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**RESOLVE, INC. AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
JUNE 30, 2018**

**MATTHEWS, CARTER & BOYCE**  
RESPECT. CONFIDENCE. TRUST.

# RESOLVE, INC. AND SUBSIDIARIES

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JUNE 30, 2018

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**MATTHEWS, CARTER & BOYCE**  
CPAs • ADVISORS

## Independent Auditors' Report

Board of Directors  
RESOLVE, Inc.  
Washington, DC

We have audited the accompanying consolidated financial statements of RESOLVE, Inc. and Subsidiaries (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of RESOLVE, Inc. and Subsidiaries as of June 30, 2018, and the changes in their nets assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Fairfax, Virginia  
May 9, 2019

**RESOLVE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2018**

**ASSETS**

**CURRENT ASSETS**

|                           |               |
|---------------------------|---------------|
| Cash and cash equivalents | \$ 1,237,128  |
| Contract receivables, net | 1,277,552     |
| Investments               | 2,063,818     |
| Other receivables         | 8,578         |
| Prepaid expenses          | <u>11,106</u> |

Total Current Assets \$ 4,598,182

**OTHER ASSETS**

|                                |               |
|--------------------------------|---------------|
| Property and equipment, net    | 245,623       |
| Intellectual property WildTech | 166,667       |
| Other non current assets       | <u>10,577</u> |

**TOTAL ASSETS** \$ 5,021,049

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

|   |                |
|---|----------------|
| Accounts payable and accrued expenses   | \$ 485,984     |
| Accrued payroll and related liabilities | 237,434        |
| Deferred rent, current portion          | <u>110,440</u> |

Total Current Liabilities \$ 833,858

**OTHER LIABILITIES**

|                                       |                |
|---------------------------------------|----------------|
| Deferred rent, net of current portion | <u>416,737</u> |
|---------------------------------------|----------------|

Total Liabilities \$ 1,250,595

**NET ASSETS**

|                        |                  |
|------------------------|------------------|
| Unrestricted           | \$ 217,097       |
| Temporarily restricted | <u>3,412,224</u> |

Total Net Assets \$ 3,629,321

**NONCONTROLLING INTEREST IN  
CONSOLIDATED SUBSIDIARY**

\$ 141,133

**TOTAL LIABILITIES AND NET ASSETS** \$ 5,021,049

See accompanying notes and independent auditors' report.

RESOLVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2018

|   | Unrestricted            | Temporarily<br>Restricted | Total                   |
|---|-------------------------|---------------------------|-------------------------|
| <b>SUPPORT AND REVENUE</b>  |                         |                           |                         |
| Grants  | \$ -                    | \$ 2,444,483              | \$ 2,444,483            |
| Contract service fees   | 1,882,557               | -                         | 1,882,557               |
| Contributions from private sources                                      | 27,716                  | 395,083                   | 422,799                 |
| Sublease income   | 132,656                 | -                         | 132,656                 |
| Other income  | 415,793                 | -                         | 415,793                 |
| Investment income   | 90,386                  | -                         | 90,386                  |
| Net assets released from restrictions                                   | 3,203,349               | (3,203,349)               | -                       |
| <br>Total Support and Revenue   | <br><u>\$ 5,752,457</u> | <br><u>\$ (363,783)</u>   | <br><u>\$ 5,388,674</u> |
| <b>EXPENSES</b>   |                         |                           |                         |
| Program services  | \$ 5,161,887            | \$ -                      | \$ 5,161,887            |
| Supporting services:  |                         |                           |                         |
| Management and general  | \$ 542,521              | \$ -                      | \$ 542,521              |
| Fundraising   | 65,235                  | -                         | 65,235                  |
| <br>Total Supporting Services   | <br><u>\$ 607,756</u>   | <br><u>\$ -</u>           | <br><u>\$ 607,756</u>   |
| <b>TOTAL EXPENSES</b>   | <u>\$ 5,769,643</u>     | <u>\$ -</u>               | <u>\$ 5,769,643</u>     |
| <b>DECREASE IN NET ASSETS<br/>BEFORE NONCONTROLLING INTEREST</b>        | <br>\$ (17,186)         | <br>\$ (363,783)          | <br>\$ (380,969)        |
| <b>ALLOCATION OF NONCONTROLLING<br/>INTEREST IN SUBSIDIARY NET LOSS</b> | <br><u>25,533</u>       | <br><u>-</u>              | <br><u>25,533</u>       |
| <b>CHANGE IN NET ASSETS</b>   | <br>\$ 8,347            | <br>\$ (363,783)          | <br>\$ (355,436)        |
| <b>NET ASSETS, BEGINNING OF THE YEAR</b>                                | <br><u>208,750</u>      | <br><u>3,776,007</u>      | <br><u>3,984,757</u>    |
| <b>NET ASSETS, END OF THE YEAR</b>                                      | <br><u>\$ 217,097</u>   | <br><u>\$ 3,412,224</u>   | <br><u>\$ 3,629,321</u> |

See accompanying notes and independent auditors' report.

**RESOLVE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES**

|   |                     |
|---|---------------------|
| Change in net assets  | \$ (355,436)        |
| Adjustments to reconcile change in net assets to net cash used by operating activities: |                     |
| Allocation of noncontrolling interest in subsidiary net loss                            | \$ (25,533)         |
| Depreciation and amortization   | 78,524              |
| Deferred rent   | (55,111)            |
| Realized and unrealized gains on investments  | (64,779)            |
| Changes in operating assets and liabilities:  |                     |
| Contract receivables, net   | (256,084)           |
| Prepaid expenses and other current assets   | 42,638              |
| Accounts payable and accrued expenses   | 133,806             |
| Accrued payroll and related liabilities   | 19,218              |
| Total Adjustments   | <u>\$ (127,321)</u> |
| Net Cash Used by Operating Activities   | <u>\$ (482,757)</u> |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|   |                   |
|---|-------------------|
| Purchases of investments                          | \$ (167,016)      |
| Proceeds from sales and maturities of investments | 367,769           |
| Purchases of property and equipment               | <u>(27,229)</u>   |
| Net Cash Provided by Investing Activities         | <u>\$ 173,524</u> |

**NET CHANGE IN CASH**

\$ (309,233)

**CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR**

1,546,361

**CASH AND CASH EQUIVALENTS, END OF THE YEAR**

\$ 1,237,128

**SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES**

**NON-CASH INVESTING ACTIVITIES**

|  |            |
|--|------------|
| Donated investments  | \$ 222,548 |
| Investment in impact@RESOLVE, Inc.   | \$ 25,000  |
| In Organization and Summary of Significant Accounting Policies (Continued) | \$ 250,000 |

**NON-CASH FINANCING ACTIVITIES - NONE**

See accompanying notes and independent auditors' report.

# RESOLVE, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

### Note 1. Organization and Summary of Significant Accounting Policies

#### Organization

The accompanying consolidated financial statements include the accounts of RESOLVE, Inc. (RESOLVE), Resolve Group Incorporated (RGI), impact@RESOLVE, Inc. (impact), and WildTech@RESOLVE, LLC (WildTech).

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

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

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

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

impact is a wholly-owned, for-profit subsidiary of RESOLVE, and was incorporated in September 2017 under the laws of the State of Delaware. impact is set up as a platform to assist clients in planning, organizing, financing, holding, operating, and governing their impact enterprises.

WildTech is a sixty percent owned, for-profit subsidiary of impact and was incorporated in February 2018 under the laws of the State of Delaware. WildTech is an impact enterprise focused on developing durable, high technology devices.

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

#### Principles of Consolidation

The consolidated financial statements include the accounts of RESOLVE and its wholly-owned subsidiaries RGI, impact, and WildTech which is owned 60% by impact (collectively referred to as the Organization). All significant intercompany balances and transactions have been eliminated in consolidation.



# RESOLVE, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

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

#### **Basis of Accounting**

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

#### **Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results may differ from estimates.

#### **Operating Cycle**

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

#### **Revenue Recognition**

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

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

# RESOLVE, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

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

#### **Revenue Recognition (Concluded)**

Contract revenue recognition involves estimation. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and revenue, and are recognized in the period in which such revisions are determined.

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

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

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

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

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

#### **Program Services Expense**

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

#### **Cash Equivalents**

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

# RESOLVE, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

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

#### Investments

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

#### Contract Receivables

Contract receivables are generated from prime and subcontracting arrangements with federal governmental agencies and various commercial entities. Billed amounts represent invoices that have been prepared and sent to the customer. Unbilled amounts represent costs and anticipated profits not yet billed. Management determines the allowance for doubtful accounts by regularly evaluating individual customer/grantor receivables and considering a customer's/grantors financial condition, credit history, and current economic conditions. Management believes that all contract receivables are collectible; however an allowance for doubtful accounts of \$18,987 has been established as of June 30, 2018.

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

#### Property and Equipment and Depreciation

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

#### Income Taxes

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

RGI and impact are wholly-owned for-profit corporate subsidiaries of RESOLVE. WildTech is a limited liability company which is owned 60% by impact. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. RGI did not have any activity during the year ended June 30, 2018.

# RESOLVE, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

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

The Organization is subject to income taxes in U.S. federal jurisdictions and various state jurisdictions. Tax regulations within each jurisdiction are subject to interpretation of the related tax laws and regulations and require significant judgment to apply. The Organization adopted the Financial Accounting Standards Board FASB ASC 740-10, Income Taxes, which requires an assessment of uncertainty in income taxes and certain financial statement disclosures relating to unrecognized tax benefits. For the year ended June 30, 2018, the Organization has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

#### **Valuation of Long-Lived Assets**

The Organization reviews the valuation of its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived assets is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. No indicator of impairment was identified as of June 30, 2018.

#### **Fair Value of Financial Instruments**

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

#### **Concentrations of Credit Risk**

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

#### **Net Assets**

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

# RESOLVE, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

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

#### Unrestricted Net Assets

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

#### Temporarily Restricted Net Assets

Temporarily restricted net assets generally result from net contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and the restriction removed by actions of the Organization pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions. Temporarily restricted net assets at June 30, 2018 pertain to contributions and grants.

#### Permanently Restricted Net Assets

Permanently restricted net assets generally result from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Organization. Generally, the donors of these assets permit the Organization to use the income earned on related investments for general or specific purposes. There were no permanently restricted net assets as of June 30, 2018.

#### New Accounting Pronouncements

Recently, the Financial Accounting Standards Board released Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not for Profit Entities. The standard is effective for annual financial statements issued for fiscal years beginning after December 31, 2017. The standard intends to make improvements in the following areas: Net asset classification, clarity of information regarding liquidity, transparency in reporting of financial performance measures, consistency in reporting expenses by function and nature and utility of the statement of cash flows. A few of the major points of the standard are as follows:

1. The three existing classes of net assets (unrestricted, temporarily restricted, and permanently restricted) will become two classes, with donor restrictions and without donor restrictions.
2. An analysis of expenses by both function and natural class in a separate statement (i.e. functional expense statement) will be required for all Not for Profit organizations.
3. Qualitative and quantitative information about liquidity will be required. Presenting a classified balance sheet with narrative disclosures would be an effective way to comply with this new requirement.

# RESOLVE, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

### Note 2. Investment Income

Investment income is comprised of the following for the year ended June 30, 2018:

|                                    |                  |
|------------------------------------|------------------|
| Interest and dividend income       | \$ 45,239        |
| Net realized gain on investments   | 100,902          |
| Net unrealized loss on investments | (36,123)         |
| Investment fee                     | <u>(19,632)</u>  |
| Total                              | <u>\$ 90,386</u> |

### Note 3. Contract Receivables

Contract receivables consist of the following at June 30, 2018:

|                                       |                     |
|---------------------------------------|---------------------|
| Billed receivables                    | \$ 1,090,431        |
| Unbilled receivables                  | <u>206,108</u>      |
| Subtotal                              | \$ 1,296,539        |
| Less: allowance for doubtful accounts | <u>(18,987)</u>     |
| Total                                 | <u>\$ 1,277,552</u> |

Unbilled receivables at June 30, 2018 consist primarily of amounts billed subsequent to year-end or awaiting milestones to bill. Consequently, the timing of collection of such balances is outside the Organization's control. Based on the Organization's historical experience, the majority of indirect rate variances and retention balances are expected to be collected beyond one year from the consolidated statement of financial position date.

# RESOLVE, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

### Note 4. Property and Equipment

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

|   |    |                  |
|---|----|------------------|
| Leasehold improvements                          | \$ | 668,104          |
| Furniture and fixtures                          |    | 76,739           |
| Computer and other equipment                    |    | 65,006           |
| Software  |    | <u>38,814</u>    |
| Subtotal  | \$ | 848,663          |
| Less: accumulated depreciation and amortization |    | <u>(603,040)</u> |
| Total   | \$ | <u>245,623</u>   |

Depreciation and amortization expense on property and equipment aggregated \$78,524 for the year ended June 30, 2018.

### Note 5. Bank Letter of Credit

The Organization has a letter-of-credit in the amount of \$235,296 that funds the security deposit required under the Organization's headquarters lease. The letter-of-credit amount is reduced by \$39,216 on June 1 of each new lease year until the balance is \$39,216. The letter-of-credit automatically renews each year through May 31, 2022. As of June 30, 2018, the letter-of-credit amount was \$39,216.

### Note 6. Fair Value Measurements

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

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

RESOLVE, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

Note 6. Fair Value Measurements (Concluded)

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

- **Level 1** – Inputs that are based upon quoted prices for identical instruments traded in active markets.
- **Level 2** – Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment.
- **Level 3** – Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

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

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

**Fair Value on a Recurring Basis**

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

| Description             | As of June 30, 2018           |                            |                     |             |
|-------------------------|-------------------------------|----------------------------|---------------------|-------------|
|                         | Assets Measured At Fair Value | Fair Value Hierarchy Level |                     |             |
|                         |                               | Level 1                    | Level 2             | Level 3     |
| Government securities   | \$ 499,737                    | \$ 168,708                 | \$ 331,029          | \$ -        |
| Equities                | 593,811                       | 593,811                    | -                   | -           |
| Certificates of deposit | 805,610                       | -                          | 805,610             | -           |
| Mutual funds/CEF/UIT    | 164,660                       | 164,660                    | -                   | -           |
| Total                   | <u>\$ 2,063,818</u>           | <u>\$ 927,179</u>          | <u>\$ 1,136,639</u> | <u>\$ -</u> |



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**Note 7. 403(b) Profit Sharing Plan**

The Organization maintains a defined contribution plan qualified under 403(b) of the Internal Revenue Code. Under the provisions of the plan, the Organization contributes 6% of each eligible employee's annual base salary and matches 100% of eligible employee contributions up to 3% of each employee's annual base salary. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code as provided in the plan document. Employees with at least one year of service are eligible to receive matching contributions and/or non-matching contributions as provided in the plan document. Pension expense was \$134,879 for the year ended June 30, 2018.

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

The Organization leases office space under the terms of a non-cancelable operating lease that expires on June 30, 2022. Under terms of the lease, the landlord provided the Organization with an improvement allowance (the allowance) not to exceed \$736,360 to be used for the Organization's costs of designing and constructing tenant improvements. As of June 30, 2018, the Organization had incurred the entire \$736,360 of tenant improvements which qualify for the improvement allowance. This amount is recorded as leasehold improvements, furniture and fixtures, computer and other equipment, and deferred lease incentive in the statement of financial position. The leasehold improvements will be amortized over the life of the lease on a straight-line basis, the remaining assets will be depreciated over useful lives of the assets on a straight-line basis. The deferred lease incentive will be amortized against rent expense over the life of the lease on a straight-line basis. For the year ended June 30, 2018, \$86,499 has been recorded as amortization of the deferred rent to reduce rent expense. The lease agreement provides for an annual 3% escalation of the base rent. The Organization is also responsible for certain operating expenses.

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

The following is a schedule by year of the future minimum lease payments required under operating lease which have initial or remaining terms in excess of one year as of June 30, 2018:

| Years Ending<br>June 30, |                     |
|--------------------------|---------------------|
| 2019                     | \$ 570,000          |
| 2020                     | 584,000             |
| 2021                     | 598,000             |
| 2022                     | <u>199,000</u>      |
| Total                    | <u>\$ 1,951,000</u> |

Rent expense aggregated \$481,673 for the year ended June 30, 2018.

RESOLVE, INC. AND SUBSIDIARIES

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

The Organization sub-leases office space to various tenants. The leases expire on various dates through 2021. Rental income received related to these leases was \$132,656 for the year ended June 30, 2018. The following is a schedule by years of future minimum rent due:

| Years Ending<br>June 30, |                   |
|--------------------------|-------------------|
| 2019                     | \$ 129,312        |
| 2020                     | 135,773           |
| 2021                     | 64,129            |
| 2022                     | <u>22,445</u>     |
| Total                    | <u>\$ 351,659</u> |

**Note 9. Operating Expenses by Natural Classification**

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

|  | 2018               |                     |                              |                              |                  | Total               |
|--|--------------------|---------------------|------------------------------|------------------------------|------------------|---------------------|
|  | Direct<br>Program  | Program<br>Support  | Total<br>Program<br>Services | Management<br>and<br>General | Fundraising      |                     |
| Personnel                              | \$ 779,290         | \$ 465,827          | \$ 1,245,117                 | \$ 148,978                   | \$ 35,538        | \$ 1,429,633        |
| Employee<br>benefits/<br>payroll taxes | 351,096            | 208,500             | 559,596                      | 57,174                       | 16,347           | 633,117             |
| Bank fees                              | 2,231              | 7,446               | 9,677                        | 2,131                        | -                | 11,808              |
| Consultants                            | 2,004,890          | 61,839              | 2,066,729                    | 36,039                       | 1,350            | 2,104,118           |
| Depreciation                           | -                  | 58,108              | 58,108                       | 20,416                       | -                | 78,524              |
| Education & training                   | 1,540              | 2,336               | 3,876                        | 820                          | -                | 4,696               |
| Financial reporting/<br>systems        | 500                | 9,099               | 9,599                        | 3,197                        | -                | 12,796              |
| Grants & program<br>support            | 33,868             | -                   | 33,868                       | -                            | -                | 33,868              |
| Insurance                              | -                  | 21,013              | 21,013                       | 7,384                        | -                | 28,397              |
| Meeting expenses                       | 75,739             | 8,235               | 83,974                       | 4,373                        | 2,000            | 90,347              |
| Miscellaneous                          | 17,242             | 4,985               | 22,227                       | 3,670                        | -                | 25,897              |
| Office operations                      | 59,192             | 10,508              | 69,700                       | 5,198                        | -                | 74,898              |
| Occupancy                              | -                  | 370,450             | 370,450                      | 111,223                      | -                | 481,673             |
| Professional fees                      | 23,258             | 180,856             | 204,114                      | 90,198                       | -                | 294,312             |
| Stipends                               | 3,150              | 6,438               | 9,588                        | 2,262                        | -                | 11,850              |
| Telecommunications                     | 14,654             | 19,711              | 34,365                       | 19,680                       | -                | 54,045              |
| Travel                                 | 311,791            | 48,095              | 359,886                      | 29,778                       | 10,000           | 399,664             |
| Total Expenses                         | <u>\$3,678,441</u> | <u>\$ 1,483,446</u> | <u>\$ 5,161,887</u>          | <u>\$ 542,521</u>            | <u>\$ 65,235</u> | <u>\$ 5,769,643</u> |

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Note 10. Investment in WildTech

|                             | <u>Impact</u>     | <u>Non-controlling</u> | <u>Total</u>      |
|-----------------------------|-------------------|------------------------|-------------------|
| Beginning partners' capital | \$ -              | \$ -                   | \$ -              |
| Contributed capital         | 250,000           | 166,666                | 416,666           |
| Net loss                    | <u>(43,300)</u>   | <u>(25,533)</u>        | <u>(68,833)</u>   |
| Ending partners' capital    | <u>\$ 206,700</u> | <u>\$ 141,133</u>      | <u>\$ 347,833</u> |

Note 11. Subsequent Events

The Organization has evaluated subsequent events through May 9, 2019, the date the consolidated financial statements were available to be issued. The Organization is not aware of any subsequent event which would require recognition or disclosure in the consolidated financial statements.