

EISNERAMPER

EXPANDED SCHOOLS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017

INDEPENDENT AUDITORS' REPORT

Board of Directors
ExpandedED Schools, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of ExpandedED Schools Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Organization's 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 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 ExpandedED Schools Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

EISNERAMPER LLP
New York, New York
_____, 2018

EXPANDED SCHOOLS, INC.

Statements of Financial Position

	June 30,	
	<u>2018</u>	<u>2017</u>
ASSETS		
Cash (including restricted cash of \$656,619 in 2017)	\$ 3,285,692	\$ 4,823,770
Grants and contributions receivable, net	2,492,457	3,179,890
Government grants and contracts services receivable, net	4,476,411	5,150,688
Prepaid expenses and other assets	39,415	22,042
Property and equipment, net	<u>361,844</u>	<u>176,523</u>
	<u>\$ 10,655,819</u>	<u>\$ 13,352,913</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 746,966	\$ 651,452
Grants payable	2,585,701	3,257,976
Security deposits payable		154,849
Loan payable		440,338
Deferred rent obligation	224,115	82,002
Deferred revenue	<u>35,750</u>	<u>2,500</u>
	<u>3,592,532</u>	<u>4,589,117</u>
Commitments and contingency (Note K)		
Net assets:		
Unrestricted	3,449,995	2,862,838
Temporarily restricted	<u>3,613,292</u>	<u>5,900,958</u>
	<u>7,063,287</u>	<u>8,763,796</u>
	<u>\$ 10,655,819</u>	<u>\$ 13,352,913</u>

EXPANDED SCHOOLS, INC.

Statements of Activities

	Year Ended June 30,					
	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Government grants and contracts	\$ 8,385,284		\$ 8,385,284	\$ 9,595,078		\$ 9,595,078
Grants and contributions	739,259	\$ 1,334,707	2,073,966	834,864	\$ 4,413,936	5,248,800
Contracted services	721,851		721,851	599,282		599,282
Special events (net of direct benefit to donors of \$82,072 and \$68,878, respectively)	469,450		469,450	438,583		438,583
Rental income	170,859		170,859	619,278		619,278
Donated goods and services	62,329		62,329	177,131		177,131
Other income	6,705		6,705	4,683		4,683
Total public support and revenue before releases of restrictions	10,555,737	1,334,707	11,890,444	12,268,899	4,413,936	16,682,835
Net assets released from restrictions	3,622,373	(3,622,373)	0	3,681,732	(3,681,732)	0
Total public support and revenue	14,178,110	(2,287,666)	11,890,444	15,950,631	732,204	16,682,835
Expenses:						
Program services	11,322,152		11,322,152	13,251,972		13,251,972
Management and general	1,531,427		1,531,427	1,717,170		1,717,170
Fund-raising	737,374		737,374	824,055		824,055
Total expenses	13,590,953		13,590,953	15,793,197		15,793,197
Change in net assets	587,157	(2,287,666)	(1,700,509)	157,434	732,204	889,638
Net assets, beginning of year	2,862,838	5,900,958	8,763,796	2,705,404	5,168,754	7,874,158
Net assets, end of year	\$ 3,449,995	\$ 3,613,292	\$ 7,063,287	\$ 2,862,838	\$ 5,900,958	\$ 8,763,796

See notes to financial statements.

EXPANDED SCHOOLS, INC.

Statements of Functional Expenses

Year Ended June 30,

	2018				2017			
	Program Services	Management and General	Fund-Raising	Total	Program Services	Management and General	Fund-Raising	Total
Salaries and wages	\$ 2,177,131	\$ 760,304	\$ 448,236	\$ 3,385,671	\$ 2,464,845	\$ 747,260	\$ 465,763	\$ 3,677,868
Payroll taxes, fringe benefits and payroll fees	507,628	177,275	104,512	789,415	625,603	189,663	118,215	933,481
Training and development	17,771	5,305	3,448	26,524	15,324	4,575	2,973	22,872
Pension costs	90,490	31,601	18,631	140,722	101,638	30,813	19,206	151,657
Total salaries and related expenses	2,793,020	974,485	574,827	4,342,332	3,207,410	972,311	606,157	4,785,878
Grants to community-based-organizations	5,279,410			5,279,410	6,498,889			6,498,889
Occupancy	542,692	155,055	77,527	775,274	1,031,847	294,814	147,407	1,474,068
Telephone	29,512	8,426	4,363	42,301	25,328	7,272	3,736	36,336
Equipment rental	34,043	9,727	4,863	48,633	34,228	9,779	4,890	48,897
Insurance	100,292	28,655	14,327	143,274	102,796	29,369	14,685	146,850
Professional fees		64,000		64,000		62,000		62,000
Consultants and contractors	1,586,536	119,511	16,050	1,722,097	1,451,759	52,710	2,025	1,506,494
Other program expenses	520,605		136	520,741	423,412			423,412
Travel and related cost	49,083	2,959	1,122	53,164	48,504	3,013	1,116	52,633
Office supplies and expense	219,220	71,201	21,672	312,093	177,088	36,580	9,425	223,093
Depreciation and amortization	151,292	43,226	21,613	216,131	242,297	69,228	34,614	346,139
Bad debts	12,049			12,049		2,766		2,766
Miscellaneous	4,398	13,941	874	19,213	8,414	14,625		23,039
Total expenses before donated goods and services	11,322,152	1,491,186	737,374	13,550,712	13,251,972	1,554,467	824,055	15,630,494
Donated goods and services		40,241		40,241		162,703		162,703
Total expenses	\$ 11,322,152	\$ 1,531,427	\$ 737,374	\$ 13,590,953	\$ 13,251,972	\$ 1,717,170	\$ 824,055	\$ 15,793,197

See notes to financial statements.

EXPANDED SCHOOLS, INC.

Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (1,700,509)	\$ 889,638
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	216,131	346,139
Amortization of deferred rent obligation	(93,002)	(328,008)
Bad debts	12,049	2,766
Changes in:		
Grants and contribution receivable, net	690,206	(3,589,608)
Government grants and contracts services receivable, net	(827,521)	(400,199)
Prepaid expenses and other assets	(20,146)	23,890
Accounts payable and accrued expenses	95,514	79,631
Grants payable	(672,275)	549,638
Deferred rent obligation	235,115	
Deferred revenue	33,250	(62,251)
Security deposit payable	(154,849)	
Net cash used in operating activities	<u>(2,186,037)</u>	<u>(2,488,364)</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(401,452)</u>	<u>(2,782)</u>
Cash flows from financing activities:		
Proceeds from loans from the Fund of the City of New York	<u>1,049,411</u>	<u>3,002,534</u>
Change in cash and restricted cash	(1,538,078)	511,388
Cash and restricted cash, beginning of year	<u>4,823,770</u>	<u>4,312,382</u>
Cash and restricted cash, end of year	<u>\$ 3,285,692</u>	<u>\$ 4,823,770</u>
Supplemental disclosure of cash flow information:		
Donated goods and services	<u>\$ 62,329</u>	<u>\$ 177,131</u>
Repayment of loans directly by third party	<u>\$ 1,489,749</u>	<u>\$ 2,562,196</u>

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND ITS SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

ExpandED Schools, Inc. (the "Organization"), was organized under the not-for-profit law of the State of New York on April 2, 1998, and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). The mission of the Organization is to close the learning gap by increasing access to enriched education experiences in school, after school and during the summer to ensure that all kids have opportunities to discover their talents and develop their full potential.

The Organization partners with the public and private sectors to provide more and better learning time for students and to provide professional development, technical assistance, financial resources and advocacy to support schools and community-based organizations in establishing and operating high-quality expanded learning programs.

[2] Basis of accounting:

The accompanying financial statements of the Organization have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") as applicable to not-for-profit organizations.

[3] 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 amount of assets and liabilities and revenue and expenses, as well as the disclosure of contingencies. Actual results may differ from those estimates.

[4] Property and equipment:

Property and equipment are stated at their original costs or if contributed, at their fair value at the date of donation. Minor costs of repairs and maintenance are accounted for as expenses as incurred. The Organization capitalizes items of property and equipment that have a cost of \$1,000 or more and a useful life greater than one year. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the respective assets, which range from three to ten years. Leasehold improvements are amortized over the remaining lease term, or the useful lives of the improvements, whichever is shorter.

Management evaluates recoverability of the investment in long-lived assets on an on-going basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2018 and 2017, respectively, and, in the opinion of management, there were no impairments. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[5] Accrued vacation:

Accrued vacation represents the Organization's obligation for the cost of total unused employee vacation time that would be payable in the event of employee departures; the obligation is recalculated every year. At June 30, 2018 and 2017, this accrued vacation obligation was approximately \$85,000 and \$99,000, respectively, and was reported as part of accounts payable and accrued expenses in the accompanying statements of financial position.

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] Grants payable:

Grants to community based organizations are recognized as an obligation to the Organization at the time they are executed by all parties and are generally payable within one year from the date of execution. The Organization adjusts grant obligations as needed based upon final approval of expenses. Grants payable were approximately \$2,586,000 and \$3,258,000 at June 30, 2018 and 2017, respectively.

[7] Deferred rent obligation:

Total rent expense under the lease agreement is amortized using the straight-line method over the term of the lease. The difference between rent expense incurred and the rental amounts paid, which is attributable to scheduled rent increases and abatements, is reported as a deferred rent obligation in the accompanying statements of financial position. Included in the deferred rent obligation of approximately \$224,000 and \$82,000 at June 30, 2018 and 2017, respectively, is approximately \$101,000 and \$33,000 of leasehold improvements reimbursed to the Organization by the landlord.

[8] Net assets:

(i) Unrestricted:

Unrestricted net assets represent those resources that are not subject to donor restrictions and are available for current operations.

(ii) Temporarily restricted:

Temporarily restricted net assets represent those resources that are subject to the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA") and those resources for which the use has been restricted by donors to specific purposes and/or passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends, a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as "net assets released from restrictions."

[9] Revenue recognition:

(i) Government grants and contracts:

Government grants and contracts services are recognized either when the services are performed or when the expenditures are incurred. Cash received prior to providing services is deferred to future periods.

(ii) Grants and contributions:

Grant revenue is based on the terms of each individual grant, and is considered available for unrestricted use unless the donor or grantor restricts the use thereof, on a temporary basis.

Contributions to the Organization are recognized as revenue upon the receipt of cash or other assets, or of unconditional pledges. Contributions are recorded as temporarily restricted if they are received with donor stipulations or time considerations as to their use. Conditional contributions are recorded when conditions have been met and, if received in advance, are recognized in the statements of financial position as funds received in advance. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Revenue recognition: (continued)

(iii) Special events:

During fiscal-years 2018 and 2017, the Organization held annual events to raise money for its operating costs. A portion of the gross proceeds paid by the attendees of the event represents contribution revenue as well as the payment of the direct cost of the benefits received by the attendees of the event. Such special-event income is reported net of the direct benefit that the donors receive, referred to as "direct benefit to donor."

(iv) Contracted services:

Contracted services are recognized as revenue in the accompanying statements of activities when professional services are performed.

(v) Rental income:

Rental income is derived from meeting room rentals and sublease of the Organization's leased space (see Note K).

(vi) Donated goods and services:

For recognition of donated goods and services in the Organization's financial statements, such goods and services must (i) create or enhance non-financial assets and (ii) typically need to be acquired if not provided by donation. Additionally, recognition of donated services must (i) require a specialized skill and (ii) be provided by individuals possessing these skills. Donated goods and services are recorded as support at their estimated fair values at the dates of donation and are reported as unrestricted support unless the donor has restricted any donated assets for a specific purpose. Donated goods and services are both reported as contributions and offsetting expenses in the accompanying statements of activities (see Note D).

[10] Functional allocation of expenses:

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the statements of activities and of functional expenses. Accordingly, certain costs have been allocated by management among the programs, management and general and fund-raising categories areas using appropriate measurement methodologies.

[11] Income tax uncertainties:

The Organization is subject to the provisions of the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, relating to accounting and reporting for uncertainty in income taxes. Because of the Organization's general tax-exempt status, management believes ASC Topic 740 has not had, and is not anticipated to have, a material impact on the Organization's financial statements.

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[12] Upcoming accounting change:

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends financial-statement presentations and disclosures, with the goal of assisting not-for-profit organizations in providing 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: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and the availability of resources, and (v) the presentation of operating cash flows. The new standard will be effective for annual reporting periods beginning after December 15, 2017. The Organization will adopt the accounting pronouncement in fiscal 2019.

[13] Subsequent events:

The Organization evaluated subsequent events through ____, 2018, the date the financial statements were available to be issued.

NOTE B - RECEIVABLES

[1] Grants and contributions receivable:

At each fiscal year-end, the receivables were estimated to be due as follows:

	June 30,	
	2018	2017
Less than one year	\$ 2,214,432	\$ 2,946,185
One to three years	<u>293,763</u>	<u>247,938</u>
	2,508,195	3,194,123
Reduction of pledges due in excess of one year to present value, at discount rate of 3%	<u>(15,738)</u>	<u>(14,233)</u>
	<u>\$ 2,492,457</u>	<u>\$ 3,179,890</u>

Based on management's past experience, contributions and grants receivable are expected to be fully collected, and accordingly, no allowance for doubtful accounts has been established.

[2] Government grants and contracts services receivable:

Government grants and contracts receivable for fiscal-years 2018 and 2017 represent amounts due for services already performed. On a periodic basis, the Organization evaluates its government grants and contracts receivable and establishes an allowance for doubtful accounts based on a history of past write-offs and the grantors' disallowances of certain costs. At June 30, 2018 and 2017 government grants and contracts services receivable were \$4,476,411 and \$5,150,688, respectively, net of an allowance for doubtful accounts of \$75,000, for both fiscal-years 2018 and 2017, respectively.

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE C - PROPERTY AND EQUIPMENT

At each year-end, property and equipment consisted of the following:

	June 30,	
	2018	2017
Leasehold improvements	\$ 239,873	\$ 3,365,085
Office furniture and equipment	156,106	25,036
Computers and office equipment	<u>360,876</u>	<u>379,219</u>
	756,855	3,769,340
Less: accumulated depreciation and amortization	<u>(395,011)</u>	<u>(3,592,817)</u>
	<u>\$ 361,844</u>	<u>\$ 176,523</u>

During fiscal-year 2018, the Organization wrote off fully depreciated property and equipment with an original cost of approximately \$3,414,000.

NOTE D - DONATED GOODS AND SERVICES

The Organization helps to implement after-school programs run by various community-based organizations in New York City and provides resources to many of those organizations. The Organization also helps these organizations to obtain resources from federal funders. Such resources included snacks and supper meals for 10,605 and 11,733 after-school participants and were provided throughout each of the fiscal-years 2018 and 2017, respectively. The value of these resources approximated \$3,620,000 and \$4,007,000 in fiscal-years 2018 and 2017, respectively, and because they were provided directly to the community-based organizations, they have not been reported in the accompanying financial statements.

In fiscal-years 2018 and 2017, the Organization received approximately \$16,000 and \$154,000, respectively, in legal, strategic-planning, consulting, and other professional services. During fiscal-years 2018 and 2017, the Organization also received donated goods, consisting of items provided for its special event, which were valued at approximately \$46,000 and \$23,000, respectively. Approximately \$22,000 and \$14,000 of donated goods and services was reported net of special events revenue in the accompanying statement of activities for fiscal 2018 and 2017, respectively.

NOTE E - RETIREMENT BENEFITS

The Organization has a defined-contribution pension plan qualified under Section 403(b) of the Code. The plan covers all employees who meet the Organization's length-of-service requirements. Contributions by the Organization are discretionary and can be made only with the Board of Directors' approval. The Organization's contribution for fiscal-years 2018 and 2017 was approximately \$141,000 and \$152,000, respectively.

NOTE F - RELATED-PARTY TRANSACTIONS

Certain members of the Organization's Board of Directors serve as directors or managers of organizations that provide services to and/or receive grants from the Organization. The Organization's board has a conflict-of-interests policy in place that requires directors and managers to disclose all conflicts or potential conflicts. The Organization's Board has general oversight in the decisions made regarding grant awards, and those members of the Organization's Board and management who may have potential conflicts recuse themselves when there are determinations to be made regarding such potential conflicts.

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE G - SIGNIFICANT SOURCES OF REVENUE AND RECEIVABLES

The Organization received grants from the New York City Department of Youth and Community Development ("NYCDYCD") in the amounts of approximately \$4,554,000 and \$4,536,000 during fiscal-years 2018 and 2017, respectively. Such grants represented 54% and 47% of total government grants and contracts revenue for fiscal-years 2018 and 2017, respectively. Government grants and contracts receivable at June 30, 2018 and 2017 from NYCDYCD, were approximately \$2,325,000 and \$1,563,000, respectively. Such amounts represented approximately 52% and 30% of government grants receivable at June 30, 2018 and 2017, respectively.

The Organization received contract agreements from the New York City Department of Education ("NYCDOE") in the amount of approximately \$2,931,000 and \$3,278,000 during fiscal-years 2018 and 2017, respectively. Such contracts represented approximately 35% and 34% of government grants and contracts revenue in fiscal-years 2018 and 2017, respectively. Government grants and contracts receivable at June 30, 2018 and 2017 from NYCDOE, were approximately \$1,564,000 and \$2,719,000, respectively. Such amounts represented approximately 35% and 53% of government grants receivable at June 30, 2018 and 2017, respectively.

The Organization received contract agreements from the New York State Education Department ("NYSDOE") in the amount of approximately \$1,184,000 during fiscal-year 2017. Such contracts represented approximately 12% of government grants and contracts revenue in fiscal-year 2017. Government grants and contracts receivable at June 30, 2017 from NYSDOE represented approximately 10%.

The Organization received contributions from two private funders during fiscal 2018 and three private donors in fiscal 2017, aggregating approximately \$1,063,000 and \$3,730,000, respectively. Such amounts represented approximately 51% and 71% of grants and contribution revenue for fiscal-years 2018 and 2017, respectively. At June 30, 2018, grants and contributions receivable from two private funders totaling approximately \$2,492,000 represented approximately 58%. At June 30, 2017, grants and contribution receivable from four private funders totaling approximately \$2,463,000 representing approximately 77%.

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

At each fiscal year-end, temporarily restricted net assets consisted of the following:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Every Hour Counts (EHC)	\$ 562,210	\$ 1,732,761
Expanded Learning Time Initiative	773,379	1,462,513
Pathways program	104,869	278,380
Literacy programs	1,133,627	1,995,170
Science, Technology, Engineering and Math (STEM) Initiative	999,527	430,503
Summer service programs		1,631
Financial management program	<u>39,680</u>	
	<u>\$ 3,613,292</u>	<u>\$ 5,900,958</u>

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE H - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

During each fiscal year, net assets released from restrictions consisted of the following:

	Year Ended June 30,	
	2018	2017
Every Hour Counts (EHC)	\$ 1,170,551	\$ 1,422,211
Expanded Learning Time Initiative	1,092,527	1,316,581
Pathways	174,334	498,501
Literacy Programs	861,543	396,071
Science, Technology, Engineering and Math (STEM) Initiative	321,787	48,368
Summer Service Program	1,631	
	<u>\$ 3,622,373</u>	<u>\$ 3,681,732</u>

NOTE I - LOANS PAYABLE

In October 2017, the Organization entered into a bridge loan agreement with the Fund for the City of New York (the "Fund") for \$1,049,411 to cover operating expenses pending receipt of funds from the New York City Department of Education ("NYCDOE"). The loan was non-interest bearing and due in 90 days from the date the Organization signed the loan agreement. In February 2018, NYCDOE repaid the loan in full to Fund, in lieu of direct payment to the Organization.

In June 2017, the Organization entered into a bridge loan agreement with the Fund for \$440,338 to cover operating expenses pending receipt of funds from NYCDOE. The loan was non-interest bearing and due in 90 days from the date the Organization signed the loan agreement. In February 2018, NYCDOE repaid the loan in full to the Fund, in lieu of direct payment to the Organization.

NOTE J - CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash-equivalent accounts deposited in financial institutions, the balances of which, from time to time, may exceed federal insurance limits. However, management believes that the Organization does not face a significant risk of loss on these accounts due to the failures of those institutions.

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE K – COMMITMENTS AND CONTINGENCY

[1] Lease commitment:

The Organization was obligated under a non-cancelable operating lease for its office space, located at 1440 Broadway, NYC, which expired in September 2017. The lease was subject to escalation for the Organization's pro-rata share of increases in real estate taxes and operating expenses.

The Organization entered into a sublease agreement for a portion of its Broadway office space under a non-cancelable operating lease, which expired in September 2017. During fiscal 2015, the Organization entered into a sublease agreement for a portion of its office space, where the new tenant assumes joint responsibility for the lease terms. For the fiscal-years 2018 and 2017, rental income generated from those sublease agreements amounted to approximately \$171,000 and \$619,000, respectively.

In July 2017, the Organization entered into a non-cancelable sublease agreement for its new office space, located at 11 West 42nd Street in New York City, commencing October 2017 and expiring in March 2025. The lease is subject to escalation for the Organization's pro-rata share of increases in real estate taxes and operating expenses. The estimated minimum annual future rental commitments under the lease agreement is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 649,194
2020	649,194
2021	649,194
2022	649,194
2023	688,991
Thereafter	<u>1,949,448</u>
	<u>\$4,586,021</u>

In lieu of providing a security deposit with the landlord for the Organization's new office space, the Organization maintains a certificate of deposit with a bank in the amount of approximately \$162,000. In addition, the Organization held restricted cash of approximately \$155,000 in fiscal year 2017 of security deposits held on behalf of tenants on its old office space. Also, for both fiscal years, in lieu of providing a security deposit with the landlord for its old office space, the Organization maintains a standby letter of credit, in the approximate amount of \$335,000 with a New York financial institution. The letter of credit is secured by funds maintained with the same financial institution. At June 30, 2018, there were no restrictions on the cash and cash equivalents.

Subsequent to the fiscal year ended June 30, 2018, the Organization entered into a sublease agreement for space under a non-cancelable operating lease, expiring in July 2021. The sublease includes three, one year extension terms and requires annual minimum sublease rental of approximately \$70,000.

EXPANDED SCHOOLS, INC.

**Notes to Financial Statements
June 30, 2018 and 2017**

NOTE K – COMMITMENTS AND CONTINGENCY (CONTINUED)

[2] Government contracts:

Government grants and contracts are subject to audit by the funding sources. Such audit might result in disallowances of costs submitted for reimbursement. Management believes that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been reserved in the accompanying financial statements for potential disallowances.

[3] Other contracts:

The Organization has entered into various contracts and agreements in the normal course of business operations.

DRAFT SUBJECT TO REVIEW AND REVISION