

PAVE Schools, Inc. and Subsidiaries

Consolidated Financial Statements

June 30, 2018 and 2017

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, 2018, and the related consolidated statements of activities and changes in net assets, 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, 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 PAVE School's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 19, 2018. In our opinion, the summarized comparative information presented herein for the year ended June 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it was derived.

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 18 through 22 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
May 8, 2019

PAVE Schools, Inc. and Subsidiaries

Consolidated Statement of Financial Position

June 30, 2018

(with comparative amounts at June 30, 2017)

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,400,728	\$ 1,860,065
Cash - reserves (Note 8)	327,999	509,264
Due from related parties (Note 5)	201,696	221,948
Pledges and grants receivable (Note 3)	500,000	550,000
Lease receivable, related party (Note 7)	117,137	111,567
Prepaid expenses and other current assets	58,233	114,971
Total Current Assets	2,605,793	3,367,815
Project costs, net (Note 6)	33,438,801	34,392,599
Property and equipment, net (Note 4)	292,745	366,188
Security deposits	11,951	30,366
Lease receivable, related party (Note 7)	6,716,175	6,833,312
Pledges and grants receivable (Note 3)	75,014	-
Restricted cash - reserve for future capital improvements	103,351	74,423
	\$ 43,243,830	\$ 45,064,703
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 290,931	\$ 148,236
Grants payable, related party - current portion	60,000	300,000
Loans payable, net - current portion (Note 8)	158,909	151,342
Total Current Liabilities	509,840	599,578
Loans payable, net (Note 8)	20,805,118	20,948,317
Total Liabilities	21,314,958	21,547,895
Net Assets		
Unrestricted	21,353,858	22,981,808
Temporarily restricted	575,014	535,000
Total Net Assets	21,928,872	23,516,808
	\$ 43,243,830	\$ 45,064,703

PAVE Schools, Inc. and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets
Year Ended June 30, 2018
(with summarized totals for the year ended June 30, 2017)

	2018			2017
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE AND SUPPORT				
Contributions and grants	\$ 609,391	\$ 1,225,000	\$ 1,834,391	\$ 1,821,344
Rental income	145,641	-	145,641	247,184
Management fees	820,824	-	820,824	779,355
Interest and other income	524,928	-	524,928	333,272
Donated services	54,251	-	54,251	95,507
Net assets released from restrictions	1,184,986	(1,184,986)	-	-
Total Revenue and Support	<u>3,340,021</u>	<u>40,014</u>	<u>3,380,035</u>	<u>3,276,662</u>
EXPENSES EXCLUDING DEPRECIATION AND AMORTIZATION				
Program services	2,849,911	-	2,849,911	3,192,373
Management and general	851,285	-	851,285	332,723
Fundraising	221,546	-	221,546	2,490
Total Expenses Before Depreciation and Amortization	<u>3,922,742</u>	<u>-</u>	<u>3,922,742</u>	<u>3,527,586</u>
Change in Net Assets Before Depreciation and Amortization	(582,721)	40,014	(542,707)	(250,924)
Depreciation and amortization	<u>1,045,229</u>	<u>-</u>	<u>1,045,229</u>	<u>1,033,337</u>
Change in Net Assets	(1,627,950)	40,014	(1,587,936)	(1,284,261)
NET ASSETS				
Beginning of year	<u>22,981,808</u>	<u>535,000</u>	<u>23,516,808</u>	<u>24,801,069</u>
End of year	<u>\$ 21,353,858</u>	<u>\$ 575,014</u>	<u>\$ 21,928,872</u>	<u>\$ 23,516,808</u>

PAVE Schools, Inc. and Subsidiaries

Consolidated 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>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,587,936)	\$ (1,284,261)
Adjustments to reconcile change in net assets to net cash from operating activities		
Amortization - debt issuance costs	15,710	44,044
Depreciation and amortization	1,045,229	1,033,337
Changes in operating assets and liabilities		
Due from related parties	20,252	218,533
Pledges and grants receivable	(25,014)	451,040
Lease receivable, related party	111,567	116,059
Prepaid expenses and other current assets	56,738	(21,016)
Security deposits	18,415	(5,092)
Accounts payable and accrued expenses	142,695	(30,412)
Grants payable, related party	(240,000)	(700,000)
Security deposit payable	<u>-</u>	<u>(11,000)</u>
Net Cash from Operating Activities	<u>(442,344)</u>	<u>(188,768)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(17,250)</u>	<u>(245,714)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of loans payable	(152,080)	(141,217)
Cash - reserves	181,265	181,328
Restricted cash - reserve for future capital improvements	<u>(28,928)</u>	<u>(28,928)</u>
Net Cash from Financing Activities	<u>257</u>	<u>11,183</u>
 Net Change in Cash and Cash Equivalents	(459,337)	(423,299)
 CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,860,065</u>	<u>2,283,364</u>
 End of year	<u>\$ 1,400,728</u>	<u>\$ 1,860,065</u>
 SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 393,160	\$ 448,067

PAVE Schools, Inc. and subsidiaries

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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. The Pre-PAVE Program was incorporated into PAVE Academy. The Pre-PAVE program discontinued operations in June 2017 and PAVE 76 did not renew the lease, 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 SE. 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, 2018 and 2017

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 Schools had no permanently restricted net assets as of June 30, 2018 and 2017.

PAVE Schools, Inc. and subsidiaries

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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

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.

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, 2018 and 2017, 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, in which case it is 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 and 7 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, 2018 and 2017.

PAVE Schools, Inc. and subsidiaries

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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

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, see note 8.

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 costs are expensed as incurred. Marketing and recruitment costs for the years ended June 30, 2018 and 2017 amounted to \$118,608 and \$134,965.

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. PAVE Schools is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2015.

Reclassifications

Certain 2017 accounts have been reclassified to conform to the 2018 consolidated financial statements presentation. The reclassifications have no effect on the 2017 total assets, liabilities, net assets, and change in net assets.

PAVE Schools, Inc. and subsidiaries

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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

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, 2017, from which the summarized information was derived.

3. Pledges and Grants Receivable

At June 30, 2018 and 2017, pledges and grants receivable are due to be collected as follows:

	2018	2017
Receivable in less than one year	\$ 500,000	\$ 550,000
Receivable in one to five years	75,014	-
Total pledges and grants receivable	575,014	550,000
Current portion of pledges and grants receivable	(500,000)	(550,000)
	<u>\$ 75,014</u>	<u>\$ -</u>

4. Property and Equipment

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

	2018	2017
Furniture and fixtures	\$ 197,313	\$ 197,313
Computers and equipment	411,142	411,142
Vehicles	67,250	50,000
Leasehold improvements	77,072	77,072
	752,777	735,527
Accumulated depreciation and amortization	(460,032)	(369,339)
	<u>\$ 292,745</u>	<u>\$ 366,188</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:

	2018	2017
PAVE Academy	\$ 184,967	\$ 205,000
PAVE SE	16,729	16,948
	<u>\$ 201,696</u>	<u>\$ 221,948</u>

PAVE Schools, Inc. and subsidiaries

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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

For the years ended June 30, 2018 and 2017 PAVE Schools granted to PAVE Academy \$37,188 and \$177,400.

As of June 30, 2018, remaining grants payable due to PAVE SE, not reflected in the net balances due above, amounted to \$60,000 and was paid prior to the issuance of this report.

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)

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, 2018 and 2017, 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, 2018 and 2017, PAVE Schools received \$820,824 and \$779,355 in management fees.

PAVE Schools, Inc. and subsidiaries

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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.

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:

	2018	2017
Land	\$ 577,000	\$ 577,000
Building	38,113,947	38,113,947
	38,690,947	38,690,947
Accumulated depreciation and amortization	(5,252,146)	(4,298,348)
	<u>\$ 33,438,801</u>	<u>\$ 34,392,599</u>

PAVE Schools, Inc. and subsidiaries

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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:

2019	\$ 448,145
2020	448,145
2021	448,145
2022	448,145
2023	448,145
Thereafter	<u>10,307,335</u>
Total minimum lease payments receivable	12,548,060
Amount representing interest at 4.882%	<u>(5,714,748)</u>
Present value of the minimum lease payments	6,833,312
Current portion of lease receivable	<u>(117,137)</u>
Lease receivable - long term	<u>\$ 6,716,175</u>

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 ("QLICI") 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 1, 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. The cash reserve balance at June 30, 2018 and 2017 was \$327,999 and \$509,264.

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.

PAVE Schools, Inc. and subsidiaries

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

8. Loans Payable (*continued*)

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 \$115,020 for the years ended June 30, 2018 and 2017.

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%.

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. The loan also requires PAVE Schools to maintain a financial performance covenant which PAVE Schools satisfied at June 30, 2018.

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

2019	\$	566,897
2020		576,178
2021		587,486
2022		598,459
2023		609,810
Thereafter		<u>18,262,611</u>
		21,201,441
Current portion of loans payable		<u>(158,909)</u>
	\$	<u>21,042,532</u>

PAVE Schools, Inc. and subsidiaries

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

8. Loans Payable (*continued*)

PAVE 3420 Idlewood Village, LLC ("PAVE 3420") (continued)

Debt and debt issuance costs at June 30, 2018 and 2017 are as follows:

	2018	2017
Loans Payable	\$ 21,201,441	\$ 21,352,783
Unamortized debt issuance costs	(237,414)	(253,124)
Loan Payable, net	<u>\$ 20,964,027</u>	<u>\$ 21,099,659</u>

9. Temporarily Restricted Net Assets

For the years ended June 30, 2018 and 2017 \$575,014 and \$535,000 were temporarily restricted to future time periods.

Net assets for the years ended June 30, 2018 and 2017, were released from donor restrictions by satisfying the purpose specified by donor as follows:

	2018	2017
Professional development	\$ -	\$ 30,331
Support of PAVE SE - a related party	-	205,000
CMO creation and operation	-	500,000
Restricted to future time periods	1,184,986	-
	<u>\$ 1,184,986</u>	<u>\$ 735,331</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.

PAVE Schools, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

10. Operating Expenses (*continued*)

Fundraising

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

11. Donated Services

Donated services are recognized as contributions in accordance with U.S. GAAP, if the services create or enhance non-financial assets, require specialized skills, are performed by people with those skills, and would otherwise be purchased by PAVE Schools, and are measurable. One entity has provided legal services to PAVE Schools 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, 2018 and 2017, the value of such donated services amounted to \$54,251 and \$95,507.

The value of these donated services are allocated to management and general services in the accompanying consolidated statement of activities and consolidated 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 \$21,840 and \$18,522 for the years ended June 30, 2018 and 2017.

13. Concentration of Credit Risk

Financial instruments that potentially subject PAVE Schools 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. PAVE Schools does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2018 and 2017, approximately \$1,106,000 and \$2,051,000 of cash was maintained with an institution in excess of FDIC limits.

14. Concentration of Revenue and Support

PAVE Schools received approximately 34% of total revenue and support from two foundations during the year ended June 30, 2018, and approximately 30% of total revenue and support from four foundations during the year ended June 30, 2017. For the years ended June 30, 2018 and 2017, PAVE Schools received approximately 23% of total revenue and support from a related charter school.

PAVE Schools, Inc. and subsidiaries

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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 May 8, 2019.

PAVE Schools, Inc. and subsidiaries

Supplementary Information
June 30, 2018 and 2017

PAVE Schools, Inc. and Subsidiaries

Consolidated 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 and wages	\$ 1,172,878	\$ 597,042	\$ 163,885	\$ 1,933,805	\$ 1,344,965
Employee benefits and payroll taxes	247,691	127,437	34,981	410,109	299,554
Grants expense	37,688	-	-	37,688	177,400
Asset management fee	70,455	191	-	70,646	201,547
Auditing and accounting fees	-	13,500	-	13,500	17,500
Outside services and consulting	233,024	25,525	1,759	260,308	235,549
Office supplies	64,323	7,143	-	71,466	23,840
Donated legal services	-	54,251	-	54,251	95,507
Paid legal services	4,944	-	-	4,944	4,111
Travel and conference	71,615	-	-	71,615	82,602
Interest expense	393,160	-	-	393,160	448,067
Professional development	28,660	-	-	28,660	124,453
Insurance	36,759	1,853	-	38,612	8,405
Office expense	16,631	1,610	-	18,241	16,672
Non-capitalized furniture and equipment	27,239	2,925	-	30,164	11,328
Facility expense	323,071	177	-	323,248	273,737
Marketing and recruiting	87,918	9,769	20,921	118,608	134,965
Staff lunches and team building	18,059	1,040	-	19,099	11,297
Miscellaneous	86	8,822	-	8,908	16,087
Total Expenses Before Depreciation and Amortization	<u>2,834,201</u>	<u>851,285</u>	<u>221,546</u>	<u>3,907,032</u>	<u>3,527,586</u>
Depreciation and amortization	<u>1,059,853</u>	<u>1,086</u>	<u>-</u>	<u>1,060,939</u>	<u>1,033,337</u>
Total Expenses	<u>\$ 3,894,054</u>	<u>\$ 852,371</u>	<u>\$ 221,546</u>	<u>\$ 4,967,971</u>	<u>\$ 4,560,923</u>

PAVE Schools, Inc. and Subsidiaries

Consolidating Statement of Financial Position
June 30, 2018

	Consolidated	Eliminations	PAVE Schools, Inc.	PACS 732 Henry, LLC	PAVE 2801 Wilmington, LLC	PAVE 238 Conover, LLC	PAVE 76 Lorraine, LLC	PAVE 3420 Idlewood Village, LLC	Triangle LLC
ASSETS									
Current Assets									
Cash and cash equivalents	\$ 1,400,728	\$ -	\$ 1,005,705	\$ 5,832	\$ 44,759	\$ 21,239	\$ 91,412	\$ 164,951	\$ 66,830
Cash - reserves (Note 8)	327,999	-	-	327,999	-	-	-	-	-
Due from related parties (Note 5)	201,696	-	184,064	-	-	-	-	17,632	-
Pledges and grants receivable (Note 3)	500,000	-	500,000	-	-	-	-	-	-
Lease receivable, related party (note 7)	117,137	-	-	-	-	-	-	117,137	-
Prepaid expenses and other current assets	58,233	-	16,318	33,447	-	2,067	-	5,553	848
Intercompany receivable	-	(394,660)	16,951	377,709	-	-	-	-	-
Total Current Assets	2,605,793	(394,660)	1,723,038	744,987	44,759	23,306	91,412	305,273	67,678
Project costs, net (Note 6)	33,438,801	-	-	33,438,801	-	-	-	-	-
Property and equipment, net (Note 4)	292,745	-	11,118	-	65,081	9,060	-	161,932	45,554
Security deposits	11,951	-	-	-	-	3,333	-	8,618	-
Lease receivable, related party (Note 7)	6,716,175	-	-	-	-	-	-	6,716,175	-
Pledges and grants receivable (Note 3)	75,014	-	75,014	-	-	-	-	-	-
Restricted cash - reserve for future capital improvements	103,351	-	-	66,000	-	-	-	37,351	-
	<u>\$ 43,243,830</u>	<u>\$ (394,660)</u>	<u>\$ 1,809,170</u>	<u>\$ 34,249,788</u>	<u>\$ 109,840</u>	<u>\$ 35,699</u>	<u>\$ 91,412</u>	<u>\$ 7,229,349</u>	<u>\$ 113,232</u>
LIABILITIES AND NET ASSETS									
Current Liabilities									
Accounts payable and accrued expenses	\$ 290,931	\$ -	\$ 43,702	\$ 57,511	\$ 170,747	\$ 90	\$ -	\$ 11,000	\$ 7,881
Grants payable, related party - current portion	60,000	-	60,000	-	-	-	-	-	-
Loans payable - current portion (Note 8)	158,909	-	-	-	-	-	-	158,909	-
Intercompany payable	-	(394,660)	377,709	4,583	-	-	-	-	12,368
Total Current Liabilities	509,840	(394,660)	481,411	62,094	170,747	90	-	169,909	20,249
Loans payable, net (Note 8)	20,805,118	-	-	14,766,269	-	-	-	6,038,849	-
Total Liabilities	<u>21,314,958</u>	<u>(394,660)</u>	<u>481,411</u>	<u>14,828,363</u>	<u>170,747</u>	<u>90</u>	<u>-</u>	<u>6,208,758</u>	<u>20,249</u>
Net assets									
Unrestricted	21,353,858	-	752,745	19,421,425	(60,907)	35,609	91,412	1,020,591	92,983
Temporarily restricted	575,014	-	575,014	-	-	-	-	-	-
Total Net Assets	<u>21,928,872</u>	<u>-</u>	<u>1,327,759</u>	<u>19,421,425</u>	<u>(60,907)</u>	<u>35,609</u>	<u>91,412</u>	<u>1,020,591</u>	<u>92,983</u>
	<u>\$ 43,243,830</u>	<u>\$ (394,660)</u>	<u>\$ 1,809,170</u>	<u>\$ 34,249,788</u>	<u>\$ 109,840</u>	<u>\$ 35,699</u>	<u>\$ 91,412</u>	<u>\$ 7,229,349</u>	<u>\$ 113,232</u>

PAVE Schools, Inc. and Subsidiaries

Consolidating Statement of Activities and Changes in Net Assets
Year Ended June 30, 2018

	PAVE Schools, Inc.					PACS 732 Henry, LLC	PAVE 2801 Wilmington, LLC	PAVE 238 Conover, LLC	PAVE 76 Lorraine, LLC	PAVE 3420 Idlewood Village, LLC	Triangle LLC
	Consolidated	Eliminations	Total	Unrestricted	Temporarily Restricted						
REVENUE AND SUPPORT											
Contributions and grants	\$ 1,834,391	\$ (258,000)	\$ 1,834,391	\$ 609,391	\$ 1,225,000	\$ -	\$ -	\$ 68,000	\$ -	\$ 55,000	\$ 135,000
Rental income	145,641	-	-	-	-	-	-	-	-	145,641	-
Management fees	820,824	-	820,824	820,824	-	-	-	-	-	-	-
Interest and other income	524,928	-	2,199	2,199	-	651	-	-	-	339,578	182,500
Donated goods and services	54,251	-	54,251	54,251	-	-	-	-	-	-	-
Net assets released from restriction	-	-	-	1,184,986	(1,184,986)	-	-	-	-	-	-
Total Revenue and Support	<u>3,380,035</u>	<u>(258,000)</u>	<u>2,711,665</u>	<u>2,671,651</u>	<u>40,014</u>	<u>651</u>	<u>-</u>	<u>68,000</u>	<u>-</u>	<u>540,219</u>	<u>317,500</u>
EXPENSES EXCLUDING DEPRECIATION AND AMORTIZATION											
Program services	2,849,911	(258,000)	2,047,093	2,047,093	-	184,114	124,005	47,266	2,051	440,561	262,821
Management and general	851,285	-	851,285	851,285	-	-	-	-	-	-	-
Fundraising	221,546	-	221,546	221,546	-	-	-	-	-	-	-
Total Expenses Before Depreciation and Amortization	<u>3,922,742</u>	<u>(258,000)</u>	<u>3,119,924</u>	<u>3,119,924</u>	<u>-</u>	<u>184,114</u>	<u>124,005</u>	<u>47,266</u>	<u>2,051</u>	<u>440,561</u>	<u>262,821</u>
Accumulated Amortization	-	-	-	-	-	-	-	-	-	-	-
Change in Net Assets Before Depreciation and Amortization	(542,707)	-	(408,259)	(448,273)	40,014	(183,463)	(124,005)	20,734	(2,051)	99,658	54,679
Depreciation and Amortization	1,045,229	-	10,851	10,851	-	1,010,658	3,854	2,203	-	4,717	12,946
Change in Net Assets	(1,587,936)	-	(419,110)	(459,124)	40,014	(1,194,121)	(127,859)	18,531	(2,051)	94,941	41,733
NET ASSETS											
Beginning of year	<u>23,516,808</u>	<u>-</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>
Intercompany transfers	-	-	-	-	-	-	-	-	-	-	-
End of year	<u>\$ 21,928,872</u>	<u>\$ -</u>	<u>\$ 1,327,759</u>	<u>\$ 752,745</u>	<u>\$ 575,014</u>	<u>\$ 19,421,425</u>	<u>\$ (60,907)</u>	<u>\$ 35,609</u>	<u>\$ 91,412</u>	<u>\$ 1,020,591</u>	<u>\$ 92,983</u>

PAVE Schools, Inc. and Subsidiaries

Consolidating Statement of Financial Position
June 30, 2017

	Consolidated	Eliminations	PAVE Schools, Inc.	PACS 732 Henry, LLC	PAVE 2801 Wilmington, LLC	PAVE 238 Conover, LLC	PAVE 76 Lorraine, LLC	PAVE 3420 Idlewood Village, LLC
ASSETS								
Current Assets								
Cash and cash equivalents	\$ 1,860,065	\$ -	\$ 1,648,247	\$ 19,034	\$ 45,413	\$ 565	\$ 40,612	\$ 96,194
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
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
Accumulated Amortization	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 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>
LIABILITIES AND NET ASSETS								
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>
Net Assets								
Unrestricted	22,981,808	-	1,211,869	20,615,546	66,952	17,078	93,463	925,650
Temporarily restricted	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>\$ 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>

PAVE Schools, Inc. and Subsidiaries

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

	PAVE Schools, Inc.										
	Consolidated	Eliminations	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
REVENUE AND SUPPORT											
Contributions and grants	\$ 1,821,344	\$ (95,000)	\$ 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 restrictions	-	-	-	735,331	(735,331)	-	-	-	-	-	-
Total Revenue and Support	<u>3,276,662</u>	<u>(95,000)</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>
EXPENSES EXCLUDING DEPRECIATION AND AMORTIZATION											
Program services	3,192,373	(95,000)	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>3,527,586</u>	<u>(95,000)</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	8,750
Changes 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
NET ASSETS											
Beginning of year	24,801,069	-	1,753,550	533,219	1,220,331	21,833,610	194,439	27,152	89,273	903,045	-
Intercompany transfers	-	-	-	-	-	-	-	-	-	-	-
End of year	<u>\$ 23,516,808</u>	<u>\$ -</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>