

**InnovateEDU Inc**

Financial Statements

June 30, 2018 and 2017

## Independent Auditors' Report

### Board of Directors InnovateEDU Inc

We have audited the accompanying financial statements of InnovateEDU Inc (the "Organization"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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 Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited the Organization's June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 12, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it was derived.

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 14 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 audit 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 as a whole.

*PKF O'Connor Davies, LLP*

February 28, 2019

## InnovateEDU Inc

Statement of Financial Position  
June 30, 2018  
(with comparative amounts at June 30, 2017)

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 2,846,145	\$ 2,929,558
Grants and contracts receivable	188,385	175,786
Due from related party	285,997	96,102
Other receivables	23,154	11,927
Prepaid expenses	<u>11,198</u>	<u>11,463</u>
Total Current Assets	3,354,879	3,224,836
Property and equipment, net	<u>13,392</u>	<u>5,475</u>
	<u>\$ 3,368,271</u>	<u>\$ 3,230,311</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 104,027	\$ 50,213
Accrued payroll and payroll taxes	103,516	97,833
Due to related party	-	1,071
Refundable advances	<u>-</u>	<u>1,250,000</u>
Total Current Liabilities	<u>207,543</u>	<u>1,399,117</u>
Net Assets		
Unrestricted	1,980,196	499,582
Temporarily restricted	<u>1,180,532</u>	<u>1,331,612</u>
Total Net Assets	<u>3,160,728</u>	<u>1,831,194</u>
	<u>\$ 3,368,271</u>	<u>\$ 3,230,311</u>

**InnovateEDU Inc**

Statement of Activities  
Year Ended June 30, 2018  
(with summarized totals for the year ended June 30, 2017)

	2018			2017
	Unrestricted	Temporarily Restricted	Total	
<b>REVENUE AND SUPPORT</b>				
Program service revenue	\$ 1,096,813	\$ -	\$ 1,096,813	\$ 1,081,890
Grants and contributions	2,050,000	1,478,000	3,528,000	1,862,691
City grant	428,630	-	428,630	352,456
Donated goods and services	516,774	-	516,774	663,814
Other income	20,074	-	20,074	-
Net assets released from restrictions	<u>1,629,080</u>	<u>(1,629,080)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>5,741,371</u>	<u>(151,080)</u>	<u>5,590,291</u>	<u>3,960,851</u>
<b>EXPENSES</b>				
Program services	3,749,178	-	3,749,178	2,521,832
Management and general	438,313	-	438,313	358,739
Fundraising	<u>73,266</u>	<u>-</u>	<u>73,266</u>	<u>61,791</u>
Total Expenses	<u>4,260,757</u>	<u>-</u>	<u>4,260,757</u>	<u>2,942,362</u>
Change in Net Assets	1,480,614	(151,080)	1,329,534	1,018,489
<b>NET ASSETS</b>				
Beginning of year	<u>499,582</u>	<u>1,331,612</u>	<u>1,831,194</u>	<u>812,705</u>
End of year	<u>\$ 1,980,196</u>	<u>\$ 1,180,532</u>	<u>\$ 3,160,728</u>	<u>\$ 1,831,194</u>

## InnovateEDU Inc

Statement of Cash Flows  
Year Ended June 30, 2018  
(with summarized totals for the year ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,329,534	\$ 1,018,489
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	2,381	1,094
Changes in operating assets and liabilities		
Grants and contracts receivable	(12,599)	59,361
Due from related parties, net	(190,966)	(83,690)
Other receivables	(11,227)	(1,599)
Prepaid expenses	265	(11,463)
Accounts payable and accrued expenses	53,814	(13,007)
Accrued payroll and payroll taxes	5,683	67,309
Refundable advances	<u>(1,250,000)</u>	<u>1,075,000</u>
Net Cash from Operating Activities	(73,115)	2,111,494
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>		
Purchase of property and equipment	<u>(10,298)</u>	<u>(4,769)</u>
Net Change in Cash and Cash Equivalents	(83,413)	2,106,725
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>2,929,558</u>	<u>822,833</u>
End of year	<u>\$ 2,846,145</u>	<u>\$ 2,929,558</u>

# InnovateEDU Inc

Notes to Financial Statements  
June 30, 2018 and 2017

## 1. Organization and Tax Status

InnovateEDU Inc (the "Organization"), was incorporated under the laws of the State of New York on September 12, 2013. The Organization's mission is to eliminate the achievement gap by accelerating innovation in common core-aligned, next generation learning models and tools that serve, inform, and enhance teaching and learning.

Except for taxes that may be due for unrelated business income, the Organization is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

## 2. Significant Accounting Policies

### ***Basis of Presentation and Use of Estimates***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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.

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

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

*Unrestricted* - consist of resources available for the general support of the Organization's operations. Unrestricted net assets may be used at the discretion of the Organization's management and Board of Directors.

*Temporarily Restricted* - represent amounts restricted by donors for specific activities of the Organization or to be used at some future date. The Organization records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

*Permanently Restricted* - consist of net assets that are subject to donor imposed restrictions that require the Organization to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

## InnovateEDU Inc

Notes to Financial Statements  
June 30, 2018 and 2017

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

#### ***Net Asset Presentation (continued)***

The Organization had no permanently restricted net assets at June 30, 2018 and 2017.

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

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

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

The Organization follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$1,000. Property and equipment is recorded at cost at the date of acquisition or at their fair values at the date of donation. Minor costs of repairs and maintenance are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to the long lived asset, in which case it is expensed as incurred.

Depreciation is provided using the straight-line method over the estimated useful lives as follows:

Computer equipment	3 years
Furniture and fixtures	7 years

Property and equipment is reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to the fair value. There were no asset impairments for the years ended June 30, 2018 and 2017.

#### ***Refundable Advances***

The Organization records certain grants and contracts as refundable advances until related services are performed, at which time they are recognized as revenue.

## InnovateEDU Inc

Notes to Financial Statements  
June 30, 2018 and 2017

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

#### ***Revenue and Support***

Grants and other contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the Organization in current year's activities are recorded as unrestricted revenue. Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, are recognized when the conditions on which they depend are substantially met. Program service revenue is recognized when services are performed in accordance to the agreement. City grants are recorded when expenditures are incurred and billable to the government agency.

#### ***Donated Goods and Services***

Donated goods are recorded at their fair value when received. The Organization recognizes contributions of services if they create or enhance nonfinancial assets, require specialized skills, are provided by individuals possessing those skills, would typically need to be purchased if not provided by the Organization, and are measurable.

For the years ended June 30, 2018 and 2017, facilities and other goods and services totaling \$450,692 and \$475,455 were provided to the Organization at no charge by Brooklyn Laboratory Charter Schools, a related party (see Note 6). These donated facilities and other goods and services were recorded under in-kind in the accompanying schedule of functional expenses.

Two entities have provided professional services to the Organization at no charge. The value of these services met the criteria for recognition in the financial statements and was recorded at fair value. For the years ended June 30, 2018 and 2017, the value of such donated services amounted to \$66,082 and \$188,359. These donated services were recorded under consultants and legal services in the accompanying schedule of functional expenses.

The Organization received the following donated goods and services for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Facilities and other goods and services	\$ 450,692	\$ 475,455
Pro-bono technology development consulting	66,082	133,126
Pro-bono legal services	<u>-</u>	<u>55,233</u>
	<u>\$ 516,774</u>	<u>\$ 663,814</u>

## **InnovateEDU Inc**

Notes to Financial Statements  
June 30, 2018 and 2017

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

#### ***Functional Expense Allocation***

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the Organization to be appropriate.

#### ***Advertising and Promotion***

Advertising and promotion costs are expensed as incurred. Advertising and promotion costs totaled \$32,916 and \$6,437 for the years ended June 30, 2018 and 2017.

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

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition or disclosure. All tax returns filed by the Organization are subject to examinations by the applicable taxing jurisdictions.

#### ***Prior Year Summarized Comparative Financial Information***

The financial statements include prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

#### ***Reclassification***

Certain 2017 accounts have been reclassified to conform to the 2018 financial statement presentation. The reclassifications had no effect on 2017 net assets and change in net assets.

#### ***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 date is February 28, 2019.

## InnovateEDU Inc

Notes to Financial Statements  
June 30, 2018 and 2017

### 3. Grants and Contracts Receivable

Grants and contracts receivable at June 30, 2018 and 2017 are due within one year and consist of the following:

	<u>2018</u>	<u>2017</u>
New York City Department of Youth and Community Development	\$ 88,385	\$ 175,786
Foundation Grant	<u>100,000</u>	<u>-</u>
	<u>\$ 188,385</u>	<u>\$ 175,786</u>

At June 30, 2018 and 2017 no allowance for doubtful accounts has been deemed necessary.

### 4. Conditional Promises to Give

At June 30, 2018, the Organization had four conditional grants totaling \$5,401,000, which contained donor conditions regarding future milestones. Since these grants represent conditional promises to give, they are not recorded as grant revenue until donor conditions are met. As of June 30, 2018, \$3,974,300 of these conditions have been met.

### 5. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Computer equipment	\$ 11,281	\$ 6,569
Furniture and fixtures	<u>5,586</u>	<u>-</u>
	16,867	6,569
Accumulated depreciation	<u>(3,475)</u>	<u>(1,094)</u>
	<u>\$ 13,392</u>	<u>\$ 5,475</u>

### 6. Related Party Transactions *(Not Disclosed Elsewhere)*

#### ***Brooklyn Laboratory Charter Schools***

The Organization is related to Brooklyn Laboratory Charter Schools (the "School"), a New York State, not-for-profit educational corporation, by common management. On August 9, 2014, the Organization entered into a service agreement with the School to provide the School with educational core services. This agreement has since expired and has been renewed through June 30, 2019. This agreement was amended to add services provided by senior fellows and consultants.

## InnovateEDU Inc

Notes to Financial Statements  
June 30, 2018 and 2017

### 6. Related Party Transactions (*Not Disclosed Elsewhere*) (*continued*)

The Organization charged the School the following amounts for services relating to the above agreements, and included in program service revenue in the Statement of Activities for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Educational core services	\$ 959,313	\$ 830,930
Afterschool program	<u>137,500</u>	<u>99,000</u>
	<u>\$ 1,096,813</u>	<u>\$ 929,930</u>

Grants expense to the School amounted to the following for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Grants	\$ 929,398	\$ 86,518
Donated computer equipment	<u>4,450</u>	<u>-</u>
	<u>\$ 933,848</u>	<u>\$ 86,518</u>

In addition, for the years ended June 30, 2018 and 2017, the Organization paid on behalf of the School \$37,543 and \$8,987 for operating expenses. Net balances due from the School as of June 30, 2018 and 2017 amounted to \$285,997 and \$96,102.

#### ***Design Innovation Factory, LLC***

The Organization is related to Design Innovation Factory, LLC (“DIF”) by common management, a socially oriented consultancy firm that focuses on rapidly developing interactive solutions to eliminate the achievement gap for high-need students. The owner of DIF is the Organization’s Co-Founder and Executive Director. There were no transactions between the Organization and DIF during the years ended June 30, 2018 and 2017. The balance due to DIF of \$1,071 was paid in full during the year ended June 30, 2018.

#### ***Friends of Brooklyn Laboratory Schools, Inc.***

The Organization is related to Friends of Brooklyn Laboratory Charter Schools, Inc. (“Friends Of”), a New York State, not-for-profit corporation, by common management. There were no transactions between the Organization and Friends Of for the years ended June 30, 2018 and 2017.

## InnovateEDU Inc

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

#### 7. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Development and support of new secondary schools under the Opportunity by Design initiative	\$ 862,601	\$ 971,231
Data Whiz project	40,989	128,816
Special education	-	61,508
Support of Brooklyn Laboratory Charter Schools	<u>276,942</u>	<u>170,057</u>
	<u>\$ 1,180,532</u>	<u>\$ 1,331,612</u>

Temporarily restricted net assets were released as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Project Unicorn	\$ -	\$ 200,000
Development and support of new secondary schools under the Opportunity by Design initiative	899,129	555,171
Data Whiz project	87,827	31,184
Special education	61,508	38,492
Support of Brooklyn Laboratory Charter Schools	<u>580,616</u>	<u>92,443</u>
	<u>\$ 1,629,080</u>	<u>\$ 917,290</u>

#### 8. Retirement Plan

The Organization has a SEP-IRA retirement plan that covers all eligible employees. Under the plan, the Organization provides vesting contributions of 1% to 5% of the employees' base salary based on years of service. Total employer contribution for the year ended June 30, 2018 and 2017 amounted to \$15,216 and \$0.

#### 9. Contingencies

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

## **InnovateEDU Inc**

Notes to Financial Statements  
June 30, 2018 and 2017

### **10. Concentration of Credit Risk**

Financial instruments that potentially subject the Organization to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The Organization does not believe that a significant risk of loss due to the failure of a financial institution presently exists. At June 30, 2018 and 2017, approximately \$2,596,000 and \$2,680,000 of cash was maintained with an institution in excess of FDIC limits.

### **11. Concentration of Revenue and Support**

For the years ended June 30, 2018 and 2017, the Organization received approximately 14% and 27% of total revenue and support from one foundation.

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**InnovateEDU Inc**

Supplementary Information

June 30, 2018 and 2017

**InnovateEDU Inc**

Schedule of Functional Expenses  
Year Ended June 30, 2018  
(with summarized totals for the year ended June 30, 2017)

	2018			2017	
	Program Services	Management and General	Fundraising	Total	Total
Salaries	\$ 1,342,710	\$ 149,190	\$ 26,239	\$ 1,518,139	\$ 1,309,462
Payroll taxes and benefits	160,448	17,826	3,136	181,410	136,970
Grants to the School	825,356	92,363	16,129	933,848	86,518
Consultants	476,232	52,916	9,306	538,454	32,262
Legal services	-	-	-	-	55,233
Accounting/audit services	-	15,000	-	15,000	15,000
Other professional fees	73,482	8,165	1,436	83,083	514,651
Advertising and promotion	29,113	3,234	569	32,916	6,437
Office expense	222,122	24,680	4,341	251,143	160,405
Telephone and communication	71	8	1	80	385
Insurance	16,125	1,792	315	18,232	9,418
Travel and transportation	145,520	16,169	2,844	164,533	86,149
In-kind	398,612	44,290	7,790	450,692	475,455
Depreciation	2,106	234	41	2,381	1,094
Non-capitalized equipment	57,281	6,366	1,119	64,766	41,290
Miscellaneous	-	6,080	-	6,080	11,633
<b>Total Expenses</b>	<b>\$ 3,749,178</b>	<b>\$ 438,313</b>	<b>\$ 73,266</b>	<b>\$ 4,260,757</b>	<b>\$ 2,942,362</b>