

EL EDUCATION, INC.

Financial Statements

August 31, 2020

EL EDUCATION, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
EL Education, Inc.

Report on Financial Statements

We have audited the accompanying financial statements of EL Education, Inc., which comprise the statement of financial position as of August 31, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EL Education, Inc. as of August 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the financial statements of EL Education, Inc. as of and for the year ended August 31, 2019, and our report dated January 27, 2020 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mayer Hoffman McCann CPAs

New York, New York
February 2, 2021

EL EDUCATION, INC.
Statements of Financial Position
August 31, 2020 and 2019

	<u>ASSETS</u> (Note 8)	
	<u>2020</u>	<u>2019</u>
Assets:		
Cash and cash equivalents (Note 4)	\$ 10,175,190	\$ 4,150,533
Restricted cash (Note 4)	1,270	71,326
Investments (Note 5)	3,110,559	4,559,253
Accounts receivable, net	5,030,021	4,795,496
Government grant receivable (Note 11)	-	200,495
Unconditional promises to give (Notes 6 and 11)	683,524	3,628,998
Prepaid expenses and other assets	637,226	541,154
Property and equipment, net (Note 7)	199,304	254,263
	<hr/>	<hr/>
Total assets	\$ 19,837,094	\$ 18,201,518
	<hr/>	<hr/>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses (Note 14)	\$ 800,798	\$ 1,395,559
Accrued salary and related expenses	939,655	578,640
Deferred revenue	731,877	863,074
Total liabilities	<hr/>	<hr/>
	2,472,330	2,837,273
PPP loan payable (Note 9)	2,417,046	-
Commitments and contingencies (Notes 10 and 14)		
Net assets:		
Net assets without donor restrictions:		
Operating	10,478,769	7,051,449
Board-designated (Note 13)	1,000,000	1,000,000
Net assets with donor restrictions (Notes 12 and 13)	3,468,949	7,312,796
Total net assets	<hr/>	<hr/>
	14,947,718	15,364,245
Total liabilities and net assets	<hr/>	<hr/>
	\$ 19,837,094	\$ 18,201,518
	<hr/>	<hr/>

See accompanying notes.

EL EDUCATION, INC.
Statement of Activities
For the Year Ended August 31, 2020
(With Summarized Comparative Totals for the Year Ended August 31, 2019)

	2020			2019
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	
Revenue, support and gains:				
School, consulting and product revenue	\$ 19,224,085	\$ -	\$ 19,224,085	\$ 18,068,021
Contributions and grants (Note 11)	1,499,550	1,529,267	3,028,817	7,632,597
Government grant (Note 11)	-	-	-	1,043,013
Other income	116,428	-	116,428	84,987
Investment income (Note 5)	240,813	-	240,813	120,930
Net assets released from restrictions	5,373,114	(5,373,114)	-	-
Total revenue, support and gains	26,453,990	(3,843,847)	22,610,143	26,949,548
Expenses:				
Program services	17,952,931	-	17,952,931	22,856,014
General management and administration	4,083,838	-	4,083,838	3,796,446
Fundraising	989,901	-	989,901	1,111,475
Total expenses	23,026,670	-	23,026,670	27,763,935
Change in net assets	3,427,320	(3,843,847)	(416,527)	(814,387)
Net assets, beginning of year	8,051,449	7,312,796	15,364,245	16,178,632
Net assets, end of year	\$ 11,478,769	\$ 3,468,949	\$ 14,947,718	\$ 15,364,245

See accompanying notes.

EL EDUCATION, INC.
Statements of Cash Flows
For the Years Ended August 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (416,527)	\$ (814,387)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	116,898	123,746
Bad debt expense	364,107	204,962
Investment losses, unrealized, net	37,538	187,658
Investment losses (gains), realized, net	(39,437)	7,253
Deferred rent	(23,637)	(11,217)
Decrease (increase) in:		
Accounts receivable, net	(598,632)	(2,580,354)
Government grant receivable	200,495	(35,466)
Unconditional promises to give	2,449,223	409,846
Prepaid expenses and other assets	(96,072)	(38,535)
Increase (decrease) in:		
Accounts payable and accrued expenses	(571,124)	95,971
Accrued salary and related expenses	361,015	67,468
Deferred revenue	(131,197)	216,063
Net cash provided by (used in) operating activities	<u>1,652,650</u>	<u>(2,166,992)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	4,507,718	1,489,417
Purchases of investments	(2,560,874)	(1,919,907)
Property and equipment acquisitions	(61,939)	(85,186)
Net cash provided by (used in) investing activities	<u>1,884,905</u>	<u>(515,676)</u>
Cash provided by financing activities:		
Proceeds from PPP loan	<u>2,417,046</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents and restricted cash	5,954,601	(2,682,668)
Cash and cash equivalents and restricted cash, beginning of year	<u>4,221,859</u>	<u>6,904,527</u>
Cash and cash equivalents and restricted cash, end of year	<u>\$ 10,176,460</u>	<u>\$ 4,221,859</u>

Supplemental Schedule of Non-Cash Investing and Financing Activities

Stock gifted to settle unconditional promise to give	<u>\$ 496,251</u>	<u>\$ -</u>
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See accompanying notes.

EL EDUCATION, INC.
Statement of Functional Expenses
For the Year Ended August 31, 2020
(With Summarized Comparative Totals for the Year Ended August 31, 2019)

	2020					
	Supporting Services					
	Program Services	General Management and Administration	Fundraising	Total Supporting Services	Total Expenses	2019 Total Expenses
Salaries	\$ 8,917,491	\$ 2,179,860	\$ 653,665	\$ 2,833,525	\$ 11,751,016	\$ 11,522,980
Employee benefits and payroll taxes	1,946,858	457,939	155,758	613,697	2,560,555	2,426,227
Consultants and service providers	3,484,040	1,008,437	50,672	1,059,109	4,543,149	7,012,119
Travel	842,675	57,310	23,392	80,702	923,377	1,799,726
Rent and occupancy	335,861	82,101	24,619	106,720	442,581	572,250
Conferences and meetings	1,137,514	56,817	7,189	64,006	1,201,520	2,129,387
Depreciation and amortization	88,710	21,685	6,503	28,188	116,898	123,746
Books, professional development materials and copies	425,729	30,475	11,364	41,839	467,568	1,150,494
Miscellaneous	774,053	189,214	56,739	245,953	1,020,006	1,027,006
Total expenses	\$ 17,952,931	\$ 4,083,838	\$ 989,901	\$ 5,073,739	\$ 23,026,670	\$ 27,763,935

See accompanying notes.

EL EDUCATION, INC.
Notes to Financial Statements

Note 1 - Nature of Activities

EL Education, Inc. (the “Organization”) partners with public schools and districts in diverse communities across the United States to improve student achievement; build student character; enhance teacher practices; and instill a positive school culture. The approach promotes rigorous and engaging curriculum; active, inquiry-based pedagogy; and a school culture that demands and teaches compassion and good citizenship.

The Organization is one of the nation’s leading K-12 education organizations committed to creating classrooms where teachers can fulfill their highest aspirations and where students can achieve more than they think possible. The Organization has helped new and veteran teachers - in all types of school settings - strive for a vision of student success that joins academic achievement, character and high-quality work. The Organization’s approach is grounded in respect for teachers and school leaders as creative agents in their classrooms. The Organization builds teachers’ capacity to ignite each student’s motivation, persistence and compassion so that they become active contributors to building a better world and succeed in school, college, career and life.

The Organization’s model is characterized by:

- Active instructional and student-engaged assessment practices that build academic skills and students’ ownership of their learning
- Rigorous academic projects connected to real-world issues that meet college and career-ready standards
- A culture of learning that builds persistence, collaboration, critical thinking, problem solving, communication and independence in the students

The Organization is the creator of the acclaimed EL Education K-8 Language Arts Curriculum, a standards-based comprehensive literacy program.

The Organization offers a comprehensive suite of professional development, coaching and strategic planning, curriculum, publications and open educational resources. Together with its school and district partners, the Organization serves more than 500,000 students in more than 1,500 schools in 35 states annually.

EL EDUCATION, INC.
Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting.

Basis of Presentation

Financial statement presentation follows the provisions included in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) for “Not-For-Profit Entities,” which constitutes generally accepted accounting principles in the United States of America (“GAAP”) for non-profit entities such as the Organization. GAAP requires the Organization to report information regarding its financial position and activities according to the following two classes of net assets:

Net assets without donor restrictions

Net assets available for general use and not subject to donor restrictions. Included in net assets without donor restrictions are board-designated funds, which include resources under the full control of the Board of Directors for use in achieving the purpose of the Organization.

Net assets with donor restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities. At August 31, 2020 and 2019, the Organization had \$3,468,949 and \$7,312,796, respectively, in net assets with donor restrictions, of which \$1,988,473 remained in perpetuity.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization maintains its cash accounts with various commercial banks. Restricted cash is held in brokerage accounts and is limited to investing towards the Organization’s endowment fund.

EL EDUCATION, INC.
Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. The estimated allowance for doubtful accounts as of August 31, 2020 and 2019 was approximately \$329,000 and \$248,000, respectively.

Fair Value Measurement

The Organization applies Topic 820, *Fair Value Measurement*, of FASB ASC, which defines fair value, establishes a fair value hierarchy and specifies that a valuation technique used to measure fair value shall maximize the use of observable inputs and minimize the use of unobservable inputs. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under Topic 820 of FASB ASC are described below:

- Level 1 - Unadjusted quoted prices in active markets for identical, unrestricted assets or liabilities that the Organization has the ability to access at the measurement date;
- Level 2 - Quoted prices which are not active, quoted prices for similar assets or liabilities in active markets or inputs other than quoted prices that are observable (either directly or indirectly) for substantially the full term of the asset or liability; and
- Level 3 - Significant unobservable prices or inputs (including the Organization's own assumptions in determining the fair value of investments) where there is little or no market activity for the asset or liability at the measurement date.

Revenue and Support Recognition

Revenue is reported as increases in net assets without restrictions unless their use is limited by donor-imposed restrictions. School and consulting income is comprised of professional services consulting engagements (single and multi-day at customer/school locations) and is recognized when services are rendered. Expenses are reported as a decrease in net assets without donor restrictions.

EL EDUCATION, INC.
Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue and Support Recognition (Continued)

Contributions and grants received are recorded as either net assets without restrictions or net assets with restrictions, depending on the existence and/or nature of any donor restrictions. Contributions and grants are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction.

The Organization uses the allowance method to determine uncollectible promises and grants receivable. The allowance is based on prior years' experience and management's analysis of specific promises made and grants approved. At August 31, 2020 and 2019, no allowance has been recognized based on management's determination.

The Organization receives conditional grants and advances for program services for which revenue is recognized when the program condition is met.

Property and Equipment

Property and equipment is recorded at cost or, if received as a gift, at fair value when acquired. Depreciation is computed on the straight-line basis over the assets' useful lives, which range from three to seven years. Leasehold improvements are amortized over the shorter of the life of the asset or the term of the lease, using the straight-line method. Property and equipment purchases with a cost in excess of \$1,000 are capitalized; all others are expensed as incurred.

Deferred Rent

Deferred rent reflects the excess of rent expensed on the straight-line basis over rent payments made under the terms of the lease.

Summarized Comparative Data

The amounts shown for the year ended August 31, 2019 in the accompanying financial statements are included to provide a basis for comparison with August 31, 2020 and present summarized totals only. Accordingly, the August 31, 2019 totals are not intended to present all information necessary for a fair presentation in conformity with GAAP. Such information should be read in conjunction with the Organization's financial statements for the year ended August 31, 2019 from which the summarized information was derived.

EL EDUCATION, INC.
Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

Expenses related directly to a program are distributed to that program, while other expenses are allocated to programs based upon management's estimate of the percentage attributable to each function. Certain categories of expenses are attributable to more than one program or supporting function and are allocated based on the estimate of time and effort.

Income Taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and New York State Not-for-Profit Corporation law, respectively, and qualifies for the charitable contribution deduction.

The Organization accounts for uncertainty in income taxes using a recognition threshold of more likely than not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management has determined that there were no tax uncertainties that met the recognition threshold at the statement of financial position date and no interest or penalties related to unrecognized tax benefits have been recognized in the Organization's financial statements.

The Organization timely files federal Form 990 annually and New York State annual reports as required. The Organization's filing years prior to August 31, 2017 are no longer subject to examination. No returns or registrations are presently under examination by the relevant authorities.

Advertising

Advertising is expensed as incurred and amounted to approximately \$45,300 and \$26,600 for the years ended August 31, 2020 and 2019, respectively.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

EL EDUCATION, INC.
Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Standards

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, that will supersede most current revenue recognition guidance, including industry-specific guidance. In June 2020, the FASB delayed the effective date for not-for-profit entities. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or 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 standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disclosures related to the nature, amount, timing and uncertainty of revenue that is recognized. The amendments are required to be adopted for the Organization’s August 31, 2021 financial statements. Early adoption is permitted. Transition to the new guidance may be done using either a full or modified retrospective method. The Organization will adopt this standard effective September 1, 2020 using the modified retrospective approach. The Organization has identified its main revenue streams and has substantially completed reviewing contracts and other relevant documents. Based on this preliminary analysis to date, the Organization has not identified a significant impact on its financial statements, although this is subject to change as the Organization completes the process.

Leases

In February 2016, the FASB released ASU 2016-02, *Leases (Topic 842)*, and in June 2020, the FASB delayed the effective date for not-for-profit entities. This update requires that lessees and lessors should apply a right-of-use model in accounting for all leases, with certain exemptions. Under this model, the Organization would recognize an asset representing its right to use the leased property and a liability to make the lease payments. This model could have an impact on the Organization’s statement of financial position and presentation of expenses in its statement of activities. The amendment is required to be adopted for the Organization’s August 31, 2023 financial statements. Early adoption is permitted. The Organization is currently evaluating the full effect that the adoption of this standard will have on its financial statements.

EL EDUCATION, INC.
Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Standards (Continued)

Presentation of Financial Statements for Not-for-Profit Entities

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in ASU 2018-08 are provided to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Organization adopted the provisions of ASU 2018-08 for transactions in which it serves as the resource recipient as of September 1, 2019. Adoption did not have a material impact on the Organization's financial statements.

The Organization is to apply the amendments related to transactions in which it serves as the resource provider to annual periods beginning after December 15, 2019. The amendments can be applied on a modified prospective basis or retrospectively. The Organization has yet to choose an implementation method and has yet to determine the impact that these amendments may have on its financial statements.

Note 3 - Liquidity and Availability

The Organization's financial assets available within one year from the statement of financial position date for general expenses are as follows:

Cash and cash equivalents	\$ 10,175,190
Restricted cash	1,270
Investments	3,110,559
Accounts receivable, net	5,030,021
Unconditional promises to give	<u>683,524</u>
Total financial assets	19,000,564
Less amounts not available to be used within one year:	
Net assets with donor restrictions	3,468,949
Board-designated net assets	<u>1,000,000</u>
	<u>4,468,949</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 14,531,615</u>

EL EDUCATION, INC.
Notes to Financial Statements

Note 3 - Liquidity and Availability (Continued)

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. In addition to the financial assets available for general expenses above, the Organization has a \$1,600,000 line of credit with a financial institution available for any immediate needs and a balanced budget that management reviews and follows on a regular basis to ensure the Organization operates only within approved limits.

Note 4 - Cash and Cash Equivalents and Restricted Cash

For purposes of the statements of financial position and cash flows, cash and cash equivalents consist of cash and other highly liquid resources, such as investments in certificates of deposit and money market funds, with an original maturity of three months or less when purchased. Restricted cash on the statements of financial position includes restricted cash received with restrictions imposed by donors (but not yet invested) for investing in the Organization's endowment fund.

	August 31,	
	2020	2019
Cash and cash equivalents	\$ 10,175,190	\$ 4,150,533
Restricted cash	1,270	71,326
	\$ 10,176,460	\$ 4,221,859

Note 5 - Investments

Investments are stated at fair value. The Organization's investments consist of mutual funds and U.S. Treasury bills. Mutual funds are valued at the daily quoted prices in active markets (Level 1 measurements). U.S. Treasury bills are valued using pricing models maximizing the use of observable inputs for similar securities (Level 2 measurements).

Investments are comprised of the following at August 31, 2020 and 2019:

	Fair Market Value	
	2020	2019
Mutual funds - equities	\$ 1,935,289	\$ 1,856,617
Mutual funds - bonds	1,175,270	1,163,755
U.S. Treasury bills	-	1,538,881
	\$ 3,110,559	\$ 4,559,253

Of the total investment balance as of August 31, 2020, \$1,988,473 is restricted for endowments.

EL EDUCATION, INC.
Notes to Financial Statements

Note 5 - Investments (Continued)

For the years ended August 31, 2020 and 2019, investment return consisted of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 238,914	\$ 315,841
Realized gains (losses), net	39,437	(7,253)
Unrealized losses, net	<u>(37,538)</u>	<u>(187,658)</u>
	<u>\$ 240,813</u>	<u>\$ 120,930</u>

Note 6 - Unconditional Promises to Give

Unconditional promises to give consist of the following at August 31:

	<u>2020</u>	<u>2019</u>
Due within 1 year	\$ 683,524	\$ 1,863,359
Due years 2 through 5	<u>-</u>	<u>1,765,639</u>
	<u>\$ 683,524</u>	<u>\$ 3,628,998</u>

Unconditional promises to give are recorded at the expected future cash flows. The Organization has recorded a discount of approximately \$20,000 to reflect the net present value of the future cash flows as of August 31, 2019. There was no allowance for uncollectible accounts as of August 31, 2020 and 2019.

Note 7 - Property and Equipment

At August 31, property and equipment consists of:

	<u>2020</u>	<u>2019</u>	<u>Estimated Useful Life</u>
Leasehold improvements	\$ 277,836	\$ 274,586	Shorter of lease term or estimated useful life
Furniture, fixtures and equipment	<u>954,404</u>	<u>895,715</u>	3-7 years
	1,232,240	1,170,301	
Accumulated depreciation and amortization	<u>(1,032,936)</u>	<u>(916,038)</u>	
	<u>\$ 199,304</u>	<u>\$ 254,263</u>	

EL EDUCATION, INC.
Notes to Financial Statements

Note 8 - Line of Credit

The Organization has a revolving line of credit with a financial institution to allow for borrowings up to \$1,600,000. The interest rate is defined as prime plus 1% (4.25% as of August 31, 2020). Outstanding balances on the line of credit are secured by deposits held at the lending institution, with a blanket lien on all assets as collateral. The line expires on April 30, 2021. As of August 31, 2020 and 2019, there were no amounts outstanding under the line of credit.

There were no borrowings on the line during the years ended August 31, 2020 and 2019.

Note 9 - PPP Loan Payable

The Organization applied for and received a forgivable Paycheck Protection Program (PPP) loan of \$2,417,046 as provided under the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act and the loan was funded on April 21, 2020. Under the terms of the loan, the balance is forgivable to the extent the proceeds are used for certain qualified costs for the 24-week period through October 6, 2020 and that certain employment levels are maintained. To the extent a portion of the loan does not meet the criteria to be forgiven, such amount is due on April 18, 2022 and carries an interest rate of 1%. The Organization anticipates using all of the proceeds for eligible costs and expects the entire loan to be forgiven. A formal request for forgiveness will be submitted after the performance period outlined above. Upon receipt of a legal release from the obligation, the Organization will record a gain on the extinguishment of debt equal to the amount forgiven.

Note 10 - Retirement Plan

The Organization sponsors a 403(b) defined contribution retirement plan. The Organization matches dollar-for-dollar up to 5% for all employee contributions to the plan after six months of service. Total contributions to the plan were approximately \$372,700 and \$366,800 for the years ended August 31, 2020 and 2019, respectively.

Note 11 - Concentrations of Credit Risk and Major Grantors

Cash and Cash Equivalents

As of August 31, 2020 and 2019, the Organization maintains cash balances at a bank which is insured by the Federal Deposit Insurance Corporation for a limit of up to \$250,000. The Organization also maintains cash balances at brokerage firms, which at August 31, 2020 and 2019, are insured by the Securities Investor Protection Corporation up to \$250,000. The Organization maintains its cash in bank deposit accounts and brokerage firms which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

EL EDUCATION, INC.
Notes to Financial Statements

Note 11 - Concentrations of Credit Risk and Major Grantors (Continued)

Major Grantors

During the year ended August 31, 2020, approximately 42% of contributions and grants was received from two donors; approximately \$576,000 was an unconditional promise to give from three donors as of August 31, 2020.

During the year ended August 31, 2019, approximately 52% of contributions and grants and government grant revenue was received from two donors and one agency; approximately \$200,000 has been recorded as government grant receivable and \$2,600,000 as an unconditional promise to give from one government agency and one donor, respectively, as of August 31, 2019.

Note 12 - Net Assets With Donor Restrictions

Net assets with donor restrictions, excluding net assets in perpetuity of \$1,988,473, consist of the following at August 31:

	<u>2020</u>	<u>2019</u>
Time and purpose restrictions	\$ 1,480,476	\$ 4,324,323
Time restrictions	<u>-</u>	<u>1,000,000</u>
	<u>\$ 1,480,476</u>	<u>\$ 5,324,323</u>

Time and purpose restrictions consist of the following at August 31:

	<u>2020</u>	<u>2019</u>
Development of EL Education Schools	\$ 1,157,188	\$ 3,480,199
Curriculum services	211,600	333,183
Future operations	-	1,000,000
Strategic plan	-	500,000
Other purpose-restricted activities	<u>111,688</u>	<u>10,941</u>
	<u>\$ 1,480,476</u>	<u>\$ 5,324,323</u>

EL EDUCATION, INC.
Notes to Financial Statements

Note 13 - Donor and Board-Designated Endowment

The Organization's endowment consists of two individual funds established to provide financial support to the operations of the Organization. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the New York Prudent Management of Institutional Funds Act ("NYPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies those net assets with donor restrictions that are perpetual in nature as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions that are perpetual in nature is classified as net assets with donor restrictions that are temporary in nature until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

EL EDUCATION, INC.
Notes to Financial Statements

Note 13 - Donor and Board-Designated Endowment (Continued)

**Endowment Net Asset Composition by Type of Fund
As of August 31, 2020 and 2019**

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,988,473	\$ 1,988,473
Board-designated endowment funds	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Total funds	<u>\$ 1,000,000</u>	<u>\$ 1,988,473</u>	<u>\$ 2,988,473</u>

**Changes in Endowment Net Assets
For the Fiscal Year Ended August 31, 2020**

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, September 1, 2019	\$ 1,000,000	\$ 1,988,473	\$ 2,988,473
Investment return:			
Investment income	58,389	116,104	174,493
Net depreciation (realized and unrealized)	(12,561)	(24,977)	(37,538)
Appropriation of endowment assets for expenditure	<u>(45,828)</u>	<u>(91,127)</u>	<u>(136,955)</u>
Endowment net assets, August 31, 2020	<u>\$ 1,000,000</u>	<u>\$ 1,988,473</u>	<u>\$ 2,988,473</u>

**Changes in Endowment Net Assets
For the Fiscal Year Ended August 31, 2019**

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, September 1, 2018	\$ 1,000,000	\$ 1,988,473	\$ 2,988,473
Investment return:			
Investment income	141,721	281,808	423,529
Net depreciation (realized and unrealized)	(62,892)	(125,058)	(187,950)
Appropriation of endowment assets for expenditure	<u>(78,829)</u>	<u>(156,750)</u>	<u>(235,579)</u>
Endowment net assets, August 31, 2019	<u>\$ 1,000,000</u>	<u>\$ 1,988,473</u>	<u>\$ 2,988,473</u>

EL EDUCATION, INC.
Notes to Financial Statements

Note 13 - Donor and Board-Designated Endowment (Continued)

**Description of Amounts Classified as Net Assets
With Donor Restrictions in Perpetuity**

	2020	2019
Net assets with donor restrictions in perpetuity:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by NYPMIFA	<u>\$ 1,988,473</u>	<u>\$ 1,988,473</u>

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to support regular program and/or project expenditures at a level of 3% to 4% of principal value, maintain the inflation-adjusted value of the principal over time, and grow the principal to the extent doing so is consistent with the other objectives.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets at least 50% of the portfolio investments should be liquid, which is defined as being convertible to cash within seven days. It is expected that the percentage of liquid investments will be substantially higher, as less liquid investments are likely to be a substantial portion of the portfolio only after it is at least \$5,000,000 in total value.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The investment committee plans not to make distributions from the endowment until 2018 or later. Once the endowment has been in existence for several years, the committee expects to adopt a spending policy that specifies distributions each year at the level of 3% to 4% of the average principal balance over the period of twelve calendar quarters preceding the year of distribution. Generally, the rate of expenditure for such projects will be 5% or less of the endowment's principal value each year; however, occasional distributions in excess of that level may be considered.

EL EDUCATION, INC.
Notes to Financial Statements

Note 14 - Commitments and Contingencies

The Organization leases office space under operating leases expiring at various times through March 31, 2023. In addition, the Organization leases office equipment under operating leases expiring at various times through August 2021.

Future approximate minimum aggregate lease payments for the next three years are as follows:

<u>Year Ending</u> <u>August 31,</u>	
2021	\$ 236,200
2022	46,900
2023	<u>27,400</u>
	<u>\$ 310,500</u>

Rent expense for the years ended August 31, 2020 and 2019, including escalation costs, amounted to approximately \$355,000 and \$374,000, respectively.

Certain leases contain provisions for increased base rents over the life of the lease. The accompanying financial statements reflect the rent expense on a straight-line basis over the terms of the leases in accordance with GAAP. An obligation of approximately \$18,000 and \$42,000, representing the pro rata future rent payments, is included in accounts payable and accrued expenses on the statements of financial position at August 31, 2020 and 2019, respectively. Included in rent expense for the years ended August 31, 2020 and 2019 is a decrease in rent of approximately \$24,000 and \$11,000, respectively, which represents the difference between the amounts paid pursuant to the leases and the rent expense calculated pursuant to the method referred to above.

Note 15 - Uncertainty

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. Considering that it works directly with schools and school districts, the Organization experienced a disruption of normal business operations during the early months of the pandemic as schools and school districts were closed to prevent the spread of the virus and due to various state and city regulations on public gatherings. However, the Organization was able to adapt and move its operations to virtual settings. The Organization implemented some cost cutting measures, including reduction in salaries for some of its employees, significant reduction of all travel, and cancellation of all conferences and in-person meetings, as well as a Gala fundraising event that was scheduled to take place in April 2020. In addition, the Organization applied for and received a PPP loan (see Note 9) to assist with short-term payroll, rent and utility costs.

EL EDUCATION, INC.
Notes to Financial Statements

Note 15 - Uncertainty (Continued)

Due to the impact of the pandemic, there are continued economic uncertainties to consider. The Organization's management works closely with its Board of Directors to manage through these uncertainties. However, due to the unknown length of time of the pandemic, the Organization cannot quantify the full impact at this time.

Note 16 - Subsequent Events

The Organization has evaluated subsequent events through February 2, 2021, the date the financial statements were available to be issued, and has concluded that no such events or transactions took place which would require disclosure herein.