

Classroom, Inc.

Financial Statements

June 30, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in note 2 to the financial statements, during the year ended June 30, 2019, Classroom, Inc. adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

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 page 21 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 18, 2019

Classroom, Inc.

Statements of Financial Position

	June 30	
	2019	2018
ASSETS		
Cash	\$ 1,815,825	\$ 2,162,272
Pledges receivable, net	2,675,986	1,342,513
Fees and other receivables	21,080	1,799
Product inventories	14,939	30,182
Prepaid expenses and other assets	42,073	103,409
Restricted and endowment cash	394,754	250,000
Property and equipment, net	64,267	5,346
Product development, net	2,123,731	2,357,766
	<u>\$ 7,152,655</u>	<u>\$ 6,253,287</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 212,829	\$ 168,445
Deferred rent	145,304	-
Total Liabilities	<u>358,133</u>	<u>168,445</u>
Net Assets		
Without donor restrictions	<u>4,020,917</u>	<u>4,477,281</u>
With Donor Restrictions		
Temporary in nature	2,523,605	1,357,561
Perpetual in nature	250,000	250,000
Total With Donor Restrictions	<u>2,773,605</u>	<u>1,607,561</u>
Total Net Assets	<u>6,794,522</u>	<u>6,084,842</u>
	<u>\$ 7,152,655</u>	<u>\$ 6,253,287</u>

See notes to financial statements

Classroom, Inc.

Statements of Activities Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
SUPPORT AND REVENUE				
Contributions				
Individuals	\$ 841,935	\$ 362,000	\$ 1,203,935	\$ 1,213,546
Foundations and trusts	638,520	2,935,901	3,574,421	2,374,146
Corporations	85,358	-	85,358	17,749
Donated goods and services	134,156	-	134,156	341,396
Fees	64,800	-	64,800	60,360
Interest and dividends	6,561	-	6,561	8,877
Net assets released from restrictions	<u>2,131,857</u>	<u>(2,131,857)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>3,903,187</u>	<u>1,166,044</u>	<u>5,069,231</u>	<u>4,016,074</u>
EXPENSES				
Educational Programs				
Direct support to partners	1,855,194	-	1,855,194	2,093,755
Curriculum and resources	982,142	-	982,142	949,104
Research and assessment	<u>301,043</u>	<u>-</u>	<u>301,043</u>	<u>324,725</u>
Total Educational Programs	3,138,379	-	3,138,379	3,367,584
Management and general	525,085	-	525,085	684,672
Fundraising	<u>696,087</u>	<u>-</u>	<u>696,087</u>	<u>649,455</u>
Total Expenses	<u>4,359,551</u>	<u>-</u>	<u>4,359,551</u>	<u>4,701,711</u>
Change in Net Assets	(456,364)	1,166,044	709,680	(685,637)
NET ASSETS				
Beginning of year	<u>4,477,281</u>	<u>1,607,561</u>	<u>6,084,842</u>	<u>6,770,479</u>
End of year	<u>\$ 4,020,917</u>	<u>\$ 2,773,605</u>	<u>\$ 6,794,522</u>	<u>\$ 6,084,842</u>

See notes to financial statements

Classroom, Inc.

Statements of Activities Year Ended June 30, 2018

	Without Donor Restrictions			With Donor Restrictions	Total
	Operating	Board Designated	Total		
SUPPORT AND REVENUE					
Contributions					
Individuals	\$ 836,546	\$ -	\$ 836,546	\$ 377,000	\$ 1,213,546
Foundations and trusts	985,600	-	985,600	1,388,546	2,374,146
Corporations	13,078	-	13,078	4,671	17,749
Donated goods and services	341,396	-	341,396	-	341,396
Fees	60,360	-	60,360	-	60,360
Interest and dividends	8,877	-	8,877	-	8,877
Net assets released from restrictions	<u>1,790,363</u>	-	<u>1,790,363</u>	<u>(1,790,363)</u>	<u>-</u>
Total Support and Revenue	<u>4,036,220</u>	<u>-</u>	<u>4,036,220</u>	<u>(20,146)</u>	<u>4,016,074</u>
EXPENSES					
Educational Programs					
Direct support to partners	2,093,755	-	2,093,755	-	2,093,755
Curriculum and resources	949,104	-	949,104	-	949,104
Research and assessment	<u>324,725</u>	-	<u>324,725</u>	-	<u>324,725</u>
Total Educational Programs	3,367,584	-	3,367,584	-	3,367,584
Management and general	684,672	-	684,672	-	684,672
Fundraising	<u>649,455</u>	-	<u>649,455</u>	-	<u>649,455</u>
Total Expenses	<u>4,701,711</u>	<u>-</u>	<u>4,701,711</u>	<u>-</u>	<u>4,701,711</u>
Change in Net Assets Before Other Changes	(665,491)	-	(665,491)	(20,146)	(685,637)
OTHER CHANGES					
Transfers to operating fund	<u>800,262</u>	<u>(800,262)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	134,771	(800,262)	(665,491)	(20,146)	(685,637)
NET ASSETS					
Beginning of year	<u>4,342,510</u>	<u>800,262</u>	<u>5,142,772</u>	<u>1,627,707</u>	<u>6,770,479</u>
End of year	<u>\$ 4,477,281</u>	<u>\$ -</u>	<u>\$ 4,477,281</u>	<u>\$ 1,607,561</u>	<u>\$ 6,084,842</u>

See notes to financial statements

Classroom, Inc.

Statement of Functional Expenses Year Ended June 30, 2019

	Educational Programs				Management and General	Fundraising	Total	2018 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	\$ 1,832,367
Professional fees	418,186	33,363	45,175	496,724	218,614	158,735	874,073	839,425
Donated legal services	13,157	6,276	1,720	21,153	3,729	3,699	28,581	260,687
Audit	-	-	-	-	36,000	-	36,000	30,142
Occupancy fees	325,622	141,974	40,198	507,794	67,685	70,776	646,255	809,535
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	78,833
Communications	9,163	3,418	956	13,537	1,740	1,994	17,271	19,951
Repairs and maintenance	11,852	5,315	1,491	18,658	2,671	2,794	24,123	23,027
Depreciation and amortization	3,421	1,561	435	5,417	812	848	7,077	7,917
Amortization of product development costs	-	558,054	-	558,054	-	-	558,054	453,820
Product supplies	23,723	-	4,739	28,462	-	-	28,462	19,519
Travel and conferences	92,775	1,078	774	94,627	837	13,987	109,451	84,880
Donated printing services	81,375	5,693	3,856	90,924	3,206	11,445	105,575	80,709
Recruiting and hiring	1,839	750	208	2,797	400	1,123	4,320	7,550
Insurance	9,075	4,056	1,139	14,270	2,023	2,117	18,410	17,359
Fees	20,429	8,150	16,285	44,864	6,836	5,668	57,368	58,233
Writeoff of product supply inventory	-	-	-	-	-	-	-	20,237
Software support	6,341	2,978	821	10,140	1,633	1,708	13,481	18,408
Advertising	55,428	-	-	55,428	-	-	55,428	13,927
Other	34,028	10,563	2,918	47,509	6,240	11,411	65,160	25,185
	<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>	<u>\$ 4,701,711</u>

See notes to financial statements

Classroom, Inc.

Statement of Functional Expenses
Year Ended June 30, 2018

	Educational Programs			Total Educational Programs	Management and General	Fundraising	Total
	Direct Support to Partners	Curriculum and Resources	Research and Assessment				
Salaries and benefits	\$ 756,351	\$ 233,415	\$ 207,286	\$ 1,197,052	\$ 240,109	\$ 395,206	\$ 1,832,367
Professional fees	499,969	12,108	8,371	520,448	189,523	129,454	839,425
Donated legal services	75,588	30,783	8,964	115,335	132,496	12,856	260,687
Audit	-	-	-	-	30,142	-	30,142
Occupancy fees	435,530	177,369	51,648	664,547	70,915	74,073	809,535
Office expenses	53,971	7,971	6,812	68,754	4,811	5,268	78,833
Communications	10,963	4,411	1,183	16,557	1,624	1,770	19,951
Repairs and maintenance	12,769	4,733	1,654	19,156	1,894	1,977	23,027
Depreciation and amortization	4,260	1,735	505	6,500	693	724	7,917
Amortization of product development costs	-	453,820	-	453,820	-	-	453,820
Product supplies	9,848	-	9,671	19,519	-	-	19,519
Travel and conferences	67,532	687	3,928	72,147	501	12,232	84,880
Donated printing services	72,160	1,039	4,436	77,635	415	2,659	80,709
Recruiting and hiring	4,613	798	1,487	6,898	319	333	7,550
Insurance	9,339	3,803	1,108	14,250	1,521	1,588	17,359
Fees	26,162	8,672	11,439	46,273	6,326	5,634	58,233
Writeoff of product supply inventory	20,237	-	-	20,237	-	-	20,237
Software support	7,932	3,230	4,606	15,768	1,291	1,349	18,408
Advertising	13,927	-	-	13,927	-	-	13,927
Other	12,604	4,530	1,627	18,761	2,092	4,332	25,185
	<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>

See notes to financial statements

Classroom, Inc.

Statements of Cash Flows

	Year Ended June 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 709,680	\$ (685,637)
Adjustments to reconcile change in net assets to net cash from operating activities		
Writeoff of product supply inventory	-	20,237
Depreciation and amortization	565,131	461,737
Donated investments	(99,353)	(97,920)
Deferred rent	145,304	-
Changes in operating assets and liabilities		
Pledges receivable	(1,333,473)	(354,418)
Fees and other receivables	(19,281)	49,213
Product inventories	15,243	5,951
Prepaid expenses and other assets	61,336	80,672
Accounts payable and accrued expenses	44,384	(78,065)
Net Cash from Operating Activities	88,971	(598,230)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	99,353	97,920
Purchase of property and equipment	(65,998)	(1,093)
Product development costs	(324,019)	(483,010)
Net Cash from Investing Activities	(290,664)	(386,183)
CASH FLOWS FROM FINANCING ACTIVITIES		
Restricted cash	(144,754)	-
Change in Cash	(346,447)	(984,413)
CASH		
Beginning of year	2,162,272	3,146,685
End of year	\$ 1,815,825	\$ 2,162,272

See notes to financial statements

Classroom, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

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 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, CI offers 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 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 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, 21st Century skills, and college- and career-readiness.

Classroom, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

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.

Change in Accounting Principle

On July 1, 2018, CI adopted FASB guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities (ASU 2016-14). This guidance requires CI to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires CI to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements. As a result of implementing this standard, prior year amounts for temporarily and permanently restricted net assets were combined and reclassified as net assets with donor restrictions and unrestricted net assets were reclassified as net assets without donor restrictions.

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.

Classroom, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

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 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, 2019 and 2018, no such allowance was considered necessary.

Advertising

Advertising expense is recognized as the expense is incurred. For the years ended June 30, 2019 and 2018, CI incurred digital media advertising expenses totaling \$55,428 and \$13,927.

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.

Classroom, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

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

Product Inventories (continued)

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 2019 and 2018.

During the years ended June 30, 2019 and 2018, CI had a write off of obsolete inventory valued at \$0 and \$20,237.

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 2013, CI began the development of *After the Storm*, the first in a suite of middle school-level learning games. During fiscal year 2014, CI completed a project consisting of three web-enabled simulations. 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.

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, 2019 and 2018, management determined that no impairment loss needs to be recognized.

Classroom, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

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

Product Development (continued)

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:

2020	\$ 588,441
2021	590,112
2022	502,633
2023	247,657
2024	163,898
Thereafter	30,990
	<u>\$2,123,731</u>

As of June 30, 2019 and 2018, accumulated amortization on completed games was \$1,647,337 and \$1,643,449, respectively. During the years ended June 30, 2019 and 2018, \$554,196 and \$0 of 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.

Reclassification

Certain amounts in the June 30, 2018 financial statements have been reclassified to conform to the June 30, 2019 presentation. These changes had no impact on the change in net assets for the year ended June 30, 2018.

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 2016.

Classroom, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

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

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 18, 2019.

3. Pledges Receivable

Pledges receivable are shown in the accompanying statements of financial position net of discounts to present value. Gross pledges of \$2,681,098 and \$1,347,783 at June 30, 2019 and 2018, respectively, with payments due in future years, were discounted to present value using discount rates ranging from 2.38% to 2.41%. Pledge receivables are due as follows at June 30:

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 1,457,633	\$ 960,534
Two to five years	<u>1,223,465</u>	<u>387,249</u>
	2,681,098	1,347,783
Discount to present value	<u>(5,112)</u>	<u>(5,270)</u>
	<u>\$ 2,675,986</u>	<u>\$ 1,342,513</u>

4. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 3,207	\$ 588,704
Equipment, web design and salesforce	154,071	147,590
Furniture and fixtures	<u>57,511</u>	<u>1,200</u>
	214,789	737,494
Accumulated depreciation and amortization	<u>(150,522)</u>	<u>(732,148)</u>
	<u>\$ 64,267</u>	<u>\$ 5,346</u>

There was \$588,703 and \$92,986 of fully depreciated assets disposed of and written off during fiscal years 2019 and 2018, respectively.

Classroom, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

5. Operating Activities

CI has elected to present its Operating Activities in the Schedule of Operating Results (Page 21) 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.

6. 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 2019 and 2018, 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.

7. Net Assets With Donor Restrictions

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

	<u>2019</u>	<u>2018</u>
Purpose Restricted		
Direct Support to Partners		
New York	\$ 384,954	\$ 200,000
National urban districts	521,033	355,670
Research and Assessment	274,918	139,800
Curriculum Development		
Product development	651,501	100,000
Capacity building	<u>324,039</u>	<u>20,000</u>
	2,156,445	815,470
Time restricted	<u>367,160</u>	<u>542,091</u>
	<u>\$ 2,523,605</u>	<u>\$ 1,357,561</u>

Classroom, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

7. 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>2019</u>	<u>2018</u>
Purpose Restricted		
Direct Support to Partners		
New York	\$ 419,046	\$ 384,915
National urban districts	460,237	326,151
Research and Assessment	252,282	180,267
Curriculum Development		
Product development	366,499	262,500
Capacity building	<u>211,461</u>	<u>241,353</u>
	1,709,525	1,395,186
Time restricted	<u>422,332</u>	<u>395,177</u>
	<u>\$2,131,857</u>	<u>\$ 1,790,363</u>

8. Board Designated Net Assets

In 2017, the Board designated net assets consisting of revenue generated by a special fundraising event celebrating CI's 25th Anniversary (the "Campaign"). The amount utilized for fiscal years 2019 and 2018 was \$0 and \$800,262, respectively. As of June 30, 2019 and 2018, CI's had no Board designated net assets.

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 11).

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.

Classroom, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

9. Restricted and Endowment Cash (*continued*)

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.

Changes in Endowment Net Assets

There were no changes in the endowment net assets during fiscal years 2019 and 2018. At June 30, 2019 and 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, 2019 and 2018, 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.

Classroom, Inc.

Notes to Financial Statements June 30, 2019 and 2018

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 2019 and 2018, 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.

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, 2019 and 2018 were \$69,127 and \$82,522, respectively.

12. Commitments

CI's non-cancelable operating lease for its office space expired on December 31, 2018. In addition to base rent, the lease obligated 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 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.

In August 2018, in conjunction with the execution of the new lease agreement, CI entered into a letter or credit with its new 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.

Classroom, Inc.

Notes to Financial Statements June 30, 2019 and 2018

12. Commitments (continued)

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

2020	\$ 352,476
2021	361,288
2022	370,321
2022	379,579
2024	397,930
Thereafter	<u>2,164,045</u>
	<u>\$4,025,639</u>

Rent expense was approximately \$447,000 and \$712,000 for the years ended June 30, 2019 and 2018, respectively. After a four-month period of free rent, CI's monthly cash base rent, under the new lease agreement, was \$28,951 per month compared to \$60,082 under the prior lease agreement.

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

CI has also entered into operating lease agreements for its office equipment. Minimum future payments under these agreements is \$7,517 for 2020.

Lease expense under the equipment agreements was \$8,825 and \$9,616 for the years ended June 30, 2019 and 2018, respectively.

13. Liquidity and Availability of Financial Assets

The following reflects the CI's financial assets as of December 31, 2019 reduced by amounts not available for general use within one year, due to contractual or donor-imposed restrictions or internal designations.

Financial Assets	
Cash	\$ 1,815,825
Pledges receivable, net	2,675,986
Fees and other receivables	<u>21,080</u>
Total Financial Assets	4,512,891
Less amounts unavailable for general expenditures within one due to:	
Restricted by donors	<u>(2,523,605)</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 1,989,286</u>

Classroom, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

13. Liquidity and Availability of Financial Assets (continued)

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 \$1,729,750 of additional revenue without donor restrictions to fund its general expenditures and liabilities for fiscal year ending June 30, 2020.

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Classroom Inc.

Supplementary Information

Year Ended June 30, 2019

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)	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>3,903,187</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>3,899,122</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>\$ 4,065</u>

See Independent Auditors' Report