



FINANCIAL STATEMENTS

December 31, 2017 (Audited) and 2016 (Reviewed)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Empirical Resolution, Inc.
New York, New York

We have audited the accompanying financial statements of Empirical Resolution, Inc. dba Quill (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 Empirical Resolution, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Prior Period Financial Statements

The December 31, 2016 financial statements were reviewed by us, and our report thereon, dated October 27, 2017, stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

Wegner CPAs LLP

Wegner CPAs, LLP
New York, New York
November 9, 2018

EMPIRICAL RESOLUTION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 (Audited) and 2016 (Reviewed)

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 297,194	\$ 178,786
Unconditional promises to give	1,045,000	140,000
Accounts receivable	2,040	1,100
Prepaid expenses	<u>23,914</u>	<u>1,197</u>
Total current assets	1,368,148	321,083
PROPERTY AND EQUIPMENT		
Web application information technology	1,040,052	607,356
Computers	14,012	7,484
Less accumulated depreciation and amortization	<u>(264,227)</u>	<u>(133,687)</u>
Property and equipment - net	789,837	481,153
OTHER ASSETS		
Unconditional promises to give less current portion	<u>-</u>	<u>45,000</u>
Total assets	<u><u>\$ 2,157,985</u></u>	<u><u>\$ 847,236</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 887	\$ 5,073
Accrued payroll liabilities	9,917	7,009
Deferred revenue	<u>48,543</u>	<u>12,487</u>
Total current liabilities	59,347	24,569
LONG-TERM LIABILITIES		
Investment loan	<u>18,000</u>	<u>18,000</u>
Total liabilities	77,347	42,569
NET ASSETS		
Unrestricted	2,003,659	616,151
Temporarily restricted	<u>76,979</u>	<u>188,516</u>
Total net assets	<u>2,080,638</u>	<u>804,667</u>
Total liabilities and net assets	<u><u>\$ 2,157,985</u></u>	<u><u>\$ 847,236</u></u>

See accompanying notes.

EMPIRICAL RESOLUTION, INC.
STATEMENTS OF ACTIVITIES
Years ended December 31, 2017 (Audited) and 2016 (Reviewed)

	2017	2016
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions	\$ 1,596,489	\$ 454,249
Program service fees	52,819	32,807
Total unrestricted support and revenue	1,649,308	487,056
EXPENSES		
Program services	310,989	221,065
Supporting activities		
Management and general	36,850	24,853
Fundraising	57,477	62,667
Total expenses	405,316	308,585
Net assets released from restrictions	143,516	115,000
Change in unrestricted net assets	1,387,508	293,471
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	31,979	53,516
Net assets released from restrictions	(143,516)	(115,000)
Change in temporarily restricted net assets	(111,537)	(61,484)
Change in net assets	1,275,971	231,987
Net assets - beginning of year	804,667	572,680
Net assets - end of year	\$ 2,080,638	\$ 804,667

See accompanying notes.

EMPIRICAL RESOLUTION, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years ended December 31, 2017 (Audited) and 2016 (Reviewed)

	2017			
	Program Services	Supporting Activities		Total
		Management and General	Fundraising	
Personnel	\$ 35,165	\$ 15,655	\$ 54,780	\$ 105,600
Occupancy	88,260	1,317	2,108	91,685
Depreciation and amortization	130,084	341	114	130,539
Software and technology	32,895	543	-	33,438
Professional fees	13,050	7,609	-	20,659
Travel and meetings	9,059	135	216	9,410
Insurance	-	3,210	-	3,210
Miscellaneous	2,476	8,040	259	10,775
Total expenses	\$ 310,989	\$ 36,850	\$ 57,477	\$ 405,316

	2016			
	Program Services	Supporting Activities		Total
		Management and General	Fundraising	
Personnel	\$ 16,173	\$ 11,225	\$ 52,847	\$ 80,245
Occupancy	78,300	3,600	8,100	90,000
Depreciation and amortization	76,889	1,585	793	79,267
Software and technology	29,487	240	120	29,847
Professional fees	11,137	5,596	-	16,733
Travel and meetings	5,039	213	479	5,731
Insurance	-	2,169	-	2,169
Miscellaneous	4,040	225	328	4,593
Total expenses	\$ 221,065	\$ 24,853	\$ 62,667	\$ 308,585

See accompanying notes.

EMPIRICAL RESOLUTION, INC.
STATEMENTS OF CASH FLOWS
Years ended December 31, 2017 (Audited) and 2016 (Reviewed)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,275,971	\$ 231,987
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	130,539	79,267
(Increase) decrease in assets		
Unconditional promises to give	(860,000)	65,000
Accounts receivable	(940)	(1,100)
Prepaid expenses	(22,717)	(1,197)
Increase (decrease) in liabilities		
Accounts payable	(4,186)	(534)
Accrued payroll liabilities	2,908	1,726
Deferred revenue	36,056	11,271
Net cash flows from operating activities	557,631	386,420
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for development of web application information technology	(432,696)	(215,300)
Purchase of computers	(6,527)	(7,485)
Net cash flows from investing activities	(439,223)	(222,785)
Net change in cash	118,408	163,635
Cash - beginning of year	178,786	15,151
Cash - end of year	\$ 297,194	\$ 178,786

See accompanying notes.

EMPIRICAL RESOLUTION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 (Audited) and 2016 (Reviewed)

Empirical Resolution, Inc. (hereafter "Quill") provides free online tools to help low-income students become sharp writers. Quill's mission is to help the 30 million low-income K-12 students in the United States who struggle with writing. Quill currently provides four writing tools that enable students to build writing, grammar, and proofreading skills, and will continually launch new tools that advance student writing and thinking. Through Quill's tools, students gain the ability to express, with clarity and precision, complicated thoughts in writing.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Quill reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets—Net assets that are not restricted by donors. Designations are voluntary board-approved segregations of unrestricted net assets for specific purposes, projects, or investments.

Temporarily restricted net assets—Net assets whose use has been limited by donor-imposed time restrictions or purpose restrictions.

Permanently restricted net assets—Net assets that have been restricted by donors to be maintained by Quill in perpetuity.

Promises to Give

Unconditional promises to give are recognized as support or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. At December 31, 2017, unconditional promises to give totaling \$1,045,000 are receivable in less than one year. At December 31, 2016, unconditional promises to give totaling \$140,000 are receivable in less than one year and \$45,000 are receivable in one to five years.

Accounts Receivable

Quill considers all accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is required. If receivables become uncollectible, they will be charged to operations when that determination is made.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Personnel expenses incurred for the development of Quill's website application information technology are capitalized and amortized on a straight-line basis over the estimated useful life of the asset. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

EMPIRICAL RESOLUTION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 (Audited) and 2016 (Reviewed)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Revenue is recognized when earned. Such amounts earned, but not received, are reported as accounts receivable. Such amounts received, but not earned, are reported as deferred revenue.

Contributions

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services and Use of Facilities

Donated services are recognized as contributions at their estimated fair value in the period received if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Quill. Volunteers also provide various services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria are not met. Donated use of facilities are recorded at their estimated fair value in the period received.

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Income Tax Status

Quill is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, Quill qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Date of Management's Review

Management has evaluated subsequent events through November 9, 2018 the date which the financial statements were available to be issued.

EMPIRICAL RESOLUTION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 (Audited) and 2016 (Reviewed)

NOTE 2—INVESTMENT LOAN

In 2015, Quill entered into an agreement with LearnLaunchX, LLC as a part of its participation in the LearnLaunch Educational Technology Accelerator. As the first nonprofit in the accelerator program, Quill and LearnLaunchX, LLC structured LearnLaunchX, LLC's \$18,000 investment as an investment loan. Under this agreement, Quill is required to pay royalties to LearnLaunchX, LLC for 2.5% of Quill Premium school sales revenue earned through January 2020. All other earned revenue, including grant, donation, and award revenue, is excluded from royalties. Quarterly payments are required beginning December 2017 through January 2020, when the agreement expires. The maximum amount of royalties that Quill may be obligated to pay is \$150,000, which will occur if Quill generates \$6,000,000 by Quill Premium during this time period. The investment loan may be called by LearnLaunchX, LLC if Quill violates any terms of the agreement.

NOTE 3—CONDITIONAL PROMISE TO GIVE

During 2016, Quill received a \$30,000 promise to give that was conditional based on the review of Quill's performance for 2016. The condition was met and Quill received full payment in 2017.

NOTE 4—TEMPORARILY RESTRICTED NET ASSTS

Temporarily restricted net assets as are available for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
Donated use of facilities for future years	\$ 45,000	\$ 135,000
Quill.org research pilot at Icahn Charter Schools	20,841	-
Promise to give for future year	-	50,000
Purchase of computers	8,788	3,516
To attend 2018 conferences	<u>2,350</u>	<u>-</u>
Temporarily restricted net assets	<u>\$ 76,979</u>	<u>\$ 188,516</u>

NOTE 5—CONCENTRATIONS OF CREDIT RISK

Quill maintains cash balances at one financial institution located in New York. The Federal Deposit Insurance Corporation insures amounts up to \$250,000. At December 31, 2017 Quill's uninsured cash balances were approximately \$44,000.

NOTE 6—ECONOMIC DEPENDENCY

During 2017, approximately 61% of Quill's contributions came from one foundation.

EMPIRICAL RESOLUTION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 (Audited) and 2016 (Reviewed)

NOTE 7—DONATED SERVICES

During 2017, Quill received \$20,000 of Google Cloud Credits available to be used for various program related expenses. As of December 31, 2017 Quill had used \$2,561 of credits available, and \$17,439 of credits available to be used during future years and are recorded as prepaid expenses.

During 2017 and 2016, the Executive Director of Quill received compensation that was significantly below market rates. Quill has recorded the difference between actual costs and the estimated fair market value of the services provided by the Executive Director for 2017 and 2016.

The fair value of donated services included as contributions in the financial statements for 2017 and 2016 was as follows:

	2017	2016
Donated services provided by Executive Director	\$ 49,243	\$ 61,655
Google Cloud Credits	20,000	-
Total	\$ 69,243	\$ 61,655

Expenses for donated services were recorded in the 2017 and 2016 financial statements as follows:

2017				
	Program Services	Supporting Activities		Total
		Management and General	Fundraising	
Personnel	\$ -	\$ 8,371	\$ 40,872	\$ 49,243
Software and technology	2,561	-	-	2,561
Total	\$ 2,561	\$ 8,371	\$ 40,872	\$ 51,804
2016				
	Program Services	Supporting Activities		Total
		Management and General	Fundraising	
Personnel	\$ -	\$ 10,481	\$ 51,174	\$ 61,655