

FINANCIAL STATEMENTS



FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2018

THE NEWS LITERACY PROJECT, INC.

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GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The News Literacy Project, Inc.
Bethesda, Maryland

We have audited the accompanying financial statements of The News Literacy Project, Inc. (The NLP), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and change in net assets, functional expenses and cash flows for the six month period 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 audit. We conducted our audit 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 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 above present fairly, in all material respects, the financial position of The NLP as of June 30, 2018, and the change in its net assets and its cash flows for the six month period then ended in accordance with accounting principles generally accepted in the United States of America.

October 31, 2018

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THE NEWS LITERACY PROJECT, INC.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,013,442
Investments	796,619
Grants and other receivables	222,675
Prepaid expenses	<u>2,477</u>
Total current assets	<u>2,035,213</u>

CAPITAL ASSETS

Software development	444,966
Website development	<u>107,363</u>
	552,329
Less: Accumulated amortization	<u>(160,692)</u>
Net capital assets	<u>391,637</u>

OTHER ASSETS

Security deposit	3,200
Trademark	<u>8,533</u>
Total other assets	<u>11,733</u>

TOTAL ASSETS \$ 2,438,583

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ <u>77,465</u>
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NET ASSETS

Unrestricted	1,510,136
Temporarily restricted	<u>850,982</u>
Total net assets	<u>2,361,118</u>

TOTAL LIABILITIES AND NET ASSETS \$ 2,438,583

THE NEWS LITERACY PROJECT, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and contributions	\$ 872,744	\$ 575,500	\$ 1,448,244
Earned income	16,577	-	16,577
Investment income	51,963	-	51,963
Contributed services	37,553	-	37,553
Loss on disposal of asset	(16,597)	-	(16,597)
Net assets released from donor restrictions	<u>1,090,181</u>	<u>(1,090,181)</u>	<u>-</u>
Total support and revenue	<u>2,052,421</u>	<u>(514,681)</u>	<u>1,537,740</u>
EXPENSES			
Program Services	<u>815,544</u>	<u>-</u>	<u>815,544</u>
Supporting Services:			
Management and General	155,258	-	155,258
Fundraising	<u>173,567</u>	<u>-</u>	<u>173,567</u>
Total supporting services	<u>328,825</u>	<u>-</u>	<u>328,825</u>
Total expenses	<u>1,144,369</u>	<u>-</u>	<u>1,144,369</u>
Change in net assets	908,052	(514,681)	393,371
Net assets at beginning of period	<u>602,084</u>	<u>1,365,663</u>	<u>1,967,747</u>
NET ASSETS AT END OF PERIOD	<u>\$ 1,510,136</u>	<u>\$ 850,982</u>	<u>\$ 2,361,118</u>

THE NEWS LITERACY PROJECT, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2018

	<u>Supporting Services</u>			<u>Total Supporting Services</u>	<u>Total Expenses</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>		
Salaries and benefits	\$ 594,014	\$ 81,078	\$ 87,575	\$ 168,653	\$ 762,667
Consulting	84,007	90	48,646	48,736	132,743
Production	32,046	4,113	10,069	14,182	46,228
Professional fees	-	31,339	-	31,339	31,339
Skilled volunteers	16,100	-	8,229	8,229	24,329
Honoraria	599	-	-	-	599
Travel	18,004	12,864	4,025	16,889	34,893
Computer and technology expenses	16,218	1,724	1,530	3,254	19,472
Supplies, printing and postage	4,416	6,259	5,079	11,338	15,754
Telephone	3,800	3,947	-	3,947	7,747
Insurance	12	2,200	-	2,200	2,212
Occupancy	17,222	2,318	2,539	4,857	22,079
Fees and charges	256	5,442	1,620	7,062	7,318
Amortization	28,850	3,884	4,254	8,138	36,988
TOTAL	\$ 815,544	\$ 155,258	\$ 173,567	\$ 328,825	\$ 1,144,369

THE NEWS LITERACY PROJECT, INC.

STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2018**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 393,371
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Amortization	36,988
Unrealized gain	(43,442)
Loss on disposal of asset	16,597
Donated securities	(250,623)
(Increase) decrease in:	
Grants and other receivables	(52,475)
Prepaid expenses	2,845
(Decrease) in:	
Accounts payable and accrued liabilities	<u>(4,062)</u>
Net cash provided by operating activities	<u>99,199</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of fixed assets	(271,150)
Purchase of investments	<u>(502,554)</u>
Net cash used by investing activities	<u>(773,704)</u>
Net decrease in cash and cash equivalents	(674,505)
Cash and cash equivalents at beginning of period	<u>1,687,947</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 1,013,442</u>

THE NEWS LITERACY PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The News Literacy Project, Inc. (The NLP) is a non-profit organization, incorporated in the State of Maryland. The NLP is a non-partisan national education non-profit that works with educators and journalists to teach middle school and high school students how to sort fact from fiction in the digital age. The NLP provides these students with the essential skills they need to become smart, active consumers of news and information and engaged, informed citizens.

During 2017, the Board of Directors changed The News Literacy Project, Inc.'s fiscal year-end from December 31 to June 30; the accompanying single-period financial statements present the activities for the six month period from January 1, 2018 through June 30, 2018.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Cash and cash equivalents -

The NLP considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the six month period, The NLP maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in investment income in the Statement of Activities and Change in Net Assets.

Investments acquired by donation are recorded at their fair value at the date of the donation. The NLP's policy is to retain donated investments in a reserve funding account.

Grants and other receivables -

Grants and other receivables approximate fair value. Management considers all amounts to be fully collectible within one-year. Accordingly, an allowance for doubtful accounts has not been established.

Capital assets -

Costs incurred for the development and implementation of the website and software in excess of \$1,000 are capitalized and stated at cost. Capital assets are amortized on a straight-line basis over five years. Costs incurred for the ongoing maintenance of the existing website and software are expensed as incurred. The capitalization and ongoing assessment of recoverability of development costs incurred require considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility and estimated economic life. There was no impairment noted for the six month period ended June 30, 2018. Amortization expense for the six month period ended June 30, 2018 totaled \$36,988, which includes \$1,066 of amortization on the trademark.

THE NEWS LITERACY PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Intangible asset -

The NLP has adopted *Financial Accounting Standards Board (FASB) ASC 350-35-6, Goodwill and Other Intangible Assets*. In connection with the adoption of this standard, The NLP's trademark is being amortized on a straight-line basis over ten years. Management believes there has been no impairment for the six month period ended June 30, 2018. The balance of the trademark remaining to be amortized was \$8,533.

Income taxes -

The NLP is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The NLP is not a private foundation.

Uncertain tax positions -

For the six month period ended June 30, 2018, The NLP has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of The NLP and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of The NLP and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Grants and contributions -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Contributed services -

Contributed services consist of donated services in support of its programs and recorded at their fair market value as of the date of the service. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills that would otherwise be purchased by The NLP.

THE NEWS LITERACY PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Use of estimates -

The preparation of the 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 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.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

The NLP invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

The NLP adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The NLP accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

New accounting pronouncements (not yet adopted) -

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The NLP has not yet decided on a transition method. The ASU is effective for years beginning after December 15, 2018.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets.

THE NEWS LITERACY PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

New accounting pronouncements (not yet adopted) (continued) -

The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of The NLP's financial statements, it is not expected to alter The NLP's reported financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised 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. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018. Early adoption is permitted. The NLP has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

The NLP plans to adopt the new ASUs at the respective required implementation dates.

2. **INVESTMENTS**

Investments consisted of the following at June 30, 2018:

	<u>Fair Value</u>
Common stocks	\$ 294,078
Certificates of deposit	<u>502,541</u>
TOTAL INVESTMENTS	<u>\$ 796,619</u>

Included in investment income are the following:

Interest and dividends	\$ 8,521
Unrealized gain	<u>43,442</u>
TOTAL INVESTMENT INCOME	<u>\$ 51,963</u>

THE NEWS LITERACY PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2018:

Program Services	\$ <u>850,982</u>
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The following temporarily restricted net assets were released from donor restrictions by incurring expenses which satisfied the restricted purposes specified by the donors:

	<u>2018</u>
Program Services	\$ 934,681
Passage of time	<u>155,500</u>
NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ <u>1,090,181</u>

4. CONTRIBUTED SERVICES

During the six month period ended June 30, 2018, The NLP was the beneficiary of donated services, which allowed The NLP to provide greater resources toward various programs.

The following donations have been included in revenue and expense for the six month period ended June 30, 2018.

Journalists and editorial services	\$ 18,400
Legal services	13,224
Event space	<u>5,929</u>
TOTAL CONTRIBUTED SERVICES	\$ <u>37,553</u>

5. OCCUPANCY

The NLP leased office space in Chicago under a one-year agreement, which expired on March 31, 2017. The lease agreement was not renewed and the security deposit totaling \$1,200 was reimbursed to The NLP.

On July 28, 2017, The NLP entered into a six-month agreement to lease office space in the District of Columbia, effective September 1, 2017. Upon the ending date, or any extension thereof, the lease agreement will be automatically be renewed and extended for an additional period of six months (unless otherwise cancelled) until December 31, 2024. Monthly base rent for the lease agreement is \$3,200 and will increase by 5% on an annual basis.

The following is a schedule of the future minimum lease payments:

Period Ending June 30, 2019	\$ <u>42,000</u>
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Rent expense for the six month period ended June 30, 2018 totaled \$22,079.

THE NEWS LITERACY PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

6. RETIREMENT PLAN

The NLP has a retirement plan (the Plan) under IRS Section 401(k) of the Internal Revenue Code. Participation in the Plan is available to all employees who have completed 90 days of service and have attained the age of twenty-one. The NLP may elect to make a voluntary year-end contribution to the retirement accounts of eligible employees. The NLP elected to not make a 401(k) funding contribution to the Plan.

7. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, The NLP has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market The NLP has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used as of June 30, 2018.

- *Common stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Certificates of deposit* - Generally valued at original cost plus accrued interest, which approximates fair value.

The table below summarizes, by level within the fair value hierarchy, The NLP investments as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2018</u>
Asset Class:				
Common stocks	\$ 294,078	\$ -	\$ -	\$ 294,078
Certificates of deposit	<u>-</u>	<u>502,541</u>	<u>-</u>	<u>502,541</u>
TOTAL	<u>\$ 294,078</u>	<u>\$ 502,541</u>	<u>\$ -</u>	<u>\$ 796,619</u>

THE NEWS LITERACY PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

8. SUBSEQUENT EVENTS

In preparing these financial statements, The NLP has evaluated events and transactions for potential recognition or disclosure through October 31, 2018, the date the financial statements were issued.