

READ WORKS

Audited Financial Statements

August 31, 2017 and 2016

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Readworks, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Readworks, Inc. (the "Organization"), which comprise the statements of financial position as of August 31, 2017 and 2016, and the related statements of activities, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 of 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 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 accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

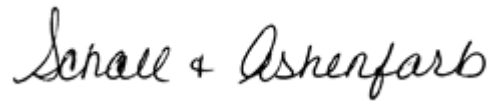
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Readworks, Inc. as of August 31, 2017 and 2016, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 13-14 are presented for purposes of additional analysis and are 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 to 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 States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statement as a whole.



Schall & Ashenfarb
Certified Public Accountants, LLC

March 15, 2018

READWORKS, INC.
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2017 AND 2016

	<u>8/31/17</u>	<u>8/31/16</u>
Assets		
Cash and cash equivalents	\$354,813	\$171,015
Investments (Note 3)	208,815	205,520
Pledges receivable (Note 4)	269,000	0
Prepaid expenses	14,052	8,967
Security deposits	8,800	8,800
Fixed assets, net (Note 5)	<u>311,383</u>	<u>513,165</u>
Total assets	<u><u>\$1,166,863</u></u>	<u><u>\$907,467</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$61,661	\$125,324
Deferred revenue	<u>24,188</u>	<u>0</u>
Total liabilities	<u><u>85,849</u></u>	<u><u>125,324</u></u>
Commitments and contingencies (Note 8)		
Net assets:		
Unrestricted (Note 6)		
Operating	497,667	529,123
Board designated	<u>208,815</u>	<u>205,520</u>
Total unrestricted	<u>706,482</u>	<u>734,643</u>
Temporarily restricted (Note 7)	<u>374,532</u>	<u>47,500</u>
Total net assets	<u><u>1,081,014</u></u>	<u><u>782,143</u></u>
Total liabilities and net assets	<u><u>\$1,166,863</u></u>	<u><u>\$907,467</u></u>

The attached notes and auditor's report are an integral part of these financial statements.

READWORKS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2017
(With comparative totals for 2016)

	Unrestricted		Temporarily Restricted	Total 8/31/17	Total 8/31/16
	Unrestricted	Board Designated			
Public support and revenue:					
Contributions	\$1,347,379		\$803,000	\$2,150,379	\$1,163,984
Contract services	225,812			225,812	0
In-kind legal	21,405			21,405	26,000
Licensing income	103,900			103,900	63,020
Investment income (Note 3)	(723)	\$3,295		2,572	9,556
Miscellaneous income	4,453			4,453	6,864
Net assets released from restrictions	475,968		(475,968)	0	0
Total public support and revenue	2,178,194	3,295	2,181,489	327,032	2,508,521
Expenses:					
Program services:					
Curriculum	381,312			381,312	393,932
Teacher training	325,246			325,246	159,854
Online delivery, assessment and evaluation	1,095,321			1,095,321	0
Client development	204,123			204,123	683,614
Total program services	2,006,002	0	2,006,002	0	1,486,242
Supporting services:					
Management and general	133,941			133,941	69,565
Fundraising	69,707			69,707	95,707
Total supporting services	203,648	0	203,648	0	165,272
Total expenses	2,209,650	0	2,209,650	0	1,651,514
Change in net assets	(31,456)	3,295	(28,161)	327,032	298,871
Net assets - beginning of year	529,123	205,520	734,643	47,500	782,143
Net assets - end of year	\$497,667	\$208,815	\$706,482	\$374,532	\$1,081,014

The attached notes and auditor's report are an integral part of these financial statements.

READWORKS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

	Unrestricted			Temporarily Restricted	Total
	Unrestricted	Board Designated	Total		
Public support and revenue:					
Contributions	\$1,078,984		\$1,078,984	\$85,000	\$1,163,984
In-kind legal	26,000		26,000		26,000
Licensing income	63,020		63,020		63,020
Investment income (Note 3)	2,956	\$6,600	9,556		9,556
Miscellaneous income	6,864		6,864		6,864
Net assets released from restrictions	244,395		244,395	(244,395)	0
Total public support and revenue	1,422,219	6,600	1,428,819	(159,395)	1,269,424
Expenses:					
Program services:					
Curriculum	393,932		393,932		393,932
Teacher training	159,854		159,854		159,854
Online delivery, assessment and evaluation	683,614		683,614		683,614
Client development	248,842		248,842		248,842
Total program services	1,486,242	0	1,486,242	0	1,486,242
Supporting services:					
Management and general	69,565		69,565		69,565
Fundraising	95,707		95,707		95,707
Total supporting services	165,272	0	165,272	0	165,272
Total expenses	1,651,514	0	1,651,514	0	1,651,514
Change in net assets	(229,295)	6,600	(222,695)	(159,395)	(382,090)
Net assets - beginning of year	717,528	239,810	957,338	206,895	1,164,233
Transfers	40,890	(40,890)	0		0
Net assets - end of year	\$529,123	\$205,520	\$734,643	\$47,500	\$782,143

The attached notes and auditor's report are an integral part of these financial statements.

READWORKS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2017
(With comparative totals for 2016)

	<u>8/31/17</u>	<u>8/31/16</u>
Cash flows from operating activities:		
Change in net assets	\$298,871	(\$382,090)
Adjustments to reconcile change in net assets to net cash provided by/ (used for) operating activities:		
Depreciation	205,938	105,517
Realized and unrealized loss/(gain) on investments	1,663	(3,303)
Changes in assets and liabilities:		
Pledges receivable	(269,000)	197,000
Prepaid expenses	(5,085)	(592)
Accounts payable and accrued expenses	(63,663)	(20,816)
Deferred revenue	24,188	0
Total adjustments	<u>(105,959)</u>	<u>277,806</u>
Net cash flows provided by/(used for) operating activities	<u>192,912</u>	<u>(104,284)</u>
Cash flows from investing activities:		
Purchases of fixed assets	(4,156)	(221,352)
Purchases (dividends re-invested)	(4,958)	(6,139)
Proceeds from sales of investments	0	147,000
Net cash flows used for investing activities	<u>(9,114)</u>	<u>(80,491)</u>
Net increase/(decrease) in cash and cash equivalents	183,798	(184,775)
Cash and cash equivalents - beginning of year	<u>171,015</u>	<u>355,790</u>
Cash and cash equivalents - end of year	<u><u>\$354,813</u></u>	<u><u>\$171,015</u></u>

No interest or taxes were paid.

The attached notes and auditor's report are an integral part of these financial statements.

READWORKS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Note 1 - Nature of Entity

ReadWorks, Inc. (the "Organization") was formally introduced in November 2010. ReadWorks is committed to solving America's reading comprehension crisis and student achievement gap. Driven by cognitive science research, ReadWorks creates world class content, teacher guidance, and integrated tools that improve teacher effectiveness and student achievement.

Reading comprehension is the most important 21st century skill. In this Information Age you will fail if you cannot read and comprehend, as reading comprehension is the foundation for all other learning and knowledge. Yet teachers and students are failing; they have been left to sink or swim.

The vast majority of teachers simply have not been trained in how to teach reading comprehension effectively, based on proven cognitive science. And widely used reading materials and curricula are often ineffective and of low-quality.

That is why ReadWorks provides educators with What to Teach & How To Teach It. ReadWorks provides K-12 teachers with what they need to have the biggest impact on instruction and learning in the classroom — online, for free, to be shared broadly. ReadWorks provides:

- The largest, highest-quality library of curated nonfiction and literary articles in the country, with research-based curriculum and formative assessments
- Reading comprehension units, lessons, and vocabulary — with innovative instructional design featuring embedded teacher training — aligned to all states' standards
- Teacher guidance and support to fundamentally and permanently improve teacher decision-making and effectiveness
- An unrivaled online, interactive user experience for teachers and students
- A range of innovative and impactful products, such as ReadWorks Article-A-Day™

The reading comprehension crisis is our national education crisis. And ReadWorks is perfectly positioned to solve this crisis. According to a recent April 2016 RAND report: ReadWorks is the most consulted nonprofit provider of online ELA curriculum and teacher guidance in the U.S. among elementary teachers seeking instructional support. ReadWorks now has more than 1 million active teacher users supporting their students. 77% of all K-8 public schools in the U.S. have active ReadWorks teacher users, and 86% of the lowest-income K-8 public schools have active ReadWorks teacher users.

ReadWorks has innovative partnerships with most prestigious museums and cultural institutions in the country, and is supported by the Bill and Melinda Gates Foundation, the Brooke Astor Fund for New York City Education, and the NewSchools Venture Fund.

And in July 2016, ReadWorks launched a next-generation, best-in-class, interactive digital platform for both teachers and students.

ReadWorks also provides unrivaled efficiency and return-on-investment, providing an entire year's worth of ReadWorks at a cost to us of approximately \$1.64 per teacher per year, or 8 cents per student per year.

The primary sources of revenue for the Organization are contributions and content sub-licensing agreements.

The Organization has been notified by the Internal Revenue Service that it is a not-for-profit organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has not been determined to be a private foundation as defined under Section 509(a)(1) of the Internal Revenue Code.

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting which is the process of recognizing revenue and expenses when earned or incurred rather than received or paid.

b. Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets:

- *Unrestricted* – accounts for all activity without donor-imposed restrictions.
- *Temporarily restricted* – accounts for activity based on specific donor restrictions that are expected to be satisfied by passage of time or performance of activities.
- *Permanently restricted* – accounts for activity restricted by donors that must remain intact in perpetuity. There were no permanently restricted net assets for the years ended August 31, 2017 and 2016.

c. Revenue Recognition

Contributions are recorded upon the receipt of cash or at the time a pledge is considered unconditional. Contributions received with specific donor restrictions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. However, contributions received with restrictions that expire within the same reporting period are reported as unrestricted.

d. Cash and Cash Equivalents

The Organization considers all liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

e. Concentration of Credit

Financial instruments that potentially subject the Organization to concentration of credit risk consist of cash, money market accounts and investment securities, which are placed with financial institutions that management deems to be creditworthy. At times, balances may exceed federally insured limits. A portion of the funds is not insured, however, the Organization has not experienced any losses from these accounts.

The market value of investments is subject to fluctuation, however management believes the investment policy is prudent for the long-term welfare of the Organization.

f. Investments

Investments are stated at fair value, which is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses are reflected in the statement of activities.

g. Pledges and Accounts Receivable

Pledges due within one year are reported at net realizable value. Pledges that are due in more than one year are recorded at fair value, using a risk adjusted discount rate of return, when deemed material. Conditional pledges are recognized when the conditions on which they depend are substantially met. Based on a review of specific accounts and recent history, no allowance for uncollectible amounts has been deemed necessary.

h. Fixed Assets

Fixed assets to which the Organization retains title and capital items purchased, which benefit future periods, are capitalized at cost, or if donated, at the estimated fair value at the time of donation.

Fixed assets consist of furniture, equipment, computers, computer software, and website costs, which are carried at cost and depreciated over their estimated useful lives using the straight-line method.

i. In-Kind Contributions

Organizations are required to recognize contributions of services that create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contributions. Donated legal services have been recognized based on fair value.

j. Expense Allocation

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

k. Management Estimates

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general 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.

l. Accounting for Uncertainty of Income Taxes

The Organization does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending August 31, 2014 and later are subject to examination by applicable taxing authorities.

m. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through March 15, 2018, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements.

n. New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU, which becomes effective for the August 31, 2019 year, with early implementation permitted, focuses on improving the current net asset classification requirements and information presented in the financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows.

FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The ASU, which becomes effective for the August 31, 2020 year, focuses on a principle-based model. It highlights the identification of performance obligations of the contract, determining the price and allocating that price to the performance obligation so that revenue is recognized as each performance obligation is satisfied.

The Organization has not yet evaluated the impact these standards will have on future financial statements.

Note 3 - Investments

Investments are stated at fair value. Accounting standards have established a fair value hierarchy giving the highest priority to quoted market prices in active markets and the lowest priority to unobservable data.

Investments consisted of a fixed income securities mutual fund which was measured using Level 1 inputs, which are the quoted prices in active markets for identical assets.

Investment income consists of the following:

	<u>8/31/17</u>	<u>8/31/16</u>
Interest and dividend income – investments	\$4,176	\$6,139
Interest income – money market	59	114
Realized (loss)/gains on investments	(166)	1,105
Unrealized (loss)/gain on investments	<u>(1,497)</u>	<u>2,198</u>
Total	<u>\$2,572</u>	<u>\$9,556</u>

Note 4 - Pledges Receivable and Significant Concentration

At August 31, 2017, pledges receivable were all due within one year.

94% of the amount outstanding at year end was from one donor.

Note 5 - Fixed Assets

Fixed assets consist of the following:

	<u>8/31/17</u>	<u>8/31/16</u>	Estimated Useful Life
Computers and software	\$56,372	\$52,216	3-5 years
Website	<u>608,825</u>	<u>608,825</u>	3 years
	665,197	661,041	
Less: accumulated depreciation	<u>(353,814)</u>	<u>(147,876)</u>	
Fixed assets	<u>\$311,383</u>	<u>\$513,165</u>	

Note 6 - Unrestricted Net Assets

Unrestricted net assets consist of the following:

	<u>8/31/17</u>	<u>8/31/16</u>
Operating:		
Net investments in fixed assets	\$311,383	\$513,165
Undesignated funds	<u>186,284</u>	<u>15,958</u>
	497,667	529,123
Board designated	<u>208,815</u>	<u>205,520</u>
Unrestricted net assets	<u>\$706,482</u>	<u>\$734,643</u>

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets can be summarized as follows:

	<u>August 31, 2017</u>			
	<u>9/1/16</u>	<u>Contributions</u>	<u>Released</u>	<u>8/31/17</u>
Programs	<u>\$47,500</u>	<u>\$803,000</u>	<u>(\$475,968)</u>	<u>\$374,532</u>
Total	<u>\$47,500</u>	<u>\$803,000</u>	<u>(\$475,968)</u>	<u>\$374,532</u>

	<u>August 31, 2016</u>			
	<u>9/1/15</u>	<u>Contributions</u>	<u>Released</u>	<u>8/31/16</u>
Time restricted	\$100,000	\$0	(\$100,000)	\$0
Programs	<u>106,895</u>	<u>85,000</u>	<u>(144,395)</u>	<u>47,500</u>
Total	<u>\$206,895</u>	<u>\$85,000</u>	<u>(\$244,395)</u>	<u>\$47,500</u>

Note 8 - Commitments and Contingencies

The Organization's facility is leased on a month-to-month lease.

In the normal course of business, the Organization could be subject to claims, lawsuits, and other matters that are subject to uncertain future events. Management has not been advised by legal counsel that there are any matters that are probable of future payouts and no reserves have been established.

Note 9 - Retirement

The Organization has a pension plan under IRS Section 403(b). Eligible employees may contribute pre-tax amounts of their salary up to IRS maximum limits. No employer contributions are required to be made.

READWORKS, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2017
(With comparative totals for 2016)

	Program Services				Supporting Services					
	Curriculum	Teacher Training	Online Delivery, Assessment & Evaluation	Client Development	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 8/31/17	Total 8/31/16
Salaries	\$199,694	\$186,955	\$522,379	\$96,968	\$1,005,996	\$9,342	\$13,524	\$22,866	\$1,028,862	\$800,376
Payroll taxes and benefits	27,756	25,985	72,605	13,478	139,824	1,992	1,880	3,872	143,696	132,544
	<u>227,450</u>	<u>212,940</u>	<u>594,984</u>	<u>110,446</u>	<u>1,145,820</u>	<u>11,334</u>	<u>15,404</u>	<u>26,738</u>	<u>1,172,558</u>	<u>932,920</u>
Professional fees and services	60,669	9,890	439,290	57,659	567,508	79,134	35,946	115,080	682,588	458,583
Occupancy	20,134	20,134	13,423	6,710	60,401	3,356	3,356	6,712	67,113	61,494
Curriculum materials	4,951				4,951			0	4,951	12,183
Insurance	2,985	2,985	1,990	995	8,955	497	497	994	9,949	15,777
Miscellaneous	367	911		1,524	2,802	2,426	934	3,360	6,162	7,519
Communications and IT	1,852	1,852	1,234	616	5,554	309	309	618	6,172	5,648
Printing		7,105		1,452	8,557	119	588	707	9,264	6,467
Office supplies and equipment	1,123	1,547	1,907	288	4,865	1,961	143	2,104	6,969	5,574
Conferences					0			0	0	235
Postage and shipping		6		7	13	680	490	1,170	1,183	1,304
Travel		6,095	1,305	3,832	11,232	1,375	1,743	3,118	14,350	9,858
Bank charges					0	1,048		1,048	1,048	2,435
	<u>319,531</u>	<u>263,465</u>	<u>1,054,133</u>	<u>183,529</u>	<u>1,820,658</u>	<u>102,239</u>	<u>59,410</u>	<u>161,649</u>	<u>1,982,307</u>	<u>1,519,997</u>
Total expenses before depreciation and in-kind										
Depreciation	61,781	61,781	41,188	20,594	185,344	10,297	10,297	20,594	205,938	105,517
In-kind legal					0	21,405		21,405	21,405	26,000
	<u>\$381,312</u>	<u>\$325,246</u>	<u>\$1,095,321</u>	<u>\$204,123</u>	<u>\$2,006,002</u>	<u>\$133,941</u>	<u>\$69,707</u>	<u>\$203,648</u>	<u>\$2,209,650</u>	<u>\$1,651,514</u>
Total expenses										

READWORKS, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2016

	Program Services				Supporting Services				Total 8/31/16
	Curriculum	Teacher Training	Online Delivery, Assessment & Evaluation	Client Development	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$268,896	\$103,030	\$238,722	\$142,716	\$753,364	\$10,022	\$36,990	\$47,012	\$800,376
Payroll taxes and benefits	44,530	17,062	39,533	23,634	124,759	1,659	6,126	7,785	132,544
	<u>313,426</u>	<u>120,092</u>	<u>278,255</u>	<u>166,350</u>	<u>878,123</u>	<u>11,681</u>	<u>43,116</u>	<u>54,797</u>	<u>932,920</u>
Professional fees and services	47,377	28,700	258,997	58,184	393,258	17,129	48,196	65,325	458,583
Occupancy	14,144	3,689	30,747	8,609	57,189	2,460	1,845	4,305	61,494
Curriculum materials	12,183				12,183			0	12,183
Insurance	3,629	947	7,889	2,209	14,674	630	473	1,103	15,777
Miscellaneous	1,005	609	70	2,588	4,272	3,194	53	3,247	7,519
Communications and IT	1,299	339	2,824	791	5,253	226	169	395	5,648
Printing		5,007		746	5,753	123	591	714	6,467
Office supplies and equipment	786	205	3,361	479	4,831	640	103	743	5,574
Conferences	12	19		60	91	103	41	144	235
Postage and shipping		63		1	64	422	818	1,240	1,304
Travel	71	184		8,825	9,080	476	302	778	9,858
Bank charges					0	2,435		2,435	2,435
Total expenses before depreciation and in-kind	<u>393,932</u>	<u>159,854</u>	<u>582,143</u>	<u>248,842</u>	<u>1,384,771</u>	<u>39,519</u>	<u>95,707</u>	<u>135,226</u>	<u>1,519,997</u>
Depreciation			101,471		101,471	4,046		4,046	105,517
In-kind legal					0	26,000		26,000	26,000
Total expenses	<u>\$393,932</u>	<u>\$159,854</u>	<u>\$683,614</u>	<u>\$248,842</u>	<u>\$1,486,242</u>	<u>\$69,565</u>	<u>\$95,707</u>	<u>\$165,272</u>	<u>\$1,651,514</u>