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RESOLVE, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2017

MATTHEWS, CARTER & BOYCE
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RESOLVE, INC. AND SUBSIDIARY

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JUNE 30, 2017

Independent Auditors' Report

Board of Directors
RESOLVE, Inc.
Washington, DC

We have audited the accompanying consolidated financial statements of RESOLVE, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2017, 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 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.

Auditor's 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' judgement, 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RESOLVE, Inc. as of June 30, 2017, and the changes in its nets assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Fairfax, Virginia
January 23, 2018

RESOLVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$	1,546,361
Contract receivables, net		1,021,468
Investments		2,199,792
Prepaid expenses		62,533
Total Current Assets	$	4,830,154
OTHER ASSETS		
Property and equipment, net		296,918
Other non current assets		10,367
TOTAL ASSETS	$	5,137,439

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	$	352,178
Accrued payroll and related liabilities		218,216
Deferred rent, current portion		110,440
Total Current Liabilities	$	680,834
OTHER LIABILITIES		
Deferred rent, net of current portion		471,848
Total Liabilities	$	1,152,682
NET ASSETS		
Unrestricted	$	208,750
Temporarily restricted		3,776,007
Total Net Assets	$	3,984,757
TOTAL LIABILITIES AND NET ASSETS	$	5,137,439

See accompanying notes and independent auditors'report.

RESOLVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Grants	$ -	$ 3,651,090	$ 3,651,090
Contract service fees	2,301,525	-	2,301,525
Contributions from private sources	16,020	99,848	115,868
Sublease income	114,314	-	114,314
Other income	438,497	-	438,497
Investment income	102,383	-	102,383
Net assets released from restrictions	2,030,555	(2,030,555)	-
Total Support and Revenue	$ 5,003,294	$ 1,720,383	$ 6,723,677
EXPENSES			
Program services	$ 4,554,715	$ -	$ 4,554,715
Supporting services:			
Management and general	$ 403,636	$ -	$ 403,636
Fundraising	65,289	-	65,289
Total Supporting Services	$ 468,925	$ -	$ 468,925
TOTAL EXPENSES	$ 5,023,640	$ -	$ 5,023,640
CHANGES IN NET ASSETS	$ (20,346)	$ 1,720,383	$ 1,700,037
NET ASSETS, BEGINNING OF THE YEAR as previously stated	$ 229,096	$ 1,807,130	$ 2,036,226
Prior period adjustment	-	248,494	248,494
NET ASSETS, BEGINNING OF THE YEAR as restated	$ 229,096	$ 2,055,624	$ 2,284,720
NET ASSETS, END OF THE YEAR	$ 208,750	$ 3,776,007	$ 3,984,757

See accompanying notes and independent auditors' report.

RESOLVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	$ 1,700,037
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization	$ 70,859
Deferred rent	(96,842)
Realized and unrealized gains on investments	(90,264)
Donated investments	(222,548)
Bad debt expense	15,987
Changes in operating assets and liabilities:	
Contract receivables, net	391,504
Prepaid expenses and other current assets	(54,551)
Accounts payable and accrued expenses	(492,417)
Accrued payroll and related liabilities	71,761
Total Adjustments	$ (406,511)
Net Cash Provided by Operating Activities	$ 1,293,526
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	$ (1,587,150)
Proceeds from sales and maturities of investments	768,937
Purchases of property and equipment	(6,879)
Net Cash Provided by Investing Activities	$ (825,092)
NET INCREASE IN CASH	$ 468,434
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	1,077,927
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 1,546,361

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES

Donated investments	$ 222,548

See accompanying notes and independent auditors' report.

Note 1. Organization and Summary of Significant Accounting Policies

Organization

The accompanying consolidated financial statements include the accounts of RESOLVE, Inc. (RESOLVE) and Resolve Group Incorporated.

RESOLVE forges sustainable solutions to critical social, health, and environmental challenges by creating innovative partnerships where they are least likely and most needed. We envision a less polarized world with a shared commitment to transforming ambitious ideas into real benefits for people, communities, and ecosystems.

RESOLVE pioneered the use of dispute resolution and consensus building 40 years ago as a means of developing effective solutions to complex natural resource conflicts and policy issues. Today, we bring our process expertise to technically and politically complex, high-profile initiatives. We provide expert dispute resolution and related services; work with our partners to design and carry-out solutions-focused programs and pilots; and develop, incubate, and support mission-related impact enterprises.

Our track record of solutions includes the no net loss of wetlands policy, implementing food safety provisions, greater health care access, responsible minerals sourced from conflict affected regions, best practices for siting wind energy, safer drinking water rules, new technologies to promote human-wildlife coexistence, and agreements that support restoration of the Missouri River watershed.

Resolve Group Incorporated (RGI) is a wholly-owned, for-profit subsidiary of RESOLVE, Inc. and was incorporated in February 1996 under the laws of the District of Columbia. RGI provides dispute resolution services and internal organizational development for contracts that would not qualify under RESOLVE, Inc.'s tax-exempt purpose.

The significant accounting policies followed by RESOLVE and RGI are described below.

Principles of Consolidation

The consolidated financial statements include the accounts of RESOLVE and its wholly-owned subsidiary, RGI (collectively referred to as the Organization). All significant intercompany balances and transactions would have been eliminated in consolidation.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of consolidated 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results may differ from estimates.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Operating Cycle

The Organization's operating cycle for long-term contracts may be greater than one year and is measured by the average time intervening between the inception and the completion of those contracts. Contract-related assets and liabilities are classified as current assets and current liabilities.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, services have been rendered or goods delivered, the contract price is fixed or determinable, and collectability is reasonably assured. Revenue associated with work performed prior to the completion and signing of contract documents is recognized only when it can be reliably estimated and realization is probable. The Organization bases its estimates on previous experiences with the customer, communications with the customer regarding funding status, and its knowledge of available funding for the contract.

Revenue on cost-plus-fee contracts is recognized to the extent of costs incurred plus a proportionate amount of the fee earned. The Organization considers fixed fees under cost-plus-fee contracts to be earned in proportion to the allowable costs incurred in performance of the contract. The Organization considers performance-based fees, including award fees, under any contract type to be earned when it can demonstrate satisfaction of performance goals, based upon historical experience, or when the Organization receives contractual notification from the customer that the fee has been earned. Revenue on time-and-materials contracts is recognized based on the hours incurred at the negotiated contract billing rates, plus the cost of any allowable material costs and out-of-pocket expenses. Revenue on fixed-price contracts where the Organization performs systems design, development and integration is recognized using the percentage-of-completion method of contract accounting. Unless it is determined as part of the Organization's regular contract performance review that overall progress on a contract is not consistent with costs expended to date, the Organization determines the percentage completed based on the percentage of costs incurred to date in relation to total estimated costs expected upon completion of the contract. Revenue on fixed-price service contracts is generally recognized on a straight-line basis over the contractual service period, unless the revenue is earned, or obligations fulfilled, in a different manner.

Contract revenue recognition involves estimation. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and revenue, and are recognized in the period in which such revisions are determined.

Federal government contract costs, including indirect costs, are subject to audit and adjustment by applicable cognizant audit agencies. Contract revenue has been recorded in amounts that are expected to be realized upon final settlement.

The Organization receives grant funding from federal agencies. Revenue is recognized only to the extent of expenditures under the terms of the grants. Grant awards not yet received are accrued to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant. Excess expenses incurred are borne by the Organization.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Concluded)

Unrestricted and temporarily restricted grants and contributions are recorded as revenue in the year notification is received from the donor. Temporarily restricted grants and contributions are recognized as support released from restrictions only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

The aggregate rent receipts due over the life of the lease is recognized as sublease rental income on a straight-line basis over the non-cancelable term of the lease.

Contributions, including unconditional promises to give, are recognized in the period received or pledged. Contributions received are considered unrestricted unless specifically restricted by the donor. Amounts received that are designated for a future period, or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Unconditional promises to give, which do not state a due date, are presumed to be time-restricted by the donor until received and are reported as temporarily restricted net assets.

Program Services Expense

Program services expense include all direct contract costs, as well as indirect overhead costs and selling, general and administrative expenses that are allowable and allocable to contracts under federal procurement standards. Program services expense also include costs and expenses that are unallowable under applicable procurement standards and are not allocable to contracts for billing purposes. Such costs and expenses do not directly generate revenue, but are necessary for business operations.

Cash Equivalents

The Organization considers all highly-liquid instruments with original maturities of three months or less to be cash equivalents.

Investments

The Organization records investments at fair value. Interest and dividend income is accounted for on the accrual basis. Unrealized gains and losses are included in the changes in unrestricted net assets in the accompanying consolidated statement of activities and changes in net assets.

Contract Receivables

Contract receivables are generated from prime and subcontracting arrangements with federal governmental agencies and various commercial entities. Billed amounts represent invoices that have been prepared and sent to the customer. Unbilled amounts represent costs and anticipated profits not yet billed. Management determines the allowance for doubtful accounts by regularly evaluating individual customer/grantor receivables and considering a customer's/grantors financial condition, credit history, and current economic conditions. Management believes that all contract receivables are collectible; however an allowance for doubtful accounts of $18,987 has been established as of June 30, 2017.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Contract Receivables (Concluded)

Billed contract receivables are considered past due if the invoice has been outstanding more than 30 days. The Organization does not charge interest on billed contract receivables.

Property and Equipment and Depreciation

Property and equipment is stated at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment is retired, or otherwise disposed of, the cost and accumulated depreciation and amortization is removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation and amortization of property and equipment is computed using the straight-line method over the estimated useful lives of the assets of three to seven years. Amortization of leasehold improvements is computed using the straight-line method over the lesser of the estimated useful lives of the underlying assets or the term of the related lease.

Income Taxes

RESOLVE is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and from the District of Columbia franchise tax under applicable tax regulations, except for income from activities not related to its tax-exempt purpose, which primarily include rental income earned on lease of building space. RESOLVE is a non-private foundation pursuant to Section 509(a)(1) of the IRC.

RGI is a wholly-owned for-profit subsidiary of RESOLVE. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. RGI did not have any activity during the year ended June 30, 2017.

The Organization is subject to income taxes in U.S. federal jurisdictions and various state jurisdictions. Tax regulations within each jurisdiction are subject to interpretation of the related tax laws and regulations and require significant judgment to apply. The Organization adopted the Financial Accounting Standards Board FASB ASC 740-10, Income Taxes, which requires an assessment of uncertainty in income taxes and certain financial statement disclosures relating to unrecognized tax benefits. For the year ended June 30, 2017, RESOLVE has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Valuation of Long-Lived Assets

The Organization reviews the valuation of its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived assets is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. No indicator of impairment was identified as of June 30, 2017.

Fair Value of Financial Instruments

The carrying amounts of the Organization's cash and cash equivalents, investments, contract receivables, accounts payable and accrued expenses, and accrued payroll and related liabilities approximate their fair value due to the relatively short maturity of these items.

Concentrations of Credit Risk

The Organization's assets that are exposed to credit risk consist primarily of cash and cash equivalents and contract receivables. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Organization has not to date experienced any losses related to these balances. Contract receivables consist primarily of amounts due from various agencies of the federal government or prime contractors doing business with the federal government. Historically, the Organization has not experienced significant losses related to contract receivables and, therefore, believes that the credit risk related to contract receivables is minimal.

Net Assets

The Organization classifies its net assets into three categories: unrestricted, temporarily restricted, or permanently restricted. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Unrestricted Net Assets

Unrestricted net assets are those net assets that are not subject to donor-imposed stipulations or board designations.

Note 1. Organization and Summary of Significant Accounting Policies (Concluded)

Temporarily Restricted Net Assets

Temporarily restricted net assets generally result from net contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and the restriction removed by actions of the Organization pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions. Temporarily restricted net assets at June 30, 2017 pertain to contributions and grants.

Permanently Restricted Net Assets

Permanently restricted net assets generally result from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Organization. Generally, the donors of these assets permit the Organization to use the income earned on related investments for general or specific purposes. There were no permanently restricted net assets as of June 30, 2017.

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* This new guidance establishes a comprehensive revenue recognition standard for virtually all industries under accounting principles generally accepted in the United States of America, including those that previously followed industry-specific guidance. The principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective beginning on January 1, 2019. Management is evaluating the potential impact of this new guidance on the consolidated financial statements.

Note 2. Investment Income

Investment income is comprised of the following for the year ended June 30, 2017:

Interest and dividend income	$ 30,643
Net realized gain on investments	100,969
Net unrealized loss on investments	(10,705)
Investment fee	(18,524)
Total	$ 102,383

Note 3. Contract Receivables

Contract receivables consist of the following at June 30, 2017:

Billed receivables	$	760,669
Unbilled receivables		253,550
Other receivables		26,236
Subtotal	$	1,040,455
Less: allowance for doubtful accounts		(18,987)
Total	$	1,021,468

Unbilled receivables at June 30, 2017 consist primarily of amounts billed subsequent to year-end or awaiting milestones to bill. Consequently, the timing of collection of such balances is outside the Organization's control. Based on the Organization's historical experience, the majority of indirect rate variances and retention balances are expected to be collected beyond one year from the consolidated statement of financial position date.

Note 4. Property and Equipment

Property and equipment consists of the following at June 30, 2017:

Leasehold improvements	$	652,782
Furniture and fixtures		77,507
Computer and other equipment		61,593
Software		38,814
Subtotal	$	830,696
Less: accumulated depreciation and amortization		(533,778)
Total	$	296,918

Depreciation and amortization expense on property and equipment aggregated $70,859 for the year ended June 30, 2017.

Note 5. Bank Letter of Credit

The Organization has a letter-of-credit in the amount of $235,296 that funds the security deposit required under the Organization's headquarters lease. The letter-of-credit amount is reduced by $39,216 on June 1 of each new lease year until the balance is $39,216. The letter-of-credit automatically renews each year through May 31, 2022. As of June 30, 2017, the letter-of-credit amount was $39,216.

Note 6. Fair Value Measurements

Certain assets and liabilities are recorded at fair value. Fair value is defined as the price that would be received to sell an asset between market participants in an orderly transaction on the measurement date. The market in which the reporting entity would sell the asset with the greatest volume and level of activity for the asset is known as the principal market. When no principal market exists, the most advantageous market is used. This is the market in which the reporting entity would sell the asset with the price that maximizes the amount that would be received. Fair value is based on assumptions market participants would make in pricing the asset. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the reporting entity should use valuation models.

The Organization reports certain investments using the net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value measurement standards also require the Organization to classify these financial instruments into a three-level hierarchy based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting depending on lock up and notice periods associated with the underlying funds.

The Organization's assets recorded at fair value are categorized based on the priority of the inputs used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

- **Level 1** – Inputs that are based upon quoted prices for identical instruments traded in active markets.

- **Level 2** – Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market date for substantially the full term of the investment.

- **Level 3** – Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following section describes the valuation methodologies the Organization uses to measure its financial assets at fair value.

Investments consist of marketable securities and mutual funds. In general, and where applicable, the Organization uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

Note 6. Fair Value Measurements (Concluded)

Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

	As of June 30, 2017			
	Assets Measured At Fair	Fair Value Hierarchy Level		
Description	Value	Level 1	Level 2	Level 3
Government securities	$ 404,158	$ 157,443	$ 246,715	$ -
Equities	607,614	607,614	-	-
Certificates of deposit	998,440	-	998,440	
Mutual funds/CEF/UIT	189,580	189,580	-	-
Total	$ 2,199,792	$ 954,637	$ 1,245,155	$ -

Note 7. 403(b) Profit Sharing Plan

The Organization maintains a defined contribution plan qualified under 403(b) of the Internal Revenue Code. Under the provisions of the plan, the Organization contributes 6% of each eligible employee's annual base salary and matches 100% of eligible employee contributions up to 3% of each employee's annual base salary. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code as provided in the plan document. Employees with at least one year of service are eligible to receive matching contributions and/or non-matching contributions as provided in the plan document.

Pension expense was $123,438 for the year ended June 30, 2017.

Note 8. Operating Leases, Deferred Rent and Deferred Lease Incentive

The Organization leases office space under the terms of a non-cancelable operating lease that expires on June 30, 2022. Under terms of the lease, the landlord provided the Organization with an improvement allowance (the allowance) not to exceed $736,360 to be used for the Organization's costs of designing and constructing tenant improvements. As of June 30, 2017, the Organization had incurred the entire $736,360 of tenant improvements which qualify for the improvement allowance. This amount is recorded as leasehold improvements, furniture and fixtures, computer and other equipment, and deferred lease incentive in the statement of financial position. The leasehold improvements will be amortized over the life of the lease on a straight-line basis, the remaining assets will be depreciated over useful lives of the assets on a straight-line basis. The deferred lease incentive will be amortized against rent expense over the life of the lease on a straight-line basis. For the year ended June 30, 2017, 96,842 has been recorded as amortization of the deferred rent to reduce rent expense. The lease agreement provides for an annual 3% escalation of the base rent. The Organization is also responsible for certain operating expenses.

Note 8. Operating Leases, Deferred Rent and Deferred Lease Incentive (Concluded)

The Organization recognizes the total cost of its office leases ratably over the respective lease periods. The difference between rent paid and rent expense is reflected as deferred rent in the accompanying consolidated statement of financial position.

The following is a schedule by year of the future minimum lease payments required under operating lease which have initial or remaining terms in excess of one year as of June 30, 2017:

Years Ending June 30,	
2018	$ 556,000
2019	570,000
2020	584,000
2021	598,000
2022	199,000
Total	$ 2,507,000

Rent expense aggregated $526,215 for the year ended June 30, 2017.

The Organization sub-leases office space to various tenants. The leases expire on various dates through 2021. Rental income received related to these leases was $114,314 for the year ended June 30, 2017. The following is a schedule by years of future minimum rent due:

Years Ending June 30,	
2018	$ 102,000
2019	116,000
2020	122,000
2021	64,000
2022	22,000
Total	$ 426,000

Note 9. Operating Expenses by Natural Classification

The following is a summary of operating expenses by natural classification for the year ended June 30:

	2017					
	Direct Program	Program Support	Total Program Services	Management and General	Fundraising	Total
Personnel	$ 786,371	$ 456,836	$ 1,243,207	$ 139,127	$ 35,575	$ 1,417,909
Employee benefits/ payroll taxes	345,543	187,183	532,726	47,314	16,364	596,404
Bad debt expense	-	15,987	15,987	-	-	15,987
Bank fees	11	12,593	12,604	4,206	-	16,810
Consultants	1,275,090	79,923	1,355,013	14,972	1,350	1,371,335
Depreciation	-	52,436	52,436	18,424	-	70,860
Education & training	516	6,048	6,564	1,077	-	7,641
Financial reporting/ systems	278	16,817	17,095	4,486	-	21,581
Grants & program support	68,416	-	68,416	-	-	68,416
Insurance	2,242	21,338	23,580	6,999	-	30,579
Meeting expenses	28,544	5,417	33,961	905	2,000	36,866
Miscellaneous	37,818	4,913	42,731	2,828	-	45,559
Office operations	38,258	10,863	49,121	1,628	-	50,749
Occupancy	30,419	404,655	435,074	96,899	-	531,973
Professional fees	22,232	181,711	203,943	49,913	-	253,856
Stipends	34,155	1,480	35,635	7,770	-	43,405
Telecommunications	16,879	25,585	42,464	7,088	-	49,552
Travel	331,206	52,952	384,158	-	10,000	394,158
Total Expenses	$3,017,978	$ 1,536,737	$ 4,554,715	$ 403,636	$ 65,289	$ 5,023,640

Note 10. Prior Period Adjustment

The prior year financial statements erroneously excluded $248,494 of grant revenue from one grantor for the year ended June 30, 2016. A prior period adjustment in the amount of $248,494 has been recorded. The effect of this prior period adjustment is to increase accounts receivable as of June 30, 2016 and increase grant revenue for the year ended June 30, 2016, in the amount of $248,494.

Note 11. Subsequent Events

The Organization has evaluated subsequent events through January 23, 2018, the date the consolidated financial statements were available to be issued. The Organization is not aware of any subsequent event which would require recognition or disclosure in the consolidated financial statements.