

**Chalkbeat, Inc.**

Financial Statements

June 30, 2017 and 2016

## **Independent Auditors' Report**

### **Board of Directors Chalkbeat, Inc.**

We have audited the accompanying financial statements of Chalkbeat, Inc. ("Chalkbeat"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 audit 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 Chalkbeat, Inc. as of June 30, 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.

**Disclaimer of Opinion on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of financial position by bureau and statement of activities and change in net assets by bureau, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*PKF O'Connor Davies, LLP*

December 7, 2017

**Chalkbeat, Inc.**

Statements of Financial Position

	June 30	
	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash	\$ 1,901,711	\$ 851,403
Grants receivable, net	627,500	1,157,441
Accounts receivable	97,396	52,650
Prepaid expenses	25,391	4,933
Other assets	<u>12,375</u>	<u>12,666</u>
	<u>\$ 2,664,373</u>	<u>\$ 2,079,093</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 39,975	\$ 36,366
Deferred revenue	<u>52,804</u>	<u>17,491</u>
Total Liabilities	<u>92,779</u>	<u>53,857</u>
Net Assets		
Unrestricted	430,073	618,685
Temporarily restricted	<u>2,141,521</u>	<u>1,406,551</u>
Total Net Assets	<u>2,571,594</u>	<u>2,025,236</u>
	<u>\$ 2,664,373</u>	<u>\$ 2,079,093</u>

See notes to financial statements

**Chalkbeat, Inc.**

Statements of Activities and Change in Net Assets

	Year Ended June 30					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>						
Sponsorships and reader services	\$ 278,625	\$ -	\$ 278,625	\$ 265,416	\$ -	\$ 265,416
Foundations grants	291,315	3,051,042	3,342,357	432,556	2,621,985	3,054,541
Individuals donations	62,949	-	62,949	28,398	-	28,398
Other revenue	1,179	-	1,179	9,529	-	9,529
Net assets released from restrictions	<u>2,316,072</u>	<u>(2,316,072)</u>	<u>-</u>	<u>1,874,808</u>	<u>(1,874,808)</u>	<u>-</u>
Total Support and Revenue	<u>2,950,140</u>	<u>734,970</u>	<u>3,685,110</u>	<u>2,610,707</u>	<u>747,177</u>	<u>3,357,884</u>
<b>EXPENSES</b>						
Salaries and wages	2,184,818	-	2,184,818	1,708,206	-	1,708,206
Payroll taxes and employee benefits	453,991	-	453,991	336,888	-	336,888
Conferences, conventions and meetings	12,301	-	12,301	8,474	-	8,474
Marketing	6,963	-	6,963	3,257	-	3,257
Insurance	11,936	-	11,936	12,984	-	12,984
Facility expense	10,814	-	10,814	5,207	-	5,207
Telephone	22,366	-	22,366	18,457	-	18,457
Office expenses	1,986	-	1,986	1,848	-	1,848
Postage	761	-	761	1,466	-	1,466
Professional fees	196,848	-	196,848	309,071	-	309,071
Rent and utilities	104,141	-	104,141	90,870	-	90,870
Travel and entertainment	70,786	-	70,786	52,618	-	52,618
Printing and publication	396	-	396	1,264	-	1,264
Finance charges	922	-	922	370	-	370
Repairs and maintenance	-	-	-	163	-	163
Dues and subscriptions	3,674	-	3,674	2,570	-	2,570
Other expenses	56,049	-	56,049	55,811	-	55,811
Total Expenses	<u>3,138,752</u>	<u>-</u>	<u>3,138,752</u>	<u>2,609,524</u>	<u>-</u>	<u>2,609,524</u>
Change in Net Assets	(188,612)	734,970	546,358	1,183	747,177	748,360
<b>NET ASSETS</b>						
Beginning of year	<u>618,685</u>	<u>1,406,551</u>	<u>2,025,236</u>	<u>617,502</u>	<u>659,374</u>	<u>1,276,876</u>
End of year	<u>\$ 430,073</u>	<u>\$ 2,141,521</u>	<u>\$ 2,571,594</u>	<u>\$ 618,685</u>	<u>\$ 1,406,551</u>	<u>\$ 2,025,236</u>

See notes to financial statements

**Chalkbeat, Inc.**

Statements of Cash Flows

	Year Ended June 30	
	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 546,358	\$ 748,360
Adjustments to reconcile change in net assets to net cash from operating activities		
Changes in operating assets and liabilities		
Grants receivable	529,941	(736,691)
Due from Colorado Nonprofit Development Center	-	416,848
Accounts receivable	(44,746)	(52,650)
Prepaid expenses	(20,458)	(4,933)
Other assets	291	(341)
Accounts payable and accrued expenses	3,609	36,366
Deferred revenue	35,313	17,491
Net Cash from Operating Activities	<u>1,050,308</u>	<u>424,450</u>
<b>CASH</b>		
Beginning of year	<u>851,403</u>	<u>426,953</u>
End of year	<u>\$ 1,901,711</u>	<u>\$ 851,403</u>

See notes to financial statements

## **Chalkbeat, Inc.**

### Notes to Financial Statements June 30, 2017 and 2016

#### **1. Organization**

Chalkbeat, Inc. (“Chalkbeat”), formerly Education News Network, Inc., is a nonprofit news organization covering educational change efforts in communities where improvement matters most. Chalkbeat has bureaus in New York, Colorado, Indiana, Tennessee and Detroit. In addition to the local bureau coverage, Chalkbeat reports at a national level. Chalkbeat’s mission is to inform the decisions and actions that lead to better outcomes for children and families by providing deep, local coverage of education policy and practice.

Chalkbeat is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the United States Internal Revenue Code and has been classified as a public charity under Section 170(b).

#### **2. Summary of Significant Accounting Policies**

##### ***Basis of Presentation and Use of Estimates***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which 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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

##### ***Donor-Imposed Restrictions, Grants, Donations and Contributions***

Grants, donations, and contributions, including unconditional promises to give, are recorded as revenues in the period received. Conditional promises to give are not recognized as revenue until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at the estimated fair value.

All grants, donations, and contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

##### ***Sponsorships and Reader Services***

Sponsorships and reader services are recognized as earned when the services are provided. Cash received in advance of the service provided is recorded as deferred revenue in the accompanying statements of financial position.

## **Chalkbeat, Inc.**

Notes to Financial Statements  
June 30, 2017 and 2016

### **2. Summary of Significant Accounting Policies (continued)**

#### ***Net Assets***

Chalkbeat's net assets, as well as its revenues, expenses, gains and losses, are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Chalkbeat and changes therein are classified and reported as follows:

- (i) Unrestricted net assets represent those resources for which there are no donor restrictions.
- (ii) Temporarily restricted net assets represent those resources for which the use is subject to donor imposed restrictions for program purposes or time restrictions. When a donor's time-restriction expires or a purpose-restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statements of activities and change in net assets as "net assets released from restrictions."
- (iii) Permanently restricted net assets represent those resources that have been restricted by donors to be held and invested in perpetuity. Chalkbeat had no permanently restricted net assets at June 30, 2017 and 2016.

#### ***Allowance for Doubtful Accounts***

When necessary, an allowance for doubtful accounts for accounts and grants receivable will be established through a provision for bad debts charged to expenses. The allowance is an amount that management believes will be adequate to absorb estimated losses on existing unconditional promises to give and is based on prior bad debt experience. Management has determined that no allowances were required at June 30, 2017 and 2016.

#### ***Accounting for Uncertainty in Income Taxes***

Chalkbeat recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that Chalkbeat had no uncertain tax positions that would require financial statement recognition or disclosure.

Tax years since inception remain open to examination. There are currently no examinations in progress.

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is December 7, 2017.



## Chalkbeat, Inc.

### Notes to Financial Statements June 30, 2017 and 2016

#### 3. Concentration of Credit Risk

Chalkbeat maintains its cash in bank deposit accounts with major financial institutions, which, at times, may exceed federally insured limits. Chalkbeat has not experienced any losses in such accounts and believes its cash balances are not exposed to any significant risk.

#### 4. Grants Receivable

Grants receivable which are due after one year are discounted using the weighted-average rate of 1% per annum. Amortization of the discount is included in contribution revenue from foundations and trusts. Grants receivable, net of discount, at June 30, are summarized as follows:

	<u>2017</u>	<u>2016</u>
Due within one year	\$ 627,500	\$ 1,122,500
Due one year to five years	-	36,000
Grants Receivable	<u>627,500</u>	<u>1,158,500</u>
Less: discount	-	1,059
Grants Receivable, Net	<u>\$ 627,500</u>	<u>\$ 1,157,441</u>

#### 5. Functional Allocation of Expenses

The cost of providing the various programs and other activities have been summarized below. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses were classified for the years ended June 30, as follows:

	<u>2017</u>	<u>2016</u>
Program services	\$ 2,403,945	\$ 2,024,544
Supporting activities		
Management and general	446,721	379,529
Fundraising	<u>288,086</u>	<u>205,451</u>
Total Expenses	<u>\$ 3,138,752</u>	<u>\$ 2,609,524</u>

## Chalkbeat, Inc.

### Notes to Financial Statements June 30, 2017 and 2016

#### 6. Temporarily Restricted Net Assets

At June 30, temporarily restricted net assets were available for the following purposes:

	<u>2017</u>	<u>2016</u>
General operating - timing	\$ 58,491	\$ 732,705
Editorial, reporting and audience development	398,531	533,018
Educational journalism restricted by location	1,062,831	100,033
Product, technology and audience development	179,002	36,087
Community engagement	-	4,708
Growth	285,064	-
Detroit expansion	157,602	-
	<u>\$ 2,141,521</u>	<u>\$ 1,406,551</u>

During the years ended June 30, temporarily restricted net assets were released from restrictions by incurring expenses for the following donor restricted purposes:

	<u>2017</u>	<u>2016</u>
General operating - timing	\$ 689,215	\$ 356,615
Editorial, reporting and audience development	534,486	437,627
Educational journalism restricted by location	598,203	654,852
Product, technology and audience development	207,084	368,422
Community engagement	4,708	57,292
Growth	239,978	-
Detroit expansion	42,398	-
	<u>\$ 2,316,072</u>	<u>\$ 1,874,808</u>

#### 7. Commitments and Contingencies

##### Operating Leases

Chalkbeat entered into several lease agreements to rent office space at each of its five bureaus. All outstanding leases have terms of one year or less, with annual rents ranging from approximately \$1,200 to \$66,000 at June 30, 2017.

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**Chalkbeat, Inc.**

Supplementary Information

For the Year Ended  
June 30, 2017

**Chalkbeat, Inc.**

Statement of Financial Position By Bureau (Unaudited)  
June 30, 2017

	<u>Network</u>	<u>Indiana</u>	<u>Colorado</u>	<u>New York</u>	<u>Tennessee</u>	<u>Detroit</u>	<u>Total</u>
<b>ASSETS</b>							
Cash	\$ 1,096,225	\$ 246,040	\$ 117,602	\$ 220,897	\$ 50,711	\$ 170,236	\$ 1,901,711
Grants receivable	-	120,000	232,500	-	100,000	175,000	627,500
Accounts receivable	7,943	4,059	12,557	63,764	6,085	2,988	97,396
Prepaid expenses	27,391	513	386	80	95	(3,074)	25,391
Other assets	9,506	-	-	2,819	-	50	12,375
	<u>\$ 1,141,065</u>	<u>\$ 370,612</u>	<u>\$ 363,045</u>	<u>\$ 287,560</u>	<u>\$ 156,891</u>	<u>\$ 345,200</u>	<u>\$ 2,664,373</u>
 <b>LIABILITIES AND NET ASSETS</b>							
Liabilities							
Accounts payable and accrued expenses	\$ 36,338	\$ 471	\$ 1,267	\$ 276	\$ 1,551	\$ 72	\$ 39,975
Deferred revenue	834	11,738	3,428	30,518	2,571	3,715	52,804
Total Liabilities	<u>37,172</u>	<u>12,209</u>	<u>4,695</u>	<u>30,794</u>	<u>4,122</u>	<u>3,787</u>	<u>92,779</u>
 <b>NET ASSETS (DEFICIT)</b>							
Unrestricted	248,979	58,893	30,830	114,439	(9,400)	(13,668)	430,073
Temporarily restricted	854,914	299,510	327,520	142,327	162,169	355,081	2,141,521
	<u>1,103,893</u>	<u>358,403</u>	<u>358,350</u>	<u>256,766</u>	<u>152,769</u>	<u>341,413</u>	<u>2,571,594</u>
	<u>\$ 1,141,065</u>	<u>\$ 370,612</u>	<u>\$ 363,045</u>	<u>\$ 287,560</u>	<u>\$ 156,891</u>	<u>\$ 345,200</u>	<u>\$ 2,664,373</u>

See independent auditors' report

**Chalkbeat, Inc.**

**Statement of Activities and Change in Net Assets By Bureau (Unaudited)  
For the Year Ended June 30, 2017**

	Network	Indiana	Colorado	New York	Tennessee	Detroit	Total
<b>SUPPORT AND REVENUE</b>							
Sponsorships and reader services	\$ 35,277	\$ 9,605	\$ 60,280	\$ 158,551	\$ 10,833	\$ 4,079	\$ 278,625
Foundations grants	1,116,872	319,524	564,525	490,911	299,525	551,000	3,342,357
Individuals donations	25,488	4,582	19,725	8,633	3,624	897	62,949
Inter-bureau revenue	(50,838)	8,094	13,491	12,175	11,337	5,741	-
Other revenue	1,179	-	-	-	-	-	1,179
Total Support and Revenue	1,127,978	341,805	658,021	670,270	325,319	561,717	3,685,110
<b>EXPENSES</b>							
Salaries and wages	406,291	282,659	488,334	455,257	384,320	167,957	2,184,818
Payroll taxes and employee benefits	222,941	37,154	63,231	59,024	55,097	16,544	453,991
Conferences, conventions and meetings	2,489	2,288	2,145	1,560	2,971	848	12,301
Marketing	2,049	778	863	2,030	766	477	6,963
Insurance	5,202	1,072	1,787	1,612	1,502	761	11,936
Facility expense	2,478	1,167	1,326	3,292	714	1,837	10,814
Telephone	3,252	2,320	3,967	7,646	4,206	975	22,366
Office expenses	376	78	483	262	732	55	1,986
Postage	296	85	108	107	103	62	761
Professional fees	80,206	17,231	27,835	32,058	26,147	13,371	196,848
Rent and utilities	21,051	15,227	17,969	31,331	14,612	3,951	104,141
Travel and entertainment	20,880	11,652	10,582	9,369	14,515	3,788	70,786
Printing and publication	20	35	83	86	91	81	396
Finance charges	299	64	197	228	91	43	922
Dues and subscriptions	526	442	1,374	381	534	417	3,674
Other expenses	16,079	4,499	9,304	10,695	6,335	9,137	56,049
Total Expenses	784,435	376,751	629,588	614,938	512,736	220,304	3,138,752
Change in Net Assets	343,543	(34,946)	28,433	55,332	(187,417)	341,413	546,358
<b>NET ASSETS (DEFICIT)</b>							
Unrestricted, beginning of year	367,878	25,178	85,464	151,376	(11,211)	-	618,685
Change in net assets	(118,899)	33,715	(54,634)	(36,937)	1,811	(13,668)	(188,612)
Unrestricted, end of year	248,979	58,893	30,830	114,439	(9,400)	(13,668)	430,073
Temporarily restricted, beginning of year	392,472	368,171	244,453	50,058	351,397	-	1,406,551
Change in net assets	462,442	(68,661)	83,067	92,269	(189,228)	355,081	734,970
Temporarily restricted, end of year	854,914	299,510	327,520	142,327	162,169	355,081	2,141,521
Total Net Assets, End of Year	\$ 1,103,893	\$ 358,403	\$ 358,350	\$ 256,766	\$ 152,769	\$ 341,413	\$ 2,571,594

See independent auditors' report