

**PAVE Schools, Inc. and Subsidiaries**

Consolidated Financial Statements

June 30, 2017 and 2016

## **Independent Auditors' Report**

### **Board of Trustees PAVE Schools, Inc. and Subsidiaries**

We have audited the accompanying consolidated financial statements of PAVE Schools, Inc. and Subsidiaries (collectively referred to as, "PAVE Schools"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PAVE Schools as of June 30, 2017, 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***

The summarized comparative consolidated financial statements as of June 30, 2016 and for the year then ended, were audited by other auditors who ceased operations. Those auditors expressed an unmodified opinion on those consolidated financial statements in their report dated December 15, 2016.

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of functional expenses and consolidating statements of financial position and activities on pages 19 through 23 are presented for the purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

*PKF O'Connor Davies, LLP*

Harrison, New York  
April 19, 2018

**PAVE Schools, Inc. and Subsidiaries**

Consolidated Statement of Financial Position

June 30, 2017

(with comparative amounts at June 30, 2016)

|  | <u>2017</u>          | <u>2016</u>          |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| Current Assets   |                      |                      |
| Cash and cash equivalents                                    | \$ 1,860,065         | \$ 2,283,364         |
| Cash - reserves (Note 8)                                     | 509,264              | 690,592              |
| Due from related parties (Note 5)                            | 221,948              | 440,481              |
| Pledges and grants receivable (Note 3)                       | 550,000              | 516,040              |
| Lease receivable, related party (Note 7)                     | 111,567              | 116,059              |
| Prepaid expenses and other current assets                    | <u>114,971</u>       | <u>93,955</u>        |
| Total Current Assets   | 3,367,815            | 4,140,491            |
| Project costs, net (Note 6)                                  | 34,392,599           | 35,346,396           |
| Property and equipment, net (Note 4)                         | 366,188              | 227,611              |
| Security deposits  | 30,366               | 25,274               |
| Lease receivable, related party (Note 7)                     | 6,833,312            | 6,944,879            |
| Pledges and grants receivable, net                           | -                    | 485,000              |
| Restricted cash - reserve for<br>future capital improvements | <u>74,423</u>        | <u>45,495</u>        |
|  | <u>\$ 45,064,703</u> | <u>\$ 47,215,146</u> |
| <b>LIABILITIES AND NET ASSETS</b>                            |                      |                      |
| Current Liabilities  |                      |                      |
| Accounts payable and accrued expenses                        | \$ 148,236           | \$ 178,649           |
| Grants payable, related party - current portion              | 300,000              | 700,000              |
| Loans payable, net - current portion (Note 8)                | <u>151,342</u>       | <u>140,480</u>       |
| Total Current Liabilities                                    | 599,578              | 1,019,129            |
| Security deposit payable                                     | -                    | 11,000               |
| Grants payable, related party                                | -                    | 300,000              |
| Loans payable (Note 8)                                       | <u>20,948,317</u>    | <u>21,083,948</u>    |
| Total Liabilities  | <u>21,547,895</u>    | <u>22,414,077</u>    |
| Net Assets   |                      |                      |
| Unrestricted   | 22,981,808           | 23,580,738           |
| Temporarily restricted                                       | <u>535,000</u>       | <u>1,220,331</u>     |
| Total Net Assets   | <u>23,516,808</u>    | <u>24,801,069</u>    |
|  | <u>\$ 45,064,703</u> | <u>\$ 47,215,146</u> |

See notes to consolidated financial statements

**PAVE Schools, Inc. and Subsidiaries**

Consolidated Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2017  
(with summarized totals for the year ended June 30, 2016)

|   | 2017                 |                        |                      | 2016                 |
|---|----------------------|------------------------|----------------------|----------------------|
|   | Unrestricted         | Temporarily Restricted | Total                | Total                |
| <b>REVENUE AND SUPPORT</b>                                |                      |                        |                      |                      |
| Contributions and grants                                  | \$ 1,866,344         | \$ 50,000              | \$ 1,916,344         | \$ 4,475,428         |
| Rental income   | 247,184              | -                      | 247,184              | 242,974              |
| Management fees   | 779,355              | -                      | 779,355              | 723,433              |
| Interest and other income                                 | 333,272              | -                      | 333,272              | 40,569               |
| Donated goods and services                                | 95,507               | -                      | 95,507               | 228,299              |
| Net assets released from restrictions                     | 735,331              | (735,331)              | -                    | -                    |
| Total Revenue and Support                                 | <u>4,056,993</u>     | <u>(685,331)</u>       | <u>3,371,662</u>     | <u>5,710,703</u>     |
| <b>EXPENSES EXCLUDING DEPRECIATION AND AMORTIZATION</b>   |                      |                        |                      |                      |
| Program services  | 3,287,373            | -                      | 3,287,373            | 4,177,629            |
| Management and general                                    | 332,723              | -                      | 332,723              | 323,295              |
| Fundraising   | 2,490                | -                      | 2,490                | 192,540              |
| Total Expenses Before Depreciation and Amortization       | <u>3,622,586</u>     | <u>-</u>               | <u>3,622,586</u>     | <u>4,693,464</u>     |
| Change in Net Assets Before Depreciation and Amortization | 434,407              | (685,331)              | (250,924)            | 1,017,239            |
| Depreciation and amortization                             | <u>1,033,337</u>     | <u>-</u>               | <u>-</u>             | <u>1,018,170</u>     |
| Change in Net Assets                                      | (598,930)            | (685,331)              | (1,284,261)          | (931)                |
| <b>NET ASSETS</b>   |                      |                        |                      |                      |
| Beginning of year   | <u>23,580,738</u>    | <u>1,220,331</u>       | <u>24,801,069</u>    | <u>24,802,000</u>    |
| End of year   | <u>\$ 22,981,808</u> | <u>\$ 535,000</u>      | <u>\$ 23,516,808</u> | <u>\$ 24,801,069</u> |

**PAVE Schools, Inc. and Subsidiaries**

Consolidated Statement of Cash Flows

Year Ended June 30, 2017

(with summarized amounts for the year ended June 30, 2016)

|   | <u>2017</u>             | <u>2016</u>             |
|---|-------------------------|-------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                         |                         |
| Change in net assets  | \$ (1,284,261)          | \$ (931)                |
| Adjustments to reconcile change in net assets to net cash from operating activities |                         |                         |
| Amortization - debt issuance costs  | 44,044                  | 27,596                  |
| Depreciation and amortization   | 1,033,337               | 1,018,170               |
| Changes in operating assets and liabilities   |                         |                         |
| Due from related parties  | 218,533                 | (440,481)               |
| Pledges and grants receivable   | 451,040                 | (773,380)               |
| Lease receivable, related party   | 116,059                 | (7,060,938)             |
| Prepaid expenses and other current assets   | (21,016)                | (26,320)                |
| Security deposits   | (5,092)                 | (3,830)                 |
| Accounts payable and accrued expenses   | (30,412)                | 40                      |
| Grants payable, related party   | (700,000)               | 1,000,000               |
| Due to related party  | -                       | (79,540)                |
| Security deposit payable  | <u>(11,000)</u>         | <u>11,000</u>           |
| Net Cash from Operating Activities  | <u>(188,768)</u>        | <u>(6,328,614)</u>      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                         |                         |
| Purchases of property and equipment   | (245,714)               | (32,634)                |
| Decrease in project costs   | <u>-</u>                | <u>37,950</u>           |
| Net Cash from Investing Activities  | <u>(245,714)</u>        | <u>5,316</u>            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                         |                         |
| Proceeds from loans payable   | -                       | 6,500,000               |
| Repayments of loans payable   | (141,217)               | -                       |
| Increase in deferred financing costs  | -                       | (29,250)                |
| Cash - reserves   | 181,328                 | 181,144                 |
| Restricted cash - reserve for future capital improvements                           | <u>(28,928)</u>         | <u>(45,495)</u>         |
| Net Cash from Financing Activities  | <u>11,183</u>           | <u>6,606,399</u>        |
| <br>Net Change in Cash and Cash Equivalents   | <br>(423,299)           | <br>283,101             |
| <b>CASH AND CASH EQUIVALENTS</b>  |                         |                         |
| Beginning of year   | <u>2,283,364</u>        | <u>2,000,263</u>        |
| <br>End of year   | <br><u>\$ 1,860,065</u> | <br><u>\$ 2,283,364</u> |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>   |                         |                         |
| Cash paid during the year for interest  | \$ 448,067              | \$ 168,882              |

See notes to consolidated financial statements

## **PAVE Schools, Inc. and subsidiaries**

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

### **1. Organization and Tax Status**

PAVE Schools, Inc. ("PAVE") was incorporated under the laws of the State of New York on January 24, 2006. PAVE is a non-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and a similar provision under New York State income tax laws. PAVE was originally incorporated under the name Friends of PAVE Academy, Inc., which continued as PAVE's formal name through June 2014 when PAVE amended its articles of incorporation and changed to its current name. When first incorporated in 2006, Friends of PAVE was originally organized to financially support the establishment and operations of a single school, PAVE Academy Charter School ("PAVE Academy") in Red Hook, Brooklyn, New York, including support through fundraising and facility development costs. PAVE maintained this legal purpose through June 2014. In June 2014, PAVE amended its legal purpose to support the establishment and operation of schools and pre-schools focused on the core values on Perseverance, Achievement, Vibrance, and Excellent Character, including support through fundraising.

PACS 732 Henry, LLC ("PACS 732") is a wholly owned subsidiary of PAVE, whose purpose is to acquire and develop a property for the use of the PAVE Academy. PACS 732 was organized on September 10, 2010.

PAVE 2801 South Wilmington, LLC ("PAVE 2801") is a wholly owned subsidiary of PAVE, whose purpose is to lease, manage, maintain, operate and sublease a real property for the use of a related North Carolina charter school, PAVE Southeast Raleigh Charter School, Inc. ("PAVE SE"). PAVE 2801 was organized on December 17, 2014. The sublease with PAVE Southeast Raleigh Charter School was terminated on June 30, 2016.

PAVE 238 Conover, LLC ("PAVE 238") is a wholly owned subsidiary of PAVE, whose purpose is to lease, manage, maintain, operate and sublease a real property for the use of PAVE's office facilities. PAVE 238 was organized on May 22, 2015.

PAVE 76 Lorraine, LLC ("PAVE 76") is a wholly owned subsidiary of PAVE, whose purpose is to lease, manage, maintain, operate and sublease a real property for the use of Pre-PAVE Inc. ("Pre-PAVE") facilities, a related party. PAVE 76 was organized on June 15, 2015. Pre-PAVE is a fully consolidated entity of PAVE Academy. Its first school discontinued operations in June, 2017 and PAVE 76 did not renew the lease for the facility, which terminated on July 31, 2017.

PAVE 3420 Idlewood Village, LLC ("PAVE 3420") is a wholly owned subsidiary of PAVE, whose purpose is to develop and hold a real property asset for the use of a related North Carolina charter school, PAVE Southeast Raleigh Charter School. PAVE 3420 was organized on March 31, 2016.

Triangle Transportation, LLC ("Triangle") is a wholly owned subsidiary of PAVE, whose purpose is to serve as a school bus transportation company transporting students for a related North Carolina Charter School, PAVE SE. Triangle was organized on April 13, 2017.

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

## **PAVE Schools, Inc. and subsidiaries**

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

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

#### ***Principles of Consolidation***

The consolidated financial statements include the accounts of PAVE and its six wholly owned subsidiaries, PACS 732, PAVE 2801, PAVE 238, PAVE 76, PAVE 3420, and Triangle (collectively referred to as "PAVE Schools"). All significant intercompany balances and transactions have been eliminated in consolidation.

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

The accompanying consolidated 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 consolidated 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 PAVE Schools' operations. Unrestricted net assets may be used at the discretion of PAVE Schools' management and Board of Directors.

*Temporarily Restricted* - represent amounts restricted by donors for specific activities of PAVE Schools or to be used at some future date. PAVE Schools 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 restriction 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 PAVE Schools 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. PAVE and its wholly owned subsidiaries had no permanently restricted net assets as of June 30, 2017 and 2016.

#### ***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.



## **PAVE Schools, Inc. and subsidiaries**

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

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

#### ***Pledges and Grants Receivable***

Pledges and grants to be received in one year or less are reported at net realizable value. Pledges to be received after one year, are initially reported at fair value, estimated by discounting them to their present value at a risk-adjusted rate. Thereafter, amortization of discounts are recorded as additional contribution revenue. An allowance for uncollectible pledges receivable is provided based upon management's judgment, considering such factors as prior collection history, type of contribution, relationship with donor, and other relevant factors. As of June 30, 2017 and 2016, no allowance for uncollectible pledges receivable has been deemed necessary.

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

PAVE Schools follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$1,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset which is thirty years. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, whereby such assets are expensed as incurred.

Depreciation and amortization is recognized on the straight line method over the estimated useful lives of such assets as follows:

|                         |               |
|-------------------------|---------------|
| Furniture and fixtures  | 5 years       |
| Computers and equipment | 3 and 5 years |
| Vehicles                | 5 years       |

Property and equipment are 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, 2017 and 2016.

#### ***Deferred Financing Costs***

In 2017 PAVE Schools adopted new U.S. GAAP guidance for the presentation of debt issuance costs and related amortization. Debt issuance costs are now reported on the statement of financial position as a direct deduction from the face amount of the debt. Previously, such costs were shown as deferred financing costs. The debt issuance costs are being amortized over the term of the debt on a method that approximates the interest method. PAVE Schools reflects amortization of debt issuance costs within interest expense, in accordance with the new guidance. This change had no effect on previously reported change in net assets. The 2016 amounts have been reclassified as deductions from debt and at December 31, 2017 and 2016, see note 8.

## **PAVE Schools, Inc. and subsidiaries**

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

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

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

The consolidated financial statements of PAVE Schools reflect contributions and grants received from individuals, corporations, and foundations. Contributions and unconditional promises to give from donors are recorded when received. 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. In-kind donations are recorded at the estimated fair value at the date the services and goods are received. Management service fees are recognized when services are performed in accordance to the management service agreement.

Contributions with donor-imposed restrictions, such as time or purpose restrictions, are recorded as temporarily restricted net assets. Restricted contributions and grants that are made to support PAVE Schools current year activities are recorded as unrestricted revenue. When a donor-imposed time restriction expires, or a donor-imposed purpose restriction is fulfilled, the temporarily restricted net assets are released from restriction on the statement of activities.

#### ***Marketing and Recruiting***

Marketing and recruitment and marketing costs are expensed as incurred. Marketing and recruitment and marketing costs for the years ended June 30, 2017 and 2016 amounted to \$134,965 and \$133,540.

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

PAVE Schools recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that PAVE Schools had no uncertain tax positions that would require financial statement recognition or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2014.

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

The consolidated 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 PAVE Schools' consolidated financial statements for the year ended June 30, 2016, from which the summarized information was derived.

#### ***Reclassifications***

Certain 2016 accounts have been reclassified to conform to the 2017 consolidated financial statements presentation. The reclassifications have no effect on the 2016 total assets, liabilities, net assets, and change in net assets.

**PAVE Schools, Inc. and subsidiaries**

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

**3. Pledges and Grants Receivable**

At June 30, 2017 and 2016, pledges and grants receivable are due to be collected as follows:

|  | <u>2017</u>      | <u>2016</u>       |
|--|------------------|-------------------|
| Receivable in less than one year                 | \$ 550,000       | \$ 516,040        |
| Receivable in one to five years                  | <u>-</u>         | <u>500,000</u>    |
| Total pledges and grants receivable              | 550,000          | 1,016,040         |
| Discounts to net present value at 3%             | <u>-</u>         | <u>(15,000)</u>   |
| Total net pledges and grants receivable          | 550,000          | 1,001,040         |
| Current portion of pledges and grants receivable | <u>(550,000)</u> | <u>(516,040)</u>  |
|  | <u>\$ -</u>      | <u>\$ 485,000</u> |

**4. Property and Equipment**

Property and equipment consists of the following as of June 30:

|   | <u>2017</u>       | <u>2016</u>       |
|---|-------------------|-------------------|
| Furniture and fixtures                    | \$ 197,313        | \$ 15,421         |
| Computers and equipment                   | 411,142           | 397,320           |
| Vehicles                                  | 50,000            | -                 |
| Leasehold improvements                    | <u>77,072</u>     | <u>77,072</u>     |
|   | 735,527           | 489,813           |
| Accumulated depreciation and amortization | <u>(369,339)</u>  | <u>(262,202)</u>  |
|   | <u>\$ 366,188</u> | <u>\$ 227,611</u> |

**5. Related Party Transactions (not disclosed elsewhere)**

PAVE Schools is affiliated with two schools: PAVE Academy, and PAVE SE (collectively referred to as "the related schools"). PAVE supports the related schools by providing educational materials, recruiting, professional development, start-up funding, and operational support.

The net balance due from the related schools consisted of the following at June 30:

|              | <u>2017</u>       | <u>2016</u>       |
|--------------|-------------------|-------------------|
| PAVE Academy | \$ 205,000        | \$ 428,227        |
| PAVE SE      | <u>16,948</u>     | <u>12,254</u>     |
|              | <u>\$ 221,948</u> | <u>\$ 440,481</u> |

## PAVE Schools, Inc. and subsidiaries

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

### 5. Related Party Transactions (not disclosed elsewhere) (continued)

PAVE Schools gave grants to the following related schools during the years ended June 30:

|              | <u>2017</u>       | <u>2016</u>         |
|--------------|-------------------|---------------------|
| PAVE Academy | \$ 171,400        | \$ -                |
| PAVE SE      | <u>-</u>          | <u>1,696,000</u>    |
|              | <u>\$ 171,400</u> | <u>\$ 1,696,000</u> |

As of June 30, 2017, remaining grants payable due to PAVE SE, not reflected in the net balances due above, amounted to \$300,000 and will be paid during the year ending June 30, 2018.

#### **Facility Leases**

On March 13, 2014, PAVE Academy entered into a 20 year sub-sublease agreement with PACS 732 to occupy a new facility located at 732 Henry Street in Brooklyn, New York. PAVE Academy pays for all facility expenses, upkeep, and insurance. The sub-sublease agreement will terminate on March 13, 2034. PACS 732's sublease with Civic Builders, a non-profit charter school developer, expires on March 13, 2113 and it is envisioned that PAVE Academy will continue to periodically renew its sub-sublease agreement with PACS 732. Rent is payable at \$1 per year, pursuant to the Ultimate Prime Lease that PACS 732 has with Civic Builders and the New York City School Construction Authority. On May 21, 2014, PAVE Academy paid \$20 to PACS 732 as prepayment of its 20 year lease.

On April 14, 2016, PAVE SE entered into a 30 year lease agreement with PAVE 3420 to occupy a new facility located at 3420 Idlewood Village Drive in Raleigh, North Carolina. PAVE SE pays for all facility expenses, upkeep, and insurance. The lease agreement will terminate on May 31, 2046 with two options to extend the term for an additional 30 years each. (See note 7, lease receivable)

#### **Management Agreements**

On July 1, 2014, PAVE Schools entered into a management agreement with Pre-PAVE to provide Pre-PAVE with educational management services and designs. Pursuant to the agreement, which was effective July 1, 2014, PAVE Schools is to select and implement educational programs, coaching and professional development to school-based leadership, manage Pre-PAVE's business administration and support the Board in all governance issues. PAVE Schools did not charge a fee to Pre-PAVE for these services. The management agreement terminated on June 30, 2016 and was not renewed.

## **PAVE Schools, Inc. and subsidiaries**

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

### **5. Related Party Transactions (not disclosed elsewhere) (continued)**

#### ***Management Agreements (continued)***

On October 27, 2014, PAVE Schools entered into a management agreement with PAVE SE to provide PAVE SE with educational management services and designs. Pursuant to the agreement, which was effective October 27, 2014, PAVE Schools is to select and implement educational programs, coaching and professional development to school-based leadership, manage PAVE SE's business administration and support the Board in all governance issues. PAVE SE is not required to pay a fee to PAVE Schools provided PAVE SE's adherence to the educational program and business model that PAVE Schools deems essential to PAVE SE's success. For the years ended June 30, 2017 and 2016, PAVE SE did not pay a management fee to PAVE Schools.

On June 15, 2015, PAVE Schools entered into a management agreement with PAVE Academy to provide PAVE Academy with educational management services and designs. Pursuant to the agreement, which was effective July 1, 2015, PAVE Schools is to select and implement educational programs, coaching and professional development to school-based leadership, manage PAVE Academy's business administration and support the Board in all governance issues. As compensation to PAVE Schools for these services, PAVE Academy will pay an annual fee of 10% of PAVE Academy's funding provided by the State of New York and the New York City Department of Education. For the years ended June 30, 2017 and 2016, PAVE Schools received \$779,355 and \$723,433 in management fees.

### **6. Project Costs**

On October 27, 2010, PACS 732 acquired the land and building located at 732 Henry Street, Brooklyn, New York. PACS 732 rehabilitated the building for its use as a charter school to be occupied by PAVE Academy.

PAVE Schools, PACS 732 and the New York City School Construction Authority ("SCA") entered into an agreement for SCA to contribute 67% of eligible project costs (as defined). In addition, the project developer agreed to pay 3% of eligible project costs (as defined). In accordance with the SCA agreement upon completion of construction, title to the facility was transferred to the SCA. Simultaneously, the SCA leased the property to Civic 732 Henry, LLC., ("Civic 732") a nonprofit corporation affiliated with Civic Builders, the project developer, under a master lease. Civic 732 subleased the facility to PACS 732 and PACS 732 sub-subleased the facility to PAVE Academy. The master lease and sublease are each for 99 years with an annual rental of \$1. The lease between PACS 732 and PAVE Academy is a triple net lease for a term of 20 years. This lease requires PAVE Academy to pay an annual rental of \$1, and to pay all operating costs. The master lease requires that Civic 732 maintain a major repairs reserve, funded by annual payments of approximately \$11,000 a year by PACS 732 for the term of the master lease. PACS 732 may apply to Civic 732 to utilize the fund for specific major repairs.

On March 13, 2014, title to the facility was transferred to the SCA and the leases were executed.

**PAVE Schools, Inc. and subsidiaries**

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

**6. Project Costs (continued)**

During the year ended June 30, 2012, PAVE Schools made an \$11,520,000 grant to Red Hook Support Corporation. Red Hook used \$11,500,877 of the grant to make a loan to an investment fund. The investment fund used the loan proceeds, together with funds provided by others, to make an equity investment in Business Loan Conduit No. 18 LLC, which then made \$14,994,000 of loans to PACS 732 (Note 8). These loans were made under New Markets Tax Credit Program, a federally funded program to encourage community development.

Project costs include \$23,851,960 of contributions donated by SCA and consists of the following as of June 30:

|   | 2017                 | 2016                 |
|---|----------------------|----------------------|
| Land                                      | \$ 577,000           | \$ 577,000           |
| Building                                  | 38,113,947           | 38,113,947           |
|   | 38,690,947           | 38,690,947           |
| Accumulated depreciation and amortization | (4,298,348)          | (3,344,551)          |
|   | <u>\$ 34,392,599</u> | <u>\$ 35,346,396</u> |

**7. Lease Receivable**

On April 14, 2016, PAVE 3420 leased classroom and office facilities to PAVE SE, a related party, under terms of a 30 year direct-financing lease with an initial direct cost of \$7,076,370. This lease is collectible in equal monthly installments of \$37,345 and matures in June 2046.

Future minimum lease payments to be received are as follows for the years ended June 30:

|   |                     |
|---|---------------------|
| 2018  | \$ 448,145          |
| 2019  | 448,145             |
| 2020  | 448,145             |
| 2021  | 448,145             |
| 2022  | 448,145             |
| Thereafter                                  | <u>10,755,480</u>   |
| Total minimum lease payments receivable     | 12,996,205          |
| Amount representing interest                | <u>(6,051,326)</u>  |
| Present value of the minimum lease payments | 6,944,879           |
| Current portion of lease receivable         | <u>(111,567)</u>    |
| Lease receivable - long term                | <u>\$ 6,833,312</u> |

## **PAVE Schools, Inc. and subsidiaries**

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

### **8. Loans Payable**

#### ***PACS 732 Henry, LLC (“PACS 732”)***

On June 26, 2012, PACS 732, secured funding of \$14,994,000 represented by two Qualified Low Income Community Investment (“QLIC”) loans. The loans are summarized as follows:

Loan A consists of an \$11,500,877 promissory note, and Loan B consists of a \$3,493,123 promissory note. Both notes require annual payments of interest only at an interest rate of .76713% per annum, until December 10, 2019. Thereafter, until the notes mature on May 31, 2052, interest, at the rate of .76713% per annum, and principal are due annually. The amount of principal paid annually shall be the amount necessary to fully amortize the principal by the maturity date.

Neither loan may be prepaid in whole or in part prior to June 25, 2019.

PACS 732 is also obligated to pay management fees annually of \$66,893 until the last day of the New Market Tax Credit Recapture Period, as defined. The loans require that PACS 732 maintain a fee reserve cash account until June, 2019.

PAVE Schools has guaranteed the payment of loan principal and interest, management fees, and the completion of the project. The loans require that PACS 732 maintain a debt service reserve until June, 2019.

In addition, if, upon the occurrence of certain events defined in the Indemnification agreement, any or all of the New Markets Credits are reduced, recaptured or disallowed, PAVE Schools and PACS 732 have guaranteed the sole member of the 99.99% owner of the investment fund a target rate of return, as defined in the agreement.

Interest expense was \$115,023 and \$105,435 for the years ended June 30, 2017 and 2016, respectively.

#### ***PAVE 3420 Idlewood Village, LLC (“PAVE 3420”)***

On April 14, 2016, PAVE 3420, secured funding of \$6,500,000 from Self-Help Credit Union for the acquisition of the building at 3420 Idlewood Village Drive in Raleigh, North Carolina. The funding consists of three loans with a maturity date of December 1, 2023 summarized as follows:

Loan A consists of a \$3,000,000 promissory note with an annual interest rate of 4.77% through September 1, 2018. From September 2, 2018 until the maturity date, at a rate per annum equal to the greater of a) the 4-year USD Swap Rate as of two business days prior to September 1, 2018 plus 3.80%, and b) 4.5%. Loan B consists of a \$2,000,000 promissory note with an annual interest rate of 4%. Loan C consists of a \$1,500,000 promissory note with an annual interest rate of 4.02% until September 1, 2018. From September 2, 2018 until the maturity date, at a rate per annum equal to the greater of a) the 4-year USD Swap Rate as of two business days prior to September 1, 2018, and b) 4.5%.

**PAVE Schools, Inc. and subsidiaries**

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

**8. Loans Payable (continued)**

These promissory notes are guaranteed by both PAVE Schools and PAVE SE. Commencing on June 1, 2016, and thereafter the first day of each successive month, PAVE 3420 is due to make payments of principal and interest in monthly installments based on the interest rate and based upon an amortization schedule of 25 years, with a final payment of all unpaid principal and interest thereon due on the maturity date. The loans require that PAVE 3420 maintain a reserve account for major improvements. The reserve account is funded by PAVE 3420 at \$1,494 per month.

Future maturities of these loans payable are as follows for the years ending June 30:

|                                  |                      |
|----------------------------------|----------------------|
| 2018                             | \$ 151,342           |
| 2019                             | 566,897              |
| 2020                             | 576,178              |
| 2021                             | 587,486              |
| 2022                             | 598,459              |
| Thereafter                       | <u>18,872,421</u>    |
|                                  | 21,352,783           |
| Current portion of loans payable | <u>(151,342)</u>     |
|                                  | <u>\$ 21,201,441</u> |

Debt and debt issuance costs at June 30, 2017 and 2016 are as follows:

|                                 | <u>2017</u>          | <u>2016</u>          |
|---------------------------------|----------------------|----------------------|
| Loans Payable                   | \$ 21,352,783        | \$ 21,494,000        |
| Unamortized debt issuance costs | <u>(253,124)</u>     | <u>(269,572)</u>     |
| Loan Payable, net               | <u>\$ 21,099,659</u> | <u>\$ 21,224,428</u> |

**9. Temporarily Restricted Net Assets**

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

|                                      | <u>2017</u>       | <u>2016</u>         |
|--------------------------------------|-------------------|---------------------|
| Professional development             | \$ -              | \$ 30,331           |
| Support of PAVE SE - a related party | -                 | 205,000             |
| Restricted to future time periods    | <u>535,000</u>    | <u>985,000</u>      |
|                                      | <u>\$ 535,000</u> | <u>\$ 1,220,331</u> |



## PAVE Schools, Inc. and subsidiaries

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

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

Net assets for the years ended June 30, 2017 and 2016, were released from donor restrictions by satisfying the purpose specified by donor as follows:

|                                      | 2017              | 2016                |
|--------------------------------------|-------------------|---------------------|
| Professional development             | \$ 30,331         | \$ 43,177           |
| Support of PAVE SE - a related party | 205,000           | -                   |
| CMO creation and operation           | 500,000           | 1,000,000           |
| Charter school startup costs         | -                 | 500,000             |
| Time restriction                     | -                 | 500,000             |
|                                      | <u>\$ 735,331</u> | <u>\$ 2,043,177</u> |

### 10. Operating Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated between program services, fundraising and management and general.

#### ***Program Services***

Expenses directly associated with the planning and “start-up” of charter schools and with PAVE Schools’ operational, support, and educational services to the schools and developing a framework for model public schools that can be replicated in an effort to improve public education.

#### ***Management and General***

Represents expenses directly related to the overall management of PAVE Schools which are not associated with any single program or other operating service.

#### ***Fundraising***

Represents expenses directly associated with the solicitation of grants and contributions for PAVE Schools.

### 11. Donated Goods and Services

#### ***Donated Goods***

For the year ended June 30, 2016, PAVE Schools received a donation for the use of space and related services at a golf club to host its annual fundraising event. The value of these goods and associated services meets the criteria for recognition in the financial statements and are recorded at fair value.

## PAVE Schools, Inc. and subsidiaries

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

### 11. Donated Goods and Services *(continued)*

#### ***Donated Services***

Donated services are recognized as contributions in accordance with U.S. GAAP, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization and (c) are measurable. One entity has provided legal services to the Organization at no charge. The value of these services meets the criteria for recognition in the consolidated financial statements and is recorded at fair value.

For the years ended June 30, 2017 and 2016, the value of various donated goods and services are as follows:

|                                     | 2017             | 2016              |
|-------------------------------------|------------------|-------------------|
| Legal services                      | \$ 95,507        | \$ 83,785         |
| Event space and associated services | -                | 144,514           |
|                                     | <u>\$ 95,507</u> | <u>\$ 228,299</u> |

The value of these donated goods and services are allocated accordingly between program, management and general services in the accompanying consolidated statement of activities and schedule of functional expenses.

### 12. Employee Benefit Plan

PAVE Schools maintains a retirement plan qualified under Internal Revenue Code 401(k) for the benefit of its eligible employees. Under the plan, PAVE Schools provided matching contributions of 2% to the plan. The amount charged to operations for fees and matching contributions to this plan amounted to \$18,522 and \$19,554 for the years ended June 30, 2017 and 2016.

### 13. Concentration of Credit Risk

Financial instruments which potentially subject PAVE Schools to concentrations of credit risk are cash and cash equivalents. PAVE Schools places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. At June 30, 2017 and 2016 account balances, including cash reserves, exceed insured levels by approximately \$2,051,000 and \$2,075,000. PAVE Schools believes that there is little risk in any losses and has not experienced any losses in such accounts.

### 14. Concentration of Revenue and Support

PAVE Schools received approximately 30% of total revenue and support from four foundations during the year ended June 30, 2017, and approximately 65% of total revenue and support from three foundations during the year ended June 30, 2016. For the years ended June 30, 2017 and 2016, PAVE Schools received approximately 23% and 13% of total revenue and support from a related charter school.

**PAVE Schools, Inc. and subsidiaries**

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

**15. Subsequent Events Evaluation by Management**

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated statements were available to be issued, which date is April 19, 2018.

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**PAVE Schools, Inc. and subsidiaries**

Supplementary Information  
June 30, 2017 and 2016

**PAVE Schools, Inc. and Subsidiaries**

Consolidated Schedule of Functional Expenses  
 For the Year Ended June 30, 2017  
 (with summarized totals for the year ended June 30, 2016)

|   | 2017                |                        |                 | 2016                |                     |
|---|---------------------|------------------------|-----------------|---------------------|---------------------|
|   | Program             | Management and General | Fundraising     | Total               | Total               |
| Salaries and wages                      | \$ 1,210,468        | \$ 134,497             | \$ -            | \$ 1,344,965        | \$ 1,287,598        |
| Employee benefits and payroll taxes     | 269,598             | 29,956                 | -               | 299,554             | 296,193             |
| Grants expense                          | 272,400             | -                      | -               | 272,400             | 1,696,000           |
| Asset management fee                    | 201,547             | -                      | -               | 201,547             | 66,893              |
| Auditing and accounting fees            | -                   | 17,500                 | -               | 17,500              | 21,387              |
| Outside services and consulting         | 212,034             | 23,515                 | -               | 235,549             | 192,975             |
| Office supplies                         | 21,456              | 2,384                  | -               | 23,840              | 55,440              |
| Donated goods                           | -                   | -                      | -               | -                   | 144,514             |
| Donated legal services                  | -                   | 95,507                 | -               | 95,507              | 83,785              |
| Paid legal services                     | 2,015               | 2,096                  | -               | 4,111               | 12,805              |
| Travel and conference                   | 74,342              | 8,260                  | -               | 82,602              | 76,571              |
| Interest expense                        | 448,067             | -                      | -               | 448,067             | 168,882             |
| Professional development                | 124,453             | -                      | -               | 124,453             | 57,640              |
| Insurance expense                       | 7,615               | 790                    | -               | 8,405               | 106,182             |
| Office expense                          | 15,055              | 1,617                  | -               | 16,672              | 14,222              |
| Non-capitalized furniture and equipment | 10,194              | 1,134                  | -               | 11,328              | 4,512               |
| Facility expense                        | 273,590             | 147                    | -               | 273,737             | 248,748             |
| Marketing and recruiting                | 132,475             | -                      | 2,490           | 134,965             | 133,540             |
| Staff lunches and team building         | 10,167              | 1,130                  | -               | 11,297              | 15,240              |
| Depreciation and amortization           | 1,032,557           | 780                    | -               | 1,033,337           | 1,018,170           |
| Miscellaneous                           | 1,897               | 14,190                 | -               | 16,087              | 10,337              |
|   | <u>\$ 4,319,930</u> | <u>\$ 333,503</u>      | <u>\$ 2,490</u> | <u>\$ 4,655,923</u> | <u>\$ 5,711,634</u> |

PAVE Schools, Inc. and Subsidiaries

Consolidating Statement of Financial Position  
June 30, 2017

|  | Consolidated         | Eliminations        | PAVE<br>Schools, Inc. | PACS 732<br>Henry, LLC | PAVE 2801<br>Wilmington, LLC | PAVE 238<br>Conover, LLC | PAVE 76<br>Lorraine, LLC | PAVE 3420<br>Idlewood<br>Village, LLC | Triangle LLC     |
|--|----------------------|---------------------|-----------------------|------------------------|------------------------------|--------------------------|--------------------------|---------------------------------------|------------------|
| <b>ASSETS</b>  |                      |                     |                       |                        |                              |                          |                          |                                       |                  |
| Current Assets   |                      |                     |                       |                        |                              |                          |                          |                                       |                  |
| Cash and cash equivalents                                    | \$ 1,860,065         | \$ -                | \$ 1,648,247          | \$ 19,034              | \$ 45,413                    | \$ 565                   | \$ 40,612                | \$ 96,194                             | \$ 10,000        |
| Cash - reserves (Note 8)                                     | 509,264              | -                   | -                     | 509,264                | -                            | -                        | -                        | -                                     | -                |
| Due from related parties (Note 5)                            | 221,948              | -                   | 174,313               | -                      | -                            | -                        | 29,783                   | 17,852                                | -                |
| Pledges and grants receivable (Note 3)                       | 550,000              | -                   | 550,000               | -                      | -                            | -                        | -                        | -                                     | -                |
| Lease receivable, related party (note 7)                     | 111,567              | -                   | -                     | -                      | -                            | -                        | -                        | 111,567                               | -                |
| Prepaid expenses and other current assets                    | 114,971              | -                   | 43,694                | 33,447                 | -                            | 1,917                    | 16,001                   | 19,912                                | -                |
| Intercompany receivable                                      | -                    | (391,475)           | 13,516                | 377,709                | -                            | -                        | -                        | 250                                   | -                |
| Total Current Assets   | 3,367,815            | (391,475)           | 2,429,770             | 939,454                | 45,413                       | 2,482                    | 86,396                   | 245,775                               | 10,000           |
| Project costs, net (Note 6)                                  | 34,392,599           | -                   | -                     | 34,392,599             | -                            | -                        | -                        | -                                     | -                |
| Property and equipment, net (Note 4)                         | 366,188              | -                   | 21,969                | 50,162                 | 68,935                       | 11,263                   | -                        | 172,609                               | 41,250           |
| Security deposits  | 30,366               | -                   | -                     | -                      | 2,415                        | 3,333                    | 16,000                   | 8,618                                 | -                |
| Lease receivable, related party (Note 7)                     | 6,833,312            | -                   | -                     | -                      | -                            | -                        | -                        | 6,833,312                             | -                |
| Restricted cash - reserve for<br>future capital improvements | 74,423               | -                   | -                     | 55,000                 | -                            | -                        | -                        | 19,423                                | -                |
|  | <u>\$ 45,064,703</u> | <u>\$ (391,475)</u> | <u>\$ 2,451,739</u>   | <u>\$ 35,437,215</u>   | <u>\$ 116,763</u>            | <u>\$ 17,078</u>         | <u>\$ 102,396</u>        | <u>\$ 7,279,737</u>                   | <u>\$ 51,250</u> |
| <b>LIABILITIES AND NET ASSETS</b>                            |                      |                     |                       |                        |                              |                          |                          |                                       |                  |
| Current Liabilities  |                      |                     |                       |                        |                              |                          |                          |                                       |                  |
| Accounts payable and accrued expenses                        | \$ 148,236           | \$ -                | \$ 26,911             | \$ 57,514              | \$ 49,811                    | \$ -                     | \$ -                     | \$ 14,000                             | \$ -             |
| Grants payable, related party - current portion              | 300,000              | -                   | 300,000               | -                      | -                            | -                        | -                        | -                                     | -                |
| Loans payable - current portion (Note 8)                     | 151,342              | -                   | -                     | -                      | -                            | -                        | -                        | 151,342                               | -                |
| Intercompany payable   | -                    | (391,475)           | 377,959               | 4,583                  | -                            | -                        | 8,933                    | -                                     | -                |
| Total Current Liabilities                                    | 599,578              | (391,475)           | 704,870               | 62,097                 | 49,811                       | -                        | 8,933                    | 165,342                               | -                |
| Loans payable, net (Note 8)                                  | 20,948,317           | -                   | -                     | 14,759,572             | -                            | -                        | -                        | 6,188,745                             | -                |
| Total Liabilities  | <u>21,547,895</u>    | <u>(391,475)</u>    | <u>704,870</u>        | <u>14,821,669</u>      | <u>49,811</u>                | <u>-</u>                 | <u>8,933</u>             | <u>6,354,087</u>                      | <u>-</u>         |
| Net assets   |                      |                     |                       |                        |                              |                          |                          |                                       |                  |
| Unrestricted   | 22,981,808           | -                   | 1,211,869             | 20,615,546             | 66,952                       | 17,078                   | 93,463                   | 925,650                               | 51,250           |
| Net Assets   | 535,000              | -                   | 535,000               | -                      | -                            | -                        | -                        | -                                     | -                |
| Total Net Assets   | <u>23,516,808</u>    | <u>-</u>            | <u>1,746,869</u>      | <u>20,615,546</u>      | <u>66,952</u>                | <u>17,078</u>            | <u>93,463</u>            | <u>925,650</u>                        | <u>51,250</u>    |
|  | <u>\$ 45,064,703</u> | <u>\$ (391,475)</u> | <u>\$ 2,451,739</u>   | <u>\$ 35,437,215</u>   | <u>\$ 116,763</u>            | <u>\$ 17,078</u>         | <u>\$ 102,396</u>        | <u>\$ 7,279,737</u>                   | <u>\$ 51,250</u> |

PAVE Schools, Inc. and Subsidiaries

Consolidating Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2017

|   | PAVE Schools, Inc.   |                     |                     |                        |                      |                           |                       |                       |                                 |                  |
|---|----------------------|---------------------|---------------------|------------------------|----------------------|---------------------------|-----------------------|-----------------------|---------------------------------|------------------|
|   | Consolidated         | Total               | Unrestricted        | Temporarily Restricted | PACS 732 Henry, LLC  | PAVE 2801 Wilmington, LLC | PAVE 238 Conover, LLC | PAVE 76 Lorraine, LLC | PAVE 3420 Idlewood Village, LLC | Triangle LLC     |
| <b>REVENUE AND SUPPORT</b>                                |                      |                     |                     |                        |                      |                           |                       |                       |                                 |                  |
| Contributions and grants                                  | \$ 1,916,344         | \$ 1,821,244        | \$ 1,771,244        | \$ 50,000              | \$ 100               | \$ -                      | \$ 35,000             | \$ -                  | \$ -                            | \$ 60,000        |
| Rental income   | 247,184              | -                   | -                   | -                      | -                    | -                         | -                     | 99,420                | 147,764                         | -                |
| Management fees   | 779,355              | 779,355             | 779,355             | -                      | -                    | -                         | -                     | -                     | -                               | -                |
| Interest and other income                                 | 333,272              | 386                 | 386                 | -                      | 589                  | -                         | -                     | -                     | 332,297                         | -                |
| Donated goods and services                                | 95,507               | 95,507              | 95,507              | -                      | -                    | -                         | -                     | -                     | -                               | -                |
| Net assets released from restriction                      | -                    | -                   | 735,331             | (735,331)              | -                    | -                         | -                     | -                     | -                               | -                |
| Total Revenue and Support                                 | <u>3,371,662</u>     | <u>2,696,492</u>    | <u>3,381,823</u>    | <u>(685,331)</u>       | <u>689</u>           | <u>-</u>                  | <u>35,000</u>         | <u>99,420</u>         | <u>480,061</u>                  | <u>60,000</u>    |
| <b>EXPENSES EXCLUDING DEPRECIATION AND AMORTIZATION</b>   |                      |                     |                     |                        |                      |                           |                       |                       |                                 |                  |
| Program services  | 3,287,373            | 2,360,158           | 2,360,158           | -                      | 216,504              | 123,633                   | 42,871                | 95,230                | 448,977                         | -                |
| Management and general                                    | 332,723              | 332,723             | 332,723             | -                      | -                    | -                         | -                     | -                     | -                               | -                |
| Fundraising   | 2,490                | 2,490               | 2,490               | -                      | -                    | -                         | -                     | -                     | -                               | -                |
| Total Expenses Before Depreciation and Amortization       | <u>3,622,586</u>     | <u>2,695,371</u>    | <u>2,695,371</u>    | <u>-</u>               | <u>216,504</u>       | <u>123,633</u>            | <u>42,871</u>         | <u>95,230</u>         | <u>448,977</u>                  | <u>-</u>         |
| Change in Net Assets Before Depreciation and Amortization | (250,924)            | 1,121               | 686,452             | (685,331)              | (215,815)            | (123,633)                 | (7,871)               | 4,190                 | 31,084                          | 60,000           |
| Depreciation and Amortization                             | 1,033,337            | 7,802               | 7,802               | -                      | 1,002,249            | 3,854                     | 2,203                 | -                     | 8,479                           | 8750             |
| Change in Net Assets                                      | (1,284,261)          | (6,681)             | 678,650             | (685,331)              | (1,218,064)          | (127,487)                 | (10,074)              | 4,190                 | 22,605                          | 51,250           |
| <b>NET ASSETS</b>   |                      |                     |                     |                        |                      |                           |                       |                       |                                 |                  |
| Beginning of year   | <u>24,801,069</u>    | <u>1,753,550</u>    | <u>533,219</u>      | <u>1,220,331</u>       | <u>21,833,610</u>    | <u>194,439</u>            | <u>27,152</u>         | <u>89,273</u>         | <u>903,045</u>                  | <u>-</u>         |
| End of year   | <u>\$ 23,516,808</u> | <u>\$ 1,746,869</u> | <u>\$ 1,211,869</u> | <u>\$ 535,000</u>      | <u>\$ 20,615,546</u> | <u>\$ 66,952</u>          | <u>\$ 17,078</u>      | <u>\$ 93,463</u>      | <u>\$ 925,650</u>               | <u>\$ 51,250</u> |

**PAVE Schools, Inc. and Subsidiaries**

Consolidating Statement of Financial Position  
June 30, 2016

|  | Consolidated         | Eliminations        | PAVE<br>Schools, Inc. | PACS 732<br>Henry, LLC | PAVE 2801<br>Wilmington, LLC | PAVE 238<br>Conover, LLC | PAVE 76<br>Lorraine, LLC | PAVE 3420<br>Idlewood<br>Village, LLC |
|--|----------------------|---------------------|-----------------------|------------------------|------------------------------|--------------------------|--------------------------|---------------------------------------|
| <b>ASSETS</b>  |                      |                     |                       |                        |                              |                          |                          |                                       |
| Current Assets   |                      |                     |                       |                        |                              |                          |                          |                                       |
| Cash and cash equivalents                                    | \$ 2,283,364         | \$ -                | \$ 1,753,075          | \$ 31,029              | \$ 81,828                    | \$ 9,204                 | \$ 56,520                | \$ 351,708                            |
| Cash - reserves (Note 8)                                     | 690,592              | -                   | -                     | 690,592                | -                            | -                        | -                        | -                                     |
| Due from related parties (Note 5)                            | 440,481              | -                   | 424,316               | -                      | 7,203                        | -                        | 8,962                    | -                                     |
| Pledges and grants receivable (Note 3)                       | 516,040              | -                   | 516,040               | -                      | -                            | -                        | -                        | -                                     |
| Lease receivable, related party (note 7)                     | 116,059              | -                   | -                     | -                      | -                            | -                        | -                        | 116,059                               |
| Prepaid expenses and other current assets                    | 93,955               | -                   | 15,849                | 33,447                 | 30,205                       | 1,667                    | 5,454                    | 7,333                                 |
| Intercompany receivable                                      | -                    | (395,471)           | 10,333                | 377,709                | -                            | -                        | 7,429                    | -                                     |
| Total Current Assets   | 4,140,491            | (395,471)           | 2,719,613             | 1,132,777              | 119,236                      | 10,871                   | 78,365                   | 475,100                               |
| Project costs, net (Note 6)                                  | 35,346,396           | -                   | -                     | 35,346,396             | -                            | -                        | -                        | -                                     |
| Property and equipment, net (Note 4)                         | 227,611              | -                   | 15,951                | 125,406                | 72,788                       | 13,466                   | -                        | -                                     |
| Deferred financing costs, net                                | -                    | -                   | -                     | -                      | -                            | -                        | -                        | -                                     |
| Security deposits  | 25,274               | -                   | -                     | -                      | 2,415                        | 3,333                    | 10,908                   | 8,618                                 |
| Lease receivable, related party (note 7)                     | 6,944,879            | -                   | -                     | -                      | -                            | -                        | -                        | 6,944,879                             |
| Pledges and grants receivable - net                          | 485,000              | -                   | 485,000               | -                      | -                            | -                        | -                        | -                                     |
| Restricted cash - reserve for<br>future capital improvements | 45,495               | -                   | -                     | 44,000                 | -                            | -                        | -                        | 1,495                                 |
|  | <u>\$ 47,215,146</u> | <u>\$ (395,471)</u> | <u>\$ 3,220,564</u>   | <u>\$ 36,648,579</u>   | <u>\$ 194,439</u>            | <u>\$ 27,670</u>         | <u>\$ 89,273</u>         | <u>\$ 7,430,092</u>                   |
| <b>LIABILITIES AND NET ASSETS</b>                            |                      |                     |                       |                        |                              |                          |                          |                                       |
| Current Liabilities  |                      |                     |                       |                        |                              |                          |                          |                                       |
| Accounts payable and accrued expenses                        | \$ 178,649           | \$ -                | \$ 81,876             | \$ 57,512              | \$ -                         | \$ 518                   | \$ -                     | \$ 38,743                             |
| Grants payable, related party - current portion              | 700,000              | -                   | 700,000               | -                      | -                            | -                        | -                        | -                                     |
| Loans payable - current portion (Note 8)                     | 140,480              | -                   | -                     | -                      | -                            | -                        | -                        | 140,480                               |
| Intercompany payable   | -                    | (395,471)           | 385,138               | 4,583                  | -                            | -                        | -                        | 5,750                                 |
| Total Current Liabilities                                    | 1,019,129            | (395,471)           | 1,167,014             | 62,095                 | -                            | 518                      | -                        | 184,973                               |
| Security deposit payable                                     | 11,000               | -                   | -                     | -                      | -                            | -                        | -                        | 11,000                                |
| Grants payable, related party                                | 300,000              | -                   | 300,000               | -                      | -                            | -                        | -                        | -                                     |
| Loans payable, net (Note 8)                                  | 21,083,948           | -                   | -                     | 14,752,874             | -                            | -                        | -                        | 6,331,074                             |
| Total Liabilities  | <u>21,394,948</u>    | <u>-</u>            | <u>300,000</u>        | <u>14,752,874</u>      | <u>-</u>                     | <u>-</u>                 | <u>-</u>                 | <u>6,342,074</u>                      |
| Net Assets   |                      |                     |                       |                        |                              |                          |                          |                                       |
| Unrestricted   | 23,580,738           | -                   | 533,219               | 21,833,610             | 194,439                      | 27,152                   | 89,273                   | 903,045                               |
| Temporarily restricted                                       | 1,220,331            | -                   | 1,220,331             | -                      | -                            | -                        | -                        | -                                     |
| Total Net Assets   | <u>24,801,069</u>    | <u>-</u>            | <u>1,753,550</u>      | <u>21,833,610</u>      | <u>194,439</u>               | <u>27,152</u>            | <u>89,273</u>            | <u>903,045</u>                        |
|  | <u>\$ 47,215,146</u> | <u>\$ (395,471)</u> | <u>\$ 3,220,564</u>   | <u>\$ 36,648,579</u>   | <u>\$ 194,439</u>            | <u>\$ 27,670</u>         | <u>\$ 89,273</u>         | <u>\$ 7,430,092</u>                   |



PAVE Schools, Inc. and Subsidiaries

Consolidating Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2016

|   | Consolidated  | PAVE Schools, Inc. |              |                           | PACS 732<br>Henry, LLC | PAVE 2801<br>Wilmington, LLC | PAVE 238<br>Conover, LLC | PAVE 76<br>Lorraine, LLC | PAVE 3420<br>Idlewood<br>Village, LLC |
|---|---------------|--------------------|--------------|---------------------------|------------------------|------------------------------|--------------------------|--------------------------|---------------------------------------|
|   |               | Total              | Unrestricted | Temporarily<br>Restricted |                        |                              |                          |                          |                                       |
| <b>REVENUE AND SUPPORT</b>                                |               |                    |              |                           |                        |                              |                          |                          |                                       |
| Contributions and grants                                  | \$ 4,475,428  | \$ 4,475,428       | \$ 1,738,920 | \$ 2,736,508              | \$ -                   | \$ -                         | \$ -                     | \$ -                     | \$ -                                  |
| Rental income   | 242,974       | -                  | -            | -                         | -                      | 86,431                       | -                        | 74,410                   | 82,133                                |
| Management fees   | 723,433       | 723,433            | 723,433      | -                         | -                      | -                            | -                        | -                        | -                                     |
| Interest and other income                                 | 40,569        | 1,768              | 1,768        | -                         | 29,335                 | -                            | -                        | -                        | 9,466                                 |
| Donated goods and services                                | 228,299       | 228,299            | 228,299      | -                         | -                      | -                            | -                        | -                        | -                                     |
| Net assets released from restrictions                     | -             | -                  | 2,043,177    | (2,043,177)               | -                      | -                            | -                        | -                        | -                                     |
| Total Revenue and Support                                 | 5,710,703     | 5,428,928          | 4,735,597    | 693,331                   | 29,335                 | 86,431                       | -                        | 74,410                   | 91,599                                |
| <b>EXPENSES EXCLUDING DEPRECIATION AND AMORTIZATION</b>   |               |                    |              |                           |                        |                              |                          |                          |                                       |
| Program services  | 4,177,629     | 3,662,686          | 3,662,686    | -                         | 200,322                | 106,508                      | 45,226                   | 75,137                   | 87,750                                |
| Management and general                                    | 323,295       | 323,295            | 323,295      | -                         | -                      | -                            | -                        | -                        | -                                     |
| Fundraising   | 192,540       | 192,540            | 192,540      | -                         | -                      | -                            | -                        | -                        | -                                     |
| Total Expenses Before Depreciation and Amortization       | 4,693,464     | 4,178,521          | 4,178,521    | -                         | 200,322                | 106,508                      | 45,226                   | 75,137                   | 87,750                                |
| Change in Net Assets Before Depreciation and Amortization | 1,017,239     | 1,250,407          | 557,076      | 693,331                   | (170,987)              | (20,077)                     | (45,226)                 | (727)                    | 3,849                                 |
| Depreciation and Amortization                             | 1,018,170     | 4,362              | 4,362        | -                         | 1,007,195              | 3,854                        | 1,955                    | -                        | 804                                   |
| Changes in Net Assets                                     | (931)         | 1,246,045          | 552,714      | 693,331                   | (1,178,182)            | (23,931)                     | (47,181)                 | (727)                    | 3,045                                 |
| <b>NET ASSETS</b>   |               |                    |              |                           |                        |                              |                          |                          |                                       |
| Beginning of year   | 24,802,000    | 1,251,971          | 724,971      | 527,000                   | 23,432,326             | 118,370                      | (667)                    | -                        | -                                     |
| Intercompany transfers                                    | -             | (744,466)          | (744,466)    | -                         | (420,534)              | 100,000                      | 75,000                   | 90,000                   | 900,000                               |
| End of year   | \$ 24,801,069 | \$ 1,753,550       | \$ 533,219   | \$ 1,220,331              | \$ 21,833,610          | \$ 194,439                   | \$ 27,152                | \$ 89,273                | \$ 903,045                            |