**Yoakum, Lovell & Co., PLC**
CERTIFIED PUBLIC ACCOUNTANTS

Environmental and Spatial Technology, Inc.

Financial Statements

For the Years Ended June 30, 2016 and 2015

1106 Military Road • Benton, Arkansas 72015-2909
(501) 778-0495 • (501) 847-2898 • FAX (501) 778-2967

Environmental and Spatial Technology, Inc.

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# Yoakum, Lovell & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditors' Report

Board of Directors
Environmental and Spatial Technology, Inc.
Little Rock, Arkansas

### Report on the Financial Statements

We have audited the accompanying financial statements of Environmental and Spatial Technology, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of Environmental And Spatial Technology, Inc. as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yoakum, Lovell & Co., PLC
Certified Public Accountants

Benton, Arkansas
September 22, 2016

1106 Military Road • Benton, Arkansas 72015-2909
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Environmental and Spatial Technology, Inc.
Statements of Financial Position
June 30, 2016 and 2015

| **Assets** | 2016 | 2015 |
|---|---|---|
| Current Assets | | |
| Cash and Cash Equivalents - Operations | $3,120,200 | $2,944,842 |
| Receivables | 5,119 | 3,275 |
| Inventory | 5,329 | 9,466 |
| Prepaid Expenses | 75,346 | 61,546 |
| Total Current Assets | 3,205,994 | 3,019,129 |
| Property and Equipment | | |
| Land, Building, and Building Improvements | 2,380,446 | 2,371,160 |
| Furniture and Fixtures | 129,769 | 126,283 |
| Computer Equipment and Software | 739,841 | 766,171 |
| Total Property and Equipment | 3,250,056 | 3,263,614 |
| Less: Accumulated Depreciation | 889,253 | 863,939 |
| Net Property and Equipment | 2,360,803 | 2,399,675 |
| Other Assets | | |
| Cash and Cash Equivalents - Capital Reserve | 100,000 | 50,000 |
| Utility Deposits | 1,676 | 1,676 |
| Total Other Assets | 101,676 | 51,676 |
| Total Assets | $5,668,473 | $5,470,480 |
| **Liabilities and Net Assets** | | |
| Current Liabilities | | |
| Accounts Payable | $ 86,803 | $ 146,242 |
| Gift Certificates Payable | 245 | 185 |
| Payroll and Other Liabilities | 72,555 | 68,862 |
| Refundable Advances | 834,428 | 847,129 |
| Prepaid Occupancy Revenue | 5,093 | 6,804 |
| Deferred Revenue | 17,625 | 23,500 |
| Accrued Interest Payable | | 3,960 |
| Current Portion of Long-Term Debt | 65,581 | 61,923 |
| Total Current Liabilities | 1,082,330 | 1,158,605 |
| Long-Term Debt | 1,747,763 | 1,814,431 |
| Net Assets | | |
| Unrestricted | 2,838,380 | 2,497,444 |
| Total Net Assets | 2,838,380 | 2,497,444 |
| Total Liabilities and Net Assets | $5,668,473 | $5,470,480 |

The accompanying notes are an integral part of these financial statements.

Environmental and Spatial Technology, Inc.
Statements of Activities
For the Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| Revenue and Support | | |
| Contracts | $ 361,638 | $ 599,738 |
| State of Arkansas Department of Education: | | |
| Appropriations | 1,789,924 | 1,797,652 |
| Grants | 624,202 | 548,651 |
| Other Grants | 22,486 | 13,514 |
| Conference and Seminar | 156,686 | 157,226 |
| Occupancy Revenue | 1,711 | 7,988 |
| Contributions | 18,259 | 10,564 |
| Interest Income | 51,613 | 45,064 |
| Other | 17,994 | 15,568 |
| In-Kind Revenue | 52,577 | 25,544 |
| Total Revenue and Support | 3,097,090 | 3,221,509 |
| Operating Expenses | | |
| Program Services | 2,224,680 | 2,220,600 |
| Supporting Services | | |
| Management and General | 432,945 | 457,728 |
| Fundraising | 98,529 | 91,815 |
| Total Operating Expenses | 2,756,154 | 2,770,143 |
| Changes in Net Assets | 340,936 | 451,366 |
| Net Assets at Beginning of Year | 2,497,444 | 2,046,078 |
| Net Assets at End of Year | $2,838,380 | $2,497,444 |

The accompanying notes are an integral part of these financial statements.

Environmental and Spatial Technology, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2016

| | Program Services | Supporting Services: Management and General | Supporting Services: Fundraising | Total |
|---|---|---|---|---|
| Salaries and Benefits | $1,150,143 | $ 291,760 | $ 31,481 | $1,473,384 |
| Contract Services | 210,596 | 3,366 | 55,458 | 269,420 |
| Utilities | 16,399 | 7,930 | 290 | 24,619 |
| Interest | 45,934 | 24,128 | 883 | 70,945 |
| Communications | 28,272 | 5,424 | 1,121 | 34,817 |
| Conference Supplies | 164,603 | 158 | 612 | 165,373 |
| Conference Meals | 50,835 | | 1,918 | 52,753 |
| Meetings | 2,382 | 3,154 | | 5,536 |
| Travel | 92,312 | 417 | 3,306 | 96,035 |
| Office Supplies | 9,409 | 3,342 | 297 | 13,048 |
| Non-Capital Furniture and Equipment | 4,201 | 1,064 | | 5,265 |
| Facilities | 50,380 | 14,464 | 484 | 65,328 |
| Professional Fees | | 39,608 | | 39,608 |
| Computer Supplies | 124,000 | 3,213 | 55 | 127,268 |
| Postage and Shipping | 1,316 | 1,093 | 15 | 2,424 |
| Grants to Others | 147,522 | | | 147,522 |
| Insurance | | 23,603 | | 23,603 |
| Printing | 6,593 | 6,423 | 585 | 13,601 |
| Depreciation and Amortization | 54,515 | | | 54,515 |
| In-Kind Materials and Services | 52,577 | | | 52,577 |
| Other | 12,691 | 3,798 | 2,024 | 18,513 |
| Total Expenses | $2,224,680 | $ 432,945 | $ 98,529 | $2,756,154 |

The accompanying notes are an integral part of these financial statements.

Environmental and Spatial Technology, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2015

| | Program Services | Supporting Services: Management and General | Supporting Services: Fundraising | Total |
|---|---|---|---|---|
| Salaries and Benefits | $1,084,387 | $ 279,583 | $ 52,099 | $1,416,069 |
| Contract Services | 220,363 | 3,025 | 17,500 | 240,888 |
| Rent and Other Occupancy Costs | 145,710 | 39,695 | 2,418 | 187,823 |
| Communications | 27,273 | 4,501 | 1,251 | 33,025 |
| Conference Supplies | 136,566 | | | 136,566 |
| Conference Meals | 93,904 | | | 93,904 |
| Meetings | 3,661 | 3,319 | | 6,980 |
| Travel | 105,279 | 2,125 | 983 | 108,387 |
| Office Supplies | 9,444 | 5,540 | 511 | 15,495 |
| Non-Capital Furniture and Equipment | 56,082 | 978 | | 57,060 |
| Facilities | 54,057 | 31,431 | 920 | 86,408 |
| Professional Fees | | 39,299 | | 39,299 |
| Computer Supplies | 44,855 | 2,529 | | 47,384 |
| Postage and Shipping | 1,433 | 888 | 5,398 | 7,719 |
| Grants to Others | 138,243 | | | 138,243 |
| Insurance | | 24,255 | | 24,255 |
| Printing | 4,834 | 10,310 | 10,330 | 25,474 |
| Depreciation and Amortization | 62,465 | | | 62,465 |
| In-Kind Materials and Services | 25,544 | | | 25,544 |
| Other | 6,500 | 10,250 | 405 | 17,155 |
| Total Expenses | $2,220,600 | $ 457,728 | $ 91,815 | $2,770,143 |

The accompanying notes are an integral part of these financial statements.

Environmental and Spatial Technology, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Change in Net Assets | $ 340,936 | $ 451,366 |
| Items Not Requiring Cash: | | |
| Depreciation and Amortization | 54,515 | 62,465 |
| (Gain) Loss From Disposal Of Assets | 1,399 | (84) |
| (Increase) Decrease In: | | |
| Receivables | (1,844) | 19,825 |
| Inventory | 4,137 | (2,524) |
| Prepaid Expenses | (13,800) | (17,287) |
| Utility Deposits | | (1,676) |
| Increase (Decrease) In: | | |
| Accounts Payable | (59,439) | 122,988 |
| Gift Certificates Payable | 60 | (100) |
| Payroll and Other Liabilities | 3,693 | 5,899 |
| Refundable Advances | (12,701) | 250,567 |
| Prepaid Occupancy Revenue | (1,711) | (7,988) |
| Deferred Revenue | (5,875) | (7,550) |
| Accrued Interest Payable | (3,960) | 3,960 |
| Net Cash Provided by Operating Activities | 305,410 | 879,861 |
| Cash Flows from Investing Activities | | |
| Proceeds from the Disposal of Assets | | 2,445 |
| Purchases of Property and Equipment | (17,042) | (2,387,047) |
| Net Cash Used by Investing Activities | (17,042) | (2,384,602) |
| Cash Flows From Financing Activities | | |
| Proceeds from Long-Term Debt | | 1,887,000 |
| Payments on Long-Term Debt | (63,010) | (10,646) |
| Net Cash Provided (Used) by Financing Activities | (63,010) | 1,876,354 |
| Net Increase in Cash and Cash Equivalents | 225,358 | 371,613 |
| Cash and Cash Equivalents at Beginning of Year | 2,994,842 | 2,623,229 |
| Cash and Cash Equivalents at End of Year | $3,220,200 | $2,994,842 |

The accompanying notes are an integral part of these financial statements.

## Note 1: Significant Accounting Policies

Environmental and Spatial Technology, Inc. (EAST) was organized in December 2001 under the Arkansas Non-Profit Corporation Act. The mission of EAST is to provide a unique and relevant learning environment that challenges students to identify, plan and implement specific projects that help improve their school or communities through the "EAST Initiative". The EAST Initiative is dedicated to providing students with the opportunity to develop competencies using advanced technological applications in a laboratory environment.

The significant accounting policies of the Organization are outlined below. The policies are presented to assist the reader in evaluating the financial statements and other data presented in this report.

A. **Basis of Accounting** – The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States, and accordingly, reflect all significant receivables, payables, and other liabilities.

B. **Basis of Presentation** – EAST is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. EAST has no temporarily or permanently restricted net assets.

C. **Cash and Cash Equivalents** – Cash and cash equivalents consists of all cash on hand, deposited in the bank, or in certificates of deposit as of June 30, 2016 and 2015. On December 2, 2014, the Board approved a Capital Reserve of $50,000 per year that is set aside from operating cash for any capital improvements over $5,000. Any use of these funds must be approved by the Finance and Audit Committee.

D. **Receivables** – EAST provides an allowance for uncollectible receivables that is based upon a review of outstanding receivables and historical experience with each funding source. Management considers all amounts receivable at June 30, 2016 and 2015, to be fully collectible, thus no allowance for uncollectible receivables has been recorded.

E. **Inventory** – Inventories are stated at the lower of cost or market as determined by the first-in first–out method.

F. **Property and Equipment** – Property and equipment is stated at cost or, if contributed, at the approximate fair value on the date of donation. Major renewals and improvements in excess of $2,500 are capitalized, while normal repairs and maintenance are expensed in the period incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets, which range from three to seven years for equipment and thirty-nine years for the building. Amortization of leasehold improvements is computed using the straight-line method over the estimated useful life of the asset or the term of the lease, whichever is shorter.

G. **Donated Materials, Rent, and Services** – Donated materials and rent are recorded at their estimated fair market value on the date received. Donated services are recognized as contributions only if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by EAST. Although a substantial number of uncompensated volunteers have donated significant amounts of their time to EAST's program services, the value of such donated services has not been recognized in the financial statements as these services did not meet the recognition criteria.

H. **Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 1: Significant Accounting Policies (Cont'd)**

I. **Revenue and Support** – Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any restrictions on the use of the funds. Support that is restricted to be used for a specified purpose or during a specified time is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other restricted support is reported as an increase in temporarily or permanently 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".

Contract revenues, derived from services provided to various school districts, states and other education-related entities are considered exchange transactions, and revenues are recorded as services are provided under the contract. Related receivables may include an unbilled portion of the contract amount. Refundable advances are recorded to the extent that funds received exceed revenues earned.

J. **Expense Allocation** – EAST allocates its expenses on a functional basis among various programs and supporting services. Expenses that can be identified with a specific program or supporting service are recorded directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated using various statistical bases. Expenses associated with certain activities and functions necessary for the support of programs provided by EAST are reflected as general and administrative expenses for financial statement purposes in accordance with accounting principles generally accepted in the United States.

K. **Income Taxes** – EAST is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the financial statements. EAST files a tax form 990. The tax years 2012, 2013, 2014, and 2015 are subject to examination by the IRS, generally for three years after they are filed.

**Note 2: Refundable Advances**

Refundable advances consisted of the following at June 30:

| | 2016 | 2015 |
|---|---|---|
| Contracts | $ 101,000 | $ 131,500 |
| Grants | 733,428 | 715,629 |
| | $ 834,428 | $ 847,129 |

**Note 3: Concentrations**

EAST maintains cash deposits in a financial institution that may, at times exceed the amount insured by the Federal Deposit Insurance Corporation. EAST has not experienced any losses in such accounts and, in management's opinion, is not exposed to any significant credit risk on such deposits.

As is evident on the statement of activities, revenue and support from the State of Arkansas Department of Education represents 78% of the total revenue and support for the year ended June 30, 2016 and 73% of the total revenue and support for the year ended June 30, 2015.

**Note 4: Commitments**

EAST was party to a noncancelable lease agreement for office space that ended on December 31, 2014. EAST recognized rent expense of $121,536 from the lease for the year ended June 30, 2015.

In June 2006, EAST began subleasing a portion of its training facilities leased in the previous paragraph to the State of Arkansas Department of Education (ADE) for the "Distance Learning Center" program. ADE paid EAST $312,000, during previous years, to be used for the payment of future rent, minor maintenance and repairs, and certain administrative costs related to the portion of the training facilities occupied by ADE. On July 1, 2011, EAST assumed a lease that had previously been in ADE's name. A portion of this new lease space was subleased to ADE. ADE paid $90,612 to EAST to be used for the payment of future rent and janitorial services. During the year ended June 30, 2009, ADE paid EAST $106,721 to be used to improve the training center bandwidth, communication system, data base server, and any administrative costs connected to this. As noted in the previous paragraph, the lease ended on December 31, 2014, and EAST purchased land and building for its new office space (see Note 8). An employee of ADE has moved with EAST to the new office, and EAST has agreed to continue leasing office space to ADE for that employee. The amounts received from ADE over the years is reported in the Statements of Financial Position as "Prepaid Occupancy Revenue" and is recognized as revenue when the rental payments are made and other expenses are incurred by EAST that are directly attributable to the space occupied by ADE and expenses incurred for the increased bandwidth. Rent and occupancy expenses related to space occupied by ADE are included in general and administrative expenses in the Statement of Activities. The following summarizes amounts received from ADE and related expenses incurred by EAST:

| | 2016 | 2015 |
|---|---|---|
| Prepaid Occupancy Revenue, Beginning of Year | $ 6,804 | $ 14,792 |
| Less: | | |
| Rent, Utilities, and Interest Paid | 893 | 5,076 |
| Bandwidth Costs | 183 | 943 |
| Cleaning and Maintenance | 356 | 651 |
| Security | 13 | 32 |
| Administrative Costs | 266 | 1,286 |
| Prepaid Occupancy Revenue, End of Year | $ 5,093 | $ 6,804 |

EAST had entered into two noncancelable five-year operating leases on its copiers, beginning in January 2012 and July 2013. EAST did not need two copiers in its new location, and was able to negotiate a buy-out of the latest lease in December 2014 by returning the copier to the lessor. In addition, EAST traded in the other copier for a newer one on July 1, 2016. The new copier is on a noncancelable five-year operating lease. EAST recognized printing expense of $2,960 and $7,900 from these leases for the years ended June 30, 2016 and 2015, respectively. Future minimum lease payments are as follows for the years ended June 30:

| | |
|---|---|
| 2017 | $ 3,728 |
| 2018 | 3,728 |
| 2019 | 3,728 |
| 2020 | 3,728 |
| 2021 | 3,727 |
| | $18,639 |

**Note 5: Contingencies**

EAST receives grants from the State of Arkansas Department of Education (ADE) designated for specific programs as specified in related award notifications. Should EAST fail to utilize funding for its specified purpose, EAST could be required to return funds to ADE. It is the opinion of EAST's management that EAST has fulfilled its duties as required; therefore no allowance has been recorded for any such reimbursement.

**Note 6: Related Party Transactions**

A member of EAST's board of directors is a division leader for the research and technology department of the Arkansas Department of Education (ADE). See Note 4 for a description of the leasing transactions between ADE and EAST.

As stated in Note 4, the amount of prepaid occupancy revenue from ADE is $5,093 and $6,804 as of June 30, 2016 and 2015, respectively.

The amount of revenue and support from ADE during the years ended June 30, 2016 and 2015, is $2,414,126 and $2,346,303, respectively. There were no amounts receivable from ADE at June 30, 2016 and 2015. ADE's portion of refundable advances in Note 2 was $817,224 and $744,091 at June 30, 2016 and 2015, respectively.

**Note 7: Retirement Plan**

EAST established a simple IRA plan to provide retirement benefits to certain eligible employees that are projected to earn a minimum of $5,000 per year. EAST contributes up to 3% of eligible compensation for participating employees who are making pretax salary deferrals into the plan. Plan assets are held in individual simple IRA accounts established in the name of each employee. Employer contribution expense for the year ended June 30, 2016 and 2015, was $33,638 and $33,115, respectively.

**Note 8: Long-Term Debt**

| | 2016 | 2015 |
|---|---|---|
| Mortgage - $11,493 monthly installments, including interest at 4.0%, secured by the land and building, maturing October 2021 | $ 1,813,344 | $ 1,876,354 |
| Less: Current Maturities | 65,581 | 61,923 |
| Long-Term Debt, Net of Current Portion | $ 1,747,763 | $ 1,814,431 |

Interest paid for the years ended June 30, 2016 and 2015 was $74,906 and $42,799, respectively. The estimated future maturities of long-term debt are as follows:

| | |
|---|---|
| 2017 | $ 65,581 |
| 2018 | 68,291 |
| 2019 | 71,113 |
| 2020 | 73,876 |
| 2021 | 77,104 |
| Thereafter | 1,457,379 |
| | $ 1,813,344 |

**Note 9: Subsequent Events**

Subsequent events were evaluated through September 22, 2016, which is the date the financial statements were available to be issued.