

**The Dictionary Project**  
**Report on Financial Statements**  
**Years Ended December 31, 2019 and 2018**



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### ***Independent Auditors' Report***

Board of Directors  
The Dictionary Project  
Charleston, South Carolina

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

We have audited the accompanying financial statements of The Dictionary Project, which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, 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 control 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. 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 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Dictionary Project as of December 31, 2019 and 2018, 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.

*McGay Kiddy LLC*

Mount Pleasant, South Carolina

March 26, 2020



**The Dictionary Project**  
**Statements of Financial Position**  
**December 31, 2019 and 2018**

<b>Assets</b>	<u><b>2019</b></u>	<u><b>2018</b></u>
Current Assets		
Cash and cash equivalents	\$ 219,792	\$ 102,552
Contributions receivable	283,945	367,237
Contributions receivable - related party	500,000	30,000
Prepaid expenses	6,798	8,090
Total Current Assets	<u>1,010,535</u>	<u>507,879</u>
Noncurrent Assets		
Property and equipment, net	4,523	2,595
Intangible assets, net	283,700	296,539
Total Noncurrent Assets	<u>288,223</u>	<u>299,134</u>
<b>Total Assets</b>	<u><u>\$ 1,298,758</u></u>	<u><u>\$ 807,013</u></u>
 <b>Liabilities and Net Assets</b>		
Liabilities		
Current Liabilities		
Accounts payable	\$ 90,138	\$ 160,996
Accounts payable - related party	620,454	186,150
Accrued expenses	64,273	22,022
Deferred revenue	17,904	20,692
Total Current Liabilities	<u>792,769</u>	<u>389,860</u>
Total Liabilities	<u>792,769</u>	<u>389,860</u>
Net Assets		
Without donor restrictions	<u>505,989</u>	<u>417,153</u>
Total Net Assets	<u>505,989</u>	<u>417,153</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 1,298,758</u></u>	<u><u>\$ 807,013</u></u>

**The Dictionary Project  
Statements of Activities  
Years Ended December 31, 2019 and 2018**

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	<u>2019</u>	<u>2018</u>
<b>Change in net assets without donor restrictions:</b>		
<b>Revenue and Support</b>		
Contributions	\$ 4,527,375	\$ 4,277,941
Other income	2,541	2,107
Loss on impairment of intangible asset	(167,424)	-
Total Revenue and Support	<u>4,362,492</u>	<u>4,280,048</u>
<b>Expenses</b>		
Program services	4,045,637	4,103,366
Management and general	147,396	121,596
Fundraising	80,623	51,184
Total Expenses	<u>4,273,656</u>	<u>4,276,146</u>
<b>Change in Net Assets without Donor Restrictions</b>	88,836	3,902
<b>Beginning Net Assets without Donor Restrictions</b>	<u>417,153</u>	<u>413,251</u>
<b>Ending Net Assets without Donor Restrictions</b>	<u><u>\$ 505,989</u></u>	<u><u>\$ 417,153</u></u>

**The Dictionary Project**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2019**

	Program Services	Management and General	Fundraising	Total
<b>Personnel</b>				
Salaries	\$ 163,512	\$ 27,388	\$ 14,908	\$ 205,808
Employee benefits	12,320	2,720	960	16,000
Payroll taxes	12,509	2,095	1,140	15,744
<b>Total Personnel</b>	<b>188,341</b>	<b>32,203</b>	<b>17,008</b>	<b>237,552</b>
<b>Other Functional Expenses</b>				
Dictionaries purchased	3,661,039	-	-	3,661,039
Automobile	1,817	1,817	-	3,634
Bad debt expense	1,764	-	-	1,764
Charity registration	-	3,547	-	3,547
Computer and software	6,933	6,729	6,729	20,391
Conferences and seminars	3,738	480	3,738	7,956
Credit card processing fees	66,781	-	-	66,781
Dues and subscriptions	-	60	-	60
Equipment	1,795	67	100	1,962
Insurance	2,729	4,797	91	7,617
Internet	25,338	8,446	8,446	42,230
Gifts	-	758	4,146	4,904
Office expenses	8,021	1,265	448	9,734
Delivery and freight	6,380	-	4,253	10,633
Printing and reproduction	5,365	-	9,963	15,328
Professional fees	20,526	57,987	6,402	84,915
Rent	18,000	18,000	-	36,000
Telephone	8,811	-	-	8,811
Travel and entertainment	15,939	10,109	15,383	41,431
T-shirt production	-	-	3,490	3,490
Miscellaneous	-	374	-	374
Depreciation expense	332	331	-	663
Amortization expense	1,988	426	426	2,840
<b>Total Other Functional Expenses</b>	<b>3,857,296</b>	<b>115,193</b>	<b>63,615</b>	<b>4,036,104</b>
<b>Total Functional Expenses</b>	<b>\$ 4,045,637</b>	<b>\$ 147,396</b>	<b>\$ 80,623</b>	<b>\$ 4,273,656</b>

**The Dictionary Project**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2018**

	Program Services	Management and General	Fundraising	Total
Personnel				
Salaries	\$ 144,720	\$ 24,585	\$ 11,860	\$ 181,165
Employee benefits	12,230	2,496	1,074	15,800
Payroll taxes	11,071	1,881	907	13,859
Total Personnel	<u>168,021</u>	<u>28,962</u>	<u>13,841</u>	<u>210,824</u>
Other Functional Expenses				
Dictionaries purchased	3,756,477	-	-	3,756,477
Automobile	2,555	2,554	-	5,109
Bad debt expense	394	-	-	394
Charity registration	-	3,596	-	3,596
Computer and software	2,982	2,894	2,894	8,770
Conferences and seminars	2,711	863	2,710	6,284
Credit card processing fees	62,791	-	-	62,791
Equipment	313	312	-	625
Insurance	2,213	5,049	41	7,303
Internet	21,141	7,047	7,047	35,235
Gifts	-	1,624	-	1,624
Office expenses	6,126	1,121	220	7,467
Delivery and freight	5,154	-	3,435	8,589
Printing and reproduction	5,667	-	8,500	14,167
Professional fees	26,144	45,340	163	71,647
Rent	18,000	18,000	-	36,000
Telephone	8,415	-	-	8,415
Travel and entertainment	13,821	3,794	12,333	29,948
Depreciation expense	441	440	-	881
Total Other Functional Expenses	<u>3,935,345</u>	<u>92,634</u>	<u>37,343</u>	<u>4,065,322</u>
<b>Total Functional Expenses</b>	<u><u>\$ 4,103,366</u></u>	<u><u>\$ 121,596</u></u>	<u><u>\$ 51,184</u></u>	<u><u>\$ 4,276,146</u></u>



**The Dictionary Project**  
**Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

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	2019	2018
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 88,836	\$ 3,902
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,503	881
Loss on impairment of intangible asset	167,424	-
Change in:		
Contributions receivable	83,292	(24,789)
Contributions receivable - related party	(470,000)	(30,000)
Prepaid expenses	1,292	(2,355)
Accounts payable	(70,858)	25,581
Accounts payable - related party	434,304	167,943
Accrued expenses	42,251	1,972
Deferred revenue	(2,788)	(4,033)
Net cash provided by operating activities	277,256	139,102
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	(2,591)	(2,883)
Purchase of intangible assets	(157,425)	(180,390)
Net cash used in investing activities	(160,016)	(183,273)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	117,240	(44,171)
<b>Cash and Cash Equivalents, Beginning of Year</b>	102,552	146,723
<b>Cash and Cash Equivalents, End of Year</b>	\$ 219,792	\$ 102,552

## The Dictionary Project Notes to Financial Statements

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### **Note A – Nature of Operations and Summary of Significant Accounting Policies**

#### Nature of Operations

The Dictionary Project (the Organization) was formed in May 1995 as an eleemosynary association with a mission to ensure that everyone will be able to enjoy the benefits of owning a dictionary. This program assists people in becoming good writers, better readers, creative thinkers and resourceful learners by providing them with their own personal dictionary. Educators see third grade as the dividing line between learning to read and reading to learn. The Organization strives to include every third grade student each year. A dictionary is an essential tool for a quality education. A child cannot do his or her best work without one. Since its implementation in 1995, approximately 33.1 million individuals have received dictionaries because thousands of people saw the same need in communities all over the United States. The Organization is supported by sponsors and volunteers who fund this program and present dictionaries to the students where they live. Many sponsors are also taking the Dictionary Project beyond the United States to help improve literacy worldwide.

#### Basis of Accounting

The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles of the United States of America (U.S. GAAP), and accordingly reflect all significant receivables, payables, and other liabilities.

#### Basis of Presentation

The Organization's financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) of the United States of America in its Accounting Standards Codification (ASC) 958 – 205, *Not-For-Profit Entities – Presentation of Financial Statements*. These standards require classification of net assets and changes in net assets as net assets without donor restrictions and net assets with donor restrictions as follows:

Net assets without donor restrictions – Net assets that are not subject to or are no longer subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

The Organization recognizes the majority of its revenue and support when 1.) unrestricted donations are received or unconditionally promised or when 2.) conditional donations have their donor specified condition satisfied. All of the Organization's revenue and support is generated from performance obligations satisfied at a point in time. Performance obligations for conditional donations received are satisfied upon shipment of the dictionaries by the publisher directly to the sponsor specified location. Performance obligations for unconditional donations are satisfied upon receipt of the donation or unconditional promise.

## **The Dictionary Project**

### **Notes to Financial Statements**

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Revenue and support are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Organization has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent that donor restrictions were met in the year the contribution was received.

#### Functional Allocation of Expense

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to the appropriate expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases as determined by management.

#### Use of Estimates and Assumptions

The preparation of financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Cash and Cash Equivalents

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

#### Contributions Receivable

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met, and the promises become unconditional. Unconditional promises to give due in subsequent years are reported at present value of their net realizable value, using risk free interest rates applicable to the years in which the promises are to be received. The Organization uses the allowance method to determine uncollectible promises to give when deemed necessary. The allowance is based on prior years' experience and management's analysis of specific accounts.

#### Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$1,500. Purchased property and equipment are carried at cost. Donated property and equipment are recorded at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method. Useful lives of property and equipment range from 3 to 7 years.

#### Intangible Assets

Intangible assets subject to amortization include website development costs, which are being amortized on a straight-line basis over 3 years. The Organization reviews its intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset and its fair value are less than the carrying amount of that asset.

## The Dictionary Project Notes to Financial Statements

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### Income Tax Status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and exempt from state income taxes under the laws of South Carolina. Therefore, no provision for income taxes has been provided for. The Organization qualifies for the charitable contribution deduction under Section 170(b)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

The FASB provides guidance on the Organization's evaluation of accounting for uncertainty in income taxes. Management evaluated the Organization's tax position and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

### Donated Services

Donated services are recognized as contributions in accordance with ASC 958 – 605, *Not-For-Profit Entities – Revenue Recognition*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers provided many hours in program services and fund-raising services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under ASC 958 – 605 are not met.

### Advertising Expenses

The Organization expenses advertising costs as they are incurred. There were no advertising expenses for the years ended December 31, 2019 and 2018.

### Adoption of Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-19, *Revenue from Contracts with Customers* (Topic 606), requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the Organization expects to be entitled to in exchange for those goods or services. The Organization adopted this standard on January 1, 2019, using the modified retrospective approach. The adoption of this standard did not have a material impact on the amount and timing of revenue recognition, and did not have an impact on beginning net assets.

### Recent Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires that lease arrangements longer than 12 months result in an entity recognizing an asset and a liability. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The standard requires use of the modified retrospective transition approach. While the Organization is currently evaluating this standard, given the small number of leases the Organization is party to, the Organization expects this standard will not have a significant impact on the Organization's financial statements from the recognition of right of use assets and related liabilities. This guidance is effective for the Organization for fiscal years beginning after December 15, 2020.

### **Note B – Concentration of Economic and Credit Risk**

The Organization maintains its cash in bank accounts which, at times, exceed the limits of federal deposit insurance. The Organization has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk on cash.

**The Dictionary Project**  
**Notes to Financial Statements**

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During the years ended December 31, 2019 and 2018, the Organization purchased approximately 99% of the dictionaries sold from two major suppliers, one of which is a related party as described in Note E. As of December 31, 2019 and 2018 \$678,821 (95.0%) and \$303,096 (87.3%), respectively, of the accounts payable balance was owed to these two suppliers.

**Note C – Contributions Receivable**

Total contributions receivable consisted of the following at December 31:

	2019	2018
Contributions receivable due in less than one year	\$ 283,945	\$ 367,237
Related party due in less than one year	500,000	30,000
Total Contributions Receivable	\$ 783,945	\$ 397,237

For the years ended December 31, 2019 and 2018, no allowance was deemed necessary.

**Note D – Property and Equipment, Net**

Major classifications of property and equipment as of December 31, 2019 and 2018 are summarized below:

	2019	2018
Vehicles	\$ 53,553	\$ 53,553
Computers and printers	15,686	13,095
Furniture and fixtures	2,326	2,326
Leasehold improvements	1,264	1,264
Subtotal	72,829	70,238
Less: accumulated depreciation	(68,306)	(67,643)
Property and Equipment, Net	\$ 4,523	\$ 2,595

Depreciation expense for the years ended December 31, 2019 and 2018 totaled \$663 and \$881, respectively.

Intangible assets consisted of the following at December 31:

	2019	2018
Website	\$ 349,112	\$ 359,110
Less: accumulated amortization	(65,412)	(62,571)
Intangible Assets, Net	\$ 283,700	\$ 296,539

During the year ended December 31, 2019, the Organization recognized impairment loss of \$167,424.

## The Dictionary Project

### Notes to Financial Statements

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#### Note E – Related Party Transactions

During the years ended December 31, 2019 and 2018, the Organization purchased approximately 84% and 83%, respectively, of the dictionaries sold from a for-profit corporation owned by the Executive Director. For the years ended December 31, 2019 and 2018, the Organization paid \$3,049,956 and \$3,130,266, respectively, to the for-profit corporation for dictionaries. As of December 31, 2019 and 2018, \$620,454 (87.3%) and (\$186,150) (53.6%), respectively, of the accounts payable balance was owed to the for-profit corporation.

The Organization leases office space from the Executive Director. The lease agreement is a one year lease and provides for monthly rental payments of \$3,000 and is renewed automatically each year unless terminated by either party. For the years ended December 31, 2019 and 2018, the Organization paid \$36,000 in annual rent.

During the years ended December 31, 2019 and 2018, the Organization’s Executive Director donated \$500,000 and \$130,000, respectively. As of December 31, 2019 and 2018, contributions receivable from the Executive Director were \$500,000 and \$30,000, respectively.

#### Note F – Liquidity and Availability of Financial Assets

The Organization’s working capital and cash flows have variations throughout the year attributable to the timing of sponsored dictionary donations. The majority of the Organization’s cash flows are tied directly to these dictionary donations. The contributions generated by sponsored projects provide financial assets sufficient to cover the outflows required for the cost of dictionaries plus provide for other general expenses. To manage liquidity, the Organization evaluates cash on a regular basis as part of the monthly financial statement review, and estimates cash needs based on budgeted and current expenses.

The following reflects the Organization’s financial assets as December 31, 2019 and 2018, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions or internal designations.

	2019	2018
Cash and cash equivalents	\$ 219,792	\$ 102,552
Contributions receivable	283,945	367,237
Contributions receivable - related party	500,000	30,000
Total Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	\$ 1,003,737	\$ 499,789

#### Note G – Risks and Uncertainties

The Organization is subject to claims and legal proceedings over a range of matters that may arise in the normal course of business activities. Management believes any liability that ultimately results from the resolution of such matters will not have a material effect on the financial condition of the Organization.

**The Dictionary Project**  
**Notes to Financial Statements**

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**Note H – Subsequent Events**

Management has evaluated subsequent events through the date which the financial statements were available to be issued. Based upon this evaluation, there were no material adjustments to these financial statements.