenses	2,784	(19,639)
Deferred income	-	(70,568)
Net Cash Provided by (Used by) Operating Activities	<u>466,715</u>	<u>(44,176)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	466,715	(44,176)
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	<u>656,538</u>	<u>700,714</u>
End of year	<u>\$ 1,123,253</u>	<u>\$ 656,538</u>



**LITWORLD INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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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, 2017 AND 2016**

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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. An allowance for doubtful accounts has been reviewed by management and, based on historical experience; an allowance for doubtful accounts has been created for approximately \$6,000 at December 31, 2017, and is recorded in other expenses on the statements of functional expenses. No allowance for doubtful accounts was deemed necessary at December 31, 2016.

***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.

***Compensated Absences:***

Employees are allowed to accumulate earned, but unused, vacation time up to a predetermined amount based on years of services. Accordingly, an accrual for earned, but not used, benefit balances of approximately \$5,200 at December 31, 2017, has been included in accounts payable and accrued expenses on the statements of financial position.

***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.

**LITWORLD INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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

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***Service Income:***

Service income is reported as earned in the statements of activities and changes in net assets and includes fees for various consulting and technical assistance services provided to corporations.

***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.

***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, 2017 and 2016. At December 31, 2017 and 2016, there are no significant income tax uncertainties that are expected to have a material impact on the Organization's financial statements.

**LITWORLD INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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

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***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.

***Financial Statement Reporting for Nonprofits:***

The Financial Accounting Standards Board issued an accounting pronouncement *Presentation of Financial Statements of Not-for-Profit Entities* that will require net assets to be presented in two classes instead of three. The two classes will be net assets with donor restrictions and net assets without donor restrictions. Additional enhanced disclosures will be required to present the amounts and purposes of Board designations, composition of net assets with donor restrictions and how the restrictions affect the use of resources. It also requires the entity to communicate qualitative and quantitative information on how it manages its liquid resources available to meet the cash flow needs for general expenditures within one year of the statement of financial position date. The pronouncement is effective for annual reporting periods beginning after December 15, 2017. It will be effective for the year ending December 31, 2018. The Organization is currently evaluating the effect that the new standard will have on its financial statements.

***Subsequent Events:***

The Organization has evaluated events subsequent to the statement of financial position date as of December 31, 2017 through June 19, 2018, the date that the financial statements were available to be issued.

**LITWORLD INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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**NOTE 3 - CONTRIBUTIONS RECEIVABLE:**

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Contributions receivable consist of the following:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Donations and contributions	\$ 82,237	\$ 478,564
Service income receivables	27,335	35,000
Other receivables	10,036	10,803
	<u>119,608</u>	<u>524,367</u>
Less: allowance for doubtful accounts	(5,905)	
Property and Equipment, Net	<u>\$ 113,703</u>	<u>\$ 524,367</u>

All amounts are due within one year of the statement of financial position date.

**NOTE 4 - PROPERTY AND EQUIPMENT:**

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Property and equipment consist of the following:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</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	17,711
Property and Equipment, Net	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense for the year ended December 31, 2017 and 2016, were \$0 and \$250, respectively, and is recorded to other expenses on the statements of functional expenses.

**NOTE 5 - 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.

**LITWORLD INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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**NOTE 6 - 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>2017</b>	<b>2016</b>
Story21	\$ 50,000	\$ 99,809
Lit! Lantern Solar Project	39,600	39,600
Development Projects	172,713	172,695
	<u>\$ 262,313</u>	<u>\$ 312,104</u>

Net assets released from time-and-use restrictions for the years ended December 31, 2017 and 2016, amounted to \$154,791, and \$66,861, respectively.

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**NOTE 7 - BOARD-DESIGNATED NET ASSETS:**

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As of December 31, 2017 and 2016, the Board has designated approximately 200,000 of unrestricted net assets for operating reserves. The funds are only to be released as time lapses and/or for purposes specifically appropriated for by the Board of Trustees.

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**NOTE 8 - PARTNERSHIP WITH SCHOLASTIC, INC.:**

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The Organization currently has 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.

The Organization will be paid royalties earned from the program when they reach various thresholds. During the years ended December 31, 2017 and 2016, the Organization received \$249,958 and \$124,202, respectively, for royalties and consulting income. Balances of \$27,335 and \$35,000 are due from Scholastic, Inc. as of December 31, 2017 and 2016, respectively.

**LITWORLD INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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**NOTE 9 - PARTNERSHIP WITH GLOBAL G.L.O.W.:**

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The Organization has 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, 2017 and 2016, the Global G.L.O.W. support for the HerStory program amounted to \$718,561, and \$547,606, respectively, which is included in in-kind revenue on the Organization’s statements of activities and changes in net assets.