

The Dictionary Project
Report on Financial Statements
Years Ended December 31, 2020 and 2019



The Dictionary Project Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 13

Independent Auditor's 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, 2020 and 2019, 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.

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 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, 2020 and 2019, 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 19, 2021



The Dictionary Project
Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 90,038	\$ 219,792
Contributions receivable	143,176	283,945
Current portion of contributions receivable - related party	300,000	200,000
Prepaid expenses	9,340	6,798
Total Current Assets	542,554	710,535
Noncurrent Assets		
Contributions receivable - related party, net of current portion	-	300,000
Property and equipment, net	27,229	4,523
Intangible assets, net	218,420	283,700
Total Noncurrent Assets	245,649	588,223
Total Assets	\$ 788,203	\$ 1,298,758
Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Accounts payable	\$ 81,460	\$ 90,138
Accounts payable - related party	530,148	620,454
Accrued expenses	62,090	64,273
Deferred revenue	17,492	17,904
Total Current Liabilities	691,190	792,769
Total Liabilities	691,190	792,769
Net Assets		
Without donor restrictions	97,013	505,989
Total Net Assets	97,013	505,989
Total Liabilities and Net Assets	\$ 788,203	\$ 1,298,758

**The Dictionary Project
Statements of Activities
Years Ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Revenue and Support		
Contributions	\$ 1,796,279	\$ 4,527,375
Other income	6,329	2,541
Loss on impairment of intangible asset	<u>(100,454)</u>	<u>(167,424)</u>
Total Revenue and Support	<u>1,702,154</u>	<u>4,362,492</u>
Expenses		
Program services	1,948,523	4,045,637
Management and general	117,450	147,396
Fundraising	<u>45,157</u>	<u>80,623</u>
Total Expenses	<u>2,111,130</u>	<u>4,273,656</u>
Change in Net Assets	<u>(408,976)</u>	<u>88,836</u>
Net Assets at Beginning of Year	<u>505,989</u>	<u>417,153</u>
Net Assets at End of Year	<u><u>\$ 97,013</u></u>	<u><u>\$ 505,989</u></u>

The Dictionary Project
Statement of Functional Expenses
Year Ended December 31, 2020

	Program Services	Management and General	Fundraising	Total
Personnel				
Salaries	\$ 144,462	\$ 20,090	\$ 7,228	\$ 171,780
Employee benefits	13,770	2,009	421	16,200
Payroll taxes	11,122	1,547	556	13,225
Total Personnel	<u>169,354</u>	<u>23,646</u>	<u>8,205</u>	<u>201,205</u>
Other Functional Expenses				
Dictionaries purchased	1,605,500	-	-	1,605,500
Internet	45,216	15,072	15,072	75,360
Professional fees	22,858	33,528	2,465	58,851
Credit card processing fees	37,082	-	-	37,082
Rent	18,000	18,000	-	36,000
Computer and software	7,961	7,725	7,725	23,411
Printing and reproduction	5,071	-	5,424	10,495
Telephone	10,412	-	-	10,412
Travel and entertainment	4,942	1,616	2,946	9,504
Insurance	2,732	5,543	40	8,315
Office expenses	5,624	833	293	6,750
Depreciation expense	2,928	2,927	-	5,855
Delivery and freight	3,302	-	2,201	5,503
Automobile	1,810	1,810	-	3,620
Charity registration	-	3,591	-	3,591
Amortization expense	2,386	511	511	3,408
Bad debt expense	3,070	-	-	3,070
Conferences and seminars	275	1,968	275	2,518
Miscellaneous	-	349	-	349
Gifts	-	271	-	271
Dues and subscriptions	-	60	-	60
Total Other Functional Expenses	<u>1,779,169</u>	<u>93,804</u>	<u>36,952</u>	<u>1,909,925</u>
Total Functional Expenses	<u><u>\$ 1,948,523</u></u>	<u><u>\$ 117,450</u></u>	<u><u>\$ 45,157</u></u>	<u><u>\$ 2,111,130</u></u>

See accompanying notes to financial statements and independent auditor's report.

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

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

The Dictionary Project
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	\$ (408,976)	\$ 88,836
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Bad debt expense	3,070	1,764
Depreciation and amortization	9,263	3,503
Loss on impairment of intangible asset	100,454	167,424
Change in:		
Contributions receivable	137,699	81,528
Contributions receivable - related party	200,000	(470,000)
Prepaid expenses	(2,542)	1,292
Accounts payable	(8,678)	(70,858)
Accounts payable - related party	(90,306)	434,304
Accrued expenses	(2,183)	42,251
Deferred revenue	(412)	(2,788)
Net cash (used in) provided by operating activities	(62,611)	277,256
Cash Flows from Investing Activities		
Purchase of property and equipment	(28,561)	(2,591)
Purchase of intangible assets	(38,582)	(157,425)
Net cash used in investing activities	(67,143)	(160,016)
Net (Decrease) Increase in Cash and Cash Equivalents	(129,754)	117,240
Cash and Cash Equivalents, Beginning of Year	219,792	102,552
Cash and Cash Equivalents, End of Year	\$ 90,038	\$ 219,792

The Dictionary Project Notes to Financial Statements

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 33.66 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

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

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)(1) 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, 2020 and 2019.

Recent Accounting Pronouncement

In February 2016, the FASB issued Accounting Standards Update (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. The FASB issued ASU 2020-05 which delays the effective date of ASU 2016-02. The delayed guidance is effective for the Organization for fiscal years beginning after December 15, 2021.

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

During the years ended December 31, 2020 and 2019, 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, 2020 and 2019 \$601,879 (98.4%) and \$678,821 (95.0%), respectively, of the accounts payable balance was owed to these two suppliers.

Note C – Contributions Receivable

Total contributions receivable consisted of the following as of December 31:

	2020	2019
Contributions receivable due in less than one year	\$ 143,176	\$ 283,945
Related party due in less than one year	300,000	200,000
Related party due in more than one year	-	300,000
Total Contributions Receivable	\$ 443,176	\$ 783,945

For the years ended December 31, 2020 and 2019, no allowance was deemed necessary. Bad debt expense totaled \$3,070 and \$1,764 for the years ended December 31, 2020 and 2019, respectively.

Note D – Property and Equipment, Net

Major classifications of property and equipment as of December 31, 2020 and 2019 are summarized below:

	2020	2019
Vehicles	\$ 55,876	\$ 53,553
Computers and printers	15,686	15,686
Furniture and fixtures	2,326	2,326
Leasehold improvements	1,264	1,264
Subtotal	75,152	72,829
Less: accumulated depreciation	(47,923)	(68,306)
Property and Equipment, Net	\$ 27,229	\$ 4,523

Depreciation expense for the years ended December 31, 2020 and 2019 totaled \$5,855 and \$663, respectively.

Intangible assets consisted of the following as of December 31:

	2020	2019
Website	\$ 72,796	\$ 72,796
Websites in process	214,444	276,316
Less: accumulated amortization	(68,820)	(65,412)
Intangible Assets, Net	\$ 218,420	\$ 283,700

The Dictionary Project Notes to Financial Statements

Amortization expense related to the website for the year ended December 31, 2020 and 2019 was \$3,408 and \$2,840, respectively. During the years ended December 31, 2020 and 2019, the Organization recognized impairment loss of \$100,454 and \$167,424, respectively.

Note E – Related Party Transactions

During the years ended December 31, 2020 and 2019, the Organization purchased approximately 84.0% of the dictionaries sold from a for-profit corporation owned by the Executive Director. For the years ended December 31, 2020 and 2019, the Organization paid \$1,345,554 and \$3,049,956, respectively, to the for-profit corporation for dictionaries. As of December 31, 2020 and 2019, \$530,148 (86.7%) and \$620,454 (87.3%), 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, 2020 and 2019, the Organization paid \$36,000 in annual rent.

During the years ended December 31, 2020 and 2019, the Organization's Executive Director donated \$0 and \$500,000, respectively. As of December 31, 2020 and 2019, contributions receivable from the Executive Director were \$300,000 and \$500,000, 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, 2020 and 2019, 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.

	2020	2019
Cash and cash equivalents	\$ 90,038	\$ 219,792
Contributions receivable	143,176	283,945
Current portion of contributions receivable - related party	300,000	200,000
Total Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	<u>\$ 533,214</u>	<u>\$ 703,737</u>

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

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.

The COVID-19 pandemic has caused business disruptions domestically and is anticipated to continue for the foreseeable future. The Organization expects the ramifications of COVID-19 to have an impact on its results. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related restrictions and impact of COVID-19 on overall demand for Organization's services, all of which are highly uncertain and cannot be predicted.

The Organization's contributions decreased 60.3% from 2019 to 2020. The decrease in contributions was primarily because the source of contributions for the Dictionary Project is from civic organizations, and these groups were not allowed to meet in person or conduct their annual fundraising activities to support their cause and the projects near and dear to their hearts in their community as a result of the COVID-19 pandemic. Most of those groups were not able to implement the Dictionary Project in 2020 because the schools, the venue where the books are distributed and presented to the students, were closed. The instances when students were taught in the classroom, the volunteers were not allowed in the school to talk to the students, and all of the conversations were remote. Volunteers tried to connect with schools by creating YouTube and Zoom presentations. However, the power of the gift resides in the giving, and the way the book was presented to the children, the magical interaction with the volunteers was lost during 2020 along with other opportunities to make a positive and lasting impact on the students, by giving their time and personal touch to show their support.