

EL EDUCATION, INC.

Financial Statements

and

Supplementary Information

August 31, 2019

EL EDUCATION, INC.

<u>Index</u>	<u>Page</u>
Independent Auditor's Report	1
Statements of Financial Position as of August 31, 2019 and 2018	2
Statement of Activities for the Year Ended August 31, 2019 with Summarized Comparative Totals for the Year Ended August 31, 2018	3
Statements of Cash Flows for the Years Ended August 31, 2019 and 2018	4
Statement of Functional Expenses for the Year Ended August 31, 2019 with Summarized Comparative Totals for the Year Ended August 31, 2018	5
Notes to Financial Statements	6-20
<u>Supplementary Information</u>	21
Schedule of Expenditures of Federal Awards for the Year Ended August 31, 2019	22
Notes to Schedule of Expenditures of Federal Awards	23
<u>Reporting Under Government Auditing Standards</u>	24
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	25-26
<u>Reporting Under the Uniform Guidance</u>	27
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	28-30
Schedule of Findings and Questioned Costs for the Year Ended August 31, 2019	31



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. (formerly Expeditionary Learning Outward Bound, Inc.), which comprise the statement of financial position as of August 31, 2019, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2019, 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, 2018, and our report dated January 30, 2019 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2020, on our consideration of EL Education, Inc.’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EL Education, Inc.’s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Mayer Hoffman McCann CPAs". The signature is written in a cursive, flowing style.

January 27, 2020

EL EDUCATION, INC.
Statements of Financial Position
August 31, 2019 and 2018

	<u>ASSETS</u> (Note 8)	
	<u>2019</u>	<u>2018</u>
Assets:		
Cash and cash equivalents (Note 4)	\$ 4,150,533	\$ 6,515,189
Restricted cash (Note 4)	71,326	389,338
Investments (Note 5)	4,559,253	4,323,674
Accounts receivable, net	4,795,496	2,420,104
Government grant receivable (Note 10)	200,495	165,029
Unconditional promises to give (Notes 6 and 10)	3,628,998	4,038,844
Prepaid expenses and other assets	541,154	502,619
Property and equipment, net (Note 7)	254,263	292,823
	<hr/>	<hr/>
Total assets	\$ 18,201,518	\$ 18,647,620
	<hr/>	<hr/>

<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses (Note 14)	\$ 1,395,559	\$ 1,310,805
Accrued salary and related expenses	578,640	511,172
Deferred revenue	863,074	647,011
Total liabilities	<hr/> 2,837,273	<hr/> 2,468,988
 Commitments and contingencies (Notes 9, 11 and 14)		
 Net assets:		
Net assets without donor restrictions:		
Operating	7,051,449	6,514,893
Board designated (Note 13)	1,000,000	1,000,000
Net assets with donor restrictions (Notes 12 and 13)	7,312,796	8,663,739
Total net assets	<hr/> 15,364,245	<hr/> 16,178,632
Total liabilities and net assets	<hr/> \$ 18,201,518	<hr/> \$ 18,647,620
	<hr/>	<hr/>

See accompanying notes.

EL EDUCATION, INC.
Statement of Activities
For the Year Ended August 31, 2019
(With Summarized Comparative Totals for the Year Ended August 31, 2018)

	2019			2018
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	
Revenue, support and gains:				
School, consulting and product revenue	\$ 18,068,021	\$ -	\$ 18,068,021	\$ 14,606,188
Contributions and grants (Note 10)	817,240	6,815,357	7,632,597	5,774,784
Government grant (Note 10)	1,043,013	-	1,043,013	2,087,142
Other income	84,987	-	84,987	118,003
Investment income (Note 5)	120,930	-	120,930	166,393
Net assets released from restrictions	8,166,300	(8,166,300)	-	-
Total revenue, support and gains	28,300,491	(1,350,943)	26,949,548	22,752,510
Expenses:				
Program services	22,856,014	-	22,856,014	18,842,409
General management and administration	3,796,446	-	3,796,446	3,081,066
Fundraising	1,111,475	-	1,111,475	1,058,298
Total expenses	27,763,935	-	27,763,935	22,981,773
Change in net assets	536,556	(1,350,943)	(814,387)	(229,263)
Net assets, beginning of year	7,514,893	8,663,739	16,178,632	16,407,895
Net assets, end of year	\$ 8,051,449	\$ 7,312,796	\$ 15,364,245	\$ 16,178,632

See accompanying notes.

EL EDUCATION, INC.
Statements of Cash Flows
For the Years Ended August 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (814,387)	\$ (229,263)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	123,746	128,629
Bad debt expense (recovery)	204,962	(89,664)
Investment losses (gains), unrealized, net	187,658	(6,937)
Investment losses, realized, net	7,253	-
Deferred rent	(11,217)	(4,766)
Decrease (increase) in:		
Accounts receivable, net	(2,580,354)	(554,002)
Government grant receivable	(35,466)	622,332
Unconditional promises to give	409,846	2,927,300
Prepaid expenses and other assets	(38,535)	(70,209)
Increase (decrease) in:		
Accounts payable and accrued expenses	95,971	(69,002)
Accrued salary and related expenses	67,468	5,461
Deferred revenue	216,063	111,573
Deconsolidation agreement liability	-	(50,000)
Net cash provided by (used in) operating activities	(2,166,992)	2,721,452
Cash flows from investing activities:		
Proceeds from sale of investments	1,489,417	-
Purchases of investments	(1,919,907)	(1,978,608)
Property and equipment acquisitions	(85,186)	(241,598)
Net cash used in investing activities	(515,676)	(2,220,206)
Net increase (decrease) in cash and cash equivalents and restricted cash	(2,682,668)	501,246
Cash and cash equivalents and restricted cash, beginning of year	6,904,527	6,403,281
Cash and cash equivalents and restricted cash, end of year	\$ 4,221,859	\$ 6,904,527

See accompanying notes.

EL EDUCATION, INC.
Statement of Functional Expenses
For the Year Ended August 31, 2019
(With Summarized Comparative Totals for the Year Ended August 31, 2018)

	2019					2018
	Program Services	Supporting Services			Total Expenses	
General Management and Administration		Fundraising	Total Supporting Services			
Salaries	\$ 8,905,999	\$ 1,983,307	\$ 633,674	\$ 2,616,981	\$ 11,522,980	\$ 10,774,840
Employee benefits and payroll taxes	1,934,293	354,223	137,711	491,934	2,426,227	2,248,055
Consultants and service providers	6,122,157	785,021	104,941	889,962	7,012,119	4,655,468
Travel	1,686,209	69,490	44,027	113,517	1,799,726	1,406,288
Rent and occupancy	442,287	98,494	31,469	129,963	572,250	482,935
Conferences and meetings	1,787,747	259,715	81,925	341,640	2,129,387	1,705,726
Depreciation and amortization	95,642	21,299	6,805	28,104	123,746	128,629
Books, professional development materials and copies	1,087,919	48,130	14,445	62,575	1,150,494	872,272
Miscellaneous	793,761	176,767	56,478	233,245	1,027,006	707,560
Total expenses	\$ 22,856,014	\$ 3,796,446	\$ 1,111,475	\$ 4,907,921	\$ 27,763,935	\$ 22,981,773

See accompanying notes.

EL EDUCATION, INC.
Notes to Financial Statements

Note 1 - Nature of Activities

EL Education, Inc. (the “Organization”), formerly known as Expeditionary Learning Outward Bound, Inc., 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, 2019 and 2018, the Organization had \$7,312,796 and \$8,663,739, 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, 2019 and 2018 was approximately \$248,000 and \$125,000, 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, 2019 and 2018, 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 and a useful life in excess of three years 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, 2018 in the accompanying financial statements are included to provide a basis for comparison with August 31, 2019 and present summarized totals only. Accordingly, the August 31, 2018 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, 2018 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, 2016 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 \$26,600 and \$19,700 for the years ended August 31, 2019 and 2018, 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. 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, 2020 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, 2019 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)*. 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, 2022 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

On August 18, 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which makes targeted improvements to the not-for-profit financial reporting model. The new ASU marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. The Organization adopted ASU 2016-14 on September 1, 2018 and has adjusted the presentation of these financial statements accordingly. Adoption did not result in any changes in net asset classifications.

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	\$ 4,150,533
Restricted cash	71,326
Investments	4,559,253
Accounts receivable, net	4,795,496
Government grant receivable	200,495
Unconditional promises to give	<u>1,863,359</u>
Total financial assets	15,640,462
Less amounts not available to be used within one year:	
Net assets with donor restrictions	7,312,796
Board-designated net assets	<u>1,000,000</u>
	<u>8,312,796</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 7,327,666</u>

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.

EL EDUCATION, INC.
Notes to Financial Statements

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,	
	2019	2018
Cash and cash equivalents	\$ 4,150,533	\$ 6,515,189
Restricted cash	71,326	389,338
	<u>\$ 4,221,859</u>	<u>\$ 6,904,527</u>

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, 2019 and 2018:

	Fair Market Value	
	2019	2018
Mutual funds - equities	\$ 1,856,617	\$ 1,755,185
Mutual funds - bonds	1,163,755	1,073,177
U.S. Treasury bills	1,538,881	1,495,312
	<u>\$ 4,559,253</u>	<u>\$ 4,323,674</u>

Of the total investment balance as of August 31, 2019, \$1,988,473 is restricted for endowments.

EL EDUCATION, INC.
Notes to Financial Statements

Note 5 - Investments (Continued)

For the years ended August 31, 2019 and 2018, investment return consisted of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 315,841	\$ 149,945
Realized gains (losses), net	(7,253)	9,511
Unrealized gains (losses), net	<u>(187,658)</u>	<u>6,937</u>
	<u>\$ 120,930</u>	<u>\$ 166,393</u>

Note 6 - Unconditional Promises to Give

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

	<u>2019</u>	<u>2018</u>
Due within 1 year	\$ 1,863,359	\$ 3,336,883
Due years 2 through 5	<u>1,765,639</u>	<u>701,961</u>
	<u>\$ 3,628,998</u>	<u>\$ 4,038,844</u>

Unconditional promises to give are recorded at the expected future cash flows. The Organization has recorded a discount of approximately \$20,000 and \$19,000 to reflect the net present value of the future cash flows as of August 31, 2019 and 2018, respectively. There was no allowance for uncollectible accounts as of August 31, 2019 and 2018.

Note 7 - Property and Equipment

At August 31, property and equipment consists of:

	<u>2019</u>	<u>2018</u>	<u>Estimated Useful Life</u>
Leasehold improvements	\$ 274,586	\$ 274,586	Lesser of lease term or estimated useful life
Furniture, fixtures and equipment	<u>895,715</u>	<u>810,529</u>	3-7 years
	1,170,301	1,085,115	
Accumulated depreciation and amortization	<u>(916,038)</u>	<u>(792,292)</u>	
	<u>\$ 254,263</u>	<u>\$ 292,823</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% (6.25% as of August 31, 2019). 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, 2020. As of August 31, 2019 and 2018, there were no amounts outstanding under the line of credit.

There were no borrowings on the line during the years ended August 31, 2019 and 2018.

Note 9 - 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 \$366,800 and \$329,900 for the years ended August 31, 2019 and 2018, respectively.

Note 10 - Concentrations of Credit Risk and Major Grantors

Cash and Cash Equivalents

As of August 31, 2019 and 2018, 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 a brokerage firm, which at August 31, 2019 and 2018, are insured by the Securities Investor Protection Corporation up to \$250,000. The Organization maintains its cash in bank deposit accounts and a brokerage firm 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.

Major Grantors

During the year ended August 31, 2019, approximately 52% of contributions and grants and government grant revenue was received from three 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 two donors, respectively, as of August 31, 2019.

During the year ended August 31, 2018, approximately 57% of contributions and grants and government grant revenue was received from two donors and one agency; approximately \$165,000 has been recorded as government grant receivable and \$1,000,000 as an unconditional promise to give from one government agency and one donor, respectively, as of August 31, 2018.

EL EDUCATION, INC.
Notes to Financial Statements

Note 11 - Deconsolidation Agreement Liability

On February 11, 2010, the Organization entered into a deconsolidation agreement with Outward Bound, Inc. (“OB”). As part of this agreement, the Organization agreed to pay \$50,000 per annum for ten years, totaling \$500,000. Payment is due by the last business day of each fiscal year. In the event that the Organization fails to pay the installments timely, the Organization will be obligated to pay interest at a rate equal to the highest prime rate reported in the Money Rates column or section of The Wall Street Journal (Eastern Edition) plus 1.50%. During the fiscal year ended August 31, 2010, the Organization paid an extra \$100,000. The remaining \$50,000 was repaid during the year ended August 31, 2018.

In addition, the Organization is obligated to purchase a minimum of \$25,000 per annum of various program services from OB through the fiscal year ending 2021.

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>2019</u>	<u>2018</u>
Purpose restrictions	\$ -	\$ 30,694
Time and purpose restrictions	4,324,323	5,929,416
Time restrictions	<u>1,000,000</u>	<u>715,156</u>
	<u>\$ 5,324,323</u>	<u>\$ 6,675,266</u>

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

	<u>2019</u>	<u>2018</u>
Development of EL Education Schools	\$ 3,480,199	\$ 3,457,156
Training and evaluation	-	891,288
Curriculum services	333,183	469,032
Future operations	1,000,000	715,156
Strategic plan	500,000	1,100,000
Other purpose restricted activities	<u>10,941</u>	<u>42,634</u>
	<u>\$ 5,324,323</u>	<u>\$ 6,675,266</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

**Endowment Net Asset Composition by Type of Fund
As of August 31, 2019 and 2018**

	<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>

EL EDUCATION, INC.
Notes to Financial Statements

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

**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>

**Changes in Endowment Net Assets
For the Fiscal Year Ended August 31, 2018**

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, September 1, 2017	\$ 1,000,000	\$ 1,988,473	\$ 2,988,473
Investment return:			
Investment income	2,063	4,103	6,166
Net appreciation (realized and unrealized)	2,321	4,616	6,937
Appropriation of endowment assets for expenditure	<u>(4,384)</u>	<u>(8,719)</u>	<u>(13,103)</u>
Endowment net assets, August 31, 2018	<u>\$ 1,000,000</u>	<u>\$ 1,988,473</u>	<u>\$ 2,988,473</u>

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

	<u>2019</u>	<u>2018</u>
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>

EL EDUCATION, INC.
Notes to Financial Statements

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

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.

Note 14 - Commitments and Contingencies

Lease Commitments

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.

EL EDUCATION, INC.
Notes to Financial Statements

Note 14 - Commitments and Contingencies (Continued)

Lease Commitments (Continued)

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

<u>Year Ending</u> <u>August 31,</u>	
2020	\$ 354,000
2021	236,200
2022	46,900
2023	<u>27,400</u>
	<u>\$ 664,500</u>

Rent expense for the years ended August 31, 2019 and 2018, including escalation costs, amounted to approximately \$374,000 and \$300,000, 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 \$42,000 and \$53,000, representing the pro rata future rent payments, is included in accounts payable and accrued expenses on the statements of financial position at August 31, 2019 and 2018, respectively. Included in rent expense for the years ended August 31, 2019 and 2018 is a decrease in rent of approximately \$11,000 and \$4,800, 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.

Government Grant Contingency

Grant programs are subject to independent audit under Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), and review by grantor agencies. Such review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the Organization.

Note 15 - Subsequent Events

The Organization has evaluated subsequent events through January 27, 2020, 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.

SUPPLEMENTARY INFORMATION

EL EDUCATION, INC.
(Supplementary Information)
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2019

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Education		
Investing in Innovation (i3) Fund	84.411B	<u>\$ 1,043,013</u>
Total Expenditures of Federal Awards		<u>\$ 1,043,013</u>

See notes to schedule of expenditures of federal awards.

EL EDUCATION, INC.
Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of EL Education, Inc. under programs of the federal government for the fiscal year ended August 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of EL Education, Inc., it is not intended to, and does not, present the financial position, changes in net assets, functional expenses or cash flows of EL Education, Inc.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance. Wherein certain types of expenditures are not allowable or are limited as to reimbursement, EL Education, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

REPORTING UNDER GOVERNMENT AUDITING STANDARDS



**INDEPENDENT AUDITOR’S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
EL Education, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of EL Education, Inc. (the “Organization”), which comprise the statement of financial position as of August 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 27, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Mayer Hoffman McCann CPAs". The signature is written in a cursive, flowing style.

January 27, 2020

REPORTING UNDER THE UNIFORM GUIDANCE



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
EL Education, Inc.

Report on Compliance for Each Major Federal Program

We have audited EL Education, Inc.’s (the “Organization”) compliance with the types of compliance requirements described in *the OMB Compliance Supplement* that could have a direct and material effect on the Organization’s major federal program for the year ended August 31, 2019. The Organization’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal program.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the Organization’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.



We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on its Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2019.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mayer Hoffman McCann CPAs

January 27, 2020

EL EDUCATION, INC.
(Supplementary Information)
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2019

Summary of Auditor's Results

Section I - Summary of Auditor's Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | None |
| b. Significant deficiencies identified? | None Reported |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|-----------------------------------|
| 1. Internal control over major program: | |
| a. Material weaknesses identified? | None |
| b. Significant deficiencies identified? | None Reported |
| 2. Type of auditor's report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 4. Identification of major program: | <u>Name of Federal Program</u> |
| <u>CFDA Number:</u>
84.411B | Investing in Innovation (i3) Fund |
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 6. Auditee qualified as low-risk auditee? | Yes |

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.