COLLEGESPRING, INC.

INDEPENDENT AUDITORS' REPORT

Financial Statements

June 30, 2018

COLLEGESPRING, INC.

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Pfahnl & Hunt

INDEPENDENT AUDITORS' REPORT

The Board of Directors
CollegeSpring, Inc.

We have audited the accompanying financial statements of CollegeSpring, Inc. (a California nonprofit organization), which comprise the statement of financial position as of June 30, 2018, the related statements of activities, functional expenses and cash flows for the nine-month period then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

The Board of Directors
CollegeSpring, Inc.
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Opinion

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

Pfahnl & Hunt Accountancy Corporation

San Jose, California
October 31, 2018

COLLEGESPRING, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2018

ASSETS

CURRENT ASSETS:	
Cash	$ 614,778
Cash - restricted	415,412
Receivables	485,768
Prepaid expenses	37,431
Total current assets	1,553,389
PROPERTY AND EQUIPMENT, at cost:	
Computer equipment	29,311
Furniture	19,361
Total property and equipment, at cost	48,672
Less accumulated depreciation	37,798
Total property and equipment, net	10,874
PLEDGES RECEIVABLE	302,830
DEPOSITS	11,100
Total assets	$ 1,878,193

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	$ 11,155
Accrued expenses	205,798
Deferred revenue	15,000
Total current liabilities	231,953
NET ASSETS:	
Unrestricted	738,588
Temporarily restricted	907,652
Total net assets	1,646,240
Total liabilities and net assets	$ 1,878,193

See notes to financial statements.

COLLEGESPRING, INC.

STATEMENT OF ACTIVITIES

Nine-month period ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:			
Public support:			
Cash	$ 1,045,783	597,053	1,642,836
In-kind	60,192	-	60,192
Total public support	1,105,975	597,053	1,703,028
Program service fees	950,085	-	950,085
Interest income	198	131	329
Miscellaneous	2,500	-	2,500
Net assets released from restrictions	1,332,277	(1,332,277)	-
Total revenue	3,391,035	(735,093)	2,655,942
EXPENSES:			
Program	2,219,145	-	2,219,145
Management and general	260,269	-	260,269
Fundraising	429,543	-	429,543
Total expenses	2,908,957	-	2,908,957
Change in net assets	482,078	(735,093)	(253,015)
NET ASSETS, beginning of year	256,510	1,642,745	1,899,255
NET ASSETS, end of year	$ 738,588	907,652	1,646,240

See notes to financial statements.

COLLEGESPRING, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Nine-month period ended June 30, 2018

	Program	Management and General	Fundraising	Total
Salaries	$ 1,418,042	87,627	275,867	1,781,536
Payroll taxes	115,745	12,456	20,339	148,540
Employee benefits	119,574	4,414	23,088	147,076
Rent	113,618	16,075	11,512	141,205
Travel	77,211	8,517	15,234	100,962
Consultants	79,584	39,723	13,917	133,224
Legal and accounting	4,184	59,398	-	63,582
Recruiting	5,025	9,200	30,158	44,383
Seasonal staffing	38,186	-	-	38,186
Other outside services	3,279	-	8,000	11,279
Supplies	43,900	3,709	3,621	51,230
IT expenses	39,873	2,991	6,953	49,817
Bad debt expense	42,317	-	-	42,317
Staff training and development	28,011	3,240	1,513	32,764
Telephone and utilities	20,641	3,533	1,136	25,310
Program curriculum materials	23,053	-	-	23,053
Insurance	4,050	1,021	1,370	6,441
Depreciation	1,829	242	619	2,690
Miscellaneous	41,023	8,123	16,216	65,362
	$ 2,219,145	260,269	429,543	2,908,957

See notes to financial statements.

COLLEGESPRING, INC.

STATEMENT OF CASH FLOWS

Nine-month period ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ (253,015)
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation	2,690
(Increase) decrease in:	
Receivables	523,188
Prepaid expenses	5,547
Increase (decrease) in:	
Accounts payable	(22,869)
Accrued expenses	(20,961)
Deferred revenue	(195,124)
Net cash provided by operating activities	39,456
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(12,400)
Net cash provided (used) by investing activities	(12,400)
Net increase in cash	27,056
CASH, beginning of year	1,003,134
CASH, end of year	$ 1,030,190

See notes to financial statements.

COLLEGESPRING, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Date of Management's Review

Subsequent events were evaluated through October 31, 2018, which is when the financial statements were available to be issued.

Nature of Activities

CollegeSpring, Inc. (the "Organization") was incorporated in 2009 and offers a SAT preparation curriculum tailored to the needs of low-income students. The Organization also offers a personalized college counseling service that helps students through the college admissions process. The programs are offered through partnerships with schools and community organizations mainly in the San Francisco Bay Area, greater Los Angeles and New York City.

The Organization receives contributions from individuals, foundations and corporations. The Organization also charges a fee for the services it provides.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted net assets generally have no donor-imposed restrictions. This category includes those revenues and expenses associated with programs and supporting services.

Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met and funds for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently restricted net assets include gifts that require by donor-imposed restriction that the corpus be invested in perpetuity and only the income be made available for Organization operations in accordance with donor restrictions, if any.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Cash and Cash Equivalents

All cash in bank accounts and short-term investments with a maturity of three months or less are considered cash and cash equivalents. During the nine-month period ended June 30, 2018, the Organization was required by a grantor to hold cash in a separate bank account.

Expense Allocation

The costs of providing program and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated, principally on a direct cost basis, among the program and supporting service benefited.

Fair Value of Financial Instruments

The Organization's financial instruments are cash, receivables, and accounts payable. The recorded values approximate their fair values based on their short-term nature.

Property and Equipment

Acquisitions of property and equipment in excess of $2,000 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation.

Depreciation

Depreciation of computer equipment and furniture is provided on the straight-line method over the estimated useful lives of the assets ranging from five to seven years.

Deferred Revenue

Deferred revenue consists of the unearned portion of program service fees that were collected prior to the end of the year.

Contributed Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as a temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization chooses to show restricted contributions whose restrictions are met in the same reporting period as restricted contributions and a reclassification to unrestricted net assets.

(1) <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED</u>

Contributed Support, Continued

Unconditional promises to give are recorded as revenue and pledges receivable when the promise is made. In the first year a pledge is made, the pledge receivable is recorded at its fair value by applying a discount rate (risk-free rate plus a risk premium) to the probability weighted cash flows for each year in which the cash is expected to be received. In subsequent years, amortization of the discount is credited to contribution income. Pledges that are expected to be received in one year are reported without a discount.

In-kind Support

The Organization records various types of in-kind support including professional services and tangible assets. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received.

Additionally, the Organization receives contributed time that does not meet the recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

Allowance for Doubtful Accounts

The Organization considers accounts and pledges receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

Income Taxes

CollegeSpring, Inc. is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

(2) RECEIVABLES

Receivables at June 30, 2018 consist of the following:

Pledges receivable	$ 465,000
Program service fees	20,768
	$ 485,768

(3) PLEDGES RECEIVABLE

Pledges receivable at June 30, 2018 consist of the following:

Amounts due in:	
Less than one year, included in receivables	$ 465,000
One to four years	325,000
Less discount to present value	22,170
Pledges receivable, net	302,830
	$ 767,830

A discount for contributions receivable to be collected over periods longer than one year from date of contribution is provided using a risk-adjustment rate of return. The discount rate used was 5%.

In 2016, the Organization received a multi-level conditional promise of $1,039,528 representing a grant from a foundation for organizational capacity enhancements. The Organization recognized $175,000 from this grant in 2018. The remaining grant of $78,128 will be recorded when the conditions of the grant are met.

(4) RELATED PARTY TRANSACTIONS

Public support includes $325,225 in contributions from board members for the nine-month period ended June 30, 2018.

(5) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 are restricted by the donors for the purposes described below:

Organizational capacity enhancements	$ 48,825
Los Angeles programs	88,678
Bay Area programs	192,319
Time-restricted pledges receivable	577,830
	$ 907,652

(6) NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors, including the passage of time. Net assets were released from purpose restriction for the nine-month period ended June 30, 2018 as follows:

Los Angeles programs	$ 140,538
Bay Area programs	207,434
Organizational capacity enhancements	335,972
Collect pledges receivable	648,333
	$ 1,332,277

(7) IN-KIND SUPPORT

The Organization received the following in-kind support during the nine-month period ended June 30, 2018:

New York office space	$ 43,043
Professional fees	17,149
	$ 60,192

(8) COMMITMENTS

The Organization leases office space in Los Angeles at a monthly rent of $6,608, with annual increases of 3%. The lease expires in August 2021. The Organization also rents office space in Oakland under a sublease. The lease is payable in average monthly payments of $4,550. The lease expires in June 2019. The remaining obligations under the leases are as follows:

Year ended June 30,	
2019	$ 135,180
2020	81,883
2021	84,340
2022	14,442
	$ 315,845

(9) EMPLOYEE BENEFIT PLAN

The Organization offers a contributory retirement savings plan under Section 403(b) of the Internal Revenue Code to substantially all employees who work at least 1,000 hours per year. The Organization makes discretionary matching contributions based on the employees' elective deferrals. The Organization contributed $17,294 to the Plan for the nine-month period ended June 30, 2018.

(10) CONCENTRATION OF CREDIT RISK

Cash includes accounts at Wells Fargo Bank in excess of $250,000. The accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. Therefore, a portion of the Organization's cash balance is uninsured at June 30, 2018.

(11) CHANGE OF YEAR END

The financial year end of the Organization was changed from September 30 to June 30 so as to better align the fiscal year with the academic year.