



EXPANDED SCHOOLS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2017 and 2016

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, 2017 and 2016, 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.

Auditors' 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 auditors' judgments, 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 auditors consider internal control relevant to the organization'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 organization'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, 2017 and 2016, 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.



New York, New York
December 6, 2017

EXPANDED SCHOOLS, INC.

Statements of Financial Position

	June 30,	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash (including restricted cash of \$656,619 in 2017 and \$494,320 in 2016)	\$ 4,823,770	\$ 4,312,382
Grants and contributions receivable, net	3,179,890	2,152,478
Government grants and contracts services receivable	5,150,688	4,753,255
Prepaid expenses and other assets	22,042	45,932
Property and equipment, net	<u>176,523</u>	<u>519,880</u>
	<u>\$ 13,352,913</u>	<u>\$ 11,783,927</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and other liabilities	\$ 651,452	\$ 571,821
Grants payable	3,257,976	2,708,338
Security deposits payable	154,849	154,849
Loan payable	440,338	
Deferred rent obligation	82,002	410,010
Deferred revenue	<u>2,500</u>	<u>64,751</u>
	<u>4,589,117</u>	<u>3,909,769</u>
Commitments (Note K)		
Net assets:		
Unrestricted	2,862,838	2,705,404
Temporarily restricted	<u>5,900,958</u>	<u>5,168,754</u>
	<u>8,763,796</u>	<u>7,874,158</u>
	<u>\$ 13,352,913</u>	<u>\$ 11,783,927</u>

EXPANDED SCHOOLS, INC.

Statements of Activities

	Year Ended June 30,					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Government grants and contracts	\$ 9,595,078		\$ 9,595,078	\$ 8,069,919		\$ 8,069,919
Grants and contributions	834,864	\$ 4,413,936	5,248,800	889,157	\$ 2,997,133	3,886,290
Contracted services	599,282		599,282	1,083,213		1,083,213
Special events (net of direct benefit to donors of \$68,878 and \$56,316, respectively)	438,583		438,583	341,077		341,077
Rental income	619,278		619,278	605,209		605,209
Donated goods and services	177,131		177,131	72,988		72,988
Other income	4,683		4,683	10,740		10,740
Total public support and revenue before releases of restrictions	12,268,899	4,413,936	16,682,835	11,072,303	2,997,133	14,069,436
Net assets released from restrictions	3,681,732	(3,681,732)	0	6,446,540	(6,446,540)	0
Total public support and revenue	15,950,631	732,204	16,682,835	17,518,843	(3,449,407)	14,069,436
Expenses:						
Program services	13,251,972		13,251,972	14,555,954		14,555,954
Management and general	1,717,170		1,717,170	1,743,263		1,743,263
Fund-raising	824,055		824,055	795,444		795,444
Total expenses	15,793,197		15,793,197	17,094,661		17,094,661
Change in net assets	157,434	732,204	889,638	424,182	(3,449,407)	(3,025,225)
Net assets, beginning of year	2,705,404	5,168,754	7,874,158	2,281,222	8,618,161	10,899,383
Net assets, end of year	\$ 2,862,838	\$ 5,900,958	\$ 8,763,796	\$ 2,705,404	\$ 5,168,754	\$ 7,874,158

See notes to financial statements.

EXPANDED SCHOOLS, INC.

Statements of Functional Expenses

	Year Ended June 30,							
	2017				2016			
	Program Services	Management and General	Fund-Raising	Total	Program Services	Management and General	Fund-Raising	Total
Salaries and wages	\$ 2,464,845	\$ 747,260	\$ 465,763	\$ 3,677,868	\$ 2,832,006	\$ 793,918	\$ 445,178	\$ 4,071,102
Payroll taxes, fringe benefits and payroll fees	625,603	189,663	118,215	933,481	665,552	186,580	104,622	956,754
Training and development	15,324	4,575	2,973	22,872	6,061	1,732	866	8,659
Pension costs	101,638	30,813	19,206	151,657	109,054	30,572	17,143	156,769
Total salaries and related expenses	3,207,410	972,311	606,157	4,785,878	3,612,673	1,012,802	567,809	5,193,284
Grants to community-based-organizations	6,498,889			6,498,889	7,218,158			7,218,158
Occupancy	1,031,847	294,814	147,407	1,474,068	1,011,795	289,084	144,542	1,445,421
Telephone	25,328	7,272	3,736	36,336	31,556	8,752	4,214	44,522
Equipment rental	34,228	9,779	4,890	48,897	33,960	9,703	4,852	48,515
Insurance	102,796	29,369	14,685	146,850	106,045	30,299	15,149	151,493
Professional fees		62,000		62,000		60,500		60,500
Consultants and contractors	1,451,759	52,710	2,025	1,506,494	1,642,954	45,737		1,688,691
Other program expenses	423,412			423,412	468,143			468,143
Travel and related cost	48,504	3,013	1,116	52,633	41,887	6,734	3,500	52,121
Office supplies and expense	177,088	36,580	9,425	223,093	131,354	40,787	17,297	189,438
Depreciation and amortization	242,297	69,228	34,614	346,139	254,767	72,791	36,396	363,954
Bad debts		2,766		2,766		89,492		89,492
Miscellaneous	8,414	14,625		23,039	2,662	15,303	1,685	19,650
Total expenses before donated goods and services	13,251,972	1,554,467	824,055	15,630,494	14,555,954	1,681,984	795,444	17,033,382
Donated goods and services		162,703		162,703		61,279		61,279
Total expenses	\$ 13,251,972	\$ 1,717,170	\$ 824,055	\$ 15,793,197	\$ 14,555,954	\$ 1,743,263	\$ 795,444	\$ 17,094,661

See notes to financial statements.

EXPANDED SCHOOLS, INC.

Statements of Cash Flows

	Year Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 889,638	\$ (3,025,225)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	346,139	363,954
Amortization of deferred rent obligation	(328,008)	(328,009)
Bad debts	2,766	89,492
Changes in:		
Grants and contribution receivable, net	(3,589,608)	3,319,919
Government grants and contracts services receivable	(400,199)	(1,092,521)
Prepaid expenses and other assets	23,890	23,538
Accounts payable and other liabilities	79,631	9,025
Grants payable	549,638	(482,058)
Deferred revenue	(62,251)	58,744
Net cash used in operating activities	<u>(2,488,364)</u>	<u>(1,063,141)</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(2,782)</u>	<u>(6,144)</u>
Cash flows from financing activities:		
Proceeds from loans from the Fund of the City of New York	<u>3,002,534</u>	
Change in cash	511,388	(1,069,285)
Cash, beginning of year	<u>4,312,382</u>	<u>5,381,667</u>
Cash, end of year	\$ <u>4,823,770</u>	\$ <u>4,312,382</u>
Supplemental disclosure of cash flow information:		
Donated goods and services	<u>\$ 177,131</u>	<u>\$ 72,988</u>
Repayment of loan directly by third party	<u>\$ 2,562,196</u>	<u>\$ 1,700,000</u>

See notes to financial statements.

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, this accrued vacation obligation was approximately \$99,000 and \$117,000, respectively, and was reported as part of accounts payable and other liabilities in the accompanying statements of financial position.

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2017 and 2016

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 \$3,258,000 and \$2,708,000 at June 30, 2017 and 2016, 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 \$82,000 and \$410,000 at June 30, 2017 and 2016, respectively, is approximately \$33,000 and \$165,000 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 the use for which has been restricted by donors or state law 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 accompanying 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. 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. Conditional 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, 2017 and 2016

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

[9] Revenue recognition: (continued)

(iii) Contracted services:

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

(iv) Special events:

During fiscal-years 2017 and 2016, 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 payment for the direct cost of the benefits received by the attendees of the event. Such special-event income is reported net of the direct costs of the event that are attributable to the benefit that the donors receive, referred to as "direct benefit to donor."

(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 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 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 the donated asset 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 accompanying statements of activities and functional activities. 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, 2017 and 2016

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

[12] New accounting pronouncement:

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 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. Management is currently evaluating the effect that this new guidance will have on the Organization's financial statements and related disclosures.

[13] Subsequent events:

The Organization has considered the accounting treatments, and the related disclosures in the current fiscal-year's financial statements, that would be required as the result of all events or transactions that occurred after June 30, 2017 through December 6, 2017, the date on which 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,	
	2017	2016
Less than one year	\$ 2,946,185	\$ 2,128,206
One to three years	<u>247,938</u>	<u>25,000</u>
	3,194,123	2,153,206
Reduction of pledges due in excess of one year to present value, at discount rate of 3%	<u>(14,233)</u>	<u>(728)</u>
	<u>\$ 3,179,890</u>	<u>\$ 2,152,478</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 2017 and 2016 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, 2017 and 2016 government grants and contracts services receivable were \$5,150,688 and \$4,753,255, respectively, net of an allowance for doubtful accounts of \$75,000, for both fiscal-years 2017 and 2016, respectively.

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE C - PROPERTY AND EQUIPMENT

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

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 3,365,085	\$ 3,365,085
Office furniture and equipment	25,036	25,036
Computers and office equipment	<u>379,219</u>	<u>376,437</u>
	3,769,340	3,766,558
Less: accumulated depreciation and amortization	<u>(3,592,817)</u>	<u>(3,246,678)</u>
	<u>\$ 176,523</u>	<u>\$ 519,880</u>

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 11,733 and 8,365 after-school participants and were provided throughout each of the fiscal-years 2017 and 2016, respectively. The value of these resources approximated \$4,007,000 and \$2,857,000 in fiscal-years 2017 and 2016, respectively, and because they were provided directly to the organizations, they have not been reported in the accompanying financial statements.

In fiscal-years 2017 and 2016, the Organization received approximately \$154,000 and \$46,000, respectively, in legal, strategic-planning, consulting, and other professional services. These amounts have been reported as donated goods and services in the accompanying statements of activities. During fiscal-years 2017 and 2016, the Organization also received donated goods, consisting of items provided for its special event, which were valued at approximately \$23,000 and \$26,000, 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 2017 and 2016 was approximately \$152,000 and \$157,000, 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, 2017 and 2016

NOTE G - SIGNIFICANT SOURCES OF REVENUE AND RECEIVABLES

The Organization received grants from the New York City Department of Youth and Community Development in the amounts of \$4,535,895 and \$3,793,966 during fiscal-years 2017 and 2016, respectively. Such grants represented 47% of total government grants and contracts revenue for both fiscal-years 2017 and 2016, respectively, and 31% and 29% of government grants and contracts receivable at June 30, 2017 and 2016, respectively.

The Organization received contract agreements from the New York City Department of Education in the amount of \$3,277,789 and \$2,340,000 during fiscal-years 2017 and 2016, respectively. Such contracts represented approximately 34% and 29% of government grants and contracts revenue in fiscal-years 2017 and 2016, respectively, and 53% and 37% of government grants and contracts receivable at June 30, 2017 and 2016, respectively.

The Organization received contract agreements from the New York State Education Department in the amount of \$1,184,433 and \$1,149,086 during fiscal-years 2017 and 2016, respectively. Such contracts represented approximately 12% and 14% of government grants and contracts revenue in fiscal-years 2017 and 2016, respectively, and 10% and 9% of government grants and contracts receivable at June 30, 2017 and 2016, respectively.

The Organization received grants from four private funders totaling \$4,040,050 during fiscal-year 2017 and from five private funders totaling \$2,588,000 during fiscal-year 2016. Such grants represented approximately 77% and 67% of grants and contribution revenue in fiscal years 2017 and 2016, respectively. Grants and contributions receivable from four private funders totaling \$2,462,742 represented approximately 76% of grants and contributions receivable at June 30, 2017. Grants and contributions receivable from four private funders totaling \$2,112,000 represented approximately 98% of grants and contribution receivable at June 30, 2016.

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Programs:		
Every Hour Counts (EHC)	\$ 1,732,761	\$ 2,514,245
Expanded Learning Time Initiative	1,462,513	1,582,556
Pathways program	278,380	
Literacy programs	1,995,170	521,102
Science, Technology, Engineering and Math (STEM) Initiative	430,503	550,851
Summer service programs	1,631	
	<u>\$ 5,900,958</u>	<u>\$ 5,168,754</u>

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2017 and 2016

NOTE H - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

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

	Year Ended June 30,	
	2017	2016
Programs:		
Every Hour Counts (EHC)	\$ 1,422,211	\$ 816,889
Expanded Learning Time Initiative	1,316,581	4,443,280
Literacy programs	498,501	392,642
Science, Technology, Engineering and Math (STEM) Initiative	396,071	765,967
Summer service programs	<u>48,368</u>	<u>27,762</u>
	<u>\$ 3,681,732</u>	<u>\$ 6,446,540</u>

NOTE I - LOANS PAYABLE

In April and May of 2017, the Organization entered into two bridge loan agreements with the Fund for the City of New York (the "Fund"), for \$2,562,196 to cover operating activities pending receipt of funds from the New York City Department of Youth and Community Development ("NYCDYCD"). The loans are non-interest bearing and due 10 days from the date the Organization signed the agreements. In June 2017, NYCDYCD repaid the two loans in full to the 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 New York City Department of Education ("NYCDOE"). The loan is non-interest bearing and due in 90 days from the date the Organization signed the loan agreement, or once the Organization's contract with NYCDOE is approved and processed. As of June 30, 2017, the contract with NYCDOE was still in process of being approved, and, therefore the balance due to the Fund was \$440,338.

In June 2015, the Organization entered into bridge loan agreement with the Fund for \$1,700,000 to cover operating expenses pending receipt of funds from the NYCDYCD. The loan was non-interest bearing and due in 90 days from the date the Organization signed the loan agreement. On July 16, 2015, NYCDYCD repaid the loan in full to 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, 2017 and 2016

NOTE K - COMMITMENTS

[1] Lease commitment:

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

During fiscal-year 2014, the Organization entered into a sublease agreement for a portion of its office space under a non-cancelable operating lease, expiring 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 2017 and 2016, rental income generated from those sublease agreements amounted to approximately \$619,000 and \$605,000, respectively.

In July 2017, the Organization entered into a non-cancelable sublease agreement for its new office space, located at 11 West 42nd Street, NYC, commencing October 2017 and expiring in March 2025.

The minimum annual future rental commitments under the lease agreements, net of the sublease agreement, are as follows:

<u>Year Ending June 30,</u>	<u>1440 Broadway</u>	<u>11 West 42nd Street</u>	<u>Sublease Income</u>	<u>Net</u>
2018	\$ 405,051	\$ 432,796	\$ 134,014	\$ 703,833
2019		649,194		649,194
2020		649,194		649,194
2021		649,194		649,194
2022		688,991		688,991
Thereafter		<u>1,949,448</u>		<u>1,949,448</u>
	<u>\$ 405,051</u>	<u>\$ 5,018,817</u>	<u>\$ 134,014</u>	<u>\$ 5,289,854</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 holds restricted cash of approximately \$155,000 in fiscal years 2017 and 2016 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.

Subsequent to the fiscal year ended June 30, 2017, the Organization entered into agreements to build out its new office space as well as for the acquisition of furniture and fixtures. The estimated commitments under these agreements, net of tenant improvement allowance, is approximately \$279,000.

[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.