

Freire Schools Collaborative
Financial Summary
September 30, 2021 (unaudited)

OVERVIEW

Freire Schools Collaborative's (FSC) cash on hand at September 30, 2021 is \$531k. This represents a decrease of \$69k from 6/30/21. The decrease in cash is primarily due to (1) an increase in receivables from the Schools, which is timing related, (2) no CSP grant revenues drawn down to date (see next note), and (3) certain one-time expenses paid in the first quarter of the year.

FSC is running a deficit of \$80k for the three months ending September 30, 2021. This is primarily due to the School's CSP grant. Certain positions and expenses related to expansion were expected to be funded by this grant. However, FSC did not draw down grant funds or recognize grant revenues due to the change in expansion plans. FSC is evaluating which expenses qualify and will record the revenue and draw down funds after this determination is made.

FSC is in the process of reforecasting its budget based on the new expansion plans and will present that projection at the next board meeting.

REVENUES

CSO Fee Revenue is at 24% of budgeted revenues to date. Based on current School enrollments, FSC is expected to meet or exceed budgeted revenue.

No CSP Grant Revenue has been recognized to date. See note 2 under "Overview" above.

EXPENSES

Salaries and wages are at 26% of the budget to date. FSC added one additional FTE that was not included in the budget. Freire Foundation agreed to cover the cost of this additional FTE if necessary in order to balance the FSC budget.

Professional Development is at 49% of budget through September 30, 2021. FSC paid its first installment for the network wide DEI training. This expense was properly budgeted.

Audit fees are at 50% of budget through September 30, 2021. FSC has been billed for 50% of the audit and expects the audit to wrap up by the end of the year. Total audit fees are properly budgeted.

Legal Fees through September 30, 2021 exceeds the annual budget. FSC incurred unbudgeted costs associated with the CEO's employment contract. We expect this expense to exceed the budget by approximately \$10k.

Employee Recruitment expense through September 30, 2021 exceeds the annual budget. FSC incurred an \$11k placement fee for the new Senior Accountant. This expense was not included in the budget.

Direct Fundraising expenses through September 30, 2021 exceeds the annual budget. Fundraising expenses are paid by FSC and subsequently reimbursed by Freire Foundation. Freire Foundation will reimburse FSC for these costs in the 2nd half of the year.

Freire Schools Collaborative
Statement of Net Assets
September 30, 2021 (unaudited)

	<u>at 9/30/21</u>	<u>at 6/30/21</u>
ASSETS		
Cash and Cash Equivalents		
Cash - Unrestricted	\$ 231,799	\$ 300,619
Cash - Restricted	300,019	300,004
Total Cash and Cash Equivalents	<u>531,818</u>	<u>600,623</u>
Accounts Receivable		
CSO Fees	8,335	8,124
Reimbursements to FSC	19,276	-
Due from Freire Foundation	-	-
Total Receivables	<u>27,611</u>	<u>8,124</u>
Other Current Assets		
Prepaid Expenses	-	9,305
Total Other Current Assets	<u>-</u>	<u>9,305</u>
Fixed Assets		
Fixed Assets - Cost	46,702	46,702
Accumulated Depreciation	(41,324)	(41,324)
Total Fixed Assets	<u>5,378</u>	<u>5,378</u>
Other Assets		
Security Deposit	15,584	15,584
Total Other Assets	<u>15,584</u>	<u>15,584</u>
TOTAL ASSETS	<u>\$ 580,391</u>	<u>\$ 639,014</u>
LIABILITIES & NET POSITION		
Current Liabilities		
Accounts Payable	\$ 15,319	\$ 256
Credit Card Payable - M&T	648	2,120
Payroll Liabilities	16,321	8,003
TOTAL LIABILITIES	<u>32,288</u>	<u>10,379</u>
Net Assets		
Without Donor Restriction	548,103	628,635
With Donor Restriction	-	-
TOTAL NET ASSETS	<u>548,103</u>	<u>628,635</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 580,391</u>	<u>\$ 639,014</u>

Freire Schools Collaborative
Statement of Activities
3 Months Ended September 30, 2021

	Original Budget	3 Months Ending 9/30/21	Budget v. Actual	
			\$	%
<i>REVENUES</i>				
CSO Income	\$ 3,218,200	\$ 766,252	\$ (2,451,948)	24%
Grants (CSP)	182,211	-	(182,211)	---
Miscellaneous Revenue	7,500	15	(7,485)	0%
Total Revenues	\$ 3,407,911	\$ 766,267	\$ (2,641,644)	22%
<i>EXPENSES</i>				
Salaries & Wages	\$ 2,268,000	\$ 579,736	\$ 1,688,264	26%
Total Salaries & Wages	\$ 2,268,000	\$ 579,736	\$ 1,688,264	26%
Insurance - Health	\$ 222,000	\$ 48,613	\$ 173,387	22%
HRA Expense	42,000	8,899	33,101	21%
Insurance - Ancillary	8,400	2,228	6,172	27%
Insurance - Dental	14,000	3,622	10,378	26%
Benefits Administration Fees	4,600	465	4,136	10%
Employer 403(b) Contributions	114,000	28,614	85,386	25%
Professional Development	50,000	24,425	25,575	49%
Total Benefits	\$ 455,000	\$ 116,865	\$ 338,135	26%
FICA, Medicare	\$ 174,000	\$ 41,135	\$ 132,865	24%
PAUC	10,600	1,236	9,364	12%
Total Payroll Taxes	\$ 184,600	\$ 42,372	\$ 142,228	23%
Audit	\$ 9,000	\$ 4,500	\$ 4,500	50%
Legal Fees	12,500	12,637	(137)	101%
Public Relations	2,500	-	2,500	---
Employee Recruitment	12,250	14,775	(2,525)	121%
Other Contracted Services	29,750	3,858	25,892	13%
Temp Help	-	-	-	---
IT Consultants	55,000	-	55,000	---
Total Professional Fees	\$ 121,000	\$ 35,769	\$ 85,231	30%
Rebranding / Marketing	\$ 2,500	\$ -	\$ 2,500	---
Direct Fundraising Costs	2,000	7,869	(5,869)	393%
Total Marketing & Fundraising	\$ 4,500	\$ 7,869	\$ (3,369)	175%
Office Supplies	\$ 8,500	\$ 1,307	\$ 7,193	15%
Postage	2,500	241	2,259	10%
Payroll, Bank, and Other Fees	19,000	4,170	14,830	22%
Communications	20,800	4,699	16,101	23%
Other Expenses	10,000	929	9,071	9%
Total Office	\$ 60,800	\$ 11,345	\$ 49,455	19%
Software & Other Subscriptions	\$ 40,500	\$ 12,779	\$ 27,721	32%
Computers & Equipment	10,000	1,725	8,275	17%
Other IT Expenses	2,500	165	2,335	7%
Total Technology	\$ 53,000	\$ 14,669	\$ 38,331	28%

	Original Budget	3 Months Ending 9/30/21	\$	%
Rent	\$ 115,000	\$ 27,934	\$ 87,066	24%
Total Rent	\$ 115,000	\$ 27,934	\$ 87,066	24%
Facility Maintenance	\$ 1,000	\$ 90	910	9%
Facility Supplies	1,000	29	971	3%
Total Facility Costs	\$ 2,000	\$ 119	\$ 1,881	6%
Travel	\$ 12,500	\$ 375	\$ 12,125	3%
Meetings	7,500	1,401	6,099	19%
Total Travel & Meetings	\$ 20,000	\$ 1,775	\$ 18,225	9%
Insurance - Workers Comp	\$ 3,250	\$ 2,530	\$ 720	78%
Insurance - Liability, D and O	10,100	5,815	4,285	58%
Total Insurance	\$ 13,350	\$ 8,345	\$ 5,005	63%
All Other Expenses	\$ 3,500	\$ -	\$ 3,500	0%
Total Other	\$ 3,500	\$ -	\$ 3,500	0%
Total Expenses	\$ 3,300,750	\$ 846,799	\$ 2,453,951	26%
Annual Surplus / Deficit	\$ 107,161	\$ (80,532)	\$ (187,693)	

Freire Schools Collaborative
Statement of Net Assets
June 30, 2021 (unaudited)

	<u>at 6/30/21</u>	<u>at 6/30/20</u>
ASSETS		
Cash and Cash Equivalents		
Cash - Unrestricted	\$ 300,619	\$ 496,951
Cash - Restricted	300,004	15,000
Total Cash and Cash Equivalents	<u>600,623</u>	<u>511,951</u>
Accounts Receivable		
CSO Fees	8,124	23,583
Reimbursements to FSC	-	42,406
Due from Freire Foundation	-	-
Total Receivables	<u>8,124</u>	<u>65,989</u>
Other Current Assets		
Prepaid Expenses	9,305	14,731
Total Other Current Assets	<u>9,305</u>	<u>14,731</u>
Fixed Assets		
Fixed Assets - Cost	46,702	32,961
Accumulated Depreciation	(41,324)	(32,286)
Total Fixed Assets	<u>5,378</u>	<u>674</u>
Other Assets		
Security Deposit	15,584	15,584
Total Other Assets	<u>15,584</u>	<u>15,584</u>
TOTAL ASSETS	<u>\$ 639,014</u>	<u>\$ 608,929</u>
LIABILITIES & NET POSITION		
Current Liabilities		
Accounts Payable	\$ 256	\$ 37,798
Credit Card Payable - M&T	2,120	4,171
Payroll Liabilities	8,003	2,443
TOTAL LIABILITIES	<u>10,379</u>	<u>44,412</u>
Net Assets		
Without Donor Restriction	628,635	563,258
With Donor Restriction	-	15,000
TOTAL NET ASSETS	<u>628,635</u>	<u>578,258</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 639,014</u>	<u>\$ 622,670</u>

Freire Schools Collaborative
Statement of Activities
12 Months Ended June 30, 2021 (unaudited)

			ACTUAL v. PROJECTION	
	Original Budget	12 Months Ending 6/30/21	\$	%
REVENUES				
CSO Income	\$ 2,496,685	\$ 2,614,801	\$ 118,116	105%
CSO Addendum Fees	155,000	295,650	140,650	191%
Grants & Donations	-	-	-	---
Miscellaneous Revenue	15,000	7,337	(7,663)	49%
Total Revenues	\$ 2,666,685	\$ 2,917,788	\$ 251,103	109%
EXPENSES				
Salaries & Wages	\$ 1,672,000	\$ 1,949,596	\$ (277,596)	117%
Total Salaries & Wages	\$ 1,672,000	\$ 1,949,596	\$ (277,596)	117%
Insurance - Health	\$ 163,000	\$ 162,788	\$ 212	100%
HRA Expense	38,000	32,435	5,565	85%
Insurance - Ancillary	9,000	6,638	2,362	74%
Insurance - Dental	11,000	10,325	675	94%
Benefits Administration Fees	4,000	3,183	817	80%
Employer 403(b) Contributions	83,600	95,596	(11,996)	114%
Professional Development	25,000	55,833	(30,833)	223%
Total Benefits	\$ 333,600	\$ 366,796	\$ (33,196)	110%
FICA, Medicare	\$ 127,908	\$ 142,476	\$ (14,568)	111%
PAUC	10,500	6,039	4,461	58%
Total Payroll Taxes	\$ 138,408	\$ 148,515	\$ (10,107)	107%
Audit	\$ 9,000	\$ 9,000	\$ -	100%
Legal Fees	15,000	16,587	(1,587)	111%
Public Relations	95,440	70,277	25,163	---
Employee Recruitment	20,000	10,232	9,768	51%
Other Contracted Services	8,000	16,671	(8,671)	208%
Temp Help	5,000	-	5,000	---
IT Consultants	2,500	-	2,500	---
Total Professional Fees	\$ 154,940	\$ 122,767	\$ 32,173	79%
Rebranding / Marketing	\$ 5,000	\$ -	\$ 5,000	---
Direct Fundraising Costs	11,500	85	11,415	1%
Total Marketing & Fundraising	\$ 16,500	\$ 85	\$ 16,415	1%
Office Supplies	\$ 10,000	\$ 3,329	\$ 6,671	33%
Postage	2,250	1,840	410	82%
Payroll, Bank, and Other Fees	9,450	16,943	(7,493)	179%
Communications	17,050	17,955	(905)	105%
Other Office Expenses	3,000	11,833	(8,833)	394%
Total Office	\$ 41,750	\$ 51,901	\$ (10,151)	124%
Software & Other Subscriptions	\$ 62,850	\$ 45,745	\$ 17,105	73%
Computers & Equipment	16,500	22,940	(6,440)	139%
Other IT Expenses	3,000	1,981	1,019	66%
Total Technology	\$ 82,350	\$ 70,666	\$ 11,684	86%

	Original Budget	12 Months Ending 6/30/21	\$	%
Rent	\$ 113,311	\$ 111,195	\$ 2,116	98%
Total Rent	\$ 113,311	\$ 111,195	\$ 2,116	98%
Facility Maintenance	\$ 1,500	\$ 1,122	378	75%
Facility Supplies	1,000	1,351	(351)	135%
Total Facility Costs	\$ 2,500	\$ 2,473	\$ 27	99%
Travel	\$ 12,500	\$ 5,129	\$ 7,371	41%
Meetings	13,000	2,725	10,275	21%
Total Travel & Meetings	\$ 25,500	\$ 7,854	\$ 17,646	31%
Insurance - Workers Comp	\$ 4,500	\$ 2,700	\$ 1,800	60%
Insurance - Liability, D and O	9,300	7,316	1,984	79%
Total Insurance	\$ 13,800	\$ 10,016	\$ 3,784	73%
Depreciation	\$ -	\$ 9,037	(9,037)	---
All Other Expenses	12,000	1,459	10,541	12%
Total Other	\$ 12,000	\$ 10,496	\$ 1,504	87%
Total Expenses	\$ 2,606,659	\$ 2,852,361	\$ (245,702)	109%
Annual Surplus / Deficit	\$ 60,026	\$ 65,426	\$ 5,401	

FREIRE SCHOOLS COLLABORATIVE
FINANCIAL STATEMENTS
Year Ended June 30, 2020

INTRODUCTORY SECTION

FREIRE SCHOOLS COLLABORATIVE

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YEAR ENDED JUNE 30, 2020

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of Directors
Freire Schools Collaborative
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Freire Schools Collaborative (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

To the Board of Directors
Freire Schools Collaborative
Philadelphia, Pennsylvania

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Freire Schools Collaborative as of June 30, 2020, 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 (GAAP).

Emphasis of Matter

As discussed in Note H, the spread of the COVID-19 coronavirus is affecting the United States and global economies and may have an impact on Freire Schools Collaborative's operational and financial performance. At this point, Freire Schools Collaborative cannot reasonably estimate the impact on its operations or financial results. Our opinion is not modified with respect to this matter.

Maille LLP

West Chester, Pennsylvania
December 14, 2020

FREIRE SCHOOLS COLLABORATIVE

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

ASSETS

CURRENT ASSETS

Cash	\$ 511,951
Due from affiliates	65,989
Prepaid expense	<u>14,731</u>
TOTAL CURRENT ASSETS	592,671

PROPERTY AND EQUIPMENT, net	14,416
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OTHER ASSETS

Security deposit	<u>15,584</u>
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TOTAL ASSETS	<u><u>\$ 622,671</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 37,798
Other current liabilities	<u>6,614</u>
TOTAL LIABILITIES	<u>44,412</u>

NET ASSETS

Without donor restrictions	
Undesignated	563,259
With donor restrictions	
Purpose restricted	<u>15,000</u>
TOTAL NET ASSETS	<u>578,259</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 622,671</u></u>
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See accompanying notes to the financial statements.

FREIRE SCHOOLS COLLABORATIVE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Academic and business services	\$ 2,635,671	\$ -	\$ 2,635,671
Other income	18,187	-	18,187
TOTAL SUPPORT AND REVENUE	<u>2,653,858</u>	<u>-</u>	<u>2,653,858</u>
EXPENSES			
Program services	2,081,722	-	2,081,722
Management and general	190,941	-	190,941
Fund-raising	199,043	-	199,043
TOTAL EXPENSES	<u>2,471,706</u>	<u>-</u>	<u>2,471,706</u>
CHANGE IN NET ASSETS	182,152	-	182,152
NET ASSETS AT BEGINNING OF YEAR	<u>381,107</u>	<u>15,000</u>	<u>396,107</u>
NET ASSETS AT END OF YEAR	<u>\$ 563,259</u>	<u>\$ 15,000</u>	<u>\$ 578,259</u>

See accompanying notes to the financial statements.

FREIRE SCHOOLS COLLABORATIVE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund-Raising</u>	<u>Totals</u>
FUNCTIONAL EXPENSES				
Salaries and wages	\$ 1,389,755	\$ 86,007	\$ 137,718	\$ 1,613,480
Benefits	259,386	15,079	27,145	301,610
Taxes	105,175	6,115	11,007	122,297
Professional fees	121,339	31,014	-	152,353
Marketing and fundraising costs	-	9,335	3,011	12,346
Office expenses	15,801	18,317	1,653	35,771
Technology expenses	49,896	12,237	6,471	68,604
Rent expense	94,472	5,493	9,887	109,852
Other facility costs	1,230	71	129	1,430
Travel, conferences, and meetings	24,758	4,073	55	28,886
Insurance	11,576	673	1,211	13,460
Depreciation	7,219	420	756	8,395
Grants and other assistance	1,115	2,107	-	3,222
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 2,081,722</u>	<u>\$ 190,941</u>	<u>\$ 199,043</u>	<u>\$ 2,471,706</u>

See accompanying notes to the financial statements.

FREIRE SCHOOLS COLLABORATIVE

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 182,152
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	8,395
Changes in assets and liabilities	
Due from affiliates	(37,592)
Prepaid expenses	(14,731)
Accounts payable	31,066
Other current liabilities	<u>(3,613)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES AND NET INCREASE IN CASH	165,677
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of fixed assets	<u>(5,512)</u>
NET INCREASE IN CASH	160,165
CASH AT BEGINNING OF YEAR	<u>351,786</u>
CASH AT END OF YEAR	<u><u>\$ 511,951</u></u>

See accompanying notes to the financial statements.

FREIRE SCHOOLS COLLABORATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Freire Schools Collaborative (the "Organization") was founded in 2015 as a nonprofit organization to provide support services to all Freire schools, current and future, including school leadership recruitment and development, governance, facilities management, strategic planning, financial management, IT services, legal, compliance, and fundraising. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is supported through business service fees received from all Freire schools.

Financial Statement Presentation

The Organization follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, which requires the Organization to report information regarding its financial position and activities according to two mutually exclusive classes according to the existence or absence of donor-imposed restrictions. See Net Assets with Donor Restrictions and Net Assets without Donor Restrictions.

FASB ASC 958 also requires recognition of contributions, including donated services meeting certain criteria, at fair values. FASB ASC 958 establishes standards for general-purpose external financial statements for not-for-profit organizations and requires a statement of financial position, a statement of activities and a statement of cash flows.

Net Assets with Donor Restrictions

Net assets with donor restrictions is the part of net assets of the Organization that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). Some donors impose restrictions that are temporary in nature, for example, stipulating that resources be used after a specified date, for particular programs or services, or to acquire buildings or equipment. Other donors impose restrictions that are perpetual in nature, for example, stipulating that resources be maintained in perpetuity. Laws may extend those limits to investment returns from those resources and to other enhancements (diminishments) of those resources. Thus, those laws extend donor-imposed restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the same reporting period in which the support is received and recognized. The Organization had assets with donor restrictions of \$15,000 at June 30, 2020.

Net Assets without Donor Restrictions

Net assets without donor restrictions is the part of net assets of the Organization that is not subject to donor-imposed restrictions.

FREIRE SCHOOLS COLLABORATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The Organization maintains its records on the accrual basis for both financial statement and tax return purposes.

Income Tax Status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC").

Uncertain Tax Positions

The Organization recognizes and measures its unrecognized tax benefits in accordance with FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by the taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

As of June 30, 2020, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Additionally, the Organization had no interest or penalties related to income taxes.

Cash and Cash Equivalents

The Organization's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at their net realizable values. Accounts receivable do not bear interest. There was no allowance for uncollectible receivables at June 30, 2020.

FREIRE SCHOOLS COLLABORATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, benefits, taxes, office expenses, technology expenses, insurance, and facility costs which are allocated based on estimates of time and effort. The remaining allocation of expenses to program, management and general, and fundraising were directly identifiable.

Property and Equipment

Property and equipment are stated at cost. Expenditures for additions and betterments are capitalized; maintenance and repairs are charged to current operations as incurred. Depreciation has been calculated on such assets using the straight-line method over the following estimated lives:

Leasehold improvements	5 years
Computers and equipment	5 years
Furniture and fixtures	7 years

Restricted and Unrestricted Revenue and Support

All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as "Net assets released from restrictions."

Academic and Business Services

The Organization entered into an Academic and Business Services Agreement with the Freire Charter Schools. Under the terms of the agreement, the Organization provides academic and business services to all Freire schools for a pre-determined fee based on revenues that the schools receive, directly or indirectly, for students enrolled in the school. Fees received are recorded as revenue on the Statement of Activities.

FREIRE SCHOOLS COLLABORATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services

The Organization records the value of donated services that are measurable as a contribution and as an expense. There were no donated services during the year ending June 30, 2020.

Subsequent Events

In accordance with FASB ASC 855, Subsequent Events, the Organization has evaluated subsequent events through December 14, 2020, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE B - CONCENTRATION OF CREDIT RISK

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. At June 30, 2020, the Organization's bank balances exceeded the FDIC insurance coverage by \$61,466. The Organization has not experienced any losses in such accounts.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2020:

Computers and equipment	\$ 32,961
Furniture and fixtures	4,800
Leasehold improvements	<u>8,941</u>
	46,702
Less accumulated depreciation	<u>32,286</u>
Property and equipment, net	<u>\$ 14,416</u>

Depreciation and amortization expense, included in "Program services" on the accompanying statement of activities, amounted to \$8,395 for the year ended June 30, 2020.

FREIRE SCHOOLS COLLABORATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE D - RELATED-PARTY TRANSACTIONS

Academic and Business Services Agreement

On June 10, 2015, the Organization entered into Academic and Business Services Agreements with Freire Charter School, TECH Freire Charter School, and Freire Charter School Wilmington. The agreements are coterminous with each School's charter terms and automatically renew for the period of any and all future charter renewal terms unless written notice of intent to terminate or renegotiate is given by either party not less than 180 days prior to the end of a charter term. Under the terms of the agreements, the Organization provides academic and business services to the Schools for a fee equal to 8% of federal, state, and local revenues that all Schools receive, directly or indirectly, for students enrolled in the Schools. Fees received from each school under these agreements during the year ended June 30, 2020 are as follows:

Freire Charter School	\$ 1,359,316
TECH Freire Charter School	656,452
Freire Charter School Wilmington, Inc.	<u>619,903</u>
	<u>\$ 2,635,671</u>

NOTE E - FACILITY LEASE AGREEMENT

The Organization has a lease with One Penn Associates, L.P. for the Property for a pre-determined monthly fee through October 2021. The lease allows for a renewal option of one term of five years that is contingent upon specific requirements to be met by the Organization. The current year rent expense of \$109,852 also includes the Organization's share of real estate taxes and building operating expenses pursuant to the lease agreement. The future lease payments are detailed as follows:

Year Ending <u>June 30,</u>	
2021	\$ 100,722
2022	<u>33,793</u>
	<u>\$ 134,515</u>

FREIRE SCHOOLS COLLABORATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS

There were no net assets released from restrictions by incurring expenditures or by the passage of time satisfying the restricted purpose specified by donors during the year ended June 30, 2020.

Net assets with donor restrictions at June 30, 2020, were restricted for the following purposes:

School Leadership Recruitment	\$ <u>15,000</u>
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NOTE G - LIQUIDITY

The Organization's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash	\$ 511,951
Due from related party	<u>65,989</u>
	<u>\$ 577,940</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE H - RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a pandemic, which has impacted the global economy. The Organization's operations are heavily dependent on funding from the Schools. The Schools, in turn, are heavily dependent on funding from the public and private donors. The COVID-19 pandemic is still on-going and the duration and extent of the related financial impact on the Organization's net position and statement of activities is uncertain and cannot be reasonably estimated at this time.

FREIRE SCHOOLS COLLABORATIVE
FINANCIAL STATEMENTS
Year Ended June 30, 2019



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

FREIRE SCHOOLS COLLABORATIVE

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of Directors
Freire Schools Collaborative
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Freire Schools Collaborative (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

To the Board of Directors
Freire Schools Collaborative
Philadelphia, Pennsylvania

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Freire Schools Collaborative as of June 30, 2019, 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 (GAAP).

Emphasis of Matter

As discussed in Note A to the financial statements, for the year ended June 30, 2019, Freire Schools Collaborative adopted new accounting guidance, implementing the FASB's ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

Maillie LLP

West Chester, Pennsylvania
November 20, 2019

FREIRE SCHOOLS COLLABORATIVE

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

ASSETS

CURRENT ASSETS

Cash	\$ 351,786
Due from related parties	28,397
TOTAL CURRENT ASSETS	<u>380,183</u>

PROPERTY AND EQUIPMENT, net	17,299
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OTHER ASSETS

Security deposit	<u>15,584</u>
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TOTAL ASSETS	<u>\$ 413,066</u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 6,732
Other current liabilities	10,227
TOTAL LIABILITIES	<u>16,959</u>

NET ASSETS

Without donor restrictions	
Undesignated	381,107
With donor restrictions	
Purpose restricted	<u>15,000</u>
TOTAL NET ASSETS	<u>396,107</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 413,066</u>
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See accompanying notes to the financial statements.

FREIRE SCHOOLS COLLABORATIVE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Academic and business services	\$ 2,419,122	\$ -	\$ 2,419,122
Grants	5,000	-	5,000
Other income	16,335	-	16,335
TOTAL SUPPORT AND REVENUE	<u>2,440,457</u>	<u>-</u>	<u>2,440,457</u>
EXPENSES			
Program services	2,040,488	-	2,040,488
Management and general	186,240	-	186,240
Fund-raising	207,149	-	207,149
TOTAL EXPENSES	<u>2,433,877</u>	<u>-</u>	<u>2,433,877</u>
CHANGE IN NET ASSETS	6,580	-	6,580
NET ASSETS AT BEGINNING OF YEAR	<u>374,527</u>	<u>15,000</u>	<u>389,527</u>
NET ASSETS AT END OF YEAR	<u>\$ 381,107</u>	<u>\$ 15,000</u>	<u>\$ 396,107</u>

See accompanying notes to the financial statements.

FREIRE SCHOOLS COLLABORATIVE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund-Raising</u>	<u>Totals</u>
FUNCTIONAL EXPENSES				
Salaries and wages	\$ 1,436,208	\$ 77,872	\$ 114,736	\$ 1,628,816
Benefits	256,593	14,579	20,412	291,584
Taxes	111,067	6,311	8,834	126,212
Professional fees	24,452	23,741	-	48,193
Marketing and fundraising costs	17,193	17,193	48,580	82,966
Office expenses	27,967	8,521	2,224	38,712
Technology expenses	43,642	9,179	3,471	56,292
Rent expense	93,543	5,315	7,441	106,299
Other facility costs	3,621	205	288	4,114
Travel, conferences, and meetings	11,451	16,780	-	28,231
Insurance	7,610	433	605	8,648
Depreciation	7,008	398	558	7,964
Grants and other assistance	133	5,713	-	5,846
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 2,040,488</u>	<u>\$ 186,240</u>	<u>\$ 207,149</u>	<u>\$ 2,433,877</u>

See accompanying notes to the financial statements.

FREIRE SCHOOLS COLLABORATIVE

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 6,580
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	7,964
Changes in assets and liabilities	
Due from affiliates	104,332
Accounts payable	(12,498)
Other current liabilities	9,336
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>115,714</u>
AND NET INCREASE IN CASH	115,714
CASH AT BEGINNING OF YEAR	<u>236,072</u>
CASH AT END OF YEAR	<u><u>\$ 351,786</u></u>

See accompanying notes to the financial statements.

FREIRE SCHOOLS COLLABORATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Freire Schools Collaborative (the "Organization") was founded in 2015 as a nonprofit organization to provide support services to all Freire schools, current and future, including school leadership recruitment and development, governance, facilities management, strategic planning, financial management, IT services, legal, compliance, and fundraising. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is supported through business service fees received from all Freire schools.

Financial Statement Presentation

The Organization follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, which requires the Organization to report information regarding its financial position and activities according to two mutually exclusive classes according to the existence or absence of donor-imposed restrictions. See Net Assets with Donor Restrictions and Net Assets without Donor Restrictions.

FASB ASC 958 also requires recognition of contributions, including donated services meeting certain criteria, at fair values. FASB ASC 958 establishes standards for general-purpose external financial statements for not-for-profit organizations and requires a statement of financial position, a statement of activities and a statement of cash flows.

Net Assets with Donor Restrictions

The part of net assets of the Organization that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). Some donors impose restrictions that are temporary in nature, for example, stipulating that resources be used after a specified date, for particular programs or services, or to acquire buildings or equipment. Other donors impose restrictions that are perpetual in nature, for example, stipulating that resources be maintained in perpetuity. Laws may extend those limits to investment returns from those resources and to other enhancements (diminishments) of those resources. Thus, those laws extend donor-imposed restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the same reporting period in which the support is received and recognized. The Organization had assets with donor restrictions of \$15,000 at June 30, 2019.

Net Assets without Donor Restrictions

The part of net assets of the Organization that is not subject to donor-imposed restrictions.

FREIRE SCHOOLS COLLABORATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The Organization maintains its records on the accrual basis for both financial statement and tax return purposes.

Income Tax Status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC").

Uncertain Tax Positions

The Organization recognizes and measures its unrecognized tax benefits in accordance with FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by the taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

As of June 30, 2019, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Additionally, the Organization had no interest or penalties related to income taxes.

Cash and Cash Equivalents

The Organization's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at their net realizable values. Accounts receivable do not bear interest. There was no allowance for uncollectible receivables at June 30, 2019.

FREIRE SCHOOLS COLLABORATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, benefits, taxes, office expenses, technology expenses, insurance, and facility costs which are allocated based on estimates of time and effort. The remaining allocation of expenses to program, management and general, and fundraising were directly identifiable.

Property and Equipment

Property and equipment are stated at cost. Expenditures for additions and betterments are capitalized; maintenance and repairs are charged to current operations as incurred. Depreciation has been calculated on such assets using the straight-line method over the following estimated lives:

Leasehold improvements	5 years
Computers and equipment	5 years
Furniture and fixtures	7 years

Restricted and Unrestricted Revenue and Support

All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as "Net assets released from restrictions."

Academic and Business Services

The Organization entered into an Academic and Business Services Agreement with the Freire Charter Schools. Under the terms of the agreement, the Organization provides academic and business services to all Freire schools for a pre-determined fee based on revenues that the schools receive, directly or indirectly, for students enrolled in the school. Fees received are recorded as revenue on the Statement of Activities.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Freire Schools Collaborative has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to the period presented.

FREIRE SCHOOLS COLLABORATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services

The Organization records the value of donated services that are measurable as a contribution and as an expense. There were no donated services during the year ending June 30, 2019.

Subsequent Events

In accordance with FASB ASC 855, Subsequent Events, the Organization has evaluated subsequent events through November 20, 2019, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE B - CONCENTRATION OF CREDIT RISK

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. At June 30, 2019, the Organization's bank balances exceeded the FDIC insurance coverage by \$88,443. The Organization has not experienced any losses in such accounts.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2019:

Computers and equipment	\$ 27,450
Furniture and fixtures	4,800
Leasehold improvements	8,941
	<u>41,191</u>
Less accumulated depreciation	<u>23,892</u>
Property and equipment, net	<u>\$ 17,299</u>

Depreciation and amortization expense, included in "Program services" on the accompanying statement of activities, amounted to \$7,964 for the year ended June 30, 2019.

FREIRE SCHOOLS COLLABORATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE D - RELATED-PARTY TRANSACTIONS

Academic and Business Services Agreement

On June 10, 2015, the Organization entered into an Academic and Business Services Agreements with Freire Charter School, TECH Freire Charter School, and Freire Charter School Wilmington, Inc. The original agreements expired on June 30, 2018 and automatically renewed on July 1, 2018 for an additional five year term. Under the terms of the agreements, the Organization provides academic and business services to the Schools for a fee equal to 8% of federal, state, and local revenues that the Schools receive, directly or indirectly, for students enrolled in the Schools. Fees received from each school under these agreements during the year ended June 30, 2019 are as follows:

Freire Charter School	\$ 1,254,246
TECH Freire Charter School	653,440
Freire Charter School Wilmington, Inc.	<u>511,436</u>
	<u>\$ 2,419,122</u>

NOTE E - FACILITY LEASE AGREEMENT

The Organization has a lease with One Penn Associates, L.P. for the Property for a pre-determined monthly fee through October 2021. The lease allows for a renewal option of one term of five years that is contingent upon specific requirements to be met by the Organization. The current year rent expense of \$106,299 also includes the Organization's share of real estate taxes and building operating expenses pursuant to the lease agreement. The future lease payments are detailed as follows:

Year Ending June 30,	
<u>2020</u>	\$ 98,753
2021	100,722
2022	<u>33,793</u>
	<u>\$ 233,268</u>

FREIRE SCHOOLS COLLABORATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS

There were no net assets released from restrictions by incurring expenditures or by the passage of time satisfying the restricted purpose specified by donors during the year ended June 30, 2019.

Net assets with donor restrictions at June 30, 2019, were restricted for the following purposes:

School Leadership Recruitment	\$ <u>15,000</u>
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NOTE G - LIQUIDITY

The Organization's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash	\$ 351,786
Due from related party	<u>28,397</u>
	<u>\$ 380,183</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

BUILD THE FUTURE EDUCATION COLLABORATIVE
FINANCIAL STATEMENTS
Year Ended June 30, 2018



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

BUILD THE FUTURE EDUCATION COLLABORATIVE
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FINANCIAL SECTION

Independent Auditors' Report

To the Board of Directors
Build the Future Education Collaborative
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Build the Future Education Collaborative (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Build The Future Education Collaborative's 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

To the Board of Directors
Build the Future Education Collaborative
Philadelphia, Pennsylvania

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Build The Future Education Collaborative 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 (GAAP).

Maillie LLP

West Chester, Pennsylvania
March 5, 2019

BUILD THE FUTURE EDUCATION COLLABORATIVE

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

ASSETS

CURRENT ASSETS

Cash	\$ 236,072
Due from related parties	132,729
TOTAL CURRENT ASSETS	<u>368,801</u>

PROPERTY AND EQUIPMENT, net	25,263
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OTHER ASSETS

Security deposit	<u>15,584</u>
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TOTAL ASSETS	<u><u>\$ 409,648</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 19,230
Other current liabilities	891
TOTAL LIABILITIES	<u>20,121</u>

NET ASSETS

Unrestricted	374,527
Temporarily restricted	<u>15,000</u>
TOTAL NET ASSETS	<u>389,527</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 409,648</u></u>
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See accompanying notes to the financial statements.

BUILD THE FUTURE EDUCATION COLLABORATIVE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Academic and business services	\$ 1,928,207	\$ -	\$ 1,928,207
Contributions	2,325	-	2,325
Grants	89,398	15,000	104,398
Interest income	8,514	-	8,514
Net assets released from restrictions	-	-	-
TOTAL SUPPORT AND REVENUE	<u>2,028,444</u>	<u>15,000</u>	<u>2,043,444</u>
EXPENSES			
Program services	1,625,782	-	1,625,782
Support services	127,887	-	127,887
Fund-raising	164,454	-	164,454
TOTAL EXPENSES	<u>1,918,123</u>	<u>-</u>	<u>1,918,123</u>
CHANGE IN NET ASSETS	110,321	15,000	125,321
NET ASSETS AT BEGINNING OF YEAR	<u>264,206</u>	<u>-</u>	<u>264,206</u>
NET ASSETS AT END OF YEAR	<u>\$ 374,527</u>	<u>\$ 15,000</u>	<u>\$ 389,527</u>

See accompanying notes to the financial statements.

BUILD THE FUTURE EDUCATION COLLABORATIVE

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 125,321
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	7,964
Changes in assets and liabilities	
Accounts receivable	(74,465)
Accounts payable	(15,063)
Other current liabilities	58
NET CASH PROVIDED BY OPERATING ACTIVITIES AND NET INCREASE IN CASH	43,815
CASH AT BEGINNING OF YEAR	192,257
CASH AT END OF YEAR	\$ 236,072

See accompanying notes to the financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Nature of Operations**

Build the Future Education Collaborative (the "Organization") was founded in 2015 as a nonprofit organization to provide support services to all Freire schools, current and future, including school leadership recruitment and development, governance, facilities management, strategic planning, financial management, IT services, legal, compliance, and fundraising. Build the Future is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is supported through business service fees received from all Freire schools.

Financial Statement Presentation

The Organization follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, which requires the Organization to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. Unrestricted net assets represent expendable funds that are available to support the operating activities of the Organization. Temporarily restricted net assets represent expendable funds that are earmarked for specific purposes. When the funds are expended, the restriction is satisfied and the funds are released from restriction. FASB ASC 958 also requires recognition of contributions, including donated services meeting certain criteria, at fair values. FASB ASC 958 establishes standards for general-purpose external financial statements for not-for-profit organizations and requires a statement of financial position, a statement of activities and a statement of cash flows.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The Organization maintains its records on the accrual basis for both financial statement and tax return purposes.

Income Tax Status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC").

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Uncertain Tax Positions**

The Organization recognizes and measures its unrecognized tax benefits in accordance with FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by the taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

As of June 30, 2018, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Additionally, the Organization had no interest or penalties related to income taxes.

Cash and Cash Equivalents

The Organization's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at their net realizable values. Accounts receivable do not bear interest. There was no allowance for uncollectible receivables at June 30, 2018.

Functional Allocation of Expenses

The allocation of expenses to program and support services is directly identifiable. Program expenses include grant and contribution expenses. Support services expenses include general and administrative expenses and interest expense.

Property and Equipment

Property and equipment are stated at cost. Expenditures for additions and betterments are capitalized; maintenance and repairs are charged to current operations as incurred. Depreciation has been calculated on such assets using the straight-line method over the following estimated lives:

Leasehold improvements	5 years
Computers and Equipment	5 years
Furniture and Fixtures	7 years

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Restricted and Unrestricted Revenue and Support**

All donor-restricted support is reported as an increase in temporarily restricted net assets, depending on the nature of the restriction. When a 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 statement of activities as "Net assets released from restrictions."

Academic and Business Services

The Organization entered into an Academic and Business Services Agreement with the Freire Charter Schools. Under the terms of the agreement, the Organization provides academic and business services to all Freire schools for a pre-determined fee based on revenues that the schools receive, directly or indirectly, for students enrolled in the school. Fees received are recorded as revenue on the Statement of Activities.

Recent Accounting Pronouncements

Effective for the year ending June 30, 2019, the Organization will be required to adopt the requirements of recent accounting guidance which changes the presentation of not-for-profit financial statements. The new guidance reduces the number of net asset classes from three to two and increases disclosure about liquidity risks, among other changes. The effect of adopting this new guidance on the Organization's financial statements has not yet been determined.

Donated Services

The Organization records the value of donated services that are measurable as a contribution and as an expense. There were no donated services during the year ending June 30, 2018.

Subsequent Events

In accordance with FASB ASC 855, Subsequent Events, the Organization has evaluated subsequent events through March 5, 2019, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE B - CONCENTRATION OF CREDIT RISK

The Organization places its cash, which may at times be in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits, with major financial institutions.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2018:

Computers and equipment	\$ 27,450
Furniture and fixtures	4,800
Leasehold improvements	<u>8,941</u>
	41,191
Less accumulated depreciation	<u>15,928</u>
Property and equipment, net	<u>\$ 25,263</u>

Depreciation and amortization expense, included in "Program services" on the accompanying statement of activities, amounted to \$7,964 for the year ended June 30, 2018.

NOTE D - RELATED-PARTY TRANSACTIONS**Academic and Business Services Agreement**

On June 10, 2015, the Organization entered into an Academic and Business Services Agreement with Freire Charter School, the Organization's sole member. The agreement expired on June 30, 2018 and will automatically renew on July 1, 2018 for an additional five year term. Under the terms of the agreement, the Organization provides academic and business services to Freire Charter School for a fee equal to 8% of federal, state, and local revenues that the School receives, directly or indirectly, for students enrolled in the School. Fees received from Freire Charter School under this agreement during the year ended June 30, 2018, totaled \$1,040,309.

NOTE E - FACILITY LEASE AGREEMENT

The Organization has a lease with One Penn Associates, L.P. for the Property for a pre-determined monthly fee through October 2021. The lease allows for a renewal option of one term of five years that is contingent upon specific requirements to be met by the Organization. The current year rent expense of \$101,018 also includes the Organization's share of real estate taxes and building operating expenses pursuant to the lease agreement. The future lease payments are detailed as follows:

Year Ending June 30,	
<u>2019</u>	\$ 96,785
2020	98,753
2021	100,722
2022	<u>33,792</u>
	<u>\$ 330,052</u>

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

There were no net assets released from restrictions by incurring expenditures or by the passage of time satisfying the restricted purpose specified by donors during the year ended June 30, 2018.

Net assets at June 30, 2018, were temporarily restricted for the following purposes:

School Leadership Recruitment	\$ <u>15,000</u>
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FREIRE FOUNDATION
FINANCIAL STATEMENTS
Year Ended June 30, 2021

INTRODUCTORY SECTION

FREIRE FOUNDATION
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YEAR ENDED JUNE 30, 2021

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of Directors
Freire Foundation
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Freire Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

To the Board of Directors
Freire Foundation
Philadelphia, Pennsylvania

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Freire Foundation as of June 30, 2021, 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.

Maillie LLP

West Chester, Pennsylvania
November 2, 2021

FREIRE FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021

ASSETS

CURRENT ASSETS

Cash	\$ 1,191,904
Pledges receivable	36,545
Prepaid expenses	1,930
TOTAL CURRENT ASSETS	<u>1,230,379</u>

PROPERTY AND EQUIPMENT, net	<u>2,770,141</u>
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TOTAL ASSETS	<u>\$ 4,000,520</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Notes payable, current portion	\$ <u>52,975</u>
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LONG-TERM LIABILITIES

Notes payable, net	<u>2,449,555</u>
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TOTAL LIABILITIES	<u>2,502,530</u>
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NET ASSETS

Without donor restrictions	
Undesignated	845,713

With donor restrictions	
Purpose restricted	<u>652,277</u>

TOTAL NET ASSETS	<u>1,497,990</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,000,520</u>
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See accompanying notes to the financial statements.

FREIRE FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
SUPPORT			
Contributions	\$ 655,875	\$ 207,454	\$ 863,329
Grants	-	124,278	124,278
Net assets released from restrictions	106,278	(106,278)	-
TOTAL SUPPORT	<u>762,153</u>	<u>225,454</u>	<u>987,607</u>
REVENUE			
Rental income	252,000	-	252,000
Gain on discharge of indebtedness	300,000	-	300,000
Other income	165	-	165
TOTAL REVENUE	<u>552,165</u>	<u>-</u>	<u>552,165</u>
TOTAL SUPPORT AND REVENUE	<u>1,314,318</u>	<u>225,454</u>	<u>1,539,772</u>
EXPENSES			
Program services	610,214	-	610,214
Management and general	176,962	-	176,962
Fund-raising	14,549	-	14,549
TOTAL EXPENSES	<u>801,725</u>	<u>-</u>	<u>801,725</u>
CHANGE IN NET ASSETS	512,593	225,454	738,047
NET ASSETS AT BEGINNING OF YEAR	<u>333,120</u>	<u>426,823</u>	<u>759,943</u>
NET ASSETS AT END OF YEAR	<u>\$ 845,713</u>	<u>\$ 652,277</u>	<u>\$ 1,497,990</u>

See accompanying notes to the financial statements.

FREIRE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund-Raising</u>	<u>Totals</u>
FUNCTIONAL EXPENSES				
Support to Freire charter schools	\$ 106,278	\$ -	\$ -	\$ 106,278
Rent (in-kind)	405,594	-	-	405,594
Depreciation	95,741	-	-	95,741
Interest	2,601	160,490	-	163,091
Professional fees	-	12,250	-	12,250
Fundraising	-	-	12,370	12,370
Bank fees	-	2,080	-	2,080
Insurance	-	2,142	-	2,142
Dues and subscriptions	-	-	2,179	2,179
	<u>-</u>	<u>-</u>	<u>2,179</u>	<u>2,179</u>
TOTAL FUNCTIONAL EXPENSES	\$ <u>610,214</u>	\$ <u>176,962</u>	\$ <u>14,549</u>	\$ <u>801,725</u>

See accompanying notes to the financial statements.

FREIRE FOUNDATION
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 738,047
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	95,741
Amortization of debt issuance costs	(2,601)
Gain on discharge of indebtedness	(300,000)
Changes in assets and liabilities	
Pledges receivable	83,455
Prepaid expenses	(1,930)
Donations payable	(120,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>492,712</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of notes payable	<u>(47,041)</u>
NET INCREASE IN CASH	445,671
CASH AT BEGINNING OF YEAR	<u>746,233</u>
CASH AT END OF YEAR	<u><u>\$ 1,191,904</u></u>
SUPPLEMENTAL DISCLOSURES	
Cash paid during the year for interest	\$ 160,490

See accompanying notes to the financial statements.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Freire Foundation (the "Foundation") was founded in 2010 as a charitable foundation to support the Freire charter schools and to hold the real estate for Freire Charter School's (FCS) property located at 2025-2027 Chestnut Street in Philadelphia, PA (the "Property"). The Foundation is supported through donor contributions and grants.

Financial Statement Presentation

The Foundation follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, which requires the Foundation to report information regarding its financial position and activities according to two mutually exclusive classes according to the existence or absence of donor-imposed restrictions. See Net Assets with Donor Restrictions and Net Assets without Donor Restrictions.

FASB ASC 958 also requires recognition of contributions, including donated services meeting certain criteria, at fair values. FASB ASC 958 establishes standards for general-purpose external financial statements for not-for-profit organizations and requires a statement of financial position, a statement of activities and a statement of cash flows.

Net Assets with Donor Restrictions

Net assets with donor restrictions is the part of net assets of the Foundation that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). Some donors impose restrictions that are temporary in nature, for example, stipulating that resources be used after a specified date, for particular programs or services, or to acquire buildings or equipment. Other donors impose restrictions that are perpetual in nature, for example, stipulating that resources be maintained in perpetuity. Laws may extend those limits to investment returns from those resources and to other enhancements (diminishments) of those resources. Thus, those laws extend donor-imposed restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the same reporting period in which the support is received and recognized. The Foundation had assets with donor restrictions of \$652,277 at June 30, 2021.

Net Assets without Donor Restrictions

Net assets without donor restrictions is the part of net assets of the Foundation that is not subject to donor-imposed restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The Foundation maintains its records on the accrual basis for both financial statement and tax return purposes.

Income Tax Status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC").

Uncertain Tax Positions

The Foundation recognizes and measures its unrecognized tax benefits in accordance with FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by the taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

As of June 30, 2021, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Additionally, the Foundation had no interest or penalties related to income taxes.

Rental Income

Rental income from operating leases is recognized on a straight-line basis over the term of the lease.

Functional Allocation of Expenses

The allocation of expenses to program and management and general is directly identifiable. Program expenses include support to Freire schools, rent and depreciation expenses. Management and general expenses include general and administrative expenses and interest expense.

Pledges Receivable

Pledges receivable are recognized when a donor makes a pledge to the Foundation that is, in substance, unconditional. Pledges to be received in future periods are discounted to their net present value. All pledges outstanding as of June 30, 2021 were pledged to support the operation of the School during the 2020-21 fiscal year. The Foundation uses the allowance method to determine uncollectible promises to give. All pledges were subsequently collected, thus no allowance for doubtful pledges was recorded as of June 30, 2021.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are stated at cost. Expenditures for additions and betterments are capitalized; maintenance and repairs are charged to current operations as incurred. Depreciation has been calculated on such assets using the straight-line method over the following estimated lives:

Leasehold improvements	39.5 years
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Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities, net of premiums and discounts. Financing costs are amortized over the life of the debt and all amounts are amortized using the straight-line method.

Date of Management's Review

In accordance with FASB ASC 855, Subsequent Events, the Foundation has evaluated subsequent events through November 2, 2021, the date on which these financial statements were available to be issued.

NOTE B - CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. At June 30, 2021, the Foundation's bank balances exceeded the FDIC insurance coverage by \$932,235. The Foundation has not experienced any losses in such accounts.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2021:

Leasehold improvements	\$ 3,781,770
Less: accumulated depreciation	<u>(1,011,629)</u>
Property and equipment, net	<u>\$ 2,770,141</u>

Depreciation expense, included in "Program services" on the accompanying statement of activities, amounted to \$95,741 for the year ended June 30, 2021.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE D - RELATED-PARTY TRANSACTIONS

Lease Agreement

The Freire Charter School ("FCS") Property is owned by the Philadelphia Redevelopment Authority ("PRA") and is leased by the Foundation under a master lease agreement.

NOTE E - FACILITY LEASE AGREEMENT

The Foundation entered into a lease agreement with FCS, a related-party, for the rental of Property through April 14, 2049. As of June 30, 2021, future minimum rental income is as follows:

<u>Year Ending</u> <u>June 30,</u>		
2022	\$	252,000
2023		252,000
2024		252,000
2025		252,000
2026		252,000
Thereafter		<u>5,743,500</u>
	\$	<u>7,003,500</u>

Rental income during the year ended June 30, 2021, was \$252,000.

The Foundation has a triple-net lease with the PRA for the Property for a nominal fee of \$1 per year through April 2049, with two additional five-year renewal options and one six-year renewal option. In consideration for this lease agreement, the Property was redeveloped and improved for the exclusive use of FCS by obtaining additional indebtedness with TRF (Note F). The amount of rent below fair market value contributed by the PRA was \$405,594 for the year ended June 30, 2021 and is included as both a contribution and rent expense in the statement of activities.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE F - NOTES PAYABLE

The Foundation had a note payable to The Reinvestment Fund ("TRF") in the original amount of \$2,700,000 related to the Property. The note bears interest at a fixed rate of 6.2% and matures on August 1, 2043. Principal and interest payments of \$17,728 are due monthly through the maturity date.

The balance of the note at June 30, 2021, was \$2,559,979.

The Foundation's leasehold improvements are also pledged as a security interest related to FCS's note payable to TRF on a property located at 1026-1044 Market Street in Philadelphia, PA.

The Foundation has a note payable in the original amount of \$300,000 with the PRA related to the Property. The note is noninterest-bearing, except in the event of default, as defined in the note agreement, and was due and payable in full at maturity on October 14, 2020. The note payable was fully forgiven on October 14, 2020 by the PRA and the amount has been reported as a gain on extinguishment of debt in the accompanying financial statements.

The Foundation's notes payable are guaranteed by FCS.

The following is a summary of changes in long-term liabilities for the year ended June 30, 2021.

	<u>Maturity Date</u>	<u>Balance July 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2021</u>
Long term liabilities					
The Reinvestment Fund	2043	\$ 2,612,222	\$ -	\$ (52,243)	\$ 2,559,979
Philadelphia Revealopment Authority	2020	300,000	-	(300,000)	-
Unamortized financing costs	2043	<u>(60,050)</u>	<u>-</u>	<u>2,601</u>	<u>(57,449)</u>
TOTAL LONG TERM LIABILITIES		<u>\$ 2,852,172</u>	<u>\$ -</u>	<u>\$ (349,642)</u>	<u>\$ 2,502,530</u>

Future minimum principal payments on the notes payable are as follows:

<u>Year Ending June 30,</u>	
2022	\$ 55,576
2023	59,121
2024	62,892
2025	66,904
2026	71,172
Thereafter	<u>2,244,314</u>
	<u>\$ 2,559,979</u>

Total interest expense on the notes payable on the accompanying statement of activities amounted to \$163,091 for the year ended June 30, 2021.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS

Net assets were released from restrictions by incurring expenditures or by the passage of time satisfying the restricted purpose specified by donors as follows:

After School & Summer Programing	\$ 106,278
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Net assets at June 30, 2021, were restricted for the following purposes:

After School & Summer Programing	\$ 134,278
Science Curriculum	11,000
Scholarships	8,445
Freire Charter School	25,492
Freire Philadelphia	241,499
TECH Freire Charter School	33,353
Freire Charter School Wilmington	<u>198,212</u>
	<u>\$ 652,279</u>

NOTE H - LIQUIDITY

Freire Foundation's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash	\$ 1,191,904
Pledges Receivable	<u>36,545</u>
	<u>\$ 1,228,449</u>

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

FREIRE FOUNDATION
FINANCIAL STATEMENTS
Year Ended June 30, 2020

INTRODUCTORY SECTION

FREIRE FOUNDATION
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YEAR ENDED JUNE 30, 2020

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of Directors
Freire Foundation
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Freire Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

To the Board of Directors
Freire Foundation
Philadelphia, Pennsylvania

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Freire Foundation as of June 30, 2020, 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 (GAAP).

Emphasis of Matter

As discussed in Note I, the spread of the COVID-19 coronavirus is affecting the United States and global economies and may have an impact on Freire Foundation's operational and financial performance. At this point, Freire Foundation cannot reasonably estimate the impact on its operations or financial results. Our opinion is not modified with respect to this matter.

Maille LLP

West Chester, Pennsylvania
December 4, 2020

FREIRE FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS

CURRENT ASSETS

Cash	\$ 746,233
Pledges receivable	120,000
TOTAL CURRENT ASSETS	<u>866,233</u>

PROPERTY AND EQUIPMENT, net	<u>2,865,882</u>
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TOTAL ASSETS	<u>\$ 3,732,115</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Notes payable, current portion	\$ 349,642
Donations payable	120,000
TOTAL CURRENT LIABILITIES	<u>469,642</u>

LONG-TERM LIABILITIES

Notes payable	<u>2,502,530</u>
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TOTAL LIABILITIES	<u>2,972,172</u>
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NET ASSETS

Without donor restrictions	
Undesignated	333,120
With donor restrictions	
Purpose restricted	<u>426,823</u>
TOTAL NET ASSETS	<u>759,943</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,732,115</u>
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See accompanying notes to the financial statements.

FREIRE FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
SUPPORT			
Contributions	\$ 623,081	\$ 350,546	\$ 973,627
Grants	-	106,278	106,278
Net assets released from restrictions	<u>273,778</u>	<u>(273,778)</u>	<u>-</u>
TOTAL SUPPORT	<u>896,859</u>	<u>183,046</u>	<u>1,079,905</u>
REVENUE			
Rental income	252,000	-	252,000
Interest income	8	-	8
Miscellaneous	10	-	10
TOTAL REVENUE	<u>252,018</u>	<u>-</u>	<u>252,018</u>
TOTAL SUPPORT AND REVENUE	<u>1,148,877</u>	<u>183,046</u>	<u>1,331,923</u>
EXPENSES			
Program services	975,548	-	975,548
Management and general	177,387	-	177,387
Fund-raising	11,855	-	11,855
TOTAL EXPENSES	<u>1,164,790</u>	<u>-</u>	<u>1,164,790</u>
CHANGE IN NET ASSETS	(15,913)	183,046	167,133
NET ASSETS AT BEGINNING OF YEAR	<u>349,033</u>	<u>243,777</u>	<u>592,810</u>
NET ASSETS AT END OF YEAR	<u>\$ 333,120</u>	<u>\$ 426,823</u>	<u>\$ 759,943</u>

See accompanying notes to the financial statements.

FREIRE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund-Raising</u>	<u>Totals</u>
FUNCTIONAL EXPENSES				
Support to Freire charter schools	\$ 471,612	\$ -	\$ -	\$ 471,612
Rent (in-kind)	405,594	-	-	405,594
Depreciation	95,741	-	-	95,741
Interest	2,601	163,623	-	166,224
Professional fees	-	12,000	-	12,000
Contracted services	-	-	8,796	8,796
Bank fees	-	1,644	-	1,644
Office expense	-	120	-	120
Dues and subscriptions	-	-	3,059	3,059
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUNCTIONAL EXPENSES	\$ <u>975,548</u>	\$ <u>177,387</u>	\$ <u>11,855</u>	\$ <u>1,164,790</u>

See accompanying notes to the financial statements.

FREIRE FOUNDATION
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 167,133
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	95,741
Changes in assets and liabilities	
Program receivable	97,834
Pledges receivable	15,145
Donations payable	120,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>495,853</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of notes payable	<u>(46,509)</u>
NET INCREASE IN CASH	449,344
CASH AT BEGINNING OF YEAR	<u>296,889</u>
CASH AT END OF YEAR	<u>\$ 746,233</u>
SUPPLEMENTAL DISCLOSURES	
Cash paid during the year for interest	\$ 163,623

See accompanying notes to the financial statements.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Freire Foundation (the "Foundation") was founded in 2010 as a charitable foundation to support the Freire charter schools and to hold the real estate for Freire Charter School's property located at 2025-2027 Chestnut Street in Philadelphia, PA (the "Property"). The Foundation is supported through donor contributions and grants.

Financial Statement Presentation

The Foundation follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, which requires the Foundation to report information regarding its financial position and activities according to two mutually exclusive classes according to the existence or absence of donor-imposed restrictions. See Net Assets with Donor Restrictions and Net Assets without Donor Restrictions.

FASB ASC 958 also requires recognition of contributions, including donated services meeting certain criteria, at fair values. FASB ASC 958 establishes standards for general-purpose external financial statements for not-for-profit organizations and requires a statement of financial position, a statement of activities and a statement of cash flows.

Net Assets with Donor Restrictions

Net assets with donor restrictions is the part of net assets of the Foundation that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). Some donors impose restrictions that are temporary in nature, for example, stipulating that resources be used after a specified date, for particular programs or services, or to acquire buildings or equipment. Other donors impose restrictions that are perpetual in nature, for example, stipulating that resources be maintained in perpetuity. Laws may extend those limits to investment returns from those resources and to other enhancements (diminishments) of those resources. Thus, those laws extend donor-imposed restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the same reporting period in which the support is received and recognized. The Foundation had assets with donor restrictions of \$426,823 at June 30, 2020.

Net Assets without Donor Restrictions

Net assets without donor restrictions is the part of net assets of the Foundation that is not subject to donor-imposed restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The Foundation maintains its records on the accrual basis for both financial statement and tax return purposes.

Income Tax Status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC").

Uncertain Tax Positions

The Foundation recognizes and measures its unrecognized tax benefits in accordance with FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by the taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

As of June 30, 2020, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Additionally, the Foundation had no interest or penalties related to income taxes.

Rental Income

Rental income from operating leases is recognized on a straight-line basis over the term of the lease.

Functional Allocation of Expenses

The allocation of expenses to program and management and general is directly identifiable. Program expenses include support to Freire schools, rent and depreciation expenses. Management and general expenses include general and administrative expenses and interest expense.

Pledges Receivable

Pledges receivable are recognized when a donor makes a pledge to the Foundation that is, in substance, unconditional. Pledges to be received in future periods are discounted to their net present value. All pledges outstanding as of June 30, 2020 were pledged to support the operation of the School during the 2019-20 fiscal year. The Foundation uses the allowance method to determine uncollectible promises to give. All pledges were subsequently collected, thus no allowance for doubtful pledges was recorded as of June 30, 2020.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are stated at cost. Expenditures for additions and betterments are capitalized; maintenance and repairs are charged to current operations as incurred. Depreciation has been calculated on such assets using the straight-line method over the following estimated lives:

Leasehold improvements	39.5 years
Equipment	5 years

Contributions Held for the Benefit of Others

In accordance with FASB ASC 958, contributions and grants received by donors that are restricted for the use of one of the Freire charter schools and in which the Foundation does not have variance power are reported in the statement of financial position as "Contributions held for the benefit of others." The contributions are released to the ultimate recipient upon approvals by the Board of Trustees of both the Foundation and the recipient organization.

Date of Management's Review

In accordance with FASB ASC 855, Subsequent Events, the Foundation has evaluated subsequent events through December 4, 2020, the date on which these financial statements were available to be issued.

NOTE B - CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. At June 30, 2020, the Foundation's bank balances exceeded the FDIC insurance coverage by \$494,438. The Foundation has not experienced any losses in such accounts.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2020:

Leasehold improvements	\$ 3,781,770
Equipment	29,226
	<u>3,810,996</u>
Less accumulated depreciation	<u>945,114</u>
Property and equipment, net	<u><u>\$ 2,865,882</u></u>

Depreciation expense, included in "Program services" on the accompanying statement of activities, amounted to \$95,741 for the year ended June 30, 2020.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE D - RELATED-PARTY TRANSACTIONS

Contributions Held for the Benefit of Others

During the year ended June 30, 2020, the Foundation did not receive any contributions and grants that were restricted for the use of a specified Freire charter school.

Lease Agreement

The Freire Charter School ("FCS") Property is owned by the Philadelphia Redevelopment Authority ("PRA") and is leased by the Foundation under a master lease agreement.

NOTE E - FACILITY LEASE AGREEMENT

The Foundation entered into a lease agreement with FCS, a related-party, for the rental of Property through April 14, 2049. As of June 30, 2020, future minimum rental income is as follows:

<u>Year Ending</u> <u>June 30,</u>		
2020	\$	252,000
2021		252,000
2022		252,000
2023		252,000
2024		252,000
Thereafter		<u>5,995,500</u>
	\$	<u><u>7,255,500</u></u>

Rental income during the year ended June 30, 2020, was \$252,000.

The Foundation has a triple-net lease with the PRA for the Property for a nominal fee of \$1 per year through April 2049, with two additional five-year renewal options and one six-year renewal option. In consideration for this lease agreement, the Property was redeveloped and improved for the exclusive use of FCS by obtaining additional indebtedness with TRF (Note E). The amount of rent below fair market value contributed by the PRA was \$405,594 for the year ended June 30, 2020 and is included as both a contribution and rent expense in the statement of activities.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE F - NOTES PAYABLE

The Foundation has a note payable to The Reinvestment Fund (“TRF”) in the original amount of \$2,700,000 related to the Property. The note bears interest at a fixed rate of 6.2% and matures on August 1, 2043. Principal and interest payments of \$17,728 are due monthly through the maturity date.

The balance of the note at June 30, 2020, was \$2,612,222.

The Foundation’s leasehold improvements are also pledged as a security interest related to FCS’s note payable to TRF on a property located at 1026-1044 Market Street in Philadelphia, PA.

The Foundation has a note payable in the original amount of \$300,000 with the PRA related to the Property. The note is noninterest-bearing, except in the event of default, as defined in the note agreement, and is due and payable in full at maturity on October 14, 2020. The note payable was fully forgiven on October 14, 2020 by the PRA (NOTE J – SUBSEQUENT EVENT).

The Foundation’s notes payable are guaranteed by FCS.

The following is a summary of changes in long-term liabilities for the year ended June 30, 2020.

	<u>Maturity Date</u>	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2020</u>	<u>Due Within One Year</u>
Long term liabilities						
The Reinvestment Fund	2043	\$ 2,661,332	\$ -	\$ (49,110)	\$ 2,612,222	\$ 52,243
Philadelphia Revevelopment Authority	2020	300,000	-	-	300,000	300,000
Unamortized financing costs	2043	(62,651)	-	2,601	(60,050)	(2,601)
TOTAL LONG TERM LIABILITIES		\$ 2,898,681	\$ -	\$ (46,509)	\$ 2,852,172	\$ 349,642

Future minimum principal payments on the notes payable are as follows:

<u>Year Ending June 30,</u>	
2021	\$ 352,243
2022	55,576
2023	59,121
2024	62,892
2025	66,904
Thereafter	<u>2,315,486</u>
	\$ <u>2,912,222</u>

Total interest expense on the notes payable on the accompanying statement of activities amounted to \$166,224 for the year ended June 30, 2020.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS

Net assets were released from restrictions by incurring expenditures or by the passage of time satisfying the restricted purpose specified by donors as follows:

After School Programs	\$ 123,778
World Class Leaders	25,000
Collaborative learning space	100,000
Support program	20,000
Other Programs	<u>5,000</u>
	<u>\$ 273,778</u>

Net assets at June 30, 2020, were restricted for the following purposes:

After School Programs	\$ 106,278
Freire Charter School	9,594
Freire Philadelphia	220,000
Freire Wilmington	<u>90,951</u>
	<u>\$ 426,823</u>

NOTE H - LIQUIDITY

Freire Foundation's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash	<u>\$ 746,233</u>
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As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE I - RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a pandemic, which has impacted the global economy. The Foundation's operations are heavily dependent on funding from public and private donors. The COVID-19 pandemic is still on-going and the duration and extent of the related financial impact on the Foundation's net position and statement of activities is uncertain and cannot be reasonably estimated at this time.

NOTE J - SUBSEQUENT EVENT

The Foundation had a note payable in the original amount of \$300,000 with the Philadelphia Redevelopment Authority (PRA) maturing on October 14, 2020. On October 14, 2020, the PRA Board of Directors voted to forgive the loan. The loan forgiveness will be recognized as contribution revenue in the Foundation's FY 2021 financial statements.

FREIRE FOUNDATION
FINANCIAL STATEMENTS
Year Ended June 30, 2019



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

FREIRE FOUNDATION
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YEAR ENDED JUNE 30, 2019

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of Directors
Freire Foundation
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Freire Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

To the Board of Directors
Freire Foundation
Philadelphia, Pennsylvania

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Freire Foundation as of June 30, 2019, 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 (GAAP).

Emphasis of Matter

For the year ended June 30, 2019, Freire Foundation adopted new accounting guidance, implementing the FASB's ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

Maillie LLP

West Chester, Pennsylvania
November 6, 2019

FREIRE FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

CURRENT ASSETS

Cash	\$ 296,889
Pledges receivable	135,145
TOTAL CURRENT ASSETS	<u>432,034</u>

PROPERTY AND EQUIPMENT, net	<u>2,961,623</u>
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OTHER ASSETS

Due from related party	<u>97,834</u>
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TOTAL ASSETS	<u>\$ 3,491,491</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Notes payable, current portion	<u>\$ 49,110</u>
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LONG-TERM LIABILITIES

Notes payable	<u>2,849,571</u>
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TOTAL LIABILITIES	<u>2,898,681</u>
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NET ASSETS

Without donor restrictions	
Undesignated	349,033
With donor restrictions	
Purpose restricted	<u>243,777</u>
TOTAL NET ASSETS	<u>592,810</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,491,491</u>
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See accompanying notes to the financial statements.

FREIRE FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
SUPPORT			
Contributions	\$ 718,314	\$ 176,890	\$ 895,204
Grants	-	123,778	123,778
Net assets released from restrictions	108,168	(108,168)	-
TOTAL SUPPORT	<u>826,482</u>	<u>192,500</u>	<u>1,018,982</u>
REVENUE			
Rental income	252,000	-	252,000
Interest income	53	-	53
Miscellaneous	553	-	553
TOTAL REVENUE	<u>252,606</u>	<u>-</u>	<u>252,606</u>
TOTAL SUPPORT AND REVENUE	<u>1,079,088</u>	<u>192,500</u>	<u>1,271,588</u>
EXPENSES			
Program services	1,434,550	-	1,434,550
Management and general	170,361	-	170,361
TOTAL EXPENSES	<u>1,604,911</u>	<u>-</u>	<u>1,604,911</u>
CHANGE IN NET ASSETS	(525,823)	192,500	(333,323)
NET ASSETS AT BEGINNING OF YEAR	<u>874,856</u>	<u>51,277</u>	<u>926,133</u>
NET ASSETS AT END OF YEAR	<u>\$ 349,033</u>	<u>\$ 243,777</u>	<u>\$ 592,810</u>

See accompanying notes to the financial statements.

FREIRE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Totals</u>
FUNCTIONAL EXPENSES			
Support to Freire charter schools	\$ 930,830	\$ -	\$ 930,830
Rent (in-kind)	405,594	-	405,594
Depreciation	95,741	-	95,741
Interest	2,385	158,577	160,962
Professional fees	-	9,250	9,250
Bank fees	-	1,886	1,886
Dues and subscriptions	-	648	648
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 1,434,550</u>	<u>\$ 170,361</u>	<u>\$ 1,604,911</u>

See accompanying notes to the financial statements.

FREIRE FOUNDATION
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (333,323)
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation	95,741
Changes in assets and liabilities	
Pledges receivable	(38,145)
Contributions held for the benefit of others	(150,000)
Due to related parties	(548,195)
Donations payable	(100,000)
NET CASH USED BY OPERATING ACTIVITIES	<u>(1,073,922)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issuance of note payable	2,700,000
Repayment of notes payable	(1,731,556)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>968,444</u>
NET DECREASE IN CASH	(105,478)
CASH AT BEGINNING OF YEAR	<u>402,367</u>
CASH AT END OF YEAR	<u>\$ 296,889</u>
SUPPLEMENTAL DISCLOSURES	
Cash paid during the year for interest	\$ 158,577

See accompanying notes to the financial statements.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Freire Foundation (the "Foundation") was founded in 2010 as a charitable foundation to support the Freire charter schools and to hold the real estate for Freire Charter School's property located at 2025-2027 Chestnut Street in Philadelphia, PA (the "Property"). The Foundation is supported through donor contributions and grants.

Financial Statement Presentation

The Foundation follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, which requires the Foundation to report information regarding its financial position and activities according to two mutually exclusive classes according to the existence or absence of donor-imposed restrictions. See Net Assets with Donor Restrictions and Net Assets without Donor Restrictions.

FASB ASC 958 also requires recognition of contributions, including donated services meeting certain criteria, at fair values. FASB ASC 958 establishes standards for general-purpose external financial statements for not-for-profit organizations and requires a statement of financial position, a statement of activities and a statement of cash flows.

Net Assets with Donor Restrictions

The part of net assets of the Foundation that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). Some donors impose restrictions that are temporary in nature, for example, stipulating that resources be used after a specified date, for particular programs or services, or to acquire buildings or equipment. Other donors impose restrictions that are perpetual in nature, for example, stipulating that resources be maintained in perpetuity. Laws may extend those limits to investment returns from those resources and to other enhancements (diminishments) of those resources. Thus, those laws extend donor-imposed restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the same reporting period in which the support is received and recognized. The Foundation had assets with donor restrictions of \$243,777 at June 30, 2019.

Net Assets without Donor Restrictions

The part of net assets of the Foundation that is not subject to donor-imposed restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The Foundation maintains its records on the accrual basis for both financial statement and tax return purposes.

Income Tax Status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC").

Uncertain Tax Positions

The Foundation recognizes and measures its unrecognized tax benefits in accordance with FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by the taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

As of June 30, 2019, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Additionally, the Foundation had no interest or penalties related to income taxes.

Rental Income

Rental income from operating leases is recognized on a straight-line basis over the term of the lease.

Functional Allocation of Expenses

The allocation of expenses to program and management and general is directly identifiable. Program expenses include support to Freire schools, rent and depreciation expenses. Management and general expenses include general and administrative expenses and interest expense.

Pledges Receivable

Pledges receivable are recognized when a donor makes a pledge to the Foundation that is, in substance, unconditional. Pledges to be received in future periods are discounted to their net present value. All pledges outstanding as of June 30, 2019 were pledged to support the operation of the School during the 2018-19 fiscal year. The Foundation uses the allowance method to determine uncollectible promises to give. All pledges were subsequently collected, thus no allowance for doubtful pledges was recorded as of June 30, 2019.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are stated at cost. Expenditures for additions and betterments are capitalized; maintenance and repairs are charged to current operations as incurred. Depreciation has been calculated on such assets using the straight-line method over the following estimated lives:

Leasehold improvements	39.5 years
Equipment	5 years

Contributions Held for the Benefit of Others

In accordance with FASB ASC 958, contributions and grants received by donors that are restricted for the use of one of the Freire charter schools and in which the Foundation does not have variance power are reported in the statement of financial position as "Contributions held for the benefit of others." The contributions are released to the ultimate recipient upon approvals by the Board of Trustees of both the Foundation and the recipient organization.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Freire Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to the period presented.

Date of Management's Review

In accordance with FASB ASC 855, Subsequent Events, the Foundation has evaluated subsequent events through November 6, 2019, the date on which these financial statements were available to be issued. See Note I – Subsequent Event.

NOTE B - CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. At June 30, 2019, the Foundation's bank balances exceeded the FDIC insurance coverage by \$6,611. The Foundation has not experienced any losses in such accounts.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2019:

Leasehold improvements	\$ 3,781,770
Equipment	29,226
	<u>3,810,996</u>
Less accumulated depreciation	<u>849,373</u>
Property and equipment, net	<u>\$ 2,961,623</u>

Depreciation expense, included in "Program services" on the accompanying statement of activities, amounted to \$95,741 for the year ended June 30, 2019.

NOTE D - RELATED-PARTY TRANSACTIONS

Contributions Held for the Benefit of Others

As of June 30, 2018, the Foundation had a balance of \$150,000. During the year ended June 30, 2019, the Foundation did not receive any contributions and grants that were restricted for the use of a specified Freire charter school. \$150,000 was transferred to Freire Charter School Wilmington, Inc. during the year ended June 30, 2019. There was no remaining balance due as of June 30, 2019.

Lease Agreement

The Freire Charter School ("FCS") Property is owned by the Philadelphia Redevelopment Authority ("PRA") and is leased by the Foundation under a master lease agreement.

The Foundation entered into a lease agreement with FCS, a related-party, for the rental of Property through January 13, 2039. On July 18, 2018 the lease was amended and extended through April 14, 2049. All other terms of the lease remained unchanged. As of June 30, 2019, future minimum rental income is as follows:

<u>Year Ending</u> <u>June 30,</u>	
2020	\$ 252,000
2021	252,000
2022	252,000
2023	252,000
2024	252,000
Thereafter	<u>6,247,500</u>
	<u>\$ 7,507,500</u>

Rental income during the year ended June 30, 2019, was \$252,000.

FREIRE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE D - RELATED-PARTY TRANSACTIONS (Continued)

Cost Reimbursement Agreement

The Foundation is to reimburse FCS for costs related to the property. The unreimbursed costs are non-interest bearing. The balance was repaid in full on July 19, 2018 in the amount of \$548,195 and there was no remaining outstanding balance as of June 30, 2019.

Advances to Related Party

The Foundation has advanced funds to Freire charter schools for operating needs. The Foundation has advances receivable of \$97,834 from Freire Charter School Wilmington, Inc. ("FCSW"). In March 2019, the Board voted to forgive the \$97,834 advance. See Note I – Subsequent Events.

NOTE E - NOTES PAYABLE

The Foundation has a note payable to The Reinvestment Fund ("TRF") in the original amount of \$2,204,617 related to the Property. The note is payable in monthly installments of \$19,205, including interest at 6.5% per annum, with a balloon payment due at maturity on July 1, 2018. The note payable is collateralized by a security interest in the Foundation's leasehold improvements.

On July 19, 2018, the Foundation refinanced its existing loan with The Reinvestment Fund (TRF). Under the terms of the new loan the outstanding principal balance was increased from \$1,630,237 to \$2,700,000. The additional proceeds from the new loan were used to repay the refundable advance of \$548,195 (see Note D) to Freire Charter School, to make a donation to the School of \$486,562, and to pay certain closing costs of the refinance. Freire Charter School then used the proceeds from the refundable advance repayment and donation to reduce its existing loan with TRF, which is guaranteed by the Foundation, from \$2,272,257 to \$1,237,500.

The new loan bears interest at a fixed rate of 6.2% and matures on August 1, 2043. Principal and interest payments of \$17,725 are due monthly through the maturity date.

The balance of the note at June 30, 2019, was \$2,661,332.

The Foundation's leasehold improvements are also pledged as a security interest related to FCS's note payable to TRF on a property located at 1026-1044 Market Street in Philadelphia, PA.

The Foundation has a note payable in the original amount of \$300,000 with the PRA related to the Property. The note is noninterest-bearing, except in the event of default, as defined in the note agreement, and is due and payable in full at maturity on October 14, 2020.

The Foundation's notes payable are guaranteed by FCS.

FREIRE FOUNDATION
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NOTE E - NOTES PAYABLE (Continued)

Future minimum principal payments on the notes payable are as follows:

Year Ending June 30,	
2020	\$ 49,110
2021	352,243
2022	55,576
2023	59,121
2024	62,892
Thereafter	<u>2,382,390</u>
	<u>\$ 2,961,332</u>

Total interest expense on the notes payable on the accompanying statement of activities amounted to \$160,962 for the year ended June 30, 2019.

NOTE F - FACILITY LEASE AGREEMENT

The Foundation has a triple-net lease with the PRA for the Property for a nominal fee of \$1 per year through April 2049, with two additional five-year renewal options and one six-year renewal option. In consideration for this lease agreement, the Property was redeveloped and improved for the exclusive use of FCS by obtaining additional indebtedness with TRF (Note E). The amount of rent below fair market value contributed by the PRA was \$405,594 for the year ended June 30, 2019 and is included as both a contribution and rent expense in the statement of activities.

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS

Net assets were released from restrictions by incurring expenditures or by the passage of time satisfying the restricted purpose specified by donors as follows:

After School Programs	\$ 51,278
World Class Leaders	50,000
Other Programs	<u>6,890</u>
	<u>\$ 108,168</u>

FREIRE FOUNDATION
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NOTE G - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets at June 30, 2019, were restricted for the following purposes:

After School Programs	\$ 123,777
Freire Charter School	100,000
Other Support Programs	<u>20,000</u>
	<u>\$ 243,777</u>

NOTE H - LIQUIDITY

Freire Foundation's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash	\$ 296,889
Pledges receivable	<u>135,145</u>
	<u>\$ 432,034</u>

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE I - SUBSEQUENT EVENT

During the year ended June 30, 2019 the Foundation's Board of Directors voted to forgive the \$97,834 advance to Freire Charter School Wilmington. In accordance with the Foundation's and School's donation policy, a donation is not recognized by either entity until both entities' Boards of Directors vote to approve the donation. On September 19, 2019 the School's Board of Directors subsequently voted to approve this donation.