

**The English-Speaking Union of
the United States**

Consolidated Financial Statements

June 30, 2019

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, 2019, and the related consolidated statements of activities, functional expenses 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 qualified audit opinion.

Basis for Qualified Opinion

We were not able to obtain supporting documentation for revenues and expenses of certain branch subsidiaries of the ESU due to the branches' inability to provide requested documentation. Because of this limitation, we were unable to substantiate whether the classification of these revenues and expenses were reasonably stated.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph 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, 2019 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.

Report on Summarized Comparative Information

We have previously audited The English-Speaking Union of the United States June 30, 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 30, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Change in Accounting Principle

As discussed in note 2 to the consolidated financial statements, during the year ended June 30, 2019, ESU adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

PKF O'Connor Davies, LLP

June 26, 2020

The English-Speaking Union of the United States

Consolidated Statement of Financial Position
June 30, 2019
(with comparative amounts at June 30, 2018)

	June 30	
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 1,462,829	\$ 2,434,327
Certificates of deposit	300,000	-
Accounts receivable	81,932	53,288
Promises to give receivable	750	750
Prepaid expenses and other assets	44,152	28,530
Investments held by National Headquarters, at fair value	13,135,467	14,134,031
Investments held by branches, at fair value	6,313,476	6,115,440
Headquarters building, net of accumulated depreciation	3,809,933	3,717,191
Office equipment, net of accumulated depreciation	<u>14,364</u>	<u>23,940</u>
	<u>\$ 25,162,903</u>	<u>\$ 26,507,497</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 155,228	\$ 423,545
Line of credit payable	-	1,000
Capital lease payable	<u>14,809</u>	<u>24,385</u>
Total Liabilities	<u>170,037</u>	<u>448,930</u>
Net Assets		
Without Donor Restrictions		
Investment in headquarters building and office equipment	3,824,297	3,741,131
Board designated	11,891,324	12,852,786
Undesignated	<u>3,792,825</u>	<u>3,935,676</u>
Total Net Assets Without Donor Restrictions	19,508,446	20,529,593
With Donor Restrictions		
Time and purpose restricted	2,776,914	2,821,468
Perpetual in nature	<u>2,707,506</u>	<u>2,707,506</u>
Total Net Assets	<u>24,992,866</u>	<u>26,058,567</u>
	<u>\$ 25,162,903</u>	<u>\$ 26,507,497</u>

See notes to consolidated financial statements

The English-Speaking Union of the United States

Consolidated Statement of Activities Year Ended June 30, 2019 (with summarized totals for the year ended June 30, 2018)

	Without Donor Restrictions				With Donor Restrictions		Total 2019	(Restated) Total 2018
	Undesignated	Board Designated	Investment in Headquarters Building and Office Equipment	Total	Time and Purpose Restricted	Perpetual In Nature		
OPERATING REVENUE AND SUPPORT								
Operating Revenue								
Membership dues	\$ 230,043	\$ -	\$ -	\$ 230,043	\$ -	\$ -	\$ 230,043	\$ 219,880
Education	<u>323,654</u>	<u>-</u>	<u>-</u>	<u>323,654</u>	<u>-</u>	<u>-</u>	<u>323,654</u>	<u>284,742</u>
Total Operating Revenue	553,697	-	-	553,697	-	-	553,697	504,622
Contributions	425,189	-	-	425,189	533,111	-	958,300	1,302,557
Allocated investment income to operations	570,793	(570,793)	-	-	192,472	-	192,472	193,483
Branch events and meetings	488,559	-	-	488,559	-	-	488,559	384,095
Speakers and conferences	54,405	-	-	54,405	-	-	54,405	29,660
Special events income, net of event expenses of \$34,747 in 2019 and \$24,420 in 2018	17,159	-	-	17,159	-	-	17,159	60,951
Other revenue	57,709	-	-	57,709	-	-	57,709	52,785
Transfers from Board designated reserves - HQ	400,000	(400,000)	-	-	-	-	-	-
Transfers from Board designated reserves - branches	7,787	(7,787)	-	-	-	-	-	-
Net assets released from restrictions	<u>583,243</u>	<u>-</u>	<u>-</u>	<u>583,243</u>	<u>(583,243)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Revenue and Support	<u>3,158,541</u>	<u>(978,580)</u>	<u>-</u>	<u>2,179,961</u>	<u>142,340</u>	<u>-</u>	<u>2,322,301</u>	<u>2,528,153</u>
OPERATING EXPENSES								
Program Services								
Membership services	67,028	-	3,789	70,817	-	-	70,817	105,755
Branch events and meetings	474,005	-	-	474,005	-	-	474,005	455,657
Speakers and conferences	41,235	-	2,332	43,567	-	-	43,567	46,066
Education	1,295,831	-	73,167	1,368,998	-	-	1,368,998	1,661,772
Communications	30,260	-	1,709	31,969	-	-	31,969	49,337
Branch services	56,771	-	3,208	59,979	-	-	59,979	128,505
Total Program Services	<u>1,965,130</u>	<u>-</u>	<u>84,205</u>	<u>2,049,335</u>	<u>-</u>	<u>-</u>	<u>2,049,335</u>	<u>2,551,031</u>
Supporting Services								
Management and general	1,272,054	-	-	1,272,054	-	-	1,272,054	716,660
Fundraising	126,993	-	-	126,993	-	-	126,993	91,684
Depreciation and amortization	-	-	82,694	82,694	-	-	82,694	34,854
Total Supporting Services	<u>1,399,047</u>	<u>-</u>	<u>82,694</u>	<u>1,481,741</u>	<u>-</u>	<u>-</u>	<u>1,481,741</u>	<u>843,198</u>
Total Operating Expenses	<u>3,364,177</u>	<u>-</u>	<u>166,899</u>	<u>3,531,076</u>	<u>-</u>	<u>-</u>	<u>3,531,076</u>	<u>3,394,229</u>
Change in Net Assets from Operations	(205,636)	(978,580)	(166,899)	(1,351,115)	142,340	-	(1,208,775)	(866,076)
NON-OPERATING ITEMS								
Investment return - National Headquarters	-	167,253	-	167,253	(25,362)	-	141,891	2,577,026
Investment return - branches	157,290	(1,296)	-	155,994	(161,532)	-	(5,538)	819,082
Other non-operating income	6,721	-	-	6,721	-	-	6,721	5,023
Endowment gift	-	-	-	-	-	-	-	4,350
Transfer from Board designated reserves for capital improvements	148,839	(148,839)	-	-	-	-	-	-
Transfer of building and equipment purchases	(250,065)	-	250,065	-	-	-	-	-
Non-operating transfers (branches)	-	-	-	-	-	-	-	83,602
Change in Net Assets	<u>(142,851)</u>	<u>(961,462)</u>	<u>83,166</u>	<u>(1,021,147)</u>	<u>(44,554)</u>	<u>-</u>	<u>(1,065,701)</u>	<u>2,623,007</u>
NET ASSETS								
Beginning of year (restated)	<u>3,935,676</u>	<u>12,852,786</u>	<u>3,741,131</u>	<u>20,529,593</u>	<u>2,821,468</u>	<u>2,707,506</u>	<u>26,058,567</u>	<u>23,435,560</u>
End of year	<u>\$ 3,792,825</u>	<u>\$ 11,891,324</u>	<u>\$ 3,824,297</u>	<u>\$ 19,508,446</u>	<u>\$ 2,776,914</u>	<u>\$ 2,707,506</u>	<u>\$ 24,992,866</u>	<u>\$ 26,058,567</u>

See notes to consolidated financial statements

The English Speaking Union of the United States

Consolidated Statement of Functional Expenses For the Year Ended June 30, 2019 (with summarized totals for the year ended June 30, 2018)

	Program Services						Management and General	Fundraising	Total Expenses 2019	Total Expenses 2018	
	Membership Services	Speakers and Conferences	Branch Services	Communications	Education	Branch Events and Meetings					Total Programs
Salaries, payroll taxes and benefits	\$ 59,973	\$ -	\$ 39,956	\$ 5,713	\$ 391,252	\$ -	\$ 496,894	\$ 640,081	\$ 110,795	\$ 1,247,770	\$ 1,184,333
Professional and consulting fees	4,453	160	6,912	4,941	483,775	-	500,241	305,679	4,404	810,324	750,316
Scholarships and awards	-	-	9	-	179,479	-	179,488	16,935	-	196,423	286,184
Travel and meetings	684	37,537	1,061	-	103,712	-	142,994	31,057	29,142	203,193	158,989
Occupancy (Utilities and maintenance)	37	15	59	59	25,563	-	25,733	84,415	59	110,207	70,415
In-kind rent	-	-	-	-	52,500	-	52,500	-	-	52,500	52,500
Branch events and meetings	-	-	-	-	-	474,005	474,005	-	-	474,005	455,656
Administrative and miscellaneous	1,763	3,476	1,712	19,547	56,419	-	82,917	106,527	17,151	206,595	228,989
Insurance and finance fees	118	47	7,062	-	3,131	-	10,358	87,360	189	97,907	92,474
Total Expenses	67,028	41,235	56,771	30,260	1,295,831	474,005	1,965,130	1,272,054	161,740	3,398,924	3,279,856
Add: Depreciation	3,789	2,332	3,208	1,709	73,167	-	84,205	82,694	-	166,899	138,793
Less costs with direct benefits to donors	-	-	-	-	-	-	-	-	(34,747)	(34,747)	(24,420)
Total Expenses	\$ 70,817	\$ 43,567	\$ 59,979	\$ 31,969	\$ 1,368,998	\$ 474,005	\$ 2,049,335	\$ 1,354,748	\$ 126,993	\$ 3,531,076	\$ 3,394,229

See notes to consolidated financial statements

The English-Speaking Union of the United States

Consolidated Statement of Cash Flows
Year Ended June 30, 2019
(with comparative amounts for the year ended June 30, 2018)

	Year Ended June 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	<u>\$ (1,065,701)</u>	<u>\$ 2,623,007</u>
Adjustments to reconcile change in net assets to net cash from operating activities		
Non-operating transfers of assets - branches	-	(83,602)
Permanently restricted gift	-	(4,350)
Net realized and unrealized gain on investments	(16,884)	(3,295,067)
Depreciation and amortization	166,899	138,793
Changes in Operating Assets and Liabilities		
Accounts receivable	(28,644)	(43,639)
Promises to give receivable	-	200,191
Prepaid expenses and other assets	(15,622)	(491)
Accounts payable and accrued expenses	<u>(268,317)</u>	<u>175,371</u>
Total Adjustments	<u>(162,568)</u>	<u>(2,912,794)</u>
Net Cash From Operating Activities	<u>(1,228,269)</u>	<u>(289,787)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(300,000)	-
Purchase of equipment and building improvements	(250,065)	(663,093)
Net proceeds from investments	<u>817,412</u>	<u>1,744,460</u>
Net Cash From Investing Activities	<u>267,347</u>	<u>1,081,367</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted gift	-	4,350
Repayment of line-of-credit	(1,000)	-
Principal payments on capital lease	<u>(9,576)</u>	<u>(9,736)</u>
Net Cash From Financing Activities	<u>(10,576)</u>	<u>(5,386)</u>
 (Decrease) Increase in Cash and Cash Equivalents	(971,498)	786,194
 CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,434,327</u>	<u>1,648,133</u>
End of year	<u>\$ 1,462,829</u>	<u>\$ 2,434,327</u>

See notes to consolidated financial statements

The English-Speaking Union of the United States

Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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 education and exchange base in the United States.

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 purposes.

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.

Change in Accounting Principle

On July 1, 2018, ESU adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires ESU to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires ESU to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements.

The English-Speaking Union of the United States

Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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

Net Asset Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Without donor restrictions - consist of resources available for the general support of ESU's operations. These net assets may be used at the discretion of ESU's management and Board of Directors (the "Board").

With donor restrictions - represent amounts restricted by donors for specific activities of ESU or to be used at some future date. ESU records contributions as with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions. Income and gains earned on endowment fund investments are available to be used in the 'with donor restrictions' or 'without donor restrictions' net asset classes upon stipulations by the donor. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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.

Certificates of Deposit

Certificates of deposit are recorded at cost and consists of maturities of more than three months when acquired.

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.

The English-Speaking Union of the United States

Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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

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 years ended June 30, 2019 and 2018.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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. Contributed services are recognized 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 consolidated statement of activities for each of the years ended June 30, 2019 and 2018 was \$52,500, all of which was allocated to program services.

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Notes to Consolidated Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

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

The costs of providing programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Direct program costs are allocated directly to programs. Costs identifiable to a particular function are directly charged to the program or supporting service. Other costs are allocated based on the percentage of overall salary allocation or square footage, whichever is more appropriate.

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, 2016.

Reclassification

Certain information in the fiscal 2018 consolidated statement of activities was reclassified to conform to the fiscal 2019 presentation.

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 26, 2020.

The English-Speaking Union of the United States

Notes to Consolidated Financial Statements
June 30, 2019 and 2018

3. Credit Risk Concentration

Certain financial instruments potentially subject ESU to concentrations of credit risk. These financial instruments consist 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

All promises to give receivable 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.

The following are the types of investments held by HQ at June 30, 2019 and 2018 grouped by the fair value hierarchy for those investments measured at fair value on a recurring basis (except temporary cash investments):

<u>2019</u>			
<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments at Fair Value by Level of Input			
Fixed income	\$ 1,635,984	\$ 788,379	\$ 2,424,363
Equity securities	10,512,428	-	10,512,428
Total Investments at Fair Value	<u>\$ 12,148,412</u>	<u>\$ 788,379</u>	12,936,791
Temporary cash investment at cost			198,676
Total Investments			<u>\$ 13,135,467</u>
 <u>2018</u>			
<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments at Fair Value by Level of Input			
Fixed income	\$ 1,554,040	\$ 774,088	\$ 2,328,128
Equity securities	11,599,243	-	11,599,243
	<u>\$ 13,153,283</u>	<u>\$ 774,088</u>	13,927,371
Temporary cash investment at cost			206,660
Total Investments			<u>\$ 14,134,031</u>

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Notes to Consolidated Financial Statements
June 30, 2019 and 2018

5. Investments and Investment Return *(continued)*

The following are the types of investments held by the branches at June 30, 2019 and 2018 grouped by the fair value hierarchy for those investments measured at fair value on a recurring basis (except temporary cash investments):

2019

Description	Level 1	Level 2	Level 3	Total
Investments at Fair Value by Level of Input				
Fixed income	\$ -	\$ 595,915	\$ -	\$ 595,915
Equity securities	3,909,582	-	-	3,909,582
Mutual funds	1,242,631	-	-	1,242,631
	<u>5,152,213</u>	<u>595,915</u>	-	<u>5,748,128</u>
Other				
Beneficial Interest in Trusts (I)	-	-	394,360	394,360
Total Investments at Fair Value	<u>\$ 5,152,213</u>	<u>\$ 595,915</u>	<u>\$ 394,360</u>	<u>6,142,488</u>
Temporary cash investment at cost				170,988
Total Investments				<u>\$ 6,313,476</u>

2018

Description	Level 1	Level 2	Level 3	Total
Investments at Fair Value by Level of Input				
Fixed income	\$ -	\$ 307,850	\$ -	\$ 307,850
Equity securities	4,175,365	-	-	4,175,365
Preferred stock	109,808	-	-	109,808
Mutual funds	980,316	-	-	980,316
	<u>4,604,329</u>	<u>292,452</u>	-	<u>5,573,339</u>
Other				
Beneficial Interest in Trusts (I)	-	-	406,186	406,186
Total Investments at Fair Value	<u>\$ 4,604,329</u>	<u>\$ 292,452</u>	<u>\$ 406,186</u>	<u>5,979,525</u>
Temporary cash investment at cost				135,915
Total Investments				<u>\$ 6,115,440</u>

- (I) ESU maintains four beneficial interests in certain trusts administered by third parties. These trusts are valued at \$394,360 and \$406,186 at June 30, 2019 and 2018. 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.

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Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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 2019 and 2018:

	<u>Beneficial Interests in Trusts</u>
Balance, July 1, 2017	\$ 313,826
Non-operating transfer	83,602
Interest and dividends	8,454
Distributions	(12,000)
Purchase of investments	1,250
Fees and expenses	(2,544)
Realized losses	(4,293)
Unrealized gains	<u>17,891</u>
Balance, June 30, 2018	406,186
Interest and dividends	13,149
Distributions	(33,583)
Purchase of investments	1,250
Fees and expenses	(2,701)
Realized gains	1,987
Unrealized gains	<u>8,072</u>
Balance, June 30, 2019	<u>\$ 394,360</u>

ESU has adopted the total return concept for the purpose of appropriating earnings for the purpose of appropriating earnings from its combined investments for expenditure. The budgeted annual distribution rate was 5% of the three year market value of the combined portfolios.

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Notes to Consolidated Financial Statements
June 30, 2019 and 2018

5. Investments and Investment Return *(continued)*

The following is a summary of the investment returns on the investments held by HQ for the fiscal years ended June 30, 2019 and 2018:

2019

	Board Designated	With Donor Restrictions	Total
Dividends and interest	\$ 224,713	\$ 45,487	\$ 270,200
Unrealized depreciation	(331,243)	(67,051)	(398,294)
Realized gain on investment sales	335,846	67,983	403,829
Custody and advisory fees	(62,063)	(12,563)	(74,626)
Total Investment Return	<u>\$ 167,253</u>	<u>\$ 33,856</u>	<u>\$ 201,109</u>
Allocated to operations:			
General operations	\$ 499,984	\$ -	\$ 499,984
Speaker and member services	5,768	-	5,768
Education	88,520	26,150	114,670
Book services	-	33,068	33,068
Total Allocated to Operations	594,272	59,218	653,490
Allocated to Non-operating Activities	(427,019)	(25,362)	(452,381)
	<u>\$ 167,253</u>	<u>\$ 33,856</u>	<u>\$ 201,109</u>

2018

	Board Designated	With Donor Restrictions	Total
Dividends and interest	\$ 276,124	\$ 19,033	\$ 295,157
Unrealized appreciation	1,363,325	93,973	1,457,298
Realized gain on investment sales	902,120	62,182	964,302
Custody and advisory fees	(73,144)	(5,042)	(78,186)
Total Investment Return	<u>\$ 2,468,425</u>	<u>\$ 170,146</u>	<u>\$ 2,638,571</u>
Allocated to operations:			
General operations	\$ 491,554	\$ -	\$ 491,554
Speaker and member services	5,298	-	5,298
Education	81,398	28,579	109,977
Book services	-	32,966	32,966
Total Allocated to Operations	578,250	61,545	639,795
Allocated to Non-operating Activities	1,890,175	108,601	1,998,776
	<u>\$ 2,468,425</u>	<u>\$ 170,146</u>	<u>\$ 2,638,571</u>

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Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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 years ended June 30, 2019 and 2018:

2019

	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest	\$ 62,380	\$ 81,071	\$ 143,451
Unrealized appreciation depreciation	60,730	(336,558)	(275,828)
Realized gain on investment sales	47,187	242,067	289,254
Custody and advisory fees	(14,303)	(15,275)	(29,578)
Total Investment Return	\$ 155,994	\$ (28,695)	\$ 127,299
Allocated to operations:			
Education	\$ -	\$ 132,837	\$ 132,837
Total Allocated to Operations	-	132,837	132,837
Allocated to Non-operating Activities	155,994	(161,532)	(5,538)
	\$ 155,994	\$ (28,695)	\$ 127,299

2018

	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest	\$ 44,728	\$ 54,288	\$ 99,016
Unrealized appreciation	128,029	512,636	640,665
Realized gain on investment sales	46,405	195,054	241,459
Custody and advisory fees	(10,438)	(19,682)	(30,120)
Total Investment Return	\$ 208,724	\$ 742,296	\$ 951,020
Allocated to operations:			
Education	\$ -	\$ 131,938	\$ 131,938
Total Allocated to Operations	-	131,938	131,938
Allocated to Non-operating Activities	208,724	610,358	819,082
	\$ 208,724	\$ 742,296	\$ 951,020

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Notes to Consolidated Financial Statements
June 30, 2019 and 2018

5. Investments and Investment Return *(continued)*

The following is a reconciliation of the HQ investment activity for fiscal years 2019 and 2018 in the donor restricted and board designated funds:

	Without Donor Restrictions	With Donor Restrictions		Total
	Board Designated	Purpose Restricted	Perpetual in Nature	
Balance, July 1, 2017	\$ 11,876,547	\$ 664,361	\$ 517,585	\$ 13,058,493
Contribution	-	-	4,350	4,350
Interest and dividends	276,124	19,033	-	295,157
Unrealized appreciation	1,363,325	93,973	-	1,457,298
Realized appreciation	902,120	62,182	-	964,302
Transfers to operations	(451,354)	-	-	(451,354)
Custody fees	(73,144)	(5,042)	-	(78,186)
Capital costs	(646,496)	-	-	(646,496)
Appropriation for expenditure	(574,003)	(87,883)	-	(661,886)
Balance, June 30, 2018	12,673,119	746,624	521,935	13,941,678
Interest and dividends	224,713	45,487	-	270,200
Unrealized depreciation	(331,243)	(67,051)	-	(398,294)
Realized appreciation	335,846	67,983	-	403,829
Transfers to operations	(400,000)	-	-	(400,000)
Custody fees	(62,063)	(12,563)	-	(74,626)
Capital costs	(148,839)	-	-	(148,839)
Appropriation for expenditure	(570,793)	(61,983)	-	(632,776)
Balance, June 30, 2019	<u>\$ 11,720,740</u>	<u>\$ 718,497</u>	<u>\$ 521,935</u>	<u>\$ 12,961,172</u>
Comprised of the following:				
Donor restricted funds	\$ -	\$ 718,497	\$ 521,935	\$ 1,240,432
Board designated funds	<u>11,720,740</u>	<u>-</u>	<u>-</u>	<u>11,720,740</u>
Total Funds	<u>\$ 11,720,740</u>	<u>\$ 718,497</u>	<u>\$ 521,935</u>	<u>\$ 12,961,172</u>

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Notes to Consolidated Financial Statements
June 30, 2019 and 2018

5. Investments and Investment Return *(continued)*

The following is a reconciliation of the branches investment activity for fiscal years 2019 and 2018 in the donor restricted and board designated funds:

	Without Donor Restrictions	With Donor Restrictions		Total
	Board Designated	Purpose Restricted	Perpetual in nature	
Balance, July 1, 2017	\$ 153,433	\$ 1,210,594	\$ 2,185,571	\$ 3,549,598
Interest and dividends	2,451	54,288	-	56,739
Unrealized appreciation	23,168	512,636	-	535,804
Realized appreciation	8,807	195,054	-	203,861
Custody fees	(889)	(19,682)	-	(20,571)
Transfer to operations	(7,303)	-	-	(7,303)
Appropriation for expenditure	-	(131,938)	-	(131,938)
Balance, June 30, 2018	179,667	1,820,952	2,185,571	4,186,190
Interest and dividends	3,660	81,071	-	84,731
Unrealized depreciation	(15,196)	(336,558)	-	(351,754)
Realized appreciation	10,929	242,067	-	252,996
Custody fees	(689)	(15,275)	-	(15,964)
Transfer to operations	(7,787)	-	-	(7,787)
Appropriation for expenditure	-	(132,837)	-	(132,837)
Balance, June 30, 2019	<u>\$ 170,584</u>	<u>\$ 1,659,420</u>	<u>\$ 2,185,571</u>	<u>\$ 4,015,575</u>
Comprised of the following:				
Donor restricted funds	\$ -	\$ 1,659,420	\$ 2,185,571	\$ 3,844,991
Board designated funds	170,584	-	-	170,584
Total funds	<u>\$ 170,584</u>	<u>\$ 1,659,420</u>	<u>\$ 2,185,571</u>	<u>\$ 4,015,575</u>

Interpretation of Relevant Law

The Board of Directors of ESU has 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 net assets with donor restrictions perpetual in nature (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 net assets with donor restrictions perpetual in nature is classified as net assets with donor restrictions – time and purpose restricted 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.

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Notes to Consolidated Financial Statements
June 30, 2019 and 2018

6. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2019:

Cash and cash equivalents	\$	1,462,829
Certificates of deposit		300,000
Investments, at fair value		19,448,943
Pledge and accounts receivable		82,682
Less: donor restricted net assets		(5,351,583)
Add: time or purpose restrictions expected to releases in fiscal 2020		260,083
Less: Board designated net assets		(11,891,324)
Add: Estimated fiscal 2020 Board designated investment spend rate allocation to operations		675,000
Less: Investments in beneficial interests in perpetual trusts		(394,360)
Total Availabe for General Expenditure	\$	<u>4,592,270</u>

ESU structures its financial assets, consisting of cash and pledges receivable to be available as its general expenditures and liabilities come due within one year. In addition, ESU generates cash flow from contributions and pledges, made by donors through its fundraising efforts, primarily from its annual gala event. Additionally, ESU receives cash flow from drawdowns or endowment funds based on spending rates and as restrictions are met.

7. Headquarters' Building and Office Equipment

Building and office equipment at June 30, 2019 and 2018 consisted of the following:

	June 30	
	2019	2018
Land	\$ 930,900	\$ 930,900
Building and improvements	<u>4,524,820</u>	<u>4,274,755</u>
	5,455,720	5,205,655
Less accumulated depreciation	<u>1,645,787</u>	<u>1,488,464</u>
	<u>\$ 3,809,933</u>	<u>\$ 3,717,191</u>
Office equipment	\$ 117,506	\$ 117,506
Less accumulated depreciation	<u>103,142</u>	<u>93,566</u>
	<u>\$ 14,364</u>	<u>\$ 23,940</u>

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Notes to Consolidated Financial Statements
June 30, 2019 and 2018

7. Headquarters' Building and Office Equipment (*continued*)

Depreciation expense for the years ended June 30, 2019 and 2018 in the amount of \$166,899 and \$138,793 has been allocated to various programs (\$84,205 and \$103,939 for 2019 and 2018) and supporting services (\$82,694 and \$34,854 for 2019 and 2018) 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 \$19,152 and \$9,576 at June 30, 2019 and 2018.

8. Line of Credit Payable

ESU maintained a line of credit agreement with a bank that allows for borrowings up to \$300,000. Outstanding borrowings on the line of credit bear interest at the higher of 2% or LIBOR plus 250 basis points and are due upon demand. The agreement was secured by certain unrestricted investments held at the bank. The line of credit balance of \$1,000 at June 30, 2018 was paid off during fiscal 2019. During fiscal 2019, this line of credit expired and was not renewed.

9. 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.

	<u>Year Ending June 30</u>	
	2020	\$ 9,576
	2021	<u>5,233</u>
		<u>\$ 14,809</u>

10. Net Assets With Donor Restrictions – Time and Purpose Restricted

Net assets of \$2,644,077 at June 30, 2019 and \$2,821,468 at June 30, 2018 are to be used for the ESU's education programs.

During the years ended June 30, 2019 and 2018 the restrictions on certain donor restricted net assets were satisfied as follows:

	<u>2019</u>	<u>2018</u>
Education	\$ 583,243	\$ 714,899

11. Net Assets With Donor Restrictions – Perpetual in Nature

Net assets of \$2,707,506 at June 30, 2019 and 2018 represent gifts which have been restricted by the donor in perpetuity, and from which the income is to be used for the ESU's education programs.

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Notes to Consolidated Financial Statements
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12. 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 \$45,822 and \$46,835 for the years ended June 30, 2019 and 2018.

13. 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 \$15,415 and \$33,233 were paid to the law firm in fiscal 2019 and 2018.

14. Restatement

The fiscal 2018 consolidated financial statements have been restated to reflect the correction of the understatement of one of the ESU branch's investments in beneficial interests in perpetual assets totaling \$287,193 which were previously not recognized.

The following reflects the balances at June 30, 2018 and for the year then ended that have been restated from the amounts previously reported to correct the error noted above.

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Adjustments to June 30, 2018			
Balance Sheet			
Investments held by branches, at fair value	\$ 5,828,247	\$ 287,193	\$ 6,115,440
Net assets	25,771,374	287,193	26,058,567
Adjustments to year ended June 30, 2018 Statement of Activities			
Contributions	\$ 1,314,557	(12,000)	\$ 1,302,557
Investment return - branches	799,679	19,403	819,082

15. Subsequent Events

ESU's financial performance may be affected by the recent coronavirus ("COVID-19") outbreak, which has spread globally and is expected to adversely affect economic conditions throughout the world. If the outbreak continues and conditions worsen, ESU may experience a decline in public support. The outbreak may adversely affect ESU's business, financial conditions and results of operations on an interim basis. Management is currently unable to estimate the financial impact, if any, related to this matter.

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Notes to Consolidated Financial Statements
June 30, 2019 and 2018

15. Subsequent Events (*continued*)

In addition, the COVID-19 outbreak has contributed to substantial volatility in the global financial markets. As a result, ESU's investments incurred a significant decline in fair value since June 30, 2019. Because the value of ESU's investments has and may continue to fluctuate in response to changing market conditions, the amount of losses, if any, that will be recognized in subsequent periods, cannot be determined.

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