

Chalkbeat, Inc.

Financial Statements

June 30, 2016 and 2015

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, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows for the year ended June 30, 2016 and the six month period ended June 30, 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the year ended June 30, 2016 and the six month period ended June 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining statement of financial position, combining statement of activities and changes in net assets, and proforma statement of activities and changes in net assets, 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 audit 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, 2016

Chalkbeat, Inc.

Statements of Financial Position

	June 30	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 851,403	\$ 426,953
Grants receivable, net	1,157,441	420,750
Due from Colorado Nonprofit Development Center	-	416,848
Accounts receivable	52,650	-
Prepaid expenses	4,933	-
Other assets	<u>12,666</u>	<u>12,325</u>
	<u>\$ 2,079,093</u>	<u>\$ 1,276,876</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 36,366	\$ -
Deferred revenue	<u>17,491</u>	<u>-</u>
Total Liabilities	<u>53,857</u>	<u>-</u>
Net Assets		
Unrestricted	618,685	617,502
Temporarily restricted	<u>1,406,551</u>	<u>659,374</u>
Total Net Assets	<u>2,025,236</u>	<u>1,276,876</u>
	<u>\$ 2,079,093</u>	<u>\$ 1,276,876</u>

See notes to financial statements

Chalkbeat, Inc.

Statements of Activities and Changes in Net Assets

	For The Year Ended June 30, 2016			For the Six Month Period Ended June 30, 2015			
	Unrestricted	Temporarily Restricted		Unrestricted	Temporarily Restricted		Total
		Restricted	Total		Restricted	Total	
SUPPORT AND REVENUE							
Contributions							
Individuals	\$ 28,398	\$ -	\$ 28,398	\$ -	\$ -	\$ -	\$ -
Foundations and trusts	432,556	2,621,985	3,054,541	-	-	-	-
Corporations	504	-	504	-	-	-	-
Sponsorship revenue	186,650	-	186,650	-	-	-	-
Program revenue	78,766	-	78,766	-	-	-	-
Other revenue	9,025	-	9,025	-	-	-	-
Net assets released from restrictions	1,874,808	(1,874,808)	-	-	-	-	-
Total Support and Revenue	<u>2,610,707</u>	<u>747,177</u>	<u>3,357,884</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENSES							
Salaries and wages	1,708,206	-	1,708,206	-	-	-	-
Payroll taxes and employee benefits	336,888	-	336,888	-	-	-	-
Conferences, conventions and meetings	8,474	-	8,474	-	-	-	-
Marketing	3,257	-	3,257	-	-	-	-
Insurance	12,984	-	12,984	-	-	-	-
Facility expense	5,207	-	5,207	-	-	-	-
Telephone	18,457	-	18,457	-	-	-	-
Office expenses	1,848	-	1,848	-	-	-	-
Postage	1,466	-	1,466	-	-	-	-
Professional fees	309,071	-	309,071	-	-	-	-
Rent and utilities	90,870	-	90,870	-	-	-	-
Travel and entertainment	52,618	-	52,618	-	-	-	-
Printing and publication	1,264	-	1,264	-	-	-	-
Finance charges	370	-	370	-	-	-	-
Repairs and maintenance	163	-	163	-	-	-	-
Dues and subscriptions	2,570	-	2,570	-	-	-	-
Other expenses	55,811	-	55,811	-	-	-	-
Total Expenses	<u>2,609,524</u>	<u>-</u>	<u>2,609,524</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contributions from Colorado Nonprofit Development Center	<u>-</u>	<u>-</u>	<u>-</u>	<u>617,502</u>	<u>659,374</u>	<u>1,276,876</u>	<u>-</u>
Change in Net Assets	1,183	747,177	748,360	617,502	659,374	1,276,876	-
NET ASSETS							
Beginning of year	<u>617,502</u>	<u>659,374</u>	<u>1,276,876</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
End 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>	<u>-</u>

See notes to financial statements

Chalkbeat, Inc.

Statements of Cash Flows

	For the Year Ended <u>June 30, 2016</u>	For the Six Month Period Ended <u>June 30, 2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 748,360	\$ 1,276,876
Adjustments to reconcile change in net assets to net cash from operating activities		
Changes in operating assets and liabilities		
Grants receivable	(736,691)	(420,750)
Due from Colorado Nonprofit Development Center	416,848	(416,848)
Accounts receivable	(52,650)	-
Prepaid expenses	(4,933)	-
Other assets	(341)	(12,325)
Accounts payable and accrued expenses	36,366	-
Deferred revenue	17,491	-
Net Cash from Operating Activities	<u>424,450</u>	<u>426,953</u>
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>426,953</u>	<u>-</u>
End of year	<u>\$ 851,403</u>	<u>\$ 426,953</u>

See notes financial statements

Chalkbeat, Inc.

Notes to Financial Statements June 30, 2016 and 2015

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, and Tennessee. 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. Spin Off from Fiscal Sponsor

In December 2012, Chalkbeat entered into a Memorandum of Understanding (“MOU”) with Colorado Nonprofit Development Center (“CNDC”) under which Chalkbeat became a program included in CNDC’s operations, ceased to be a separate nonprofit entity, and became part of the CNDC corporate structure. Under the terms of the MOU, the operating activity of Chalkbeat was recognized as a direct activity of CNDC. Chalkbeat was assessed program fees by CNDC, as detailed in the MOU.

On June 30, 2015 (the termination date), Chalkbeat and CNDC agreed to a Termination Agreement (“Agreement”) whereby the terms of the MOU were terminated. Under the terms of the Agreement, CNDC assigned to Chalkbeat all agreements, assets, liabilities and net assets of the Chalkbeat program.

3. 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, and Contributions

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.

Chalkbeat, Inc.

Notes to Financial Statements
June 30, 2016 and 2015

3. Summary of Significant Accounting Policies (continued)

Donor-Imposed Restrictions, Grants, and Contributions (continued)

All 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 Program Revenue

Sponsorships and program revenue is 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.

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 changes 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, 2016 and 2015.

Allowance for Doubtful Accounts

When necessary, an allowance for doubtful accounts for unconditional promises to give 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, 2016 and 2015.

Chalkbeat, Inc.

Notes to Financial Statements June 30, 2016 and 2015

3. 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 December 7, 2016.

4. 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.

5. 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>2016</u>	<u>2015</u>
Due within one year	\$ 1,122,500	\$ 420,750
Due one year to five years	<u>36,000</u>	<u>-</u>
Grants Receivable	1,158,500	420,750
Less: discount	<u>1,059</u>	<u>-</u>
Grants Receivable, Net	<u>\$ 1,157,441</u>	<u>\$ 420,750</u>

6. 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, 2016 and 2015

6. Functional Allocation of Expenses (continued)

Expenses for the year ended June 30, 2016 were classified as follows:

Program services	\$ 2,024,544
Supporting activities	
Management and general	379,529
Fundraising	<u>205,451</u>
Total Expenses	<u>\$ 2,609,524</u>

7. Temporarily Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
General operating - timing	\$ 732,705	\$ 14,320
Editorial, reporting and audience development	533,018	240,545
Educational journalism restricted by location	100,033	-
Growth, product and technology	36,087	404,509
Community engagement	<u>4,708</u>	<u>-</u>
	<u>\$ 1,406,551</u>	<u>\$ 659,374</u>

During fiscal 2016, temporarily restricted net assets were released from restrictions by incurring expenses for the following donor restricted purposes:

General operating - timing	\$ 356,615
Editorial, reporting and audience development	437,627
Educational journalism restricted by location	654,852
Growth, product and technology	368,422
Community engagement	<u>57,292</u>
	<u>\$ 1,874,808</u>

8. Commitments and Contingencies

Operating Leases

Chalkbeat entered into several lease agreements to rent office space at each of its four bureaus. All outstanding leases have terms of one year or less, with annual rents ranging from approximately \$1,200 to \$58,800 at June 30, 2016.

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Chalkbeat, Inc.

Supplementary Information

For the Year Ended
June 30, 2016 and the Six Month Period
Ended June 30, 2015

Chalkbeat, Inc.

Combining Statement of Financial Position (Unaudited)
June 30, 2016

	Network	Indiana	Colorado	New York	Tennessee	Total
ASSETS						
Cash	\$ 431,417	\$ 115,738	\$ 141,709	\$ 172,066	\$ (9,527)	\$ 851,403
Grants receivable, net	348,941	275,000	183,500	-	350,000	1,157,441
Accounts receivable	12,452	4,978	6,942	26,694	1,584	52,650
Prepaid expenses	4,933	-	-	-	-	4,933
Other assets	9,847	-	-	2,819	-	12,666
	\$ 807,590	\$ 395,716	\$ 332,151	\$ 201,579	\$ 342,057	\$ 2,079,093
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable and accrued expenses	\$ 29,749	\$ 2,367	\$ 2,234	\$ 145	\$ 1,871	\$ 36,366
Deferred revenue	17,491	-	-	-	-	17,491
Total Liabilities	47,240	2,367	2,234	145	1,871	53,857
NET ASSETS						
Unrestricted	367,878	25,178	85,464	151,376	(11,211)	618,685
Temporarily restricted	392,472	368,171	244,453	50,058	351,397	1,406,551
	760,350	393,349	329,917	201,434	340,186	2,025,236
	\$ 807,590	\$ 395,716	\$ 332,151	\$ 201,579	\$ 342,057	\$ 2,079,093

See independent auditors' report

Chalkbeat, Inc.

Combining Statement of Activities and Changes in Net Assets (Unaudited) For the Year Ended June 30, 2016

	Network	Indiana	Colorado	New York	Tennessee	Total
SUPPORT AND REVENUE						
Contributions						
Individuals	\$ 9,394	\$ 3,098	\$ 7,962	\$ 6,034	\$ 1,910	\$ 28,398
Foundations and trusts	759,441	600,100	545,000	425,000	725,000	3,054,541
Corporations	504	-	-	-	-	504
Sponsorship revenue	11,225	8,925	58,525	103,750	4,225	186,650
Program revenue	(288)	885	14,331	61,398	2,440	78,766
Intercompany revenue	(349,080)	64,037	105,436	103,549	76,058	-
Other revenue	9,236	-	-	(211)	-	9,025
Total Support and Revenue	440,432	677,045	731,254	699,520	809,633	3,357,884
EXPENSES						
Salaries and wages	294,930	260,153	421,898	419,865	311,360	1,708,206
Payroll taxes and employee benefits	52,256	48,053	74,823	93,200	68,556	336,888
Conferences, conventions and meetings	1,158	1,451	2,271	1,656	1,938	8,474
Marketing	881	678	709	636	353	3,257
Insurance	4,577	1,542	2,539	2,494	1,832	12,984
Facility expense	730	1,606	576	1,963	332	5,207
Telephone	1,766	2,445	3,830	6,515	3,901	18,457
Office expenses	273	231	253	405	686	1,848
Postage	446	190	266	287	277	1,466
Professional fees	95,642	41,803	74,033	54,777	42,816	309,071
Rent and utilities	10,362	15,192	16,517	35,046	13,753	90,870
Travel and entertainment	9,534	8,602	11,027	8,196	15,259	52,618
Printing and publication	419	151	232	295	167	1,264
Finance charges	125	42	85	68	50	370
Repairs and maintenance	58	19	32	31	23	163
Dues and subscriptions	412	406	1,035	414	303	2,570
Other expenses	11,433	13,212	11,368	13,393	6,405	55,811
Total Expenses	485,002	395,776	621,494	639,241	468,011	2,609,524
Change in Net Assets	(44,570)	281,269	109,760	60,279	341,622	748,360
NET ASSETS						
Unrestricted, beginning of year	400,411	22,768	54,604	141,155	(1,436)	617,502
Change in net assets	(32,533)	2,410	30,860	10,221	(9,775)	1,183
Unrestricted, end of year	367,878	25,178	85,464	151,376	(11,211)	618,685
Temporarily restricted, beginning of year	404,509	89,312	165,553	-	-	659,374
Change in net assets	(12,037)	278,859	78,900	50,058	351,397	747,177
Temporarily restricted, end of year	392,472	368,171	244,453	50,058	351,397	1,406,551
Total Net Assets, end of Year	\$ 760,350	\$ 393,349	\$ 329,917	\$ 201,434	\$ 340,186	\$ 2,025,236

See independent auditors' report

Chalkbeat, Inc.

Proforma Statement of Activities and Changes in Net Assets (Unaudited) For the Six Month Period Ended June 30, 2015

REVENUE AND SUPPORT

Program revenue	\$ 46,918
Contributions	709,449
Other	<u>57,956</u>
Total Revenue and Support	<u>814,323</u>

EXPENSES

Salaries and wages	855,810
Employee benefits	62,038
Payroll taxes	69,232
Rent and utilities	47,125
Professional fees	27,940
General and administrative	<u>194,804</u>
Total Expenses	<u>1,256,949</u>
Change in Net Assets	<u>(442,626)</u>

NET ASSETS

Unrestricted, beginning of the period	625,155
Change in unrestricted net assets	<u>(7,653)</u>
Unrestricted, end of the period	<u>617,502</u>
Temporarily restricted, beginning of the period	1,094,347
Change in temporarily restricted net assets	<u>(434,973)</u>
Temporarily restricted, end of the period	<u>659,374</u>
Total Net Assets	<u>\$ 1,276,876</u>

* The proforma statement of activities and changes in net assets is presented for the six month period ended June 30, 2015, a period during which Chalkbeat was operating under the fiscal sponsorship of CNDC and prior to its spin off.

** Prior to June 30, 2015, Chalkbeat was a program included in CNDC's operations (see Note 2) and therefore all 2014 activity was included in the December 31, 2014 audited financial statements of CNDC. Chalkbeat's management anticipates that the six month activity above will be included in the December 31, 2015 financial statements of CNDC.

See independent auditors' report