

Chalkbeat, Inc.

Financial Statements

June 30, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, 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

November 8, 2018

Chalkbeat, Inc.

Statements of Financial Position

	June 30	
	2018	2017
ASSETS		
Cash	\$ 3,839,071	\$ 1,901,711
Grants receivable, net	1,318,131	627,500
Accounts receivable	45,179	97,396
Prepaid expenses	64,325	25,391
Other assets	38,375	12,375
	<u>\$ 5,305,081</u>	<u>\$ 2,664,373</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 47,115	\$ 39,975
Deferred revenue	12,553	52,804
Total Liabilities	<u>59,668</u>	<u>92,779</u>
Net Assets		
Unrestricted	769,054	430,073
Temporarily restricted	4,476,359	2,141,521
Total Net Assets	<u>5,245,413</u>	<u>2,571,594</u>
	<u>\$ 5,305,081</u>	<u>\$ 2,664,373</u>

See notes to financial statements

Chalkbeat, Inc.

Statements of Activities and Change in Net Assets

	Year Ended June 30					
	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Sponsorships and reader services	\$ 323,080	\$ -	\$ 323,080	\$ 278,625	\$ -	\$ 278,625
Foundations grants	178,000	5,705,207	5,883,207	291,315	3,051,042	3,342,357
Individuals donations, including donated services and materials of \$156,548 in 2018	600,668	-	600,668	62,949	-	62,949
Other revenue	5,514	-	5,514	1,179	-	1,179
Net assets released from restrictions	3,370,369	(3,370,369)	-	2,316,072	(2,316,072)	-
Total Support and Revenue	4,477,631	2,334,838	6,812,469	2,950,140	734,970	3,685,110
EXPENSES						
Salaries and wages	2,772,691	-	2,772,691	2,184,818	-	2,184,818
Payroll taxes and employee benefits	574,476	-	574,476	453,991	-	453,991
Conferences, conventions and meetings	15,428	-	15,428	12,301	-	12,301
Marketing	8,500	-	8,500	6,963	-	6,963
Insurance	14,162	-	14,162	11,936	-	11,936
Facility expense	28,211	-	28,211	10,814	-	10,814
Telephone	31,620	-	31,620	22,366	-	22,366
Office expenses, including donated materials of \$2,500 in 2018	6,269	-	6,269	1,986	-	1,986
Postage	629	-	629	761	-	761
Professional fees, including donated services of \$138,500 in 2018	335,155	-	335,155	196,848	-	196,848
Rent and utilities	141,810	-	141,810	104,141	-	104,141
Travel and entertainment	91,045	-	91,045	70,786	-	70,786
Printing and publication	1,037	-	1,037	396	-	396
Finance charges	697	-	697	922	-	922
Dues and subscriptions	4,762	-	4,762	3,674	-	3,674
Staff development and training	20,162	-	20,162	21,002	-	21,002
Software, as a service	54,308	-	54,308	22,294	-	22,294
Community events, including donated materials of \$15,548 in 2018	34,721	-	34,721	11,962	-	11,962
Other expenses	2,967	-	2,967	791	-	791
Total Expenses	4,138,650	-	4,138,650	3,138,752	-	3,138,752
Change in Net Assets	338,981	2,334,838	2,673,819	(188,612)	734,970	546,358
NET ASSETS						
Beginning of year	430,073	2,141,521	2,571,594	618,685	1,406,551	2,025,236
End of year	\$ 769,054	\$ 4,476,359	\$ 5,245,413	\$ 430,073	\$ 2,141,521	\$ 2,571,594

See notes to financial statements

Chalkbeat, Inc.

Statements of Cash Flows

	Year Ended June 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,673,819	\$ 546,358
Adjustments to reconcile change in net assets to net cash from operating activities		
Donated securities	(100,303)	-
Realized loss on securities	1,491	-
Changes in operating assets and liabilities		
Grants receivable	(690,631)	529,941
Accounts receivable	52,217	(44,746)
Prepaid expenses	(38,934)	(20,458)
Other assets	(26,000)	291
Accounts payable and accrued expenses	7,140	3,609
Deferred revenue	(40,251)	35,313
Net Cash from Operating Activities	<u>1,838,548</u>	<u>1,050,308</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of securities	<u>98,812</u>	<u>-</u>
Net Increase in Cash	1,937,360	1,050,308
CASH		
Beginning of year	<u>1,901,711</u>	<u>851,403</u>
End of year	<u>\$ 3,839,071</u>	<u>\$ 1,901,711</u>

See notes to financial statements

Chalkbeat, Inc.

Notes to Financial Statements June 30, 2018 and 2017

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, Detroit, Chicago and Newark. 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, 2018 and 2017

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, 2018 and 2017.

Donated Services and Materials

Chalkbeat recognizes donations of services if the services received: (a) create or enhance nonfinancial assets; or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Donated services that do not meet the above criteria are not recognized.

Chalkbeat recognizes donations of materials at their estimated fair value.

Investments

Investments are classified as available-for-sale and carried at fair value. Unrealized gains and losses on available-for-sale securities are recognized as direct increases or decreases in net assets. It is Chalkbeat's policy to convert donated securities to cash as soon as reasonably possible.

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, 2018 and 2017.

Chalkbeat, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

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

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 November 8, 2018.

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 to fair value using a discount rate of 2.52%. 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>2018</u>	<u>2017</u>
Due within one year	\$ 1,008,912	\$ 627,500
Due one year to five years	<u>325,000</u>	<u>-</u>
Grants Receivable	1,333,912	627,500
Less: discount	<u>15,781</u>	<u>-</u>
Grants Receivable, Net	<u>\$ 1,318,131</u>	<u>\$ 627,500</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.

Chalkbeat, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

5. Functional Allocation of Expenses (continued)

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

	<u>2018</u>	<u>2017</u>
Program services	\$ 3,101,975	\$ 2,403,945
Supporting Activities		
Management and general	647,435	446,721
Fundraising	<u>389,240</u>	<u>288,086</u>
Total Expenses	<u>\$ 4,138,650</u>	<u>\$ 3,138,752</u>

6. Temporarily Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
General operating - time restriction	\$ 647,959	\$ 58,491
Editorial, reporting and local audience development	1,223,718	398,531
Education journalism restricted by location	2,111,646	1,062,831
Product, technology and network level audience development	2,875	179,002
Growth	282,852	285,064
Detroit expansion	<u>207,309</u>	<u>157,602</u>
	<u>\$ 4,476,359</u>	<u>\$ 2,141,521</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>2018</u>	<u>2017</u>
General operating - time restriction	\$ 280,533	\$ 689,215
Editorial, reporting and local audience development	528,674	539,194
Education journalism restricted by location	1,826,155	598,203
Product, technology and network level audience development	182,502	207,084
Growth	352,212	239,978
Detroit expansion	<u>200,293</u>	<u>42,398</u>
	<u>\$ 3,370,369</u>	<u>\$ 2,316,072</u>

Chalkbeat, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

7. Commitments and Contingencies

Operating Leases

In April 2018, Chalkbeat entered into a three-year lease agreement for office space effective August 1, 2018 with rent ranging from \$10,200 to \$10,821 per month. In addition, Chalkbeat shall pay additional rent for a share of operating costs and real estate tax increases, as defined. Future minimum rents to be paid under the terms of the lease are as follows:

Fiscal Year Ending	
2019	\$ 112,200
2020	125,766
2021	129,537
2022	<u>10,821</u>
Total	<u>\$ 378,324</u>

In addition, Chalkbeat enters into several lease and sublease agreements to rent office space at each of its bureaus, with terms of one year or less, and with monthly rents ranging from approximately \$250 to \$9,050 at June 30, 2018.

8. Related Party Transactions

In the year ended June 30, 2018, Chalkbeat received contributions from Board members and their related foundations totaling approximately \$270,000, which are included in support and revenue in the accompanying statements of activities and change in net assets.

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Chalkbeat, Inc.

Supplementary Information

For the Year Ended
June 30, 2018

Chalkbeat, Inc.

Statement of Financial Position By Bureau (Unaudited)
June 30, 2018

	Network	National	Chicago	Colorado	Detroit	Indiana	New York	Newark	Tennessee	Total
ASSETS										
Cash	\$ 1,684,293	\$ 115,478	\$ 604,335	\$ 154,469	\$ 503,264	\$ 138,417	\$ 199,743	\$ 242,423	\$ 196,649	\$ 3,839,071
Grants receivable, net	-	-	190,000	215,000	637,861	3,912	-	-	271,358	1,318,131
Accounts receivable	5,872	2,377	2,707	10,649	1,082	2,292	16,812	9	3,379	45,179
Prepaid expenses	54,458	889	1,911	1,494	1,067	1,079	1,257	306	1,864	64,325
Other assets	36,455	-	1,500	-	50	-	370	-	-	38,375
	<u>\$ 1,781,078</u>	<u>\$ 118,744</u>	<u>\$ 800,453</u>	<u>\$ 381,612</u>	<u>\$ 1,143,324</u>	<u>\$ 145,700</u>	<u>\$ 218,182</u>	<u>\$ 242,738</u>	<u>\$ 473,250</u>	<u>\$ 5,305,081</u>
LIABILITIES AND NET ASSETS										
Liabilities										
Accounts payable and accrued expenses	\$ 37,293	\$ 1,301	\$ 1,275	\$ 1,735	\$ 1,401	\$ 1,129	\$ 887	\$ 223	\$ 1,871	\$ 47,115
Deferred revenue	-	2,000	-	6,983	-	-	3,570	-	-	12,553
Total Liabilities	<u>37,293</u>	<u>3,301</u>	<u>1,275</u>	<u>8,718</u>	<u>1,401</u>	<u>1,129</u>	<u>4,457</u>	<u>223</u>	<u>1,871</u>	<u>59,668</u>
NET ASSETS (DEFICIT)										
Unrestricted	418,097	33,602	1,931	49,142	(13,668)	58,893	151,469	10,228	59,360	769,054
Temporarily restricted	1,325,688	81,841	797,247	323,752	1,155,591	85,678	62,256	232,287	412,019	4,476,359
	<u>1,743,785</u>	<u>115,443</u>	<u>799,178</u>	<u>372,894</u>	<u>1,141,923</u>	<u>144,571</u>	<u>213,725</u>	<u>242,515</u>	<u>471,379</u>	<u>5,245,413</u>
	<u>\$ 1,781,078</u>	<u>\$ 118,744</u>	<u>\$ 800,453</u>	<u>\$ 381,612</u>	<u>\$ 1,143,324</u>	<u>\$ 145,700</u>	<u>\$ 218,182</u>	<u>\$ 242,738</u>	<u>\$ 473,250</u>	<u>\$ 5,305,081</u>

See independent auditors' report

Chalkbeat, Inc.

Statement of Activities and Change in Net Assets By Bureau (Unaudited) For the Year Ended June 30, 2018

	Network	National	Chicago	Colorado	Detroit	Indiana	New York	Newark	Tennessee	Total
SUPPORT AND REVENUE										
Sponsorships and reader services	\$ 29,954	\$ 31,315	\$ 298	\$ 70,217	\$ 4,814	\$ 16,203	\$ 158,608	\$ -	\$ 11,671	\$ 323,080
Foundations grants	1,225,880	505,972	993,214	544,559	1,287,861	124,774	166,471	371,219	663,257	5,883,207
Individuals donations	365,112	-	154	13,677	512	1,894	205,653	10,025	3,641	600,668
Inter-bureau revenue	(287,726)	16,126	11,057	22,353	25,480	40,247	19,340	8,467	144,656	-
Other revenue	4,314	-	1,200	-	-	-	-	-	-	5,514
Total Support and Revenue	<u>1,337,534</u>	<u>553,413</u>	<u>1,005,923</u>	<u>650,806</u>	<u>1,318,667</u>	<u>183,118</u>	<u>550,072</u>	<u>389,711</u>	<u>823,225</u>	<u>6,812,469</u>
EXPENSES										
Salaries and wages	227,756	323,706	145,621	483,462	394,880	290,027	424,437	110,099	372,703	2,772,691
Payroll taxes and employee benefits	279,869	36,057	9,801	54,614	32,751	42,466	55,698	8,072	55,148	574,476
Conferences, conventions and meetings	2,287	870	1,267	2,168	1,979	2,161	1,874	411	2,411	15,428
Marketing	1,913	664	647	1,239	1,620	636	727	296	758	8,500
Insurance	4,218	1,243	852	1,724	1,732	974	1,492	653	1,274	14,162
Facility expense	2,760	2,762	5,111	3,178	3,425	2,401	3,867	1,676	3,031	28,211
Telephone	3,716	2,368	1,126	5,014	3,485	2,608	7,866	945	4,492	31,620
Office expenses	1,324	862	268	786	725	362	1,042	311	589	6,269
Postage	164	49	54	67	119	39	58	25	54	629
Professional fees	108,206	26,187	22,901	36,671	44,152	20,499	34,270	13,573	28,696	335,155
Rent and utilities	19,650	23,433	7,172	17,875	10,885	16,420	31,050	3,042	12,283	141,810
Travel and entertainment	20,027	10,996	4,357	12,529	9,361	9,219	9,296	3,638	11,622	91,045
Printing and publication	146	43	113	115	210	127	67	57	159	1,037
Finance charges	208	61	42	85	85	48	73	32	63	697
Dues and subscriptions	492	606	280	1,588	569	335	503	76	313	4,762
Staff development and training	3,774	2,947	1,110	1,727	1,805	3,237	1,697	776	3,089	20,162
Software, as a service	14,945	4,699	3,028	7,317	6,992	3,550	6,787	2,314	4,676	54,308
Community events	2,377	2,175	2,920	5,802	3,230	1,755	12,178	1,142	3,142	34,721
Other expenses	1,860	192	75	301	152	86	131	58	112	2,967
Total Expenses	<u>695,692</u>	<u>439,920</u>	<u>206,745</u>	<u>636,262</u>	<u>518,157</u>	<u>396,950</u>	<u>593,113</u>	<u>147,196</u>	<u>504,615</u>	<u>4,138,650</u>
Change in Net Assets	<u>641,842</u>	<u>113,493</u>	<u>799,178</u>	<u>14,544</u>	<u>800,510</u>	<u>(213,832)</u>	<u>(43,041)</u>	<u>242,515</u>	<u>318,610</u>	<u>2,673,819</u>
NET ASSETS (DEFICIT)										
Unrestricted, beginning of year	247,029	1,950	-	30,830	(13,668)	58,893	114,439	-	(9,400)	430,073
Change in net assets	171,068	31,652	1,931	18,312	-	-	37,030	10,228	68,760	338,981
Unrestricted, end of year	<u>418,097</u>	<u>33,602</u>	<u>1,931</u>	<u>49,142</u>	<u>(13,668)</u>	<u>58,893</u>	<u>151,469</u>	<u>10,228</u>	<u>59,360</u>	<u>769,054</u>
Temporarily restricted, beginning of year	854,914	-	-	327,520	355,081	299,510	142,327	-	162,169	2,141,521
Change in net assets	470,774	81,841	797,247	(3,768)	800,510	(213,832)	(80,071)	232,287	249,850	2,334,838
Temporarily restricted, end of year	<u>1,325,688</u>	<u>81,841</u>	<u>797,247</u>	<u>323,752</u>	<u>1,155,591</u>	<u>85,678</u>	<u>62,256</u>	<u>232,287</u>	<u>412,019</u>	<u>4,476,359</u>
Total Net Assets, End of Year	<u>\$ 1,743,785</u>	<u>\$ 115,443</u>	<u>\$ 799,178</u>	<u>\$ 372,894</u>	<u>\$ 1,141,923</u>	<u>\$ 144,571</u>	<u>\$ 213,725</u>	<u>\$ 242,515</u>	<u>\$ 471,379</u>	<u>\$ 5,245,413</u>

See independent auditors' report