

Yoakum, Lovell & Co., PLC
CERTIFIED PUBLIC ACCOUNTANTS

Environmental and Spatial Technology, Inc.

Financial Statements

For the Years Ended June 30, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 27, 2017

Environmental and Spatial Technology, Inc.
Statements of Financial Position
June 30, 2017 and 2016

Assets	2017	2016
Current Assets		
Cash and Cash Equivalents - Operations	\$3,443,779	\$3,120,200
Receivables	1,238	5,119
Inventory	2,738	5,329
Prepaid Expenses	60,468	75,346
Total Current Assets	<u>3,508,223</u>	<u>3,205,994</u>
Property and Equipment		
Land, Building, and Building Improvements	2,380,446	2,380,446
Furniture and Fixtures	129,769	129,769
Computer Equipment and Software	764,857	739,841
Total Property and Equipment	<u>3,275,072</u>	<u>3,250,056</u>
Less: Accumulated Depreciation	943,417	889,253
Net Property and Equipment	<u>2,331,655</u>	<u>2,360,803</u>
Other Assets		
Cash and Cash Equivalents - Capital Reserve	150,000	100,000
Utility Deposits	1,676	1,676
Total Other Assets	<u>151,676</u>	<u>101,676</u>
Total Assets	<u><u>\$5,991,554</u></u>	<u><u>\$5,668,473</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 21,402	\$ 86,803
Gift Certificates Payable	315	245
Payroll and Other Liabilities	86,887	72,555
Refundable Advances	1,182,097	834,428
Prepaid Occupancy Revenue	3,380	5,093
Deferred Revenue	13,700	17,625
Current Portion of Long-Term Debt	68,283	65,581
Total Current Liabilities	<u>1,376,064</u>	<u>1,082,330</u>
Long-Term Debt	<u>1,679,666</u>	<u>1,747,763</u>
Net Assets		
Unrestricted	<u>2,935,824</u>	<u>2,838,380</u>
Total Net Assets	<u>2,935,824</u>	<u>2,838,380</u>
Total Liabilities and Net Assets	<u><u>\$5,991,554</u></u>	<u><u>\$5,668,473</u></u>

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenue and Support		
Contracts	\$ 258,779	\$ 361,638
State of Arkansas Department of Education:		
Appropriations	1,742,998	1,789,924
Grants	501,819	624,202
Other Grants		22,486
Conference and Seminar	164,013	156,686
Occupancy Revenue	1,713	1,711
Contributions	21,052	18,259
Interest Income	57,619	51,613
Other	32,400	17,994
In-Kind Revenue	78,343	52,577
Total Revenue and Support	<u>2,858,736</u>	<u>3,097,090</u>
Operating Expenses		
Program Services	2,181,701	2,224,680
Supporting Services		
Management and General	462,855	432,945
Fundraising	116,736	98,529
Total Operating Expenses	<u>2,761,292</u>	<u>2,756,154</u>
Changes in Net Assets	97,444	340,936
Net Assets at Beginning of Year	<u>2,838,380</u>	<u>2,497,444</u>
Net Assets at End of Year	<u><u>\$2,935,824</u></u>	<u><u>\$2,838,380</u></u>

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, 2017

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries and Benefits	\$1,174,820	\$ 312,777	\$ 41,258	\$1,528,855
Contract Services	161,691	947	56,613	219,251
Utilities	14,111	7,017	252	21,380
Interest	47,866	23,802	855	72,523
Communications	32,076	7,567	1,634	41,277
Conference Supplies	180,544		24	180,568
Conference Meals	22,803		3,083	25,886
Meetings	3,843	3,915	19	7,777
Travel	89,636	3,099	3,928	96,663
Office Supplies	12,870	3,297	654	16,821
Non-Capital Furniture and Equipment	8,639	316		8,955
Facilities	53,000	14,383	494	67,877
Professional Fees	348	45,788		46,136
Computer Supplies	32,610	1,596	131	34,337
Postage and Shipping	1,426	993	88	2,507
Grants to Others	193,932			193,932
Insurance		26,219		26,219
Printing	6,757	5,983	1,628	14,368
Depreciation and Amortization	54,164			54,164
In-Kind Materials and Services	76,127		2,216	78,343
Other	14,438	5,156	3,859	23,453
Total Expenses	<u>\$2,181,701</u>	<u>\$ 462,855</u>	<u>\$ 116,736</u>	<u>\$2,761,292</u>

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

		Supporting Services		
	Program Services	Management and General	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	<u>\$2,224,680</u>	<u>\$ 432,945</u>	<u>\$ 98,529</u>	<u>\$2,756,154</u>

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 97,444	\$ 340,936
Items Not Requiring Cash:		
Depreciation and Amortization	54,164	54,515
(Gain) Loss From Disposal Of Assets		1,399
(Increase) Decrease In:		
Receivables	3,881	(1,844)
Inventory	2,591	4,137
Prepaid Expenses	14,878	(13,800)
Utility Deposits		
Increase (Decrease) In:		
Accounts Payable	(65,401)	(59,439)
Gift Certificates Payable	70	60
Payroll and Other Liabilities	14,332	3,693
Refundable Advances	347,669	(12,701)
Prepaid Occupancy Revenue	(1,713)	(1,711)
Deferred Revenue	(3,925)	(5,875)
Accrued Interest Payable		(3,960)
Net Cash Provided by Operating Activities	<u>463,990</u>	<u>305,410</u>
Cash Flows from Investing Activities		
Purchases of Property and Equipment	<u>(25,016)</u>	<u>(17,042)</u>
Net Cash Used by Investing Activities	<u>(25,016)</u>	<u>(17,042)</u>
Cash Flows From Financing Activities		
Payments on Long-Term Debt	<u>(65,395)</u>	<u>(63,010)</u>
Net Cash Used by Financing Activities	<u>(65,395)</u>	<u>(63,010)</u>
Net Increase in Cash and Cash Equivalents	373,579	225,358
Cash and Cash Equivalents at Beginning of Year	<u>3,220,200</u>	<u>2,994,842</u>
Cash and Cash Equivalents at End of Year	<u><u>\$3,593,779</u></u>	<u><u>\$3,220,200</u></u>

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

Environmental and Spatial Technology, Inc.
Notes to the 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 all learners the opportunity to have relevant, individualized, life-changing educational experiences. The EAST Initiative is dedicated to providing students with the opportunity to develop competencies using advanced technological applications in a classroom 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, 2017 and 2016. 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, 2017 and 2016, 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.

Environmental and Spatial Technology, Inc.
Notes to the Financial Statements

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 2013, 2014, 2015, and 2016 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:

	2017	2016
Contracts	\$ 62,250	\$ 101,000
Grants	1,119,847	733,428
	<u>\$ 1,182,097</u>	<u>\$ 834,428</u>

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 79% of the total revenue and support for the year ended June 30, 2017 and 78% of the total revenue and support for the year ended June 30, 2016.

Environmental and Spatial Technology, Inc.
Notes to the Financial Statements

Note 4: Commitments

In June 2006, EAST began subleasing a portion of its training facilities 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:

	2017	2016
Prepaid Occupancy Revenue, Beginning of Year	\$ 5,093	\$ 6,804
Less:		
Utilities and Interest Paid	843	893
Bandwidth Costs	228	183
Cleaning and Maintenance	356	356
Security	20	13
Administrative Costs	266	266
Prepaid Occupancy Revenue, End of Year	<u>\$ 3,380</u>	<u>\$ 5,093</u>

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 \$3,729 and \$2,960 from these leases for the years ended June 30, 2017 and 2016, respectively. Future minimum lease payments are as follows for the years ended June 30:

2018	\$ 3,746
2019	3,746
2020	3,746
2021	<u>3,746</u>
	<u>\$14,984</u>

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.

Environmental and Spatial Technology, Inc.
Notes to the Financial Statements

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 \$3,380 and \$5,093 as of June 30, 2017 and 2016, respectively.

The amount of revenue and support from ADE during the years ended June 30, 2017 and 2016, is \$2,244,817 and \$2,414,126, respectively. There were no amounts receivable from ADE at June 30, 2017 and 2016. ADE's portion of refundable advances in Note 2 was \$1,119,847 and \$817,224 at June 30, 2017 and 2016, 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, 2017 and 2016, was \$35,038 and \$33,638, respectively.

Note 8: Long-Term Debt

	<u>2017</u>	<u>2016</u>
Mortgage - \$11,493 monthly installments, including interest at 4.0%, secured by the land and building, maturing October 2021	\$ 1,747,949	\$ 1,813,344
Less: Current Maturities	<u>68,283</u>	<u>65,581</u>
Long-Term Debt, Net of Current Portion	<u>\$ 1,679,666</u>	<u>\$ 1,747,763</u>
Interest paid for the years ended June 30, 2017 and 2016 was \$72,523 and \$74,906, respectively. The estimated future maturities of long-term debt are as follows:		
2018	\$ 68,283	
2019	71,105	
2020	73,867	
2021	77,095	
2022	<u>1,457,599</u>	
	<u>\$ 1,747,949</u>	

Note 9: Subsequent Events

Subsequent events were evaluated through September 27, 2017, which is the date the financial statements were available to be issued.