

Classroom, Inc.

Financial Statements

June 30, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary schedule of operating results on pages 22 and 23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

PKF O'Connor Davies, LLP

December 10, 2020

Classroom, Inc.

Statements of Financial Position

	June 30	
	2020	2019
ASSETS		
Cash and cash equivalents	\$ 1,439,598	\$ 1,815,825
Restricted and endowment cash	394,754	394,754
Investments	1,736,575	-
Pledges receivable, net	2,062,981	2,675,986
Prepaid expenses and other assets	69,823	78,092
Property and equipment, net	59,664	64,267
Product development, net	<u>1,831,547</u>	<u>2,123,731</u>
	<u>\$ 7,594,942</u>	<u>\$ 7,152,655</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 190,920	\$ 212,829
Deferred rent	190,811	145,304
PPP loan payable	<u>388,098</u>	<u>-</u>
Total Liabilities	<u>769,829</u>	<u>358,133</u>
Net Assets		
Without donor restrictions	<u>3,785,338</u>	<u>4,020,917</u>
With Donor Restrictions		
Temporary in nature	2,789,775	2,523,605
Perpetual in nature	<u>250,000</u>	<u>250,000</u>
Total With Donor Restrictions	<u>3,039,775</u>	<u>2,773,605</u>
Total Net Assets	<u>6,825,113</u>	<u>6,794,522</u>
	<u>\$ 7,594,942</u>	<u>\$ 7,152,655</u>

See notes to financial statements

Classroom, Inc.

Statement of Activities Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
SUPPORT AND REVENUE				
Contributions				
Individuals	\$ 767,226	\$ 487,000	\$ 1,254,226	\$ 1,203,935
Foundations and trusts	877,925	1,484,184	2,362,109	3,574,421
Corporations	151,153	-	151,153	85,358
Small business administration EIDL grant revenue	10,000	-	10,000	-
Donated goods and services	288,347	-	288,347	134,156
Fees	54,800	-	54,800	64,800
Interest and dividends	11,112	-	11,112	6,561
Realized gain on investments	5,353	-	5,353	-
Net assets released from restrictions	<u>1,705,014</u>	<u>(1,705,014)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>3,870,930</u>	<u>266,170</u>	<u>4,137,100</u>	<u>5,069,231</u>
EXPENSES				
Educational Programs				
Direct support to partners	1,492,072	-	1,492,072	1,855,194
Curriculum and resources	1,213,320	-	1,213,320	982,142
Research and assessment	<u>254,439</u>	<u>-</u>	<u>254,439</u>	<u>301,043</u>
Total Educational Programs	2,959,831	-	2,959,831	3,138,379
Management and general	497,602	-	497,602	525,085
Fundraising	<u>649,076</u>	<u>-</u>	<u>649,076</u>	<u>696,087</u>
Total Expenses	<u>4,106,509</u>	<u>-</u>	<u>4,106,509</u>	<u>4,359,551</u>
Change in Net Assets	(235,579)	266,170	30,591	709,680
NET ASSETS				
Beginning of year	<u>4,020,917</u>	<u>2,773,605</u>	<u>6,794,522</u>	<u>6,084,842</u>
End of year	<u>\$ 3,785,338</u>	<u>\$ 3,039,775</u>	<u>\$ 6,825,113</u>	<u>\$ 6,794,522</u>

See notes to financial statements

Classroom, Inc.

Statement of Activities
Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions			
Individuals	\$ 841,935	\$ 362,000	\$ 1,203,935
Foundations and trusts	638,520	2,935,901	3,574,421
Corporations	85,358	-	85,358
Donated goods and services	134,156	-	134,156
Fees	64,800	-	64,800
Interest and dividends	6,561	-	6,561
Net assets released from restrictions	<u>2,131,857</u>	<u>(2,131,857)</u>	<u>-</u>
Total Support and Revenue	<u>3,903,187</u>	<u>1,166,044</u>	<u>5,069,231</u>
EXPENSES			
Educational Programs			
Direct support to partners	1,855,194	-	1,855,194
Curriculum and resources	982,142	-	982,142
Research and assessment	<u>301,043</u>	<u>-</u>	<u>301,043</u>
Total Educational Programs	3,138,379	-	3,138,379
Management and general	525,085	-	525,085
Fundraising	<u>696,087</u>	<u>-</u>	<u>696,087</u>
Total Expenses	<u>4,359,551</u>	<u>-</u>	<u>4,359,551</u>
Change in Net Assets	(456,364)	1,166,044	709,680
NET ASSETS			
Beginning of year	<u>4,477,281</u>	<u>1,607,561</u>	<u>6,084,842</u>
End of year	<u>\$ 4,020,917</u>	<u>\$ 2,773,605</u>	<u>\$ 6,794,522</u>

See notes to financial statements

Classroom, Inc.

Statement of Functional Expenses Year Ended June 30, 2020

	Educational Programs				Management and General	Fundraising	2020 Total	2019 Total
	Direct Support to Partners	Curriculum and Resources	Research and Assessment	Total Educational Programs				
Salaries and benefits	\$ 525,128	\$ 259,771	\$ 156,931	\$ 941,830	\$ 165,229	\$ 471,287	\$ 1,578,346	\$ 1,608,066
Professional fees	352,720	155,385	26,562	534,667	179,949	15,466	730,082	874,073
Donated legal services	59,929	28,588	7,836	96,353	16,098	16,848	129,299	28,581
Audit	-	-	-	-	34,321	-	34,321	36,000
Occupancy fees	185,315	88,124	24,153	297,592	49,622	51,934	399,148	646,255
One-time moving expenses	-	-	-	-	-	-	-	74,013
Office expenses	14,747	4,415	3,661	22,823	2,890	8,031	33,744	28,383
Communications	5,901	2,775	679	9,355	1,395	1,460	12,210	17,271
Repairs and maintenance	4,164	1,987	545	6,696	1,143	1,171	9,010	24,123
Depreciation and amortization	2,133	1,018	279	3,430	573	600	4,603	7,077
Amortization of product development costs	-	613,800	-	613,800	-	-	613,800	558,054
Product supplies	3,240	-	4,515	7,755	-	-	7,755	28,462
Travel and conferences	52,416	6,404	595	59,415	2,922	33,953	96,290	109,451
Donated printing services	132,622	5,210	1,428	139,260	2,934	16,854	159,048	105,575
Recruiting and hiring	4,013	1,915	525	6,453	1,078	1,128	8,659	4,320
Insurance	8,726	4,162	1,141	14,029	2,344	2,453	18,826	18,410
Fees	58,434	29,015	21,415	108,864	26,609	17,669	153,142	57,368
Software support	14,654	8,285	1,916	24,855	3,936	4,119	32,910	13,481
Advertising	62,381	-	-	62,381	-	-	62,381	55,428
Other	5,549	2,466	2,258	10,273	6,559	6,103	22,935	65,160
	<u>\$ 1,492,072</u>	<u>\$ 1,213,320</u>	<u>\$ 254,439</u>	<u>\$ 2,959,831</u>	<u>\$ 497,602</u>	<u>\$ 649,076</u>	<u>\$ 4,106,509</u>	<u>\$ 4,359,551</u>

See notes to financial statements

Classroom, Inc.

Statement of Functional Expenses Year Ended June 30, 2019

	Educational Programs			Management and General	Fundraising	Total	
	Direct Support to Partners	Curriculum and Resources	Research and Assessment				Total Educational Programs
Salaries and benefits	\$ 695,688	\$ 178,602	\$ 174,540	\$ 1,048,830	\$ 161,545	\$ 397,691	\$ 1,608,066
Professional fees	418,186	33,363	45,175	496,724	218,614	158,735	874,073
Donated legal services	13,157	6,276	1,720	21,153	3,729	3,699	28,581
Audit	-	-	-	-	36,000	-	36,000
Occupancy fees	325,622	141,974	40,198	507,794	67,685	70,776	646,255
One-time moving expenses	36,428	16,307	4,577	57,312	8,163	8,538	74,013
Office expenses	16,664	4,004	1,211	21,879	2,951	3,553	28,383
Communications	9,163	3,418	956	13,537	1,740	1,994	17,271
Repairs and maintenance	11,852	5,315	1,491	18,658	2,671	2,794	24,123
Depreciation and amortization	3,421	1,561	435	5,417	812	848	7,077
Amortization of product development costs	-	558,054	-	558,054	-	-	558,054
Product supplies	23,723	-	4,739	28,462	-	-	28,462
Travel and conferences	92,775	1,078	774	94,627	837	13,987	109,451
Donated printing services	81,375	5,693	3,856	90,924	3,206	11,445	105,575
Recruiting and hiring	1,839	750	208	2,797	400	1,123	4,320
Insurance	9,075	4,056	1,139	14,270	2,023	2,117	18,410
Fees	20,429	8,150	16,285	44,864	6,836	5,668	57,368
Software support	6,341	2,978	821	10,140	1,633	1,708	13,481
Advertising	55,428	-	-	55,428	-	-	55,428
Other	34,028	10,563	2,918	47,509	6,240	11,411	65,160
	<u>\$ 1,855,194</u>	<u>\$ 982,142</u>	<u>\$ 301,043</u>	<u>\$ 3,138,379</u>	<u>\$ 525,085</u>	<u>\$ 696,087</u>	<u>\$ 4,359,551</u>

See notes to financial statements

Classroom, Inc.

Statements of Cash Flows

	Year Ended	
	June 30	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 30,591	\$ 709,680
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	618,403	565,131
Discount to present value of receivables	28,316	(158)
Realized gain on investments	(5,353)	-
Donated investments	(103,093)	(99,353)
Deferred rent	45,507	145,304
Changes in operating assets and liabilities		
Pledges receivable	584,689	(1,333,315)
Prepaid expenses and other assets	8,269	57,298
Accounts payable and accrued expenses	(21,909)	44,384
Net Cash from Operating Activities	1,185,420	88,971
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	608,904	99,353
Purchase of investments	(2,237,033)	-
Purchase of property and equipment	-	(65,998)
Product development costs	(321,616)	(324,019)
Net Cash from Investing Activities	(1,949,745)	(290,664)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from PPP loan payable	388,098	-
Change in Cash and Cash Equivalents and Restricted and Endowment Cash	(376,227)	(201,693)
CASH AND CASH EQUIVALENTS AND RESTRICTED AND ENDOWMENT CASH		
Beginning of year	2,210,579	2,412,272
End of year	\$ 1,834,352	\$ 2,210,579
CASH AND CASH EQUIVALENTS AND RESTRICTED AND ENDOWMENT CASH		
Cash and Cash Equivalents	\$ 1,439,598	\$ 1,815,825
Restricted and endowment cash	394,754	394,754
	\$ 1,834,352	\$ 2,210,579

See notes to financial statements

Classroom, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

1. Organization

Classroom, Inc. (“CI”) is a nonprofit organization that helps students in high-poverty communities build literacy and leadership skills. By creating digital learning games and curricula 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, to improve student outcomes CI offers educators in-person and virtual coaching support and transforms the way educators uses project-based and personalized learning tools. 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 and 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 21st 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 its 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, 21st Century skills, and college- and career-readiness.

Classroom, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

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.

Adoption of New Accounting Policies

Revenue from Contracts with Customers

Effective July 1, 2019, the CI adopted ASU 2014-09, *Revenue from Contracts with Customers*, as amended. The guidance provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The new revenue recognition guidance does not apply to how contributions and pledges are recognized, as they are specifically scoped out of the new guidance. The core principle of the new guidance is that an entity should recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those promised goods or services to customers. The guidance includes a five-step framework to determine the timing and amount of revenue to recognize related to contracts with customers. In addition, this guidance requires new or expanded disclosures related to judgments made by entities when following this framework.

Analysis of various provisions of this standard resulted in no changes in the way the CI recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

Classroom, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Adoption of New Accounting Policies (continued)

Recognition of Contributions

Effective July 1, 2019, the CI adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"). This guidance provides a framework for evaluating whether grants and contributions should be accounted for as exchange transactions or as nonexchange transactions. Analysis of various provisions of this standard resulted in no significant changes in the way the CI recognizes grants and contributions, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

Restricted Cash

Effective July 1, 2019, CI adopted accounting standard update ("ASU") 2016-18 "*Statement of Cash Flows (Topic 230): Restricted Cash*" for all periods presented. ASU 2016-18 requires inclusion of restricted cash with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. Previously, changes in restricted cash were reported on the statement of cash flows as operating, investing or financing activities based on the nature of the underlying activity.

Net Asset Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, CI's net assets are classified as with or without donor restrictions. Net assets without donor restrictions include funds having no restriction as to use or purpose imposed by donors. Net assets with donor restrictions are those whose use is limited by donors by a specific time period or purpose and may include net assets to be held in perpetuity.

Board Designated Net Assets

The Board of Directors, at its discretion, designates funds from net assets without donor restrictions for specific purposes. For the year ended June 30, 2020 approximately \$107,000 was designated for future projects. No amounts were designated for the year ended June 30, 2019.

Cash and Cash Equivalent and Restricted and Endowment Cash

CI considers all highly liquid financial instruments having a maturity of three months or less at the time of purchase to be cash equivalents.

Classroom, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Contributions, Fees and Other Revenue

Contributions are recorded as revenue at the time of receipt of the unconditional pledge of cash or other assets. Contributions are considered available for general use, unless the donors restrict the use thereof based on a time, purpose or a perpetual 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 without donor restrictions or with donor restrictions in accordance with donors' intentions.

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, 2020 and 2019, no such allowance was considered necessary.

Fair Value Measurements

CI follows US GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices for similar assets and liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investment Valuation and Investment Income Recognition

Investments are valued at fair value in the statements of financial position. Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Classroom, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Advertising

Advertising expense is recognized as incurred. For the years ended June 30, 2020 and 2019, CI incurred digital media advertising expenses totaling \$62,381 and \$55,428.

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 2020 and 2019.

During the years ended June 30, 2020 and 2019, no obsolete inventories were written off.

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.

Deferred Rent

CI entered into a lease agreement for its office space containing an escalation clause that require normalization of the rental expense over the life of the lease. The resulting deferred rent is reflected in the accompanying statements of financial position.

Product Development

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

Classroom, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

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

Product Development (continued)

In 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.

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, 2020 and 2019, 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 5 to 7 years. Minimum future amortization expense are as follows:

2021	\$ 652,773
2022	566,965
2023	311,981
2024	228,212
2025	70,576
Thereafter	<u>1,040</u>
	<u>\$ 1,831,547</u>

As of June 30, 2020 and 2019, accumulated amortization on completed games was \$2,261,137 and \$1,647,337, respectively. During the years ended June 30, 2020 and 2019, \$0 and \$554,196, respectively, of fully amortized product development costs were written off.

Functional Allocation of Expenses

The costs of CI providing the various programs and activities have been summarized on a functional basis in the statements of activities. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain expenses are attributable to more than one program or supporting function and have been allocated in a reasonable ratio by management. These general, operational, and office expenses include salaries and benefits, professional fees, occupancy fees, one-time moving expenses, office expenses, communication, repairs and maintenance, depreciation, insurance, and software support. These costs are allocated based on number of office workspaces used by each program and support function.

Classroom, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

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

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 2017.

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 December 10, 2020.

3. Pledges Receivable

Pledges receivable are shown in the accompanying statements of financial position net of discounts to present value. Gross pledges of \$2,096,409 and \$2,681,098 at June 30, 2020 and 2019, respectively, with payments due in future years, were discounted to present value using discount rates ranging from 2.25% to 2.41%. Pledge receivables are due as follows at June 30:

	<u>2020</u>	<u>2019</u>
Less than one year	\$ 1,130,177	\$ 1,457,633
Two to five years	<u>966,232</u>	<u>1,223,465</u>
	2,096,409	2,681,098
Discount to present value	<u>(33,428)</u>	<u>(5,112)</u>
	<u><u>\$ 2,062,981</u></u>	<u><u>\$ 2,675,986</u></u>

4. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 3,207	\$ 3,207
Equipment, web design and salesforce	154,071	154,071
Furniture and fixtures	<u>57,511</u>	<u>57,511</u>
	214,789	214,789
Accumulated depreciation and amortization	<u>(155,125)</u>	<u>(150,522)</u>
	<u><u>\$ 59,664</u></u>	<u><u>\$ 64,267</u></u>

There was \$0 and \$588,703 of fully depreciated assets disposed of and written off during fiscal years 2020 and 2019, respectively.

Classroom, Inc.

Notes to Financial Statements June 30, 2020 and 2019

5. Investments

Investments are carried at fair value based on quoted prices in active markets (all Level 2 measurements) and consist primarily of U.S Treasury Premium Funds valued at \$1,736,575 at June 30, 2020.

6. Operating Activities

CI has elected to present its Operating Activities in the Schedule of Operating Results (Page 22) accompanying these financial statements. Accordingly, expenses affecting operations are segregated from those not affecting operations. CI monitors and budgets its operational financial performance by not including non-cash expenses, such as depreciation, amortization, straight-line rent and other expenses deemed to be non-repeatable. In addition, operational expenses include costs incurred, but capitalized and included in the statements of financial position.

7. 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 2020 and 2019, 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.

8. Net Assets With Donor Restrictions

Net assets with donor restrictions for time and purpose at June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Purpose Restricted		
Direct Support to Partners		
New York	\$ 184,843	\$ 384,954
National urban districts	388,337	521,033
Research and assessment	175,716	274,918
Curriculum Development		
Product development	307,501	651,501
Capacity building	134,039	324,039
	<u>1,190,436</u>	<u>2,156,445</u>
Time restricted	<u>1,599,339</u>	<u>367,160</u>
	<u>\$2,789,775</u>	<u>\$2,523,605</u>

Classroom, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

8. Net Assets With Donor Restrictions (*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>2020</u>	<u>2019</u>
Purpose Restricted		
Direct Support to Partners		
New York	\$ 390,800	\$ 419,046
National urban districts	385,675	460,237
Research and assessment	210,119	252,282
Curriculum Development		
Product development	344,000	366,499
Capacity building	<u>190,000</u>	<u>211,461</u>
	1,520,594	1,709,525
Time restricted	<u>184,420</u>	<u>422,332</u>
	<u>\$ 1,705,014</u>	<u>\$ 2,131,857</u>

9. Restricted and Endowment Cash

The restricted cash is the amount required to secure a letter of credit used as the security deposit per the new lease agreement (Note 13).

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 nets assets with donor restrictions to be held in perpetuity:

- The original value of gifts and subsequent gifts donated to the endowment, and
- Accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Classroom, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

9. Restricted and Endowment Cash (*continued*)

Changes in Endowment Net Assets

There were no changes in the endowment net assets during fiscal years 2020 and 2019. At June 30, 2020 and 2019, the endowment net assets were held by CI in a savings account, which earns nominal interest.

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, 2020 and 2019, 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 without donor restrictions. The interest and dividends are transferred to CI's checking account to support general operations.

10. Donated Goods and Services

CI recorded revenues and corresponding expenses or product inventories for donated printing services and donated legal services during fiscal years 2020 and 2019, 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.

Notes to Financial Statements June 30, 2020 and 2019

11. 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, 2020 and 2019 were \$64,517 and \$69,127, respectively.

12. Paycheck Protection Program (PPP) Loan Payable

On April 7, 2020, CI received loan proceeds in the amount of \$388,098 under the Paycheck Protection Program (the "PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), provides for loans to qualifying entities for amounts up to 2.5 times the 2019 average monthly payroll expenses of the qualifying entity. The PPP loan bears an interest rate of 1% per annum. All or a portion of the PPP loan principal and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, as described in the CARES Act, over a period of either eight or twenty-four weeks (the "Covered Period"). The amount of loan forgiveness could be reduced if the borrower terminates employees or reduces salaries below a certain threshold during the Covered Period and does not qualify for certain safe harbors. The unforgiven portion of the PPP loan, if any, is payable within two years from the date of the loan. Loan payments of principal or interest are deferred until the amount of loan forgiveness is determined by the United States Small Business Administration ("SBA"). If CI does not apply for forgiveness, payments begin approximately 24 months after the loan date.

CI intends to use all the proceeds received in accordance with regulations established by the PPP. Management believes its use of the proceeds, including amounts expended through June 30, 2020, will be forgiven. The entire amount received under the PPP is reported as a loan payable in the statement of financial position at June 30, 2020.

13. Commitments

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

Classroom, Inc.

Notes to Financial Statements June 30, 2020 and 2019

13. Commitments *(continued)*

In August 2018, in conjunction with the execution of the lease agreement, CI entered into a letter of credit with its new lessor in the amount of \$144,754, for the 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:

2021	\$ 361,288
2022	370,321
2022	379,579
2024	397,930
2025	434,762
Thereafter	<u>1,729,283</u>
	<u>\$3,673,163</u>

After a four-month period of free rent, CI's monthly cash base rent, under the lease agreement is \$28,951 increasing to \$40,402 per month. Minimum rental commitments do not include utilities or annual operating escalation charges, which are also payable under the office lease. Deferred rent included on the statement of financial position related to the amount of straight-lined rent expensed in advance of rental payments made was \$190,811 and \$145,304 as of June 30, 2020 and June 30, 2019, respectively. Rent expense was approximately \$353,000 and \$447,000 for the years ended June 30, 2020 and 2019, respectively.

As a result of the move to the new office space in December 2018, CI incurred one-time non-capitalizable moving expenses of \$74,013 for the year ended June 30, 2019.

CI has also entered into various operating lease agreements for its office equipment. Lease expense under the equipment agreements was \$7,150 and \$8,825 for the years ended June 30, 2020 and 2019, respectively.

Classroom, Inc.

Notes to Financial Statements June 30, 2020 and 2019

14. Liquidity and Availability of Financial Assets

The following reflects the CI's financial assets as of December 31, reduced by amounts not available for general use within one year, due to contractual or donor-imposed restrictions or internal designations.

	<u>2020</u>	<u>2019</u>
Financial Assets		
Cash	\$ 1,439,598	\$ 1,815,825
Restricted and endowment cash	394,754	394,754
Investments	1,736,575	-
Pledges receivable, net	<u>2,062,981</u>	<u>2,675,986</u>
Total Financial Assets	5,633,908	4,886,565
Less amounts unavailable for general expenditures within one due to:		
Restricted and endowment cash	(394,754)	(394,754)
Restricted by donors	<u>(2,789,775)</u>	<u>(2,523,605)</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 2,449,379</u>	<u>\$ 1,968,206</u>

As part of the CI's strategy, management structures its financial assets, consisting of cash and receivables to be available as its general expenditures and liabilities come due within one year. CI anticipates approximately \$2,400,000 of additional revenue without donor restrictions to fund its general expenditures and liabilities for fiscal year ending June 30, 2021.

15. Risk and Uncertainties

CI's operations and financial performance may be affected by the recent coronavirus outbreak which has spread globally and is expected to adversely affect economic conditions throughout the world. If the outbreak continues and conditions worsen, CI may experience a disruption in operations as well as decline in revenue and support activities. The effects of the outbreak on CI's business, financial condition and results of operations cannot be determined at this time.

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Classroom, Inc.

Supplementary Information

Year Ended June 30, 2020

Classroom, Inc.

Schedule of Operating Results Year Ended June 30, 2020

	Operating	Add Back: Capitalized Product Development And Property and Equipment Costs	Less: Depreciation And Amortization (Non-cash Expense)	Less: Accounting Adjustment to Report Straight-Line Rent	Less: Accounting Adjustment to Report Donated Services	Total Operating Results
SUPPORT AND REVENUE						
Contributions						
Individuals	\$ 767,226	\$ -	\$ -	\$ -	\$ -	\$ 767,226
Foundations and trusts	877,925	-	-	-	-	877,925
Corporations	151,153	-	-	-	-	151,153
Small business administration EIDL grant revenue	10,000	-	-	-	-	10,000
Donated goods and services	288,347	-	-	-	(288,347)	-
Fees	54,800	-	-	-	-	54,800
Interest and dividends	11,112	-	-	-	-	11,112
Realized gain on investments	5,353	-	-	-	-	5,353
Net assets released from restrictions	1,705,014	-	-	-	-	1,705,014
Total Support and Revenue	<u>3,870,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(288,347)</u>	<u>3,582,583</u>
EXPENSES						
Salaries and benefits	1,578,346	272,342	-	-	-	1,850,688
Professional fees	730,082	38,705	-	-	-	768,787
Donated legal services	129,299	-	-	-	(129,299)	-
Audit	34,321	-	-	-	-	34,321
Occupancy fees	399,148	-	-	(45,507)	-	353,641
Office expenses	33,744	-	-	-	-	33,744
Communications	12,210	-	-	-	-	12,210
Repairs and maintenance	9,010	-	-	-	-	9,010
Depreciation and amortization	4,603	-	(4,603)	-	-	-
Amortization of product development cost	613,800	-	(613,800)	-	-	-
Product supplies	7,755	-	-	-	-	7,755
Travel and conferences	96,290	-	-	-	-	96,290
Donated printing services	159,048	-	-	-	(159,048)	-
Recruiting and hiring	8,659	-	-	-	-	8,659
Insurance	18,826	-	-	-	-	18,826
Fees	153,141	10,569	-	-	-	163,710
Software support	32,910	-	-	-	-	32,910
Advertising	62,381	-	-	-	-	62,381
Other	22,935	-	-	-	-	22,935
Total Expenses	<u>4,106,508</u>	<u>321,616</u>	<u>(618,403)</u>	<u>(45,507)</u>	<u>(288,347)</u>	<u>3,475,867</u>
Change in Net Assets	(235,578)	(321,616)	618,403	45,507	-	106,716
Non-Operating Activities	342,294	321,616	(618,403)	(45,507)	-	-
Net Operating Results	<u>\$ 106,716</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 106,716</u>

See Independent Auditors' Report

Classroom, Inc.

Schedule of Operating Results
Year Ended June 30, 2019

	Operating	Add Back: Capitalized Product Development And Property and Equipment Costs	Less: Depreciation And Amortization (Non-cash Expense)	Less: Accounting Adjustment to Report Straight-Line Rent	Less: One-time Moving Expense (Not Considered an Operational expense)	Less: Accounting Adjustment to Report Donated Services	Total Operating Results
SUPPORT AND REVENUE							
Contributions							
Individuals	\$ 841,935	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 841,935
Foundations and trusts	638,520	-	-	-	-	-	638,520
Corporations	85,358	-	-	-	-	-	85,358
Donated goods and services	134,156	-	-	-	-	(134,156)	-
Fees	64,800	-	-	-	-	-	64,800
Interest and dividends	6,561	-	-	-	-	-	6,561
Net assets released from restrictions	2,131,857	-	-	-	-	-	2,131,857
Total Support and Revenue	<u>3,903,187</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(134,156)</u>	<u>3,769,031</u>
EXPENSES							
Salaries and benefits	1,608,066	247,627	-	-	-	-	1,855,693
Professional fees	874,073	67,525	-	-	-	-	941,598
Donated legal services	28,581	-	-	-	-	(28,581)	-
Audit	36,000	-	-	-	-	-	36,000
Occupancy fees	646,255	-	-	(145,304)	-	-	500,951
One-time moving expenses	74,013	60,987	-	-	(135,000)	-	-
Office expenses	28,383	-	-	-	-	-	28,383
Communications	17,271	-	-	-	-	-	17,271
Repairs and maintenance	24,123	-	-	-	-	-	24,123
Depreciation and amortization	7,077	-	(7,077)	-	-	-	-
Amortization of product development cost	558,054	-	(558,054)	-	-	-	-
Product supplies	28,462	-	-	-	-	-	28,462
Travel and conferences	109,451	-	-	-	-	-	109,451
Donated printing services	105,575	-	-	-	-	(105,575)	-
Recruiting and hiring	4,320	-	-	-	-	-	4,320
Insurance	18,410	-	-	-	-	-	18,410
Fees	57,368	8,447	-	-	-	-	65,815
Software support	13,481	-	-	-	-	-	13,481
Advertising	55,428	-	-	-	-	-	55,428
Other	65,160	420	-	-	-	-	65,580
Total Expenses	<u>4,359,551</u>	<u>385,006</u>	<u>(565,131)</u>	<u>(145,304)</u>	<u>(135,000)</u>	<u>(134,156)</u>	<u>3,764,966</u>
Change in Net Assets	(456,364)	(385,006)	565,131	145,304	135,000	-	4,065
Non-Operating Activities	460,429	385,006	(565,131)	(145,304)	(135,000)	-	-
Net Operating Results	<u>\$ 4,065</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,065</u>

See Independent Auditors' Report