SCHALL & ASHENFARB Certified Public Accountants, LLC

IRA L. SCHALL, CPA
DAVID C. ASHENFARB, CPA
MICHAEL L. SCHALL, CPA

GETTING OUT AND STAYING OUT

Audited Financial Statements

December 31, 2018

307 Fifth Avenue, 15th Floor
New York, New York 10016
Tel: (212) 268-2800 Fax: (212) 268-2805
www.schallandashenfarb.com

SCHALL & ASHENFARB Certified Public Accountants, LLC

IRA L. SCHALL, CPA
DAVID C. ASHENFARB, CPA
MICHAEL L. SCHALL, CPA

Independent Auditors' Report

To the Board of Directors of
Getting Out and Staying Out, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Getting Out and Staying Out, Inc. ("GOSO"), which comprise the statement of financial position as of December 31, 2018, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 organization'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 organization'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.

307 Fifth Avenue, 15th Floor
New York, New York 10016
Tel: (212) 268-2800 Fax: (212) 268-2805
www.schallandashenfarb.com

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 position of Getting Out and Staying Out, Inc. as of December 31, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, GOSO adopted Accounting Standards Update ("ASU") No. 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.

Report on Summarized Comparative Information

We have previously audited GOSO's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

September 4, 2019

GETTING OUT AND STAYING OUT, INC.
STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2018
(With comparative totals at December 31, 2017)

	12/31/18	12/31/17
Assets		
Cash and cash equivalents	$472,390	$248,829
Government grants receivable	1,189,304	545,553
Prepaid expenses and other assets	43,000	29,744
Fixed assets, net (Note 3)	141,740	194,423
Security deposits	45,870	43,590
Total assets	$1,892,304	$1,062,139
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$106,940	$89,753
Loan payable (Note 4)	0	140,625
Deferred rent	6,410	10,796
Total liabilities	113,350	241,174
Net assets:		
Without donor restrictions	1,757,704	502,215
With donor restrictions (Note 5)	21,250	318,750
Total net assets	1,778,954	820,965
Total liabilities and net assets	$1,892,304	$1,062,139

The attached notes and auditor's report are an integral part of these financial statements.

GETTING OUT AND STAYING OUT, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018
(With comparative totals for the year ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	Total 12/31/18	Total 12/31/17
Public support:				
Contributions	$1,783,697	$21,250	$1,804,947	$1,181,228
Government grant income	1,942,754		1,942,754	1,202,314
Special event income (net of expenses with a direct benefit to donors)(Note 6)	651,347		651,347	566,180
Program income	35,450		35,450	0
Other loss (Note 9)			0	(12,357)
Net assets released from restriction	318,750	(318,750)	0	0
Total public support	4,731,998	(297,500)	4,434,498	2,937,365
Expenses:				
Program services	2,462,919		2,462,919	2,287,703
Supporting services:				
Management and general	749,876		749,876	330,904
Fundraising	263,714		263,714	173,441
Total supporting services	1,013,590	0	1,013,590	504,345
Total expenses	3,476,509	0	3,476,509	2,792,048
Change in net assets	1,255,489	(297,500)	957,989	145,317
Net assets - beginning of year	502,215	318,750	820,965	675,648
Net assets - end of year	$1,757,704	$21,250	$1,778,954	$820,965

The attached notes and auditor's report are an integral part of these financial statements.

GETTING OUT AND STAYING OUT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(With comparative totals for the year ended December 31, 2017)

		Supporting Services				
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses 12/31/18	Total Expenses 12/31/17*
Salaries	$1,410,933	$265,233	$64,042	$329,275	$1,740,208	$1,484,811
Payroll taxes and benefits	184,162	34,619	8,359	42,978	227,140	233,155
Professional fees		263,120	71,973	335,093	335,093	235,476
Client assistance	369,722			0	369,722	305,861
Occupancy	227,141	42,699	10,310	53,009	280,150	186,820
Office expense	149,559	34,925	6,788	41,713	191,272	95,749
Telephone and internet	37,378	7,026	1,697	8,723	46,101	39,239
Equipment and maintenance	41,309	7,765	1,875	9,640	50,949	26,395
Insurance		21,982		21,982	21,982	16,535
Travel and meetings		39,088		39,088	39,088	65,842
Special event expenses			256,349	256,349	256,349	149,454
Other expenses		25,389		25,389	25,389	5,829
Depreciation	42,715	8,030	1,938	9,968	52,683	41,128
Total expenses	2,462,919	749,876	423,331	1,173,207	3,636,126	2,886,294
Less: direct special event expenses netted with revenue			(159,617)	(159,617)	(159,617)	(94,246)
Total expenses for statement of activities	$2,462,919	$749,876	$263,714	$1,013,590	$3,476,509	$2,792,048

* - Reclassified for comparative purposes

The attached notes and auditor's report are an integral part of these financial statements.

GETTING OUT AND STAYING OUT, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(With comparative totals for the year ended December 31, 2017)

	12/31/18	12/31/17
Cash flows from operating activities:		
Change in net assets	$957,989	$145,317
Adjustments to reconcile change in net assets		
to net cash provided by/(used for) operating activities:		
Depreciation	52,683	41,128
Changes in assets and liabilities:		
Government grants receivable	(643,751)	(437,201)
Prepaid expenses and other assets	(13,256)	(679)
Security deposits	(2,280)	(20,867)
Accounts payable and accrued expenses	17,187	35,997
Government grant advance	0	(39,466)
Deferred rent	(4,386)	1,699
Net cash flows provided by/(used for) operating activities	364,186	(274,072)
Cash flows from investing activities:		
Purchase of fixed assets	0	(135,535)
Net cash flows used for investing activities	0	(135,535)
Cash flows from financing activities:		
Proceeds from bridge loan	0	140,625
Repayment of bridge loan	(140,625)	0
Net cash flows (used for)/provided by financing activities	(140,625)	140,625
Net increase/(decrease) in cash and cash equivalents	223,561	(268,982)
Cash and cash equivalents - beginning of year	248,829	517,811
Cash and cash equivalents - end of year	$472,390	$248,829
Supplemental information:		
Interest and taxes paid	$0	$0

The attached notes and auditor's report are an integral part of these financial statements.

Note 1 - Organization

Getting Out and Staying Out, Inc. ("GOSO") is dedicated to drastically reducing the recidivism rate for 16 to 24-year-old men by ensuring economic independence through purposeful education and directed employment.

GOSO is a not-for-profit organization and has been notified by the Internal Revenue Service that it is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar New York State regulations. GOSO has been designated as an organization which is not a private foundation.

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting which is the process of recording revenue and expenses when earned or incurred rather than received or paid.

Effective, January 1, 2018, GOSO adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 – Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). This 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 between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 10).

Implementation of ASU 2016-14 did not require any reclassification or restatement of opening balances.

b. Basis of Presentation

GOSO reports information regarding its financial position and activity according to the following classes of net assets:

- *Net Assets Without Donor Restrictions* – represent those resources for which there are no restrictions by donors as to their use.

- *Net Assets with Donor Restrictions* – represent those resources, the uses of which have been restricted by donors to specific purposes or the passage of time and/or must remain intact, in perpetuity. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor.

c. Revenue Recognition

Contributions are recorded as revenue at the earlier of the receipt of cash or at the time a pledge is considered unconditional. Contributions received with specific donor restrictions are recorded in the with donor restriction class of net assets. All other contributions are recorded as without donor restrictions. When contributions with donor restrictions are satisfied in the same year the donation was received, they are recorded as without donor restrictions.

Conditional contributions are recognized when the conditions on which they depend are substantially met. Government grant awards are recognized as income when earned, either based on performance of certain milestones or by incurring expenses that can be reimbursed under the terms of the grant agreement.

The difference between cash received and government grant income recognized is reflected as government grants receivable or government grant advances.

d. Cash and Cash Equivalents

GOSO considers all liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

e. Concentration of Credit Risk

Financial instruments that potentially subject GOSO to concentration of credit risk consist of a checking account that is placed with a financial institution that management deems to be creditworthy. At various times during the year, GOSO may have uninsured balances. Management feels they have little risk and has not experienced any losses due to bank failure.

f. Contributions and Government Grants Receivable

All receivables are due within one year and have been recorded at net realizable value. Based on a review of specific outstanding balances and historical experience, GOSO has established an allowance for doubtful accounts of $131,000 and $185,000 in December 31, 2018 and December 31, 2017, respectively.

g. Fixed Assets

Fixed assets consist of leasehold improvements, computers and equipment that GOSO retains title to which benefit future periods. Fixed assets are capitalized at cost, or if donated, at the estimated fair value at the time of donation. Depreciation is calculated using the straight-line method over the estimated useful life of the asset (5 years) or remaining term of the office lease.

h. Deferred Rent

Rent expense is recognized evenly over the life of the lease using the straight-line basis. Rent expense recognized in excess of cash payments, primarily due to free rent received at the beginning of the lease, is reflected as deferred rent. In future years, when payments exceed the amount of rent recognized as expense, the deferred rent will be reduced until it is zero at the end of the lease.

i. Management Estimates
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

j. Functional Allocation of Expenses
The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but to provide for the overall support and direction of GOSO.

The following expenses were allocated using time and effort as the basis:

- Salaries

The following expenses were allocated using salary allocation as the basis:

- Payroll taxes and benefits
- Occupancy
- Office expense
- Telephone and internet
- Equipment and maintenance
- Depreciation

All other expenses have been charged directly to the applicable program or supporting services.

k. Accounting for Uncertainty of Income Taxes
GOSO does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending December 31, 2015 and later are subject to examination by applicable taxing authorities.

l. Subsequent Events
Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through September 4, 2019, the date the financial statements were available to be issued. There were no events that have occurred subsequent to date of the statement of financial position, through our evaluation date that would require adjustment to or disclosure in the financial statements.

m. New Accounting Pronouncement
The Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU which becomes effective for the December 31, 2019 year, provides guidance on whether a receipt from a third-party resource provider should be accounted for as a contribution (nonreciprocal transaction) within the scope of Topic 958, Not-for-Profit Entities, or as an exchange (reciprocal) transaction.

FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The ASU, which becomes effective for the December 31, 2019 year, focuses on a principle-based model. It highlights the identification of performance obligations of the contract, determining the price and allocating that price to the performance obligation so that revenue is recognized as each performance obligation is satisfied. This ASU does not apply to contributions.

FASB issued ASU No. 2016-02, *Leases.* The ASU which becomes effective for the December 31, 2020 year, requires the full obligation of long-term leases to be recorded as a liability with a corresponding "right to use asset" on the statement of financial position.

GOSO is in the process of evaluating the impact these standards will have on future financial statements.

Note 3 - Fixed Assets

Fixed assets consist of the following:

	12/31/18	12/31/17
Office furniture and equipment	$156,009	$156,009
Leasehold improvements	191,916	191,916
	347,925	347,925
Less: accumulated depreciation	(206,185)	(153,502)
Fixed assets – net	$141,740	$194,423

Note 4 - Loan Payable

During the year ended December 31, 2017, GOSO obtained an interest free bridge loan of $140,625 from another agency in order to cover cash flow shortages. These funds were collateralized against future government grant reimbursements and the full amount of the loan was due and outstanding at December 31, 2017. The loan was repaid in full in January 2018 and there are no outstanding loan balances at December 31, 2018.

Note 5 - Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2017 and released from restriction during 2018 were related to time restricted contributions. Net assets with donor restrictions at December 31, 2018 are related to the Jails for Jobs program.

Note 6 - Special Event

A summary of the special event activity is as follows:

	12/31/18	12/31/17
Gross proceeds	$810,964	$660,426
Less: expenses with a direct benefit to donor	(159,617)	(94,246)
	651,347	566,180
Less: other event expenses	(96,732)	(55,208)
Total	$554,615	$510,972

Note 7 - Commitments and Contingencies

GOSO occupies office space in New York under three separate lease agreements: one for space at 91 E 116th Street that expires in March 2020, one for space at 75 E 116th Street that expires in December 2019 with an option to extend the lease, and one for space at 1400 5th Avenue that expires in November 2020.

The future guaranteed minimum payments under the terms of all three leases are as follows:

Year ending:	December 31, 2019	$240,315
	December 31, 2020	110,284
		$350,599

Total rent expense was approximately $249,000 and $168,000 in 2018 and 2017, respectively.

GOSO conducts programs which are publicly supported by governmental agencies. Some programs are subject to governmental agency audits and retroactive adjustments for "disallowed" expenses. No reserves for potential payments to government agencies has been made as management does not believe that any future disallowances will be material.

In its normal course of business, GOSO may become a party to various claims related to general employment matters. Potential claims or losses are accrued when such claims are considered probable of requiring payment. At December 31, 2018, a reserve of $16,000 is included in accounts payable and accrued expenses for potential settlement payments.

Note 8 - Retirement Plan

GOSO sponsors a tax-deferred annuity plan that is qualified under Section 403(b) of the Internal Revenue Code. The plan covers all full-time employees of GOSO. Employees may make contributions to the plan up to the maximum allowed by the Internal Revenue Code. GOSO did not make any contributions to the plan.

Note 9 - Other Loss

GOSO's bank accounts were compromised in 2017. Net losses for which GOSO was not reimbursed by the bank totaled $12,357 during the year ended December 31, 2017.

Note 10 - Availability and Liquidity

At December 31, 2018, GOSO's financial assets available to meet cash needs for general expenditures within one year are $1,661,694, which consist of cash and cash equivalents of $472,390 and government grants receivable due within one year of $1,189,304. There are no internal limits imposed on these balances. As part of its liquidity management, GOSO operates its programs within a board approved budget and relies on grants and contributions to fund its operations and program activities.