

EISNERAMPER

CHILDREN'S LITERACY INITIATIVE

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017



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, 2018 and 2017, 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, 2018 and 2017, 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

EISNERAMPER LLP
Philadelphia, Pennsylvania
September 26, 2018

CHILDREN'S LITERACY INITIATIVE

Statements of Financial Position

ASSETS	June 30	
	2018	2017
Current assets:		
Cash and cash equivalents	\$ 3,199,174	\$ 4,984,489
Certificates of deposit	330,000	260,000
Investments	1,904,325	1,812,008
Accounts receivable	2,408,596	1,198,676
Grants receivable	542,315	1,082,780
Inventory, net	600,935	598,091
Prepaid expenses and other assets	147,388	132,929
Total current assets	9,132,733	10,068,973
Grants receivable , net of current portion and discount	70,562	576,319
Property and equipment	83,987	63,123
	<u>\$ 9,287,282</u>	<u>\$ 10,708,415</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,191,094	\$ 3,215,291
Deferred revenue	-	2,500
Deferred rent	3,546	1,733
Total current liabilities	2,194,640	3,219,524
Deferred rent	19,312	8,565
Total liabilities	2,213,952	3,228,089
NET ASSETS		
Unrestricted	5,761,557	5,089,151
Temporarily restricted	1,311,773	2,391,175
Total net assets	7,073,330	7,480,326
	<u>\$ 9,287,282</u>	<u>\$ 10,708,415</u>

CHILDREN'S LITERACY INITIATIVE

Statements of Activities and Changes in Net Assets

	Year Ended June 30					
	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenues:						
School district contracts	\$ 16,277,779	\$ -	\$ 16,277,779	\$ 11,725,649	\$ -	\$ 11,725,649
Federal grants	5,664,977	-	5,664,977	4,242,010	-	4,242,010
Philanthropic grants and contributions	1,976,217	656,882	2,633,099	2,654,272	1,841,668	4,495,940
Investment income	87,666	-	87,666	113,205	-	113,205
Other income	32,538	-	32,538	9,577	-	9,577
Net assets released from restrictions	1,736,284	(1,736,284)	-	2,454,892	(2,454,892)	-
	<u>25,775,461</u>	<u>(1,079,402)</u>	<u>24,696,059</u>	<u>21,199,605</u>	<u>(613,224)</u>	<u>20,586,381</u>
Expenses:						
Program	21,737,800	-	21,737,800	17,255,938	-	17,255,938
General and administrative	1,996,853	-	1,996,853	1,651,044	-	1,651,044
Fundraising	1,368,402	-	1,368,402	1,216,300	-	1,216,300
	<u>25,103,055</u>	<u>-</u>	<u>25,103,055</u>	<u>20,123,282</u>	<u>-</u>	<u>20,123,282</u>
Change in net assets	672,406	(1,079,402)	(406,996)	1,076,323	(613,224)	463,099
Net assets at beginning of year	<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>
Net assets at end of year	<u>\$ 5,761,557</u>	<u>\$ 1,311,773</u>	<u>\$ 7,073,330</u>	<u>\$ 5,089,151</u>	<u>\$ 2,391,175</u>	<u>\$ 7,480,326</u>

CHILDREN'S LITERACY INITIATIVE

Statements of Functional Expenses

	Year Ended June 30							
	2018				2017			
	Total Program	General and Administrative	Fundraising	Total	Total Program	General and Administrative	Fundraising	Total
Payroll and payroll taxes	\$ 12,016,481	\$ 1,504,833	\$ 1,023,876	\$ 14,545,190	\$ 9,429,432	\$ 1,244,257	\$ 920,261	\$ 11,593,950
Employee benefits	1,748,682	218,989	148,998	2,116,669	1,316,083	173,663	128,443	1,618,189
	<u>13,765,163</u>	<u>1,723,822</u>	<u>1,172,874</u>	<u>16,661,859</u>	<u>10,745,515</u>	<u>1,417,920</u>	<u>1,048,704</u>	<u>13,212,139</u>
Advertising	63,928	8,006	5,447	77,381	68,025	8,975	6,639	83,639
Books	796,805	-	-	796,805	902,979	-	-	902,979
In-kind services	-	-	-	-	-	18,290	-	18,290
Insurance	139,524	17,473	11,888	168,885	85,345	11,262	8,329	104,936
Legal and accounting	94,209	11,798	8,027	114,034	53,739	7,091	5,245	66,075
Maintenance	445,574	55,800	37,966	539,340	314,674	41,523	30,710	386,907
Office	497,153	62,258	42,360	601,771	369,304	48,729	36,042	454,075
Professional fees	1,218,882	29,126	19,817	1,267,825	1,185,989	28,611	21,161	1,235,761
Program consultants	3,101,896	-	-	3,101,896	2,495,614	-	-	2,495,614
Program materials	906,963	-	-	906,963	507,503	-	-	507,503
Public relations	-	-	-	-	27,882	3,679	2,721	34,282
Recruiting	117,439	14,707	10,007	142,153	30,592	4,037	2,986	37,615
Rent	221,933	27,741	27,742	277,416	217,895	27,235	27,237	272,367
Travel	299,280	37,479	25,500	362,259	195,387	26,515	20,539	242,441
Utilities	22,375	2,797	2,797	27,969	20,835	2,604	2,604	26,043
	<u>21,691,124</u>	<u>1,991,007</u>	<u>1,364,425</u>	<u>25,046,556</u>	<u>17,221,278</u>	<u>1,646,471</u>	<u>1,212,917</u>	<u>20,080,666</u>
Depreciation	46,676	5,846	3,977	56,499	34,660	4,573	3,383	42,616
	<u>\$ 21,737,800</u>	<u>\$ 1,996,853</u>	<u>\$ 1,368,402</u>	<u>\$ 25,103,055</u>	<u>\$ 17,255,938</u>	<u>\$ 1,651,044</u>	<u>\$ 1,216,300</u>	<u>\$ 20,123,282</u>

See notes to financial statements

CHILDREN'S LITERACY INITIATIVE

Statements of Cash Flows

	Year Ended June 30	
	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (406,996)	\$ 463,099
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Unrealized (gain) loss on investments	15,222	(44,884)
Realized gain on investments	(60,001)	(36,499)
Depreciation	56,499	42,616
Change in assets and liabilities:		
Accounts receivable	(1,209,920)	1,423,745
Grants receivable	1,046,222	(828,302)
Inventory	(2,844)	126,263
Prepaid expenses	(14,459)	(20,189)
Accounts payable and accrued expenses	(1,024,197)	2,173,673
Deferred revenue	(2,500)	(19,787)
Deferred rent	12,560	6,265
	<u>(1,590,414)</u>	<u>3,286,000</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Proceeds from sales of investments	523,007	2,355,803
Purchase of investments	(570,545)	(2,389,646)
Purchase of property and equipment	(77,363)	-
Proceeds from redemptions of certificates of deposit	570,000	-
Purchase of certificates of deposit	(640,000)	(125,000)
	<u>(194,901)</u>	<u>(158,843)</u>
Net cash used in investing activities		
Net increase (decrease) in cash and cash equivalents	(1,785,315)	3,127,157
Cash and cash equivalents at beginning of year	4,984,489	1,857,332
Cash and cash equivalents at end of year	\$ 3,199,174	\$ 4,984,489

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2018 and 2017

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. The Organization provides these services to school districts in numerous cities and counties including, Philadelphia, Pennsylvania, Elizabeth, New Jersey, Passaic, New Jersey, Houston, Texas, Denver, Colorado, Broward County, Florida and Chicago, Illinois.

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, 2018 and 2017, the Organization did not have any permanently restricted net assets.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[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.

[4] Government grants and School district contracts:

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

During the year ended June 30, 2018, the government grant accounted for approximately 23% of total revenue and the school district contract accounted for approximately 53% of total revenue. These sources comprised \$1,380,860 of accounts receivable as of June 30, 2018.

During the year ended June 30, 2017, the government grant accounted for approximately 21% of total revenue and the school district contract accounted for approximately 45% of total revenue. These sources comprised \$563,824 of accounts receivable as of June 30, 2017.

[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 in-kind contributions of \$-0- and \$18,290 for the years ended June 30, 2018 and 2017, respectively.

[7] Cash and cash equivalents:

The Organization considers all highly liquid investments with maturities 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 and market risks:

Financial instruments, which potentially expose the Organization to concentrations of credit risk, consist primarily of cash and investments. At times, the Organization may have cash deposits and temporary cash investments with major financial institutions which exceed Federal Deposit Insurance Corporation limits. Management does not believe cash is subject to undue risk when balances exceed federally insured limits.

The Organization invests in investment securities that are exposed to various risks, such as interest rate, market and credit risk. It is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect account balances and the amounts reported in the financial statements.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Certificates of deposit:

Certificates of deposit as of June 30, 2018 include two certificates of deposit for \$150,000 and \$180,000 with maturity dates of August 7, 2018 and November 19, 2018, respectively, and bearing interest rates of 1.65% and 1.95%, respectively.

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.

[10] Investments:

All investments are stated at their fair values. Fair values for stocks and mutual funds are based on quoted market prices. Interest and dividends and 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.

[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, 2018 and 2017, 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 net realizable value. 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

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[14] Advertising:

Advertising costs are expensed as incurred. Total advertising expense for the years ended June 30, 2018 and 2017 was \$77,381 and \$83,639, 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 U.S. GAAP 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.

[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, 2018 and 2017, 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, 2018 or 2017.

[18] New accounting pronouncements:

In May 2014, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires an entity to recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will also result in enhanced revenue related disclosures. This standard is effective for fiscal years beginning after December 15, 2018. The Organization does not believe the adoption of this guidance will have a material impact on its financial statements, although additional disclosures will be required.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[18] New accounting pronouncements (continued):

In July 2015, FASB issued 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 reasonably 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. The Organization has adopted this standard and there was no material effect on its financial statements and related disclosures.

In February 2016, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. The adoption of ASU 2016-14 will require reclassification of net asset classes and disclosures related to liquidity and availability of resources.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves guidance concerning, 1) the determination whether a transaction should be accounted for as an exchange transaction or as a contribution, and 2) whether a contribution received is conditional. ASU 2018-08 is effective for annual periods beginning after December 15, 2018 for entities that are resource recipients and for annual periods beginning after December 15, 2019 for entities that are resource providers, with early adoption permitted. ASU 2018-08 should be applied on a modified prospective basis. Management is currently evaluating the effect that the new standard will have on its financial statements and related disclosures.

[19] Reclassification:

Certain amounts in the 2017 financial statements have been reclassified to conform with the current year presentation.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2018 and 2017

NOTE C - ACCOUNTS RECEIVABLE

The Organization's accounts receivable consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
School District of Philadelphia	\$ 1,258,069	\$ 94,776
Elizabeth Public Schools	489,913	-
Passaic Board of Education	144,854	169,138
U.S. Department of Education	122,791	469,049
Kearny Board of Education	96,577	-
Broward County Public Schools	70,000	70,000
Drexel University	60,000	112,107
Universal Education Companies	45,795	103,260
Community Education Alliance	30,000	10,797
Chicago Public Schools	24,472	-
Bridgeton Board of Education	24,035	44,687
Highbridge Advisory Council	21,000	-
University of Pittsburgh	7,106	-
Vineland Board of Education	6,992	14,978
Denver Public Schools	-	34,322
Children's Services of Broward	-	50,000
Houston Independent School District	-	10,000
Others	6,992	15,562
	<u>\$ 2,408,596</u>	<u>\$ 1,198,676</u>

NOTE D - GRANTS RECEIVABLE

As of June 30, 2018 and 2017, the Organization recorded grants receivable of \$612,877 and \$1,659,099, respectively. The grants receivable are considered fully collectible and consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>		
<u>Due Within</u>	<u>Gross Grants Receivable</u>	<u>* Discount</u>	<u>Net Grants Receivable</u>
1 year	\$ 542,315	\$ -	\$ 542,315
1 to 5 years	72,766	2,204	70,562
	<u>\$ 615,081</u>	<u>\$ 2,204</u>	<u>\$ 612,877</u>

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2018 and 2017

NOTE D - GRANTS RECEIVABLE (CONTINUED)

2017			
<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>

* The gross grants receivable that are due in future periods are discounted to present value using an interest rate of 1.55%.

NOTE E - INVENTORY

Inventory consists of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Books	\$ 603,039	\$ 600,513
Less inventory allowance	<u>(2,104)</u>	<u>(2,422)</u>
	<u>\$ 600,935</u>	<u>\$ 598,091</u>

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Computer equipment and software	\$ 323,931	\$ 323,931
Office equipment	151,611	74,248
Furniture	71,661	71,661
Leasehold improvements	<u>415,698</u>	<u>415,698</u>
	962,901	885,538
Less accumulated depreciation	<u>(878,914)</u>	<u>(822,415)</u>
	<u>\$ 83,987</u>	<u>\$ 63,123</u>

Depreciation was \$56,499 and \$42,616 for the years ended June 30, 2018 and 2017, respectively.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2018 and 2017

NOTE G - INVESTMENTS

Investments consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>		
	<u>Costs</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
Equity	\$ 308,527	\$ 353,897	\$ 45,370
Mutual funds	<u>1,545,520</u>	<u>1,550,428</u>	<u>4,908</u>
	<u>\$ 1,854,047</u>	<u>\$ 1,904,325</u>	<u>\$ 50,278</u>
	<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>

Investment income is comprised of the following for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 42,887	\$ 31,822
Realized gains	60,001	36,499
Unrealized gains (losses)	<u>(15,222)</u>	<u>44,884</u>
	<u>\$ 87,666</u>	<u>\$ 113,205</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, 2018 and 2017

NOTE H - FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a description of the valuation methodology used for assets measured at fair value, which has not changed from the one used as of June 30, 2018 and 2017.

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

The preceding method 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 method is 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, 2018 and 2017:

	Investment Assets at Fair Value as of June 30, 2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity	\$ 353,897	\$ -	\$ -	\$ 353,897
Mutual Funds	<u>1,550,428</u>	<u>-</u>	<u>-</u>	<u>1,550,428</u>
Total investment assets at fair value	<u>\$ 1,904,325</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,904,325</u>

	Investment Assets at Fair Value as of June 30, 2017			
	<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>

NOTE I - LINE-OF-CREDIT

As of June 30, 2018, 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 1.93% as of June 30, 2018). The line-of-credit agreement is collateralized by the Organization's personal property. The agreement expires on February 23, 2019. There was no balance outstanding under the line-of-credit agreement as of either June 30, 2018 or 2017. No interest was assessed under the line-of-credit agreement for either of the years ended June 30, 2018 or 2017.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2018 and 2017

NOTE J - TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2018 and 2017, temporarily restricted net assets comprise the following:

	<u>2018</u>	<u>2017</u>
Legacy Program Services	\$ 1,311,773	\$ 2,041,175
i3 Scale-Up Contribution Match	<u>-</u>	<u>350,000</u>
	<u>\$ 1,311,773</u>	<u>\$ 2,391,175</u>

NOTE K - OPERATING LEASES

The Organization conducts its operations from facilities that are leased under operating leases expiring through July 2029. The Organization also has office equipment leases expiring through November 2021. As of June 30, 2018, 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>
2019	\$ 387,572	\$ 334,256	\$ 53,316
2020	492,166	440,091	52,075
2021	385,801	338,146	47,655
2022	365,892	337,333	28,559
2023	345,333	345,333	-
Thereafter	<u>2,273,000</u>	<u>2,273,000</u>	<u>-</u>
	<u>\$ 4,249,764</u>	<u>\$ 4,068,159</u>	<u>\$ 181,605</u>

Total office lease expense reported under these leases amounted to \$277,416 and \$272,367 for the years ended June 30, 2018 and 2017, respectively. The Organization maintains offices in Philadelphia, Pennsylvania, Irvington, New Jersey, Chicago, Illinois, Houston, Texas and Denver, Colorado. Total equipment lease expense reported under these leases amounted to \$60,357 and \$52,253 for the years ended June 30, 2018 and 2017, respectively, and is included in maintenance expense on the statements of functional expenses. Leases which required scheduled increases are recognized on the straight-line method. As of June 30, 2018 and 2017, deferred rent related to these leases totaled \$22,858 and \$10,298, respectively.

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 \$420,656 and \$294,502 for the years ended June 30, 2018 and 2017, respectively. Contributions are 100% vested in the defined-contribution plan.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2018 and 2017

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

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, 2018 and 2017, the Organization has recorded \$5,664,977 and \$4,242,010, respectively, (for a cumulative total of \$9,906,987) of revenue under this U.S. Department of Education grant. The amounts exclude match revenues of \$610,000 and \$736,729 (for a cumulative total of \$1,758,522) for the years ended June 30, 2018 and 2017, respectively.

NOTE N - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through September 26, 2018, which is the date the financial statements were available to be issued.