EL EDUCATION, INC.

Financial Statements

and

Supplementary Information

August 31, 2018

EL EDUCATION, INC.

Index

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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. (formerly Expeditionary Learning Outward Bound, Inc.), which comprise the statement of financial position as of August 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2017, and our report dated February 6, 2018 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, 2017, 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 30, 2019, 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.

Mayer Hoffman McCann CPAs

January 30, 2019

EL EDUCATION, INC.
Statements of Financial Position
August 31, 2018 and 2017

ASSETS (Note 7)

	2018	2017
Assets:		
Cash and cash equivalents (Note 3)	$ 6,515,189	$ 5,626,469
Restricted cash (Note 3)	389,338	776,812
Investments (Note 4)	4,323,674	2,338,129
Accounts receivable, net	2,420,104	1,776,438
Government grant receivable (Note 9)	165,029	787,361
Unconditional promises to give (Notes 5 and 9)	4,038,844	6,966,144
Prepaid expenses and other assets	502,619	432,410
Property and equipment, net (Note 6)	292,823	179,854
Total assets	$ 18,647,620	$ 18,883,617

LIABILITIES AND NET ASSETS

	2018	2017
Liabilities:		
Accounts payable and accrued expenses (Note 13)	$ 1,310,805	$ 1,384,573
Accrued salary and related expenses	511,172	505,711
Deferred revenue	647,011	535,438
Deconsolidation agreement liability (Note 10)	-	50,000
Total liabilities	2,468,988	2,475,722
Commitments and contingencies (Notes 8, 10 and 13)		
Net assets:		
Unrestricted:		
Operating	6,514,893	5,144,377
Board designated (Note 12)	1,000,000	1,000,000
Temporarily restricted (Note 11)	6,675,266	8,275,045
Permanently restricted (Note 12)	1,988,473	1,988,473
Total net assets	16,178,632	16,407,895
Total liabilities and net assets	$ 18,647,620	$ 18,883,617

See accompanying notes.

EL EDUCATION, INC.
Statement of Activities
For the Year Ended August 31, 2018
(With Summarized Comparative Totals for the Year Ended August 31, 2017)

	2018				2017
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Total**
Revenue, support and gains:					
School, consulting and product revenue	$ 14,606,188	$ -	$ -	$ 14,606,188	$ 12,432,721
Contributions and grants (Note 9)	1,291,406	4,483,378	-	5,774,784	9,966,586
Government grant (Note 9)	2,087,142	-	-	2,087,142	3,216,791
Other income	118,003	-	-	118,003	73,108
Investment income (Note 4)	166,393	-	-	166,393	139,148
Net assets released from restrictions	6,083,157	(6,083,157)	-	-	-
Total revenue, support and gains	24,352,289	(1,599,779)	-	22,752,510	25,828,354
Expenses:					
Program services	18,842,409	-	-	18,842,409	19,251,282
General management and administration	3,081,066	-	-	3,081,066	2,848,993
Fundraising	1,058,298	-	-	1,058,298	813,291
Total expenses	22,981,773	-	-	22,981,773	22,913,566
Change in net assets	1,370,516	(1,599,779)	-	(229,263)	2,914,788
Net assets, beginning of year	6,144,377	8,275,045	1,988,473	16,407,895	13,493,107
Net assets, end of year	$ 7,514,893	$6,675,266	$1,988,473	$ 16,178,632	$ 16,407,895

See accompanying notes.

EL EDUCATION, INC.
Statements of Cash Flows
For the Years Ended August 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (229,263)	$ 2,914,788
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	128,629	110,975
Bad debt expense (recovery)	(89,664)	111,170
Investment gains, unrealized, net	(6,937)	(95,006)
Deferred rent	(4,766)	512
Decrease (increase) in:		
Accounts receivable, net	(554,002)	(868,614)
Government grant receivable	622,332	(341,790)
Unconditional promises to give	2,927,300	(2,503,578)
Prepaid expenses and other assets	(70,209)	(129,919)
Increase (decrease) in:		
Accounts payable and accrued expenses	(69,002)	465,573
Accrued salary and related expenses	5,461	145,494
Deferred revenue	111,573	7,446
Deconsolidation agreement liability	(50,000)	(50,000)
Net cash provided by (used in) operating activities	2,721,452	(232,949)
Cash flows from investing activities:		
Purchases of investments	(1,978,608)	(2,243,123)
Property and equipment acquisitions	(241,598)	(41,921)
Cash used in investing activities	(2,220,206)	(2,285,044)
Net increase (decrease) in cash and cash equivalents	501,246	(2,517,993)
Cash, cash equivalents and restricted cash, beginning of year	6,403,281	8,921,274
Cash, cash equivalents and restricted cash, end of year	$ 6,904,527	$ 6,403,281

See accompanying notes.

EL EDUCATION, INC.

Statement of Functional Expenses
For the Year Ended August 31, 2018
(With Summarized Comparative Totals for the Year Ended August 31, 2017)

	2018					
		Supporting Services				
	Program Services	General Management and Administration	Fundraising	Total Supporting Services	Total Expenses	2017 Total Expenses
Salaries	$ 8,566,273	$ 1,652,966	$ 555,601	$ 2,208,567	$ 10,774,840	$ 9,988,951
Employee benefits and payroll taxes	1,800,862	329,519	117,674	447,193	2,248,055	2,100,472
Consultants and service providers	4,073,736	503,800	77,932	581,732	4,655,468	5,888,595
Travel	1,323,233	42,663	40,392	83,055	1,406,288	1,268,792
Rent and occupancy	383,318	74,557	25,060	99,617	482,935	452,868
Conferences and meetings	1,265,569	266,577	173,580	440,157	1,705,726	947,277
Depreciation and amortization	102,096	19,858	6,675	26,533	128,629	110,975
Books, professional development materials and copies	765,714	81,891	24,667	106,558	872,272	1,323,007
Miscellaneous	561,608	109,235	36,717	145,952	707,560	832,629
Total expenses	$ 18,842,409	$ 3,081,066	$ 1,058,298	$ 4,139,364	$ 22,981,773	$ 22,913,566

See accompanying notes.

Note 1 - Nature of Activities

EL Education, Inc. (the "Organization"), formerly known as Expeditionary Learning Outward Bound, Inc., opens new elementary, middle and college-oriented secondary schools, and partners with existing schools, 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 its 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 Common Core and other state standards

- A culture of learning that builds persistence, collaboration, critical thinking, problem solving, communication and independence in the students

The Organization offers a comprehensive suite of professional development, coaching, Common Core curriculum, publications and online tools to support schools to be engaging environments where kids love to learn and teachers love to teach. The Organization partners with more than 150 schools and teachers serving students in thirty states, and thousands of other teachers, through its professional services work in New York and other states.

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 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 three classes of net assets:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations. Board designated net assets are reflected as a component of unrestricted net assets and the purpose is to create an endowment fund.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets

Net assets that are subject to donor-imposed stipulations that they be maintained permanently by an organization.

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 a brokerage account and is limited to investing towards the Organization's endowment fund.

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, 2018 and 2017 was approximately $125,000 and $209,000, respectively.

Revenue and Support Recognition

Revenue is reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. School, consulting and product income is comprised of professional services consulting engagements (single and multi-day at customer/school locations) and is recognized when earned. Expenses are reported as a decrease in unrestricted net assets.

Contributions and grants received are recorded as unrestricted, temporarily restricted or permanently restricted support, 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 temporarily or permanently restricted net assets, 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, 2018 and 2017, 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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, 2017 in the accompanying financial statements are included to provide a basis for comparison with August 31, 2018 and present summarized totals only. Accordingly, the August 31, 2017 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, 2017 from which the summarized information was derived.

Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and the supporting services benefited.

Advertising

Advertising is expensed as incurred and amounted to approximately $19,700 and $34,000 for the years ended August 31, 2018 and 2017, respectively.

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, 2015 are no longer subject to examination. No returns or registrations are presently under examination by the relevant authorities.

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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 is currently evaluating the full effect that the adoption of this standard will have on its financial statements.

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, 2021 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.

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 ASU is effective for fiscal years beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted, but only for an annual fiscal period or for the first interim period within the year of adoption. The Organization is currently in the process of evaluating the impact that ASU 2016-14 will have on its financial statements and related disclosures.

Restricted Cash

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The new standard requires that the statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities are also required to reconcile such total to amounts on the statement of financial position and disclose the nature of the restrictions. For the Organization, the amendment in this update is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization early adopted this amendment and is presenting the balance reported as restricted cash on the statements of financial position in cash and cash equivalents in the statements of cash flows.

Note 3 - Cash 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,	
	2018	2017
Cash and cash equivalents	$ 6,515,189	$ 5,626,469
Restricted cash	$ 389,338	$ 776,812

Note 4 - 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, 2018 and 2017:

	Fair Market Value	
	2018	2017
Mutual funds - equities	$ 1,755,185	$ 1,258,383
Mutual funds - bonds	1,073,177	1,079,746
U.S. Treasury bills	1,495,312	-
	$ 4,323,674	$ 2,338,129

Of the total investment balance as of August 31, 2018, $2,599,135 is restricted for endowments.

For the years ended August 31, 2018 and 2017, investment return consisted of the following:

	2018	2017
Interest and dividend income	$ 149,945	$ 43,744
Realized gains, net	9,511	398
Unrealized gain, net	6,937	95,006
	$ 166,393	$ 139,148

Note 5 - Unconditional Promises to Give

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

	2018	2017
Due within 1 year	$ 3,336,883	$ 4,964,985
Due years 2 through 5	701,961	2,001,159
	$ 4,038,844	$ 6,966,144

Unconditional promises to give are recorded at the expected future cash flows. The Organization has recorded a discount of approximately $19,000 to reflect the net present value of the future cash flows as of August 31, 2018. No discount was recorded as of August 31, 2017 as management determined it to be insignificant. There was no allowance for uncollectible accounts as of August 31, 2018 and 2017.

Note 6 - Property and Equipment

At August 31, property and equipment consists of:

	2018	2017	Estimated Useful Life
Leasehold improvements	$ 274,586	$ 137,888	Lesser of lease term or estimated useful life
Furniture, fixtures and equipment	810,530	705,629	3-7 years
	1,085,116	843,517	
Accumulated depreciation and amortization	(792,293)	(663,663)	
	$ 292,823	$ 179,854	

Note 7 - Note Payable - 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% (5.75% as of August 31, 2018). 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, 2019. As of August 31, 2018 and 2017, there were no amounts outstanding under the line of credit.

There were no borrowings on the line during the years ended August 31, 2018 and 2017.

Note 8 - 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 $329,900 and $323,300 for the years ended August 31, 2018 and 2017, respectively.

Note 9 - Concentrations of Credit Risk and Major Grantors

Cash and Cash Equivalents

As of August 31, 2018 and 2017, 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, 2018 and 2017, 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.

Note 9 - Concentrations of Credit Risk and Major Grantors (Continued)

Major Grantors

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.

During the year ended August 31, 2017, approximately 81% of contributions and grants and government grant revenue was received from four donors and one agency; approximately $787,000 has been recorded as government grant receivable and $200,000 as an unconditional promise to give from one government agency and one donor, respectively, as of August 31, 2017.

Note 10 - 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. As the result, no outstanding balance remained at 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 11 - Net Assets - Temporarily Restricted

Temporarily restricted net assets consist of the following at August 31:

	2018	2017
Purpose restrictions	$ 30,694	$ 5,707
Time and purpose restrictions	5,929,416	7,669,338
Time restrictions	715,156	600,000
	$ 6,675,266	8,275,045

Note 11 - Net Assets - Temporarily Restricted (Continued)

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

	2018	2017
Development of EL Education Schools	$ 3,457,156	$ 5,381,992
Training and evaluation	891,288	1,263,208
Curriculum services	469,032	851,888
Future operations	715,156	600,000
Strategic Plan	1,100,000	-
i3 TPP matching funds	-	162,729
Other purpose restricted activities	42,634	15,228
	$ 6,675,266	$ 8,275,045

Note 12 - 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 as permanently restricted net assets (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 permanently restricted net assets is classified as temporarily restricted net assets 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:

Note 12 - Donor and Board Designated Endowment (Continued)

(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, 2018 and 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 1,988,473	$ 1,988,473
Board-designated endowment funds	1,000,000	-	-	1,000,000
Total funds	$ 1,000,000	$ -	$ 1,988,473	$ 2,988,473

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	(4,384)	-	(8,719)	(13,103)
Endowment net assets, August 31, 2018	$ 1,000,000	$ -	$ 1,988,473	$ 2,988,473

Note 12 - Donor and Board Designated Endowment (Continued)

Changes in Endowment Net Assets
For the Fiscal Year Ended August 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, September 1, 2016	$ 1,000,000	$ -	$ 1,988,473	$ 2,988,473
Investment return:				
Investment income	10,528	-	20,934	31,462
Net appreciation (realized and unrealized)	31,791	-	63,215	95,006
Appropriation of endowment assets for expenditure	(42,319)	-	(84,149)	(126,468)
Endowment net assets, August 31, 2017	$ 1,000,000	$ -	$ 1,988,473	$ 2,988,473

Description of Amounts Classified as Permanently Restricted Net Assets

	2018	2017
Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by NYPMIFA	$ 1,988,473	$ 1,988,473

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.

Note 12 - Donor and Board Designated Endowment (Continued)

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 13 - 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.

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

Year Ending August 31,	
2019	$ 366,500
2020	354,000
2021	236,200
2022	46,900
2023	27,400
	$ 1,031,000

Note 13 - Commitments and Contingencies (Continued)

Lease Commitments (Continued)

Rent expense for the years ended August 31, 2018 and 2017, including escalation costs, amounted to approximately $300,000 and $281,000, 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 $53,000 and $58,000, representing the pro rata future rent payments, is included in accounts payable and accrued expenses on the statements of financial position at August 31, 2018 and 2017, respectively. Included in rent expense for the years ended August 31, 2018 and 2017 is a decrease in rent of approximately $4,800 and an increase in rent of approximately $500, 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 14 - Subsequent Events

The Organization has evaluated subsequent events through January 30, 2019, 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, 2018

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Education		
Investing in Innovation (i3) Fund	84.411B	$ 2,087,142
Total Expenditures of Federal Awards		$ 2,087,142

See 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, 2018. 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

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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, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 30, 2019.

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.

Mayer Hoffman McCann CPAs

January 30, 2019

REPORTING UNDER THE UNIFORM GUIDANCE

MHM

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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, 2018. 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, 2018.

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 30, 2019

EL EDUCATION, INC.
(Supplementary Information)
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2018

	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:	Name of Federal Program
CFDA Number:	
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.