

**Classroom, Inc.**

Financial Statements

June 30, 2018 and 2017

## Independent Auditors' Report

### Board of Directors Classroom, Inc.

We have audited the accompanying financial statements of Classroom, Inc. ("CI"), 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***

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 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 auditors' 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 Classroom, 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.

*PKF O'Connor Davies, LLP*

October 22, 2018

## Classroom, Inc.

### Statements of Financial Position

	June 30	
	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash	\$ 2,162,272	\$ 3,146,685
Pledges receivable, net	1,342,513	988,095
Fees and other receivables	1,799	51,012
Product inventories	30,182	56,370
Prepaid expenses and other assets	103,409	184,081
Endowment cash equivalent	250,000	250,000
Property and equipment, net	5,346	12,170
Product development, net	<u>2,357,766</u>	<u>2,328,576</u>
	<u>\$ 6,253,287</u>	<u>\$ 7,016,989</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 168,445</u>	<u>\$ 246,510</u>
Net Assets		
Unrestricted		
Operating	4,477,281	4,342,510
Board designated	-	800,262
Total Unrestricted	<u>4,477,281</u>	<u>5,142,772</u>
Temporarily restricted	1,357,561	1,377,707
Permanently restricted	<u>250,000</u>	<u>250,000</u>
Total Net Assets	<u>6,084,842</u>	<u>6,770,479</u>
	<u>\$ 6,253,287</u>	<u>\$ 7,016,989</u>

See notes to financial statements

## Classroom, Inc.

### Statements of Activities Year Ended June 30, 2018

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	2017 Total
	Operating	Board Designated	Total				
<b>SUPPORT AND REVENUE</b>							
Contributions							
Individuals	\$ 836,546	\$ -	\$ 836,546	\$ 377,000	\$ -	\$ 1,213,546	\$ 720,854
Foundations and trusts	985,600	-	985,600	1,388,546	-	2,374,146	1,914,429
Corporations	13,078	-	13,078	4,671	-	17,749	24,626
Special events, net of direct cost of \$254,467 of which \$104,100 was in-kind services	-	-	-	-	-	-	2,086,708
NYS Education Department	-	-	-	-	-	-	258,892
Donated goods and services	341,396	-	341,396	-	-	341,396	179,969
Fees	60,360	-	60,360	-	-	60,360	26,525
Interest and dividends	8,877	-	8,877	-	-	8,877	4,122
Other revenue	-	-	-	-	-	-	10,124
Net assets released from restrictions	<u>1,790,363</u>	-	<u>1,790,363</u>	<u>(1,790,363)</u>	-	-	-
Total Support and Revenue	<u>4,036,220</u>	-	<u>4,036,220</u>	<u>(20,146)</u>	-	<u>4,016,074</u>	<u>5,226,249</u>
<b>EXPENSES</b>							
Educational Programs							
Direct support to partners	2,093,755	-	2,093,755	-	-	2,093,755	2,211,918
Curriculum and resources	949,104	-	949,104	-	-	949,104	851,795
Research and assessment	<u>324,725</u>	-	<u>324,725</u>	-	-	<u>324,725</u>	<u>405,640</u>
Total Educational Programs	3,367,584	-	3,367,584	-	-	3,367,584	3,469,353
Management and general	684,672	-	684,672	-	-	684,672	913,841
Fundraising	<u>649,455</u>	-	<u>649,455</u>	-	-	<u>649,455</u>	<u>655,698</u>
Total Expenses	<u>4,701,711</u>	-	<u>4,701,711</u>	-	-	<u>4,701,711</u>	<u>5,038,892</u>
Change in Net Assets Before Other Changes	(665,491)	-	(665,491)	(20,146)	-	(685,637)	187,357
<b>OTHER CHANGES</b>							
Transfers to operating fund	<u>800,262</u>	(800,262)	-	-	-	-	-
Change in Net Assets	134,771	(800,262)	(665,491)	(20,146)	-	(685,637)	187,357
<b>NET ASSETS</b>							
Beginning of year	<u>4,342,510</u>	<u>800,262</u>	<u>5,142,772</u>	<u>1,377,707</u>	<u>250,000</u>	<u>6,770,479</u>	<u>6,583,122</u>
End of year	<u>\$ 4,477,281</u>	<u>\$ -</u>	<u>\$ 4,477,281</u>	<u>\$ 1,357,561</u>	<u>\$ 250,000</u>	<u>\$ 6,084,842</u>	<u>\$ 6,770,479</u>

See notes to financial statements

## Classroom, Inc.

### Statements of Activities Year Ended June 30, 2017

	Operating	Unrestricted Board Designated	Total	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>						
Contributions						
Individuals	\$ 343,414	\$ -	\$ 343,414	\$ 377,440	\$ -	\$ 720,854
Foundations and trusts	908,803	-	908,803	1,005,626	-	1,914,429
Corporations	10,598	-	10,598	14,028	-	24,626
Special events, net of direct cost of \$254,467 of which \$104,100 was in-kind services	-	2,086,708	2,086,708	-	-	2,086,708
NYS Education Department	-	-	-	258,892	-	258,892
Donated goods and services	179,969	-	179,969	-	-	179,969
Fees	26,525	-	26,525	-	-	26,525
Interest and dividends	4,122	-	4,122	-	-	4,122
Other revenue	10,124	-	10,124	-	-	10,124
Net assets released from restrictions	2,268,891	-	2,268,891	(2,268,891)	-	-
Total Support and Revenue	<u>3,752,446</u>	<u>2,086,708</u>	<u>5,839,154</u>	<u>(612,905)</u>	<u>-</u>	<u>5,226,249</u>
<b>EXPENSES</b>						
Educational Programs						
Direct support to partners	2,211,918	-	2,211,918	-	-	2,211,918
Curriculum and resources	851,795	-	851,795	-	-	851,795
Research and assessment	405,640	-	405,640	-	-	405,640
Total Educational Programs	3,469,353	-	3,469,353	-	-	3,469,353
Management and general	913,841	-	913,841	-	-	913,841
Fundraising	655,698	-	655,698	-	-	655,698
Total Expenses	<u>5,038,892</u>	<u>-</u>	<u>5,038,892</u>	<u>-</u>	<u>-</u>	<u>5,038,892</u>
Change in Net Assets Before Other Changes	(1,286,446)	2,086,708	800,262	(612,905)	-	187,357
<b>OTHER CHANGES</b>						
Transfers to operating fund	1,286,446	(1,286,446)	-	-	-	-
Change in Net Assets	-	800,262	800,262	(612,905)	-	187,357
<b>NET ASSETS</b>						
Beginning of year	4,342,510	-	4,342,510	1,990,612	250,000	6,583,122
End of year	<u>\$ 4,342,510</u>	<u>\$ 800,262</u>	<u>\$ 5,142,772</u>	<u>\$ 1,377,707</u>	<u>\$ 250,000</u>	<u>\$ 6,770,479</u>

See notes to financial statements

## Classroom, Inc.

### Statement of Functional Expenses Year Ended June 30, 2018

	Educational Programs				Management and General	Fundraising	Total	2017 Total
	Direct Support to Partners	Curriculum and Resources	Research and Assessment	Total Educational Programs				
Salaries and benefits	\$ 756,351	\$ 233,415	\$ 207,286	\$ 1,197,052	\$ 240,109	\$ 395,206	\$ 1,832,367	\$ 1,985,922
Professional fees	499,969	12,108	8,371	520,448	189,523	129,454	839,425	804,485
Subcontractors	-	-	-	-	-	-	-	200,322
Donated legal services	75,588	30,783	8,964	115,335	132,498	12,856	260,689	92,329
Audit	-	-	-	-	30,142	-	30,142	29,209
Occupancy fees	435,530	177,369	51,648	664,547	70,915	74,073	809,535	790,130
Office expenses	53,971	7,971	6,812	68,754	4,811	5,268	78,833	53,944
Communications	10,963	4,411	1,183	16,557	1,624	1,770	19,951	17,198
Repairs and maintenance	12,769	4,733	1,654	19,156	1,894	1,977	23,027	23,480
Depreciation and amortization	4,260	1,735	505	6,500	693	724	7,917	38,178
Amortization	-	453,820	-	453,820	-	-	453,820	330,236
Product supplies	9,848	-	9,671	19,519	-	-	19,519	48,404
Travel and conferences	67,532	687	3,928	72,147	501	12,232	84,880	82,701
Donated printing services	72,160	1,039	4,436	77,635	415	2,659	80,709	88,621
Temporary help	-	-	-	-	-	-	-	12,505
Recruiting and hiring	4,613	798	1,487	6,898	319	333	7,550	92,711
Insurance	9,339	3,803	1,108	14,250	1,521	1,588	17,359	16,099
Fees	26,162	8,672	11,439	46,273	6,326	5,634	58,233	77,088
Writeoff of product supply inventory	20,237	-	-	20,237	-	-	20,237	215,070
Software support	7,932	3,230	4,606	15,768	1,291	1,349	18,408	12,385
Other	26,531	4,530	1,627	32,688	2,090	4,332	39,110	27,875
	<u>\$ 2,093,755</u>	<u>\$ 949,104</u>	<u>\$ 324,725</u>	<u>\$ 3,367,584</u>	<u>\$ 684,672</u>	<u>\$ 649,455</u>	<u>\$ 4,701,711</u>	<u>\$ 5,038,892</u>

See notes to financial statements

**Classroom, Inc.**

Statement of Functional Expenses  
Year Ended June 30, 2017

	Educational Programs			Total Educational Programs	Management and General	Fundraising	Total
	Direct Support to Partners	Curriculum and Resources	Research and Assessment				
Salaries and benefits	\$ 725,303	\$ 197,307	\$ 174,179	\$ 1,096,789	\$ 605,648	\$ 283,485	\$ 1,985,922
Professional fees	480,336	69,297	55,078	604,711	37,170	162,604	804,485
Subcontractors	200,322	-	-	200,322	-	-	200,322
Donated legal services	-	-	-	-	92,329	-	92,329
Audit	-	-	-	-	29,209	-	29,209
Occupancy fees	306,302	174,420	99,019	579,741	79,013	131,376	790,130
Office expenses	27,388	7,923	5,724	41,035	5,338	7,571	53,944
Communications	6,926	3,188	1,805	11,919	2,768	2,511	17,198
Repairs and maintenance	6,502	3,324	2,693	12,519	8,452	2,509	23,480
Depreciation and amortization	14,794	8,430	4,772	27,996	3,818	6,364	38,178
Amortization	-	330,236	-	330,236	-	-	330,236
Product supplies	27,228	-	21,176	48,404	-	-	48,404
Travel and conferences	56,409	4,179	5,773	66,361	214	16,126	82,701
Donated printing services	61,159	3,591	9,354	74,104	1,627	12,890	88,621
Temporary help	8,865	-	-	8,865	3,640	-	12,505
Recruiting and hiring	43,257	17,828	10,093	71,178	8,074	13,459	92,711
Insurance	6,238	3,555	2,012	11,805	1,610	2,684	16,099
Fees	12,740	24,845	9,111	46,696	25,202	5,190	77,088
Writeoff of product supply inventory	215,070	-	-	215,070	-	-	215,070
Software support	1,062	605	2,918	4,585	7,343	457	12,385
Other	12,017	3,067	1,933	17,017	2,386	8,472	27,875
	<u>\$ 2,211,918</u>	<u>\$ 851,795</u>	<u>\$ 405,640</u>	<u>\$ 3,469,353</u>	<u>\$ 913,841</u>	<u>\$ 655,698</u>	<u>\$ 5,038,892</u>

See notes to financial statements

**Classroom, Inc.**

Statements of Cash Flows

	Year Ended June 30	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (685,637)	\$ 187,357
Adjustments to reconcile change in net assets to net cash from operating activities		
Writeoff of product supply inventory	20,237	215,070
Depreciation and amortization	461,737	368,414
Donated investments	(97,920)	(339,112)
Deferred rent payable	-	(7,403)
Changes in operating assets and liabilities		
Pledges receivable	(354,418)	181,159
Fees and other receivables	49,213	127,425
Product inventories	5,951	7,957
Prepaid expenses and other assets	80,672	(9,691)
Accounts payable and accrued expenses	(78,065)	41,147
Deferred revenue	-	(23,568)
Net Cash from Operating Activities	(598,230)	748,755
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	97,920	339,112
Purchase of property and equipment	(1,093)	(4,214)
Product development costs	(483,010)	(775,225)
Net Cash from Investing Activities	(386,183)	(440,327)
Change in Cash	(984,413)	308,428
<b>CASH</b>		
Beginning of year	3,146,685	2,838,257
End of year	\$ 2,162,272	\$ 3,146,685

See notes to financial statements



## Classroom, Inc.

Notes to Financial Statements  
June 30, 2018 and 2017

### 1. Organization

Classroom, Inc. (“CI”) is a nonprofit organization that help students in high-poverty communities build literacy and leadership skills. By creating digital learning games and curriculum set in the professional world and supporting educators in creating student-centered classrooms, CI invites students to take charge of their learning.

CI believes that when students take on the leadership role in learning games, they read more closely, think critically, and become better problem solvers. CI research shows that students (especially those struggling with literacy) improve in their reading and writing achievement, find motivation in being the leader, and see the true connection between school and their future.

CI accomplishes its mission by providing various programs including:

#### *Direct Support to Partners*

CI partners with schools and community-based organizations in high-poverty communities across the United States to provide turn-key curriculum, and resources along with unique workplace literacy learning game experiences to support school day and out-of-school time learning and engagement.

In addition, CI offer educators in-person and virtual coaching support to improve student outcomes and transform the way educators use project-based and personalized learning tools to improve student outcomes. Some of CI’s school partner sites also serve as “learning labs,” informing digital production and ensuring that CI is always designing from real-life experiences.

#### *Curriculum & Resources for Educators*

CI creates digital learning games and curriculum set in the professional world that foster students’ literacy and leadership skills and connect school to life in the workplace. CI’s suite of literary learning games, the *Read to Lead* series, helps students develop advanced literacy skills, increases career readiness, and builds 21<sup>st</sup> Century skills such as persistence and decision-making. The learning games and curriculum, along with professional development resources for educators are freely accessible online for both school day and out-of-school time use.

Through their digital platform, CI reaches educators and students nationwide. Any educator can register for free and have access to CI’s learning games and curriculum.

#### *Research and Assessment*

CI conducts research to assess the impact of its programs on students and to provide regular feedback that enables continuous improvement. Both internal and external evaluations have consistently shown that CI’s programs effectively improve students’ literacy, reading attitudes and behaviors, 21<sup>st</sup> Century skills, and college- and career-readiness.

## **Classroom, Inc.**

Notes to Financial Statements  
June 30, 2018 and 2017

### **1. Organization (*continued*)**

#### ***Tax Status***

CI is exempt from federal income taxes pursuant to Section 501 (c) (3) of the internal Revenue Code and from state and local taxes under comparable laws.

### **2. Summary of Significant Accounting Policies**

#### ***Basis of Presentation***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

#### ***Use of Estimates***

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash on hand, and cash held in checking and savings accounts.

#### ***Contributions, Fees and Other Receivables***

Contributions are recorded as revenue at the time of receipt of the unconditional pledge of cash or other assets. Contributions are considered available for unrestricted use, unless the donors restrict the use thereof based on a time or purpose restriction, either on a temporary or permanent basis. Contributions to be received after one year are discounted at an appropriate interest rate, commensurate with the risk involved.

CI receives fees from the sale of its products and services to schools and districts. Amounts received in advance, if any, are recorded as deferred revenue until the related product is delivered or the services are performed, at which time they are shown as revenue.

Contribution of services is recognized if the services rendered (a) create or enhance non-financial assets or (b) require specialized skills provided by individuals possessing those skills and that would typically be purchased if not provided by donation. Donated securities are recorded at fair value at the date of the gift and are generally sold immediately upon receipt by CI.

Interest and dividend income are recognized as unrestricted, temporarily restricted or permanently restricted in accordance with donors' intentions.

## Classroom, Inc.

Notes to Financial Statements  
June 30, 2018 and 2017

### 2. Summary of Significant Accounting Policies *(continued)*

#### ***Contributions, Fees and Other Receivables (continued)***

CI's management periodically evaluates receivable balances to determine whether an allowance for doubtful accounts should be established to cover amounts determined to be uncollectible. At June 30, 2018 and 2017, no such allowance was considered necessary.

#### ***Product Inventories***

Product inventories consist primarily of printed learning materials and other educational supplies to be supplied to schools and other educational organizations and are valued at the lower of cost or net realizable value, using the average cost method of valuation.

Costs incurred to ship product inventories to program participants are expensed as incurred. These costs are reported as "direct support to schools" expense in the accompanying statements of activities.

CI has digitized most of its printed learning materials and other educational supplies and made them available to educators for viewing and download via one of CI's newest digital assets, an educator toolkit. Therefore, CI has not added new physical printed inventory during fiscal years 2018 and 2017.

#### ***Property and Equipment***

Property and equipment are stated at cost at the time of purchase; or at fair value at the date of donation. Repairs and maintenance costs are expensed as incurred.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 7 years. Leasehold improvements are amortized over the remaining term of the respective lease or the useful life of the improvement, whichever is shorter.

#### ***Product Development***

During fiscal year 2014, CI completed a project consisting of three web-enabled simulations. During fiscal 2013, CI started to develop *After the Storm*, the first in a suite of middle school-level learning games. During fiscal year 2016, CI developed the second learning game, *Community in Crisis* and began the development of the third learning game, *Vital Signs*. During fiscal 2017, CI continued to develop *Vital Signs*, and began development of a digital platform and educator toolkit.

During fiscal 2018, CI completed the development of *Vital Signs* and the educator toolkit. CI packages the three digital learning games as a series titled *Read to Lead*. In addition, CI placed a digital platform (the "Platform") in service. The Platform is the technical infrastructure that connects all of CI's digital assets (the *Read to Lead* series and educator toolkit) into a seamless experience for educators and students. CI capitalizes only direct labor costs associated with the web-enabling and development of all these products.

## Classroom, Inc.

Notes to Financial Statements  
June 30, 2018 and 2017

### 2. Summary of Significant Accounting Policies *(continued)*

#### ***Product Development (continued)***

Long-lived assets including intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the years ended June 30, 2018 and 2017, management determined that no impairment loss needs to be recognized.

Amortization of these costs commenced upon completion of each project using the straight-line method over the estimated useful lives of 3 to 7 years. Minimum future amortization expense are as follows:

2019	\$ 526,352
2020	526,352
2021	526,352
2022	438,874
2023	188,814
Thereafter	<u>151,023</u>
	<u>\$ 2,357,767</u>

As of June 30, 2018 and 2017, accumulated amortization on completed games was \$1,643,449 and \$1,189,629, respectively.

#### ***Net Asset Presentation***

CI maintains its net assets under the following classes:

- Unrestricted net assets represent those resources that are not subject to donor-imposed restrictions and are fully available, at the discretion of the Board of Directors and management, for CI to utilize in any of its programs or supporting services.
- Temporarily restricted net assets represent those resources that have been restricted by donors for specific purpose or time frame. When a donor's time-restriction expires or 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."
- Permanently restricted net assets represent those resources that have been restricted by donors to be held and invested in perpetuity.

## Classroom, Inc.

Notes to Financial Statements  
June 30, 2018 and 2017

### 2. Summary of Significant Accounting Policies (*continued*)

#### ***Functional Allocation of Expenses***

The costs of providing the various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management.

#### ***Reclassification***

Certain amounts in the June 30, 2017 financial statements have been reclassified to conform to the June 30, 2018 presentation. These changes had no impact on net assets for the year ended June 30, 2017.

#### ***Accounting for Uncertainty in Income Taxes***

CI recognizes the effect of income tax positions only when they are more likely than not to be sustained. Management has determined that CI had no uncertain tax positions that would require financial statement recognition or disclosure. CI is no longer subject to examinations by the applicable taxing jurisdictions for the periods prior to 2015.

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is October 22, 2018.

### 3. Pledges Receivable

Pledges receivable are shown in the accompanying statements of financial position net of discounts to present value. Gross pledges of \$1,347,783 and \$996,911 at June 30, 2018 and 2017, respectively, with payments due in future years, were discounted to present value using discount rates ranging from 2.3% to 4.6%. Pledge receivables are due as follows at June 30:

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 960,534	\$ 776,911
Two to five years	<u>387,249</u>	<u>220,000</u>
	1,347,783	996,911
Discount to present value	<u>(5,270)</u>	<u>(8,816)</u>
	<u>\$ 1,342,513</u>	<u>\$ 988,095</u>

## Classroom, Inc.

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

#### 4. Property and Equipment

Property and equipment consisted of the following at June 30:

	2018	2017
Leasehold improvements	\$ 588,704	\$ 588,704
Equipment, web design and salesforce	147,590	239,483
Furniture and fixtures	1,200	1,200
	737,494	829,387
Accumulated depreciation and amortization	(732,148)	(817,217)
	\$ 5,346	\$ 12,170

There was \$92,986 and \$7,064 of fully depreciated assets disposed of and written off during fiscal years 2018 and 2017, respectively.

#### 5. Concentration of Credit Risk and Other

Financial instruments that potentially subject CI to concentrations of credit risk consist principally of receivables, which are expected to be collected in the normal course of business, and cash. CI maintains its cash in bank deposits in one financial institution. At times, these accounts exceeded the federal insurance limits during fiscal 2018 and 2017, and subjected CI to a concentration of credit risk. CI has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on uninsured cash.

#### 6. Temporarily Restricted Net Assets

Temporarily restricted net assets with time and purpose restrictions at June 30 are as follows:

	2018	2017
<b>Purpose Restricted</b>		
Direct Support to Partners		
New York	\$ 200,000	\$ 168,729
National urban districts	355,670	204,751
Research and Assessment	139,800	92,120
Curriculum Development		
Product development	100,000	212,500
Capacity building	20,000	261,063
	815,470	939,163
<b>Time restricted</b>	542,091	438,544
	\$ 1,357,561	\$ 1,377,707

## Classroom, Inc.

Notes to Financial Statements  
June 30, 2018 and 2017

### 6. Temporarily Restricted Net Assets *(continued)*

Net assets were released from donor restrictions during the years ended June 30, which satisfied the restricted purposes specified by the donors or the passage of time as follows:

	<u>2018</u>	<u>2017</u>
<b>Purpose Restricted</b>		
Direct Support to Partners		
New York	\$ 384,915	\$ 597,121
National urban districts	326,151	225,442
Research and Assessment	180,267	157,933
Curriculum Development		
Product development	262,500	800,462
Capacity building	241,353	102,218
New York State Education Department - 21st Century Community Learning Centers	-	258,892
	<u>1,395,186</u>	<u>2,142,068</u>
<b>Time restricted</b>	<u>395,177</u>	<u>126,823</u>
	<u>\$ 1,790,363</u>	<u>\$ 2,268,891</u>

### 7. Board Designated Net Assets

Board designated net assets consisted of revenue generated by a special fundraising event celebrating CI's 25<sup>th</sup> Anniversary (the "Campaign"). In fiscal 2017, the Campaign raised \$2,086,708 and was designated to be used for working capital. The amount utilized for fiscal years 2018 and 2017 was \$800,262 and \$1,286,446, respectively. As of June 30, 2018 and 2017, CI's board designated net assets were \$0 and \$800,262, respectively.

### 8. Endowment Funds

The endowment consists entirely of individual donor-restricted funds, in the amount of \$250,000, established for a variety of purposes. CI does not have any funds designated by the Board of Directors to function as an endowment.

The Board of Directors has interpreted the New York State Uniform Management of Institutional Funds Act ("NYPMIFA") as requiring the preservation of the historic dollar value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

#### ***Interpretation of Relevant Law***

As a result of this interpretation, CI classifies as permanently restricted nets assets:

- The original value of gifts and subsequent gifts donated to the permanent endowment, and

## **Classroom, Inc.**

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### **8. Endowment Funds (continued)**

- Accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

#### ***Changes in Endowment Net Assets***

There were no changes in the endowment net assets during fiscal years 2018 and 2017. At June 30, 2018, the endowment net assets were held by CI in a savings account.

#### ***Return Objectives and Risk Parameters***

CI has adopted an investment approach for endowment assets that attempts to preserve the principal of the endowment assets. Under this approach, as approved by the Board of Directors, the endowment assets are invested in a prudent manner that is intended to preserve the principal, with a moderate rate of return, and a moderate level of investment risk.

#### ***Strategies Employed for Achieving Objectives***

As of June 30, 2018 and 2017, CI's endowment assets are cash-based investments in an effort to preserve the capital. CI continually assesses market conditions and, at the appropriate time, will exercise prudent management to meet its long-term investment objective of diversifying its assets and achieving investment returns.

#### ***Spending Policy***

The net capital appreciation/depreciation, interest and dividends are unrestricted. The interest and dividends are transferred to CI's checking account to support general operations.

### **9. Donated Goods and Services**

CI recorded revenues and corresponding expenses or product inventories for donated printing services and donated legal services during fiscal years 2018 and 2017, which are reported in the accompanying financial statements at their estimated fair values.

In addition, a number of members of the Board of Directors have donated significant amounts of their time to CI's program and supporting services. No amounts have been reported in the accompanying financial statements for these donated services, as they do not meet the criteria for recognition under US GAAP.



## Classroom, Inc.

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### 10. Employee Benefit Plan

CI maintains a defined-contribution 403(b) retirement plan (the "Plan") that provides benefits for substantially all of its employees. CI contributes an amount equal to 3% of each eligible participating employee's compensation to the Plan. If an employee also makes contributions to the Plan, CI will match the employee's contributions up to an additional 2% of compensation, as defined by the Plan. The maximum employer contribution is 5%. Contributions to the Plan for the years ended June 30, 2018 and 2017 were approximately \$82,522 and \$66,000, respectively.

### 11. Commitments

CI's non-cancelable operating lease for its office space will expire on December 31, 2018. In addition to base rent, the lease obligates CI to pay a portion of the building's real estate taxes and electricity.

In July 2018, CI entered into a new lease agreement with a different lessor for its office space in New York, New York. The new lease has a lease term of 10 years and is expected to commence in December 2018 ("Lease Commencement Date"). The base rent under the new lease is expected to commence in April 2019 ("Rent Commencement Date"), four months after the Lease Commencement Date.

In August 2018, in conjunction with the execution of the new lease agreement, CI entered into a letter of credit with its future lessor in the amount of \$144,754, for the new lease's security deposit. On or after the fourth anniversary of the Rent Commencement Date, CI shall have the right to reduce the Letter of Credit then on deposit with the new Landlord to an amount equal to \$115,803.

Minimum future lease payments under the lease agreements are payable as follows:

2019	\$ 440,619
2020	352,476
2021	361,288
2022	370,321
2023	379,579
Thereafter	<u>2,561,975</u>
	<u>\$ 4,466,258</u>

Rent expense was approximately \$712,000 and \$704,000 for the years ended June 30, 2018 and 2017, respectively. After a four-month period of free rent, CI's monthly cash base rent, under the new lease agreement, will be \$28,951 per month compared to \$60,082 under the current lease agreement.

**Classroom, Inc.**

Notes to Financial Statements  
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**11. Commitments (continued)**

CI has also entered into operating lease agreements for its office equipment. Minimum future lease payments under these agreements are as follows:

2019	\$ 7,377
2020	<u>7,517</u>
	<u>\$ 14,894</u>

Lease expense under the equipment agreements was \$9,616 and \$8,565 for the years ended June 30, 2018 and 2017, respectively.

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