



# **CHILDREN'S LITERACY INITIATIVE**

**FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

# CHILDREN'S LITERACY INITIATIVE

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Children's Literacy Initiative

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

We have audited the accompanying financial statements of Children's Literacy Initiative, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for each of 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 on the previous page present fairly, in all material respects, the financial position of Children's Literacy Initiative as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

*EisnerAmper LLP*

Philadelphia, Pennsylvania  
September 27, 2017

# CHILDREN'S LITERACY INITIATIVE

## Statements of Financial Position

	June 30	
ASSETS	<u>2017</u>	<u>2016</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 4,984,489	\$ 1,857,332
Certificates of deposit	260,000	135,025
Investments	1,812,008	1,696,756
Accounts receivable	1,198,676	2,622,421
Grants receivable	1,082,780	766,190
Inventory, net	598,091	724,354
Prepaid expenses	<u>132,929</u>	<u>112,740</u>
<b>Total current assets</b>	<b>10,068,973</b>	7,914,818
<b>Grants receivable</b> , net of current portion and discount	<b>576,319</b>	64,607
<b>Property and equipment</b>	<u>63,123</u>	<u>105,738</u>
	<u><b>\$ 10,708,415</b></u>	<u><b>\$ 8,085,163</b></u>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 3,215,291	\$ 1,041,616
Deferred revenue	<u>2,500</u>	<u>22,287</u>
<b>Total current liabilities</b>	<b>3,217,791</b>	1,063,903
<b>Deferred rent</b>	<u>10,298</u>	<u>4,033</u>
<b>Total liabilities</b>	<u><b>3,228,089</b></u>	<u>1,067,936</u>
<b>NET ASSETS</b>		
<b>Unrestricted</b>	<b>5,089,151</b>	4,012,828
<b>Temporarily restricted</b>	<u>2,391,175</u>	<u>3,004,399</u>
<b>Total net assets</b>	<u><b>7,480,326</b></u>	<u>7,017,227</u>
	<u><b>\$ 10,708,415</b></u>	<u><b>\$ 8,085,163</b></u>

## CHILDREN'S LITERACY INITIATIVE

### Statements of Activities and Changes in Net Assets

	Year Ended June 30					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Support and revenues:</b>						
School district contracts	\$ 11,725,649	\$ -	\$ 11,725,649	\$ 8,389,417	\$ -	\$ 8,389,417
Federal grants	4,242,010	-	4,242,010	653,836	-	653,836
Philanthropic grants and contributions	2,654,272	1,841,668	4,495,940	2,672,444	2,748,215	5,420,659
Investment income (loss)	113,205	-	113,205	(7,660)	-	(7,660)
In-kind contributions	-	-	-	11,210	18,290	29,500
Other income	9,577	-	9,577	2,946	-	2,946
Net assets released from restrictions	2,454,892	(2,454,892)	-	1,566,003	(1,566,003)	-
	<u>21,199,605</u>	<u>(613,224)</u>	<u>20,586,381</u>	<u>13,288,196</u>	<u>1,200,502</u>	<u>14,488,698</u>
<b>Expenses:</b>						
Program	17,255,938	-	17,255,938	10,944,435	-	10,944,435
General and administrative	1,651,044	-	1,651,044	1,106,363	-	1,106,363
Fundraising	1,216,300	-	1,216,300	855,373	-	855,373
	<u>20,123,282</u>	<u>-</u>	<u>20,123,282</u>	<u>12,906,171</u>	<u>-</u>	<u>12,906,171</u>
<b>Change in net assets</b>	<b>1,076,323</b>	<b>(613,224)</b>	<b>463,099</b>	<b>382,025</b>	<b>1,200,502</b>	<b>1,582,527</b>
<b>Net assets at beginning of year</b>	<u>4,012,828</u>	<u>3,004,399</u>	<u>7,017,227</u>	<u>3,630,803</u>	<u>1,803,897</u>	<u>5,434,700</u>
<b>Net assets at end of year</b>	<u>\$ 5,089,151</u>	<u>\$ 2,391,175</u>	<u>\$ 7,480,326</u>	<u>\$ 4,012,828</u>	<u>\$ 3,004,399</u>	<u>\$ 7,017,227</u>

See notes to financial statements

## CHILDREN'S LITERACY INITIATIVE

### Statements of Functional Expenses

	Year Ended June 30							
	2017				2016			
	Total Program	General and Administrative	Fundraising	Total	Total Program	General and Administrative	Fundraising	Total
Payroll and payroll taxes	\$ 9,429,432	\$ 1,244,257	\$ 920,261	\$ 11,593,950	\$ 6,168,525	\$ 837,113	\$ 648,430	\$ 7,654,068
Employee benefits	1,316,083	173,663	128,443	1,618,189	835,528	113,387	87,830	1,036,745
	10,745,515	1,417,920	1,048,704	13,212,139	7,004,053	950,500	736,260	8,690,813
Advertising	68,025	8,975	6,639	83,639	59,645	8,094	6,270	74,009
Books	902,979	-	-	902,979	695,647	-	-	695,647
In-kind services	-	18,290	-	18,290	-	11,210	-	11,210
Insurance	85,345	11,262	8,329	104,936	79,917	10,845	8,401	99,163
Legal and accounting	53,739	7,091	5,245	66,075	33,006	4,479	3,470	40,955
Maintenance	314,674	41,523	30,710	386,907	290,963	39,486	30,586	361,035
Office	369,304	48,729	36,042	454,075	89,939	12,205	9,454	111,598
Professional fees	1,185,989	28,611	21,161	1,235,761	653,420	15,368	13,608	682,396
Program consultants	2,495,614	-	-	2,495,614	1,455,978	-	-	1,455,978
Program materials	507,503	-	-	507,503	167,659	-	-	167,659
Public relations	27,882	3,679	2,721	34,282	12,210	1,657	1,284	15,151
Recruiting	30,592	4,037	2,986	37,615	23,326	3,166	2,452	28,944
Rent	217,895	27,235	27,237	272,367	164,722	20,590	20,590	205,902
Travel	195,387	26,515	20,539	242,441	125,341	17,010	13,176	155,527
Utilities	20,835	2,604	2,604	26,043	25,518	3,190	3,190	31,898
	17,221,278	1,646,471	1,212,917	20,080,666	10,881,344	1,097,800	848,741	12,827,885
Depreciation	34,660	4,573	3,383	42,616	63,091	8,563	6,632	78,286
	<u>\$ 17,255,938</u>	<u>\$ 1,651,044</u>	<u>\$ 1,216,300</u>	<u>\$ 20,123,282</u>	<u>\$ 10,944,435</u>	<u>\$ 1,106,363</u>	<u>\$ 855,373</u>	<u>\$ 12,906,171</u>

See notes to financial statements

# CHILDREN'S LITERACY INITIATIVE

## Statements of Cash Flows

	<b>Year Ended June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 463,099	\$ 1,582,527
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized gain on investments	(44,884)	(20,616)
Realized (gain) loss on investments	(36,499)	47,960
Depreciation	42,616	78,286
(Increase) decrease in assets:		
Accounts receivable	1,423,745	(399,385)
Grants receivable	(828,302)	(190,663)
Inventory	126,263	(197,917)
Prepaid expenses	(20,189)	(28,143)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	2,173,673	(239,910)
Deferred revenue	(19,787)	3,617
Deferred rent	6,265	(16,595)
	<b>3,286,000</b>	<b>619,161</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments	2,355,803	75,874
Purchase of investments	(2,389,646)	(1,800,000)
Purchase of certificates of deposit	(125,000)	(135,000)
	<b>(158,843)</b>	<b>(1,859,126)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,127,157</b>	<b>(1,239,965)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,857,332</b>	<b>3,097,297</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 4,984,489</b>	<b>\$ 1,857,332</b>
<b>Supplemental disclosure of noncash investing activities:</b>		
Disposal of fully depreciated property and equipment	\$ -	\$ 216,008



# CHILDREN'S LITERACY INITIATIVE

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

### NOTE A - NATURE OF OPERATIONS

Since 1988, Children's Literacy Initiative (the "Organization") has worked with pre-kindergarten through third grade teachers to transform instruction so that children can become powerful readers, writers, and thinkers. The Organization's focus on improving literacy instruction in the early grades is grounded in research: reading proficiently by the end of third grade is key for future success, and teaching quality has a greater effect on student achievement than any other in-school factor. The Organization provides educators with training and coaching in effective literacy instruction, outfits classrooms with learning materials and children's books, and extends its in-school services through its online professional development portal.

### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by the Organization in the preparation of the financial statements.

#### [1] Basis of presentation:

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

#### [2] Classification of net assets:

The accompanying financial statements may include the following classes of net assets:

- ***Unrestricted***

Unrestricted net assets are used to account for funds which have not been restricted by donors and over which the Board of Directors has discretionary control.

- ***Temporarily restricted***

Temporarily restricted net assets are used to account for funds which have been donor-restricted for specific periods or purposes. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets, and reported in the statements of activities and changes in net assets as net assets released from restrictions. Contributions whose restrictions are met in the same period as the contributions are received are classified as unrestricted net assets. See Note J for temporarily restricted net assets.

- ***Permanently restricted***

Permanently restricted net assets are used to account for funds received from donors which have been accepted with stipulations that the principal be maintained intact in perpetuity.

As of June 30, 2017 and 2016, the Organization did not have any permanently restricted net assets.

#### [3] Revenue recognition:

The Organization receives revenue from grants and contributions as well as cost reimbursement contracts from the federal government and fee-for-service contracts with various school districts. Cost reimbursement revenue is recognized when costs are incurred. Fee-for-service revenue has been recognized when the services have been provided only to the extent allowed under the contract. Deferred revenue is recorded when the Organization bills for work not yet performed on fee for service contracts.

## CHILDREN'S LITERACY INITIATIVE

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

#### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**[4] Government grants and School district contracts:**

The Organization earns substantial grant and contract revenue from government grants and school district contracts.

**[5] Philanthropic grants and contributions:**

The Organization receives significant philanthropic grants and contributions from individuals, corporations and foundations including unconditional promises to give, which are recognized as revenue in the period the contribution is received. All contributions are considered available for unrestricted use unless specifically restricted by donor request.

**[6] In-kind contributions:**

The Organization records contributed goods in the accompanying statements of activities and changes in net assets at fair value when received when there is an objective basis available to measure their value. The Organization received \$-0- and \$29,500 of in-kind contributions for the years ended June 30, 2017 and 2016, respectively.

**[7] Cash and cash equivalents:**

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. These investments are managed in accordance with the Board-approved investment policy.

**[8] Concentration of credit risks:**

During the year, the Organization may have deposits with major financial institutions which exceed Federal Deposit Insurance Corporation limits. Management believes that the risk is not significant.

**[9] Certificates of deposit:**

Certificates of deposit as of June 30, 2017 include two certificates of deposit for \$135,000 and \$125,000 with maturity dates of July 13, 2017 and November 30, 2017, respectively, and bearing interest rates of 0.85% and 1.15%, respectively.

Certificates of deposit as of June 30, 2016 include two certificates of deposit for \$75,016 and \$60,009 with maturity dates of August 29, 2016 and November 18, 2016, respectively, and with each bearing an interest rate of 0.50%.

**[10] Investments:**

All investments in marketable and debt securities are stated at their fair values. Fair values for stocks, bonds and U.S. government securities are based on quoted market prices. Unrealized gains and losses are included in change in net assets in the accompanying statements of activities and changes in net assets. Investments received by gift are recorded at fair value at the date of receipt.

# CHILDREN'S LITERACY INITIATIVE

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

### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### [11] Accounts receivable and allowance for doubtful accounts:

Accounts receivable are uncollateralized school district obligations due under normal trade terms requiring payment within 30 days from invoice date. Grants receivable consist of current and multi-year grants that have not been received.

Accounts receivable are stated at the amount billed to the school district. Account balances from invoices aged over 90 days are considered delinquent.

The carrying amount of grants and accounts receivable are reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all grants and accounts receivable balances that exceed 90 days from invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. As of June 30, 2017 and 2016, no allowance was considered necessary.

#### [12] Inventory:

Inventory consists of various books and literacy materials and is stated at the lower of cost (determined by the first-in, first-out method) or market. Management provides an inventory allowance based on its historical experience with obsolescence and transitional items.

#### [13] Capitalization policy:

Fixed assets purchased are stated at cost less accumulated depreciation. Expenditures for property and equipment in excess of \$5,000 are capitalized.

The Organization computes depreciation using the straight-line method over the following estimated useful lives:

Computer equipment and software	3 - 5 years
Office equipment	5 years
Furniture	5 - 7 years
Leasehold improvements	Lesser of 5 - 10 years or life of lease

#### [14] Advertising:

Advertising costs are expensed as incurred. Total advertising expense for the years ended June 30, 2017 and 2016 was \$83,639 and \$74,009, respectively.

#### [15] Functional allocation of expenses:

Expenses are allocated to the various programs based on direct charges for those items specifically identified with the respective programs. Other charges are allocated in proportion to direct expenses, based on management's estimates.

#### [16] Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

## CHILDREN'S LITERACY INITIATIVE

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

#### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### [17] Federal tax status:

The Internal Revenue Service has classified the Organization as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("Code"); as an organization, contributions to which are deductible under Section 170(c) of the Code; and as an organization that is not a private foundation as defined in Section 509(a) of the Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability, if the Organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by a government authority. Management has analyzed the tax positions taken by the Organization and has concluded that as of June 30, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

The Organization recognizes accrued interest and penalties associated with uncertain tax positions, if any, as part of general and administrative expenses. There were no income tax related interest and penalties recorded for either of the years ended June 30, 2017 or 2016.

##### [18] New accounting pronouncements:

In July 2015, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. ASU 2015-11 defines net realizable value as estimated selling prices in the ordinary course of business, less reasonable predictable costs of completion, disposal and transportation. The new guidance must be applied on a prospective basis and is effective for periods beginning after December 15, 2016. Early adoption is permitted. Management is currently evaluating the effect that this new guidance will have its financial statements and related disclosures.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. This standard requires entities that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The standard is effective for fiscal years beginning after December 15, 2019. The guidance is required to be applied by the modified retrospective transition approach. Early adoption is permitted. Management is currently assessing the impact of the adoption of the new guidance on its financial statements and related disclosures.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Subtopic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends the presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: a) net asset classes, b) investment return, c) expenses, d) liquidity and availability of resources, and e) presentation of operating cash flows. The new standard will be effective for fiscal years beginning after December 15, 2017, which will be the year beginning on July 1, 2018 for the Organization, with early adoption permitted. Management is currently evaluating the impact of the adoption of ASU 2016-14 on its financial statements and related disclosures.

##### [19] Reclassification:

Certain amounts shown in the 2016 financial statements have been reclassified to conform with the current year presentation.

## CHILDREN'S LITERACY INITIATIVE

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

#### NOTE C - ACCOUNTS RECEIVABLE

The Organization's accounts receivable consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
U.S. Department of Education	\$ 469,049	\$ -
Passaic Board of Education	169,138	118,135
Drexel University	112,107	126,631
Universal Education Companies	103,260	174,576
School District of Philadelphia	94,776	1,639,893
Broward Board of Education	70,000	-
Children's Services of Broward	50,000	-
Bridgeton Board of Education	44,687	43,401
Denver Public Schools	34,322	64,302
Vineland Board of Education	14,978	-
Community Education Alliance	10,797	-
Houston Independent School District	10,000	-
Chester Upland School District	-	199,985
Mt. Airy Schools Coalition	-	118,670
Newark Public Schools	-	33,758
Willingboro Public Schools	-	32,260
Chicago Public Schools	-	26,499
City of Woodbury Board of Education	-	17,500
Geninum Corporation	-	17,193
Others	15,562	9,618
	<u>\$ 1,198,676</u>	<u>\$ 2,622,421</u>

#### NOTE D - GRANTS RECEIVABLE

As of June 30, 2017 and 2016, the Organization recorded grants receivable of \$1,659,099 and \$830,797, respectively. The grants receivable are considered fully collectible and consist of the following as of June 30, 2017 and 2016:

<u>2017</u>			
<u>Due Within</u>	<u>Gross Grants Receivable</u>	<u>* Discount</u>	<u>Net Grants Receivable</u>
1 year	\$ 1,082,780	\$ -	\$ 1,082,780
1 to 5 years	603,101	26,782	576,319
	<u>\$ 1,685,881</u>	<u>\$ 26,782</u>	<u>\$ 1,659,099</u>

## CHILDREN'S LITERACY INITIATIVE

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

#### NOTE D - GRANTS RECEIVABLE (CONTINUED)

<b>2016</b>			
<u>Due Within</u>	<u>Gross Grants Receivable</u>	<u>* Discount</u>	<u>Net Grants Receivable</u>
1 year	\$ 766,190	\$ -	\$ 766,190
1 to 5 years	66,000	1,393	64,607
	<u>\$ 832,190</u>	<u>\$ 1,393</u>	<u>\$ 830,797</u>

\* The gross grants receivable that are due in future periods are discounted to present value using interest rates between 0.71% and 1.55%.

#### NOTE E - INVENTORY

Inventory consists of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Books	\$ 600,513	\$ 726,777
Less inventory allowance	<u>(2,422)</u>	<u>(2,423)</u>
	<u>\$ 598,091</u>	<u>\$ 724,354</u>

#### NOTE F - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Computer equipment and software	\$ 323,931	\$ 323,931
Office equipment	74,248	74,248
Furniture	71,661	71,661
Leasehold improvements	<u>415,698</u>	<u>415,698</u>
	<u>885,538</u>	885,538
Less accumulated depreciation	<u>(822,415)</u>	<u>(779,800)</u>
	<u>\$ 63,123</u>	<u>\$ 105,738</u>

Depreciation was \$42,616 and \$78,286 for the years ended June 30, 2017 and 2016, respectively.

## CHILDREN'S LITERACY INITIATIVE

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

#### NOTE G - INVESTMENTS

Investments consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>		
	<u>Costs</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
Equity	\$ 424,006	\$ 466,481	\$ 42,475
Mutual funds	<u>1,322,502</u>	<u>1,345,527</u>	<u>23,025</u>
	<u>\$ 1,746,508</u>	<u>\$ 1,812,008</u>	<u>\$ 65,500</u>
	<u>2016</u>		
	<u>Costs</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
Equity	\$ 415,836	\$ 432,372	\$ 16,536
Mutual funds	563,474	567,554	4,080
Bonds	<u>696,830</u>	<u>696,830</u>	<u>-</u>
	<u>\$ 1,676,140</u>	<u>\$ 1,696,756</u>	<u>\$ 20,616</u>

Investment income (loss) is comprised of the following for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 31,822	\$ 19,684
Realized gains (losses)	36,499	(47,960)
Unrealized gains	<u>44,884</u>	<u>20,616</u>
	<u>\$ 113,205</u>	<u>\$ (7,660)</u>

#### NOTE H - FAIR VALUE MEASUREMENTS

In determining fair value, the Organization uses various valuation approaches, including market, income and/or cost approaches. The Organization uses a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices for identical assets or liabilities in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Significant inputs to the valuation model are unobservable.

## CHILDREN'S LITERACY INITIATIVE

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

#### NOTE H - FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a description of the valuation methodologies used for assets measured at fair value, which have not changed from those used as of June 30, 2016.

*Equity and mutual funds* – Valued at the closing price reported on the active market on which the individual securities are traded.

*Bonds* – Valued at the present value of future cash flows.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying assets and liabilities.

The following tables set forth, by level, the Organization's investment assets at fair value, within the fair value hierarchy, as of June 30, 2017 and 2016:

<b>Investment Assets at Fair Value as of June 30, 2017</b>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity	\$ 466,481	\$ -	\$ -	\$ 466,481
Mutual Funds	<u>1,345,527</u>	<u>-</u>	<u>-</u>	<u>1,345,527</u>
Total investment assets at fair value	<u>\$ 1,812,008</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,812,008</u>

  

<b>Investment Assets at Fair Value as of June 30, 2016</b>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity	\$ 432,372	\$ -	\$ -	\$ 432,372
Mutual Funds	567,554	-	-	567,554
Bonds	-	696,830	-	696,830
Total investment assets at fair value	<u>\$ 999,926</u>	<u>\$ 696,830</u>	<u>\$ -</u>	<u>\$ 1,696,756</u>

#### NOTE I - LINE-OF-CREDIT

As of June 30, 2017, the Organization has a revolving line-of-credit arrangement with PNC Bank in the amount of \$1,800,000, bearing interest at 2.75% plus Daily LIBOR rate (Daily LIBOR was 1.17% as of June 30, 2017). The line-of-credit agreement is collateralized by the Organization's personal property. The agreement expires on February 23, 2018. There was no balance outstanding under the line-of-credit agreement as of either June 30, 2017 or 2016. No interest was assessed under the line-of-credit agreement for either of the years ended June 30, 2017 or 2016.



## CHILDREN'S LITERACY INITIATIVE

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

#### NOTE J - TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2017 and 2016, temporarily restricted net assets comprise the following:

	<u>2017</u>	<u>2016</u>
Legacy Program Services	\$ 2,041,175	\$ 2,302,670
i3 Scale-Up Contribution Match	<u>350,000</u>	<u>701,729</u>
	<u>\$ 2,391,175</u>	<u>\$ 3,004,399</u>

#### NOTE K - OPERATING LEASES

The Organization conducts its operations from facilities that are leased under operating leases expiring through 2020. The Organization also has office equipment leases expiring through 2022. As of June 30, 2017, the Organization was obligated under these lease arrangements as follows:

<u>Year Ending June 30</u>	<u>Total</u>	<u>Offices</u>	<u>Equipment</u>
2018	\$ 263,276	\$ 212,612	\$ 50,664
2019	132,934	82,270	50,664
2020	133,100	83,677	49,423
2021	45,003	-	45,003
2022	<u>27,454</u>	<u>-</u>	<u>27,454</u>
	<u>\$ 601,767</u>	<u>\$ 378,559</u>	<u>\$ 223,208</u>

Total office lease expense reported under these leases amounted to \$272,367 and \$205,902 for the years ended June 30, 2017 and 2016, respectively. The Organization maintains offices in Philadelphia, Pennsylvania, Chicago, Illinois, and Denver, Colorado. Total equipment lease expense reported under these leases amounted to \$52,253 and \$46,726 for the years ended June 30, 2017 and 2016, respectively, and is included in maintenance expense on the statements of functional expenses.

#### NOTE L - RETIREMENT PLAN

The Organization has a defined-contribution plan where the Organization has the option to make a discretionary nonelective contribution based on the relationship of an employee's annual salary to the total compensation of all participants. There are no age or service requirements. All full-time employees and part-time employees with over 1,000 hours worked are eligible to make elective deferrals through payroll deductions up to the Internal Revenue Service limits. The Organization's contribution was \$294,502 and \$210,705 for the years ended June 30, 2017 and 2016, respectively. Contributions are 100% vested in the defined-contribution plan.

## **CHILDREN'S LITERACY INITIATIVE**

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

#### **NOTE M - FEDERAL GRANT - INVESTMENT IN INNOVATION (i3)**

In August 2010, the Organization was awarded a \$21,726,293 five-year grant from the U.S. Department of Education. The grant is being used to perform a five-year validation study of the Organization's Model Classroom Program in Philadelphia, Pennsylvania, Camden, New Jersey, Newark, New Jersey and Chicago, Illinois. For the year ended June 30, 2016, the Organization recorded \$627,187 (for a cumulative total of \$21,706,084) of revenue under this U.S. Department of Education grant. The amount excludes initial grant match contributions totaling \$4,346,220 for the year ended June 30, 2015.

In January 2016, the Organization was awarded a \$19,446,538 five-year grant from the U.S. Department of Education. The grant is being used to implement the Organization's early literacy professional development program in Elizabeth, New Jersey, Houston, Texas, Denver, Colorado, and Broward County, Florida. For the years ended June 30, 2017 and 2016, the Organization has recorded \$4,242,010 and \$26,649, respectively, (for a cumulative total of \$4,268,659) of revenue under this U.S. Department of Education grant. The amounts exclude initial grant match contributions totaling \$1,238,522 and \$1,113,522 for the years ended June 30, 2017 and 2016, respectively.

#### **NOTE N - SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through September 27, 2017, which is the date the financial statements were available to be issued.