The English-Speaking Union of the United States

Consolidated Financial Statements

June 30, 2017

PKF O'CONNOR DAVIES ACCOUNTANTS AND ADVISORS

Independent Auditors' Report

Board of Directors
The English-Speaking Union of the United States

We have audited the accompanying consolidated financial statements of The English-Speaking Union of the United States ("ESU") which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The English-Speaking Union of the United States as of June 30, 2017 and the consolidated changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

PKF O'Connor Davies, LLP

June 1, 2018

The English-Speaking Union of the United States

Consolidated Statement of Financial Position
June 30, 2017

ASSETS	
Cash and cash equivalents	$ 1,648,133
Accounts receivable	9,649
Promises to give receivable	200,941
Prepaid expenses and deposits	28,039
Investments held by National Headquarters, at fair value	13,247,085
Investments held by branches, at fair value	5,088,387
Headquarters building, net of accumulated depreciation	3,182,481
Office equipment, net of accumulated depreciation	34,350
	$ 23,439,065
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable and accrued expenses	$ 248,174
Line of credit payable	1,000
Capital lease payable	34,121
Total Liabilities	283,295
Net Assets	
Unrestricted	
Investment in headquarters building and office equipment	3,216,831
Board designated	12,029,980
Undesignated	2,857,389
Total Unrestricted	18,104,200
Temporarily restricted	2,348,414
Permanently restricted	2,703,156
Total Net Assets	23,155,770
	$ 23,439,065

See notes to consolidated financial statements

The English-Speaking Union of the United States

Consolidated Statement of Activities
Year Ended June 30, 2017

	Unrestricted						
	Operations	Board Designated	Investment in Headquarters Building and Office Equipment	Total	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE AND SUPPORT							
Operating revenue							
Membership dues	$ 262,976	$ -	$ -	$ 262,976	$ -	$ -	$ 262,976
Other revenue	37,914	-	-	37,914	-	-	37,914
Total Operating Revenue	300,890	-	-	300,890	-	-	300,890
Contributions	831,061	-	-	831,061	221,474	-	1,052,535
Allocated investment income	581,021	(581,021)	-	-	190,950	-	190,950
Branch events	395,273	-	-	395,273	-	-	395,273
Speakers and conferences	25,559	-	-	25,559	-	-	25,559
Special events income, net of event expenses of $56,972	43,778	-	-	43,778	-	-	43,778
Transfers from Board designated reserves - HQ	102,150	(102,150)	-	-	-	-	-
Transfers from Board designated reserves - branches	7,166	(7,166)	-	-	-	-	-
Net assets released from restrictions	560,862	-	-	560,862	(560,862)	-	-
Total Operating Revenue and Support	2,847,760	(690,337)	-	2,157,423	(148,438)	-	2,008,985
OPERATING EXPENSES							
Program Services							
Membership services	99,180	-	-	99,180	-	-	99,180
Branch events	455,607	-	-	455,607	-	-	455,607
Speakers and conferences	70,692	-	-	70,692	-	-	70,692
Education	1,455,788	-	-	1,455,788	-	-	1,455,788
Book services	10,255	-	-	10,255	-	-	10,255
Communications	77,238	-	-	77,238	-	-	77,238
Branch services	143,111	-	-	143,111	-	-	143,111
Depreciation and amortization	-	-	77,221	77,221	-	-	77,221
Total Program Services	2,311,871	-	77,221	2,389,092	-	-	2,389,092
Supporting Services							
Management and general	519,367	-	-	519,367	-	-	519,367
Fundraising	112,411	-	-	112,411	-	-	112,411
Depreciation and amortizatior	-	-	41,482	41,482	-	-	41,482
Total Supporting Services	631,778	-	41,482	673,260	-	-	673,260
Total Operating Expenses	2,943,649	-	118,703	3,062,352	-	-	3,062,352
Change in Net Assets from Operations	(95,889)	(690,337)	(118,703)	(904,929)	(148,438)	-	(1,053,367)
NON-OPERATING ITEMS							
Investment return - National Headquarters	-	1,826,827	-	1,826,827	71,300	-	1,898,127
Investment return - branches, net of allocations	30,795	-	-	30,795	438,237	-	469,032
Endowment gift	-	-	-	-	-	5,000	5,000
Legal reorganization and travel expenses	(68,777)	-	-	(68,777)	-	-	(68,777)
Transfer of building and equipment purchases	(196,925)	-	196,925	-	-	-	-
Non-operating transfers (branches)	3,021,894	140,655	-	3,162,549	903,684	2,185,571	6,251,804
Change in Net Assets	2,691,098	1,277,145	78,222	4,046,465	1,264,783	2,190,571	7,501,819
NET ASSETS							
Beginning of year	166,291	10,752,835	3,138,609	14,057,735	1,083,631	512,585	15,653,951
End of year	$ 2,857,389	$ 12,029,980	$ 3,216,831	$ 18,104,200	$ 2,348,414	$ 2,703,156	$ 23,155,770

See notes to consolidated financial statements

The English-Speaking Union of the United States

Consolidated Statement of Cash Flows
Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	$ 7,501,819
Adjustments to reconcile change in net assets to net cash from operating activities	
Non-operating transfers of assets - branches	(6,251,804)
Permanently restricted gift	(5,000)
Net realized and unrealized (gain) on investments	(2,266,078)
Depreciation	118,703
Changes in Operating Assets and Liabilities	
Accounts receivable	199
Promises to give receivable	185,690
Prepaid expenses and deposits	(20,836)
Accounts payable and accrued expenses	108,273
Total Adjustments	(8,130,853)
Net Cash From Operating Activities	(629,034)
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash from non-operating transfers - branches	1,482,123
Purchase of equipment and building improvements	(158,411)
Net proceeds from investments	820,553
Net Cash From Investing Activities	2,144,265
CASH FLOWS FROM FINANCING ACTIVITIES	
Permanently restricted gift	5,000
Principal payments on capital lease	(9,050)
Net Cash From Financing Activities	(4,050)
Increase in Cash and Cash Equivalents	1,511,181
CASH AND CASH EQUIVALENTS	
Beginning of year	136,952
End of year	$ 1,648,133
SUPPLEMENTAL CASH FLOW INFORMATION	
Non-Cash Investing and Financing Activities	
Assets acquired through capital lease	$ 38,305

See notes to consolidated financial statements

1. Organization and Taxation

The English-Speaking Union of the United States, ("ESU") is a not-for-profit organization incorporated in the State of Delaware for charitable and educational purposes with headquarters located in New York, NY (HQ). Sixty-five branches of ESU operated through independent governing boards throughout the United States. These branches supported their own scholarships and programs as well as those of HQ. Since 1920, the ESU has grown to include a broad domestic and international education and exchange base both in the United States and in fifty-five countries worldwide.

Effective July 1, 2016, substantially all of the branches of ESU were reorganized as single limited liability companies in the State of Delaware with HQ serving as the branches' sole member. Therefore commencing for the year ended June 30, 2017, the financial operations of HQ and the LLC branches (the "branches") were consolidated and reported as one entity for financial reporting and income tax reporting purposes. As a result of the reorganization, $6,251,804 of the branches' net assets have been recognized as of the effective reorganization dates in the accompanying consolidated financial statements.

ESU is exempt from income tax under Sections 501(c)(3) and 509(a) of the Internal Revenue Code of 1986.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), which 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. Accordingly actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of HQ and the branches. All significant intercompany transactions and accounts have been eliminated in consolidation.

Net Asset Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of ESU and changes therein are classified and reported as unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

2. Summary of Significant Accounting Policies *(continued)*

Cash and Cash Equivalents

For statement of cash flow purposes, ESU considers all highly liquid debt instruments purchased with a maturity of three months or less, except for such items in its investment account, to be cash equivalents.

Fair Value Measurements

ESU follows US GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

ESU follows US GAAP guidance which removed the requirements to categorize within the fair value hierarchy alternative investments where fair value is measured using the Net Asset Value ("NAV") per share as a practical expedient.

Investments Valuation and Income Recognition

Investments are carried at fair value except for temporary cash investments which are carried at cost. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of change in net assets.

Headquarters Building, Building Improvements and Office Equipment

ESU follows the practice of capitalizing expenditures for building, improvements and equipment with cost of $500 or higher and having a useful life of more than one year. Depreciation is expensed on a straight-line basis over the estimated useful lives of the assets which range from 4 to 39 years.

ESU reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset exceeds its fair value. If such review indicates that the asset is impaired, the asset's carrying amount would be written down to fair value. Management has determined that no impairment adjustment was required for the year ended June 30, 2017.

2. Summary of Significant Accounting Policies *(continued)*

Contributions

Contributions received, including unconditional promises to give, are recognized as support in the period received at their fair value. Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Gifts-in-Kind

Contributions of services and use of facilities are recognized at their fair value when they create or enhance nonfinancial assets or they require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not donated. The value of the contributed services and use of facilities recognized as revenue and expense in the statements of activities for each of the year ended June 30, 2017 was $52,500 all of which was allocated to program services.

Operating Measure

ESU classifies its activities in the accompanying consolidated statement of activities as operating and non-operating. Operating activities principally include all income and expenses related to carrying out ESU's charitable and educational mission. Operating revenue also includes investment return to fund current operations, in accordance with ESU's endowment spending rate policy.

Non-operating activities principally include investment return in excess of (or less than) amounts authorized for expenditure by ESU's Board of Directors (spending rate policy), contributions and other resources intended for permanently restricted purposes and other activities considered to be of a more unusual or non-recurring nature.

Functional Allocation of Expenses

Expenses, including depreciation, have been charged to program and supporting services either directly, when identifiable, or indirectly based on management's estimation of the services benefited.

2. Summary of Significant Accounting Policies *(continued)*

Accounting for Uncertainty in Income Taxes

ESU recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that ESU had no uncertain tax positions that would require financial statement disclosure or recognition. ESU is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to June 30, 2014.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which date is June 1, 2018.

3. Credit Risk Concentration

Certain financial instruments potentially subject ESU to concentrations of credit risk. These financial instruments consists primarily of cash and cash equivalents, investments and accounts and promises to give receivables. ESU places its cash and cash equivalents and investments in highly rated financial institutions. At times cash and cash equivalents and investment balances held at these financial institutions may exceed insured limits. ESU does not have a material concentration of credit risk with respect to accounts and promises to give receivable.

4. Promises to Give Receivable

Promises to give receivable which amounted to $200,941 at June 30, 2017 are due to be collected within one year and are deemed to be fully collectible by management. Thus, no allowance has been provided for potential uncollectibility.

5. Investments and Investment Return

ESU utilizes a total return investment approach with its asset allocation diversified over multiple asset classes. Target allocation percentages are established for various asset classes and are modified over time. Performance is measured against a composite benchmark of investment indices reflecting the target asset allocation.

5. Investments and Investment Return *(continued)*

The following are the types of investments held by HQ at June 30, 2017 grouped by the fair value hierarchy for those investments measured at fair value on a recurring basis (except temporary cash investments):

2017 Description	Level 1	Level 2	Total
Investments at Fair Value by Level of Input			
Fixed income	$ 1,543,281	$ 659,688	$ 2,202,969
Equity securities	10,243,510	-	10,243,510
	11,786,791	659,688	12,446,479
Other			
Private equity (I)	-	-	16,481
Total Investments at Fair Value	$11,786,791	$ 659,688	12,462,960
Temporary cash investment at cost			784,125
Total Investments			$13,247,085

The following are the types of investments held by the branches at June 30, 2017 grouped by the fair value hierarchy for those investments measured at fair value on a recurring basis (except temporary cash investments):

2017 Description	Level 1	Level 2	Level 3	Total
Investments at Fair Value by Level of Input				
Fixed income	$ -	$ 292,452	$ -	$ 292,452
Equity securities	3,625,350	-	-	3,625,350
Preferred stock	110,652	-	-	110,652
Mutual funds	868,327	-	-	868,327
	4,604,329	292,452	-	4,896,781
Other				
Beneficial Interest in Trust (II)	-	-	34,036	34,036
Total Investments at Fair Value	$ 4,604,329	$ 292,452	$ 34,036	4,930,817
Temporary cash investment at cost				157,570
Total Investments				$ 5,088,387

(I) As discussed in Note 2, investments measured using NAV per share as a practical expedient are not classified within the fair value hierarchy. As of June 30, 2017, ESU's investment valued at $16,481 was invested solely in a private equity fund that invests primarily in private companies and private equity partnerships operating in the United States. There are no unfunded commitments related to this investment. ESU is currently limited from redeeming the full amount of this investment until such time the private equity fund ceases operations and liquidates its assets.

(II) ESU maintains a beneficial interest in a certain trust administered by a third party. This trust is valued at $34,036 as of June 30, 2017. As this trust is controlled and invested by an independent third party, ESU records a beneficial interest for its ratable share of the assets based on the fair value of the trust's underlying assets.

5. Investments and Investment Return *(continued)*

The following is a reconciliation of the beginning and ending balances for assets measured at fair value using significant unobservable input (Level 3) during fiscal 2017:

	Beneficial Interests in Trusts
Balance, beginning of year	$ -
Non-operating transfer	32,638
Interest and dividends	331
Purchase of investments	1,242
Fees and expenses	(700)
Unrealized gain	525
Balance, end of year	$ 34,036

ESU has adopted the total return concept for the purpose of appropriating earnings from its combined investments for expenditure. The budgeted annual distribution rate was 5% of the three year average market value of the combined portfolio for the investments held by HQ and the branches.

The following is a summary of the investment returns on the investments held by HQ for the fiscal year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Total
Dividends and interest	$ 264,887	$ 19,192	$ 284,079
Unrealized appreciation	954,432	69,156	1,023,588
Realized gain on investment sales	646,115	46,816	692,931
Custody and advisory fees	(58,551)	(4,242)	(62,793)
Total Investment Return	1,806,883	130,922	1,937,805
Allocated to operations:			
General operations	497,016	-	497,016
Speaker and member services	5,342	-	5,342
Education	78,663	28,080	106,743
Book services	-	31,542	31,542
Total Allocated to Operations	581,021	59,622	640,643
Allocated to Non-operating Activities	1,225,862	71,300	1,297,162
	$ 1,806,883	$ 130,922	$ 1,937,805

5. Investments and Investment Return *(continued)*

The following is a summary of the investment return on the investments held by the branches for the fiscal year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Total
Dividends and interest	$ 36,123	$ 59,732	$ 95,855
Unrealized appreciation	130,988	262,790	393,778
Realized gain on investment sales	24,144	131,637	155,781
Custody and advisory fees	(9,189)	(15,921)	(25,110)
Total Investment Return	182,066	438,238	620,304
Allocated to operations:			
Education	-	131,328	131,328
Total Allocated to Operations	-	131,328	131,328
Allocated to Non-operating Activities	182,066	306,910	488,976
	$ 182,066	$ 438,238	$ 620,304

The following is a reconciliation of the HQ investment activity for fiscal year 2017 in the donor restricted and unrestricted board designated funds:

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2016	$ 10,752,835	$614,442	$ 512,585	$ 11,879,862
Contributions	-	-	5,000	5,000
Interest and dividends	264,887	19,192	-	284,079
Unrealized appreciation	954,432	69,156	-	1,023,588
Realized appreciation	646,115	46,816	-	692,931
Custody fees	(58,551)	(4,242)	-	(62,793)
Capital costs	(102,150)	-	-	(102,150)
Appropriation for expenditure	(581,021)	(81,003)	-	(662,024)
Balance, June 30, 2017	$ 11,876,547	$664,361	$ 517,585	$ 13,058,493
Comprised of the following:				
Donor restricted funds	$ -	$664,361	$ 517,585	$ 1,181,946
Board designated funds	11,876,547	-	-	11,876,547
Total Funds	$ 11,876,547	$664,361	$ 517,585	$ 13,058,493

5. Investments and Investment Return *(continued)*

The following is a reconciliation of the branches investment activity for fiscal year 2017 in the donor restricted and unrestricted board designated funds:

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2016	$ -	$ -	$ -	$ -
Non-operating transfer	140,655	903,684	2,185,571	3,229,910
Interest and dividends	2,718	59,732	-	62,450
Unrealized appreciation	11,960	262,790	-	274,750
Realized appreciation	5,991	131,637	-	137,628
Custody fees	(725)	(15,921)	-	(16,646)
Transfer to operations	(7,166)	-	-	(7,166)
Appropriation for expenditure	-	(131,328)	-	(131,328)
Balance, June 30, 2017	$ 153,433	$ 1,210,594	$ 2,185,571	$ 3,549,598
Comprised of the following:				
Donor restricted funds	$ -	$ 1,210,594	$ 2,185,571	$ 3,396,165
Board designated funds	153,433	-	-	153,433
Total funds	$ 153,433	$ 1,210,594	$ 2,185,571	$ 3,549,598

Interpretation of Relevant Law

The Board of Directors of ESU have interpreted New York Prudent Management of Institutional Funds Act ("NYPMIFA") and Florida Uniform Prudent Management of Institutional Funds Act ("FUPMIFA") as requiring the preservation 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, ESU 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 fund, and (c) accumulations of investment returns 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, if any. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by NYPMIFA and FUPMIFA. Please refer to Note 5 for ESU's spending and investment policies.

6. Headquarters' Building and Office Equipment

Building and office equipment at June 30 consisted of the following:

Land	$ 930,900
Building and improvements	3,611,662
	4,542,562
Less accumulated depreciation	1,360,081
	$ 3,182,481
Office equipment	$ 117,506
Less accumulated depreciation	83,156
	$ 34,350

Depreciation expense for the years ended June 30, 2017 in the amount of $118,703 has been allocated to various programs ($77,221) and supporting services ($41,482) based on management's estimate of the benefit. Office equipment includes an asset held under a capital lease totaling $38,305 and related accumulated depreciation of $4,788 at June 30, 2017.

7. Line of Credit Payable

ESU maintains a line of credit agreement with a bank that allows for borrowings up to $300,000. Outstanding borrowings at June 30, 2017 of $1,000 bear interest at the higher of 2% or LIBOR plus 250 basis points and are due upon demand. The actual interest rate for June 30, 2017 was approximately 2.7%. The agreement is secured by certain unrestricted investments held at the bank.

8. Capital Lease

ESU is committed under a capital lease for office equipment. The lease expires in 2021 and provides for the following minimum annual payments.

Year Ending	
2018	$ 9,576
2019	9,576
2020	9,576
2021	5,393
	$ 34,121

9. Temporarily Restricted Net Assets

Temporarily restricted net assets, at June 30, 2017 are to be used for the following purposes:

	2017
Education	$ 2,053,435
Book services	294,979
Total Temporarily Restricted Net Assets	$ 2,348,414

During the year ended June 30, 2017 the restrictions on certain temporarily restricted net assets were satisfied as follows:

	2017
Education	$ 522,538
Book services	38,324
Net Assets Released From Restrictions	$ 560,862

10. Permanently Restricted Net Assets

Permanently restricted net assets, at June 30, 2017 represent gifts which have been restricted by the donor in perpetuity, and from which the income is to be used for the following purposes:

	2017
Education	$ 2,401,391
Book services	301,765
Total Permanently Restricted Net Assets	$ 2,703,156

11. Pension Plan

Eligible employees of ESU who are employed in HQ participate in a money purchase pension plan, as defined in Section 403(b) of the Internal Revenue Code. Employer contributions are made for eligible employees at the rate of 7.5% of covered compensation. Pension expense amounted to $46,835 for the year ended June 30, 2017.

12. Related Party Transactions

A member of ESU's board is a partner in a law firm which provides legal services to ESU. Legal service fees totaling $63,642 were paid to the law firm in fiscal 2017.

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