

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

Consolidated Financial Statements

June 30, 2020

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, 2020, 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 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, 2020 and the consolidated 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 English-Speaking Union of the United States' June 30, 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 26, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

June 1, 2021

The English-Speaking Union of the United States

Consolidated Statement of Financial Position June 30, 2020 (with comparative amounts at June 30, 2019)

	June 30	
	2020	2019
ASSETS		
Cash and cash equivalents	\$ 1,869,499	\$ 1,462,829
Certificates of deposit	308,706	300,000
Accounts receivable	62,405	81,932
Promises to give receivable	-	750
Prepaid expenses and other assets	31,488	44,152
Investments held by National Headquarters, at fair value	13,173,790	13,135,467
Investments held by branches, at fair value	6,623,784	6,313,476
Headquarters building, net of accumulated depreciation	3,780,407	3,809,933
Office equipment, net of accumulated depreciation	80,418	14,364
	\$ 25,930,497	\$ 25,162,903
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 112,688	\$ 155,228
Paycheck protection program loan payable	159,900	-
Capital lease payable	80,418	14,809
Total Liabilities	353,006	170,037
 Net Assets		
Without Donor Restrictions		
Investment in headquarters building and office equipment	3,860,825	3,824,297
Board designated	12,139,861	11,891,324
Undesignated	4,021,945	3,792,825
Total Net Assets Without Donor Restrictions	20,022,631	19,508,446
With Donor Restrictions		
Time and purpose restricted	2,847,354	2,776,914
Perpetual in nature	2,707,506	2,707,506
Total Net Assets	25,577,491	24,992,866
	\$ 25,930,497	\$ 25,162,903

See notes to consolidated financial statements

The English-Speaking Union of the United States

Consolidated Statement of Activities Year Ended June 30, 2020 (with summarized totals for the year ended June 30, 2019)

	Without Donor Restrictions				With Donor Restrictions		Total 2020	Total 2019
	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	\$ 246,822	\$ -	\$ -	\$ 246,822	\$ -	\$ -	\$ 246,822	\$ 230,043
Education	94,875	-	-	94,875	-	-	94,875	323,654
Total Operating Revenue	341,697	-	-	341,697	-	-	341,697	553,697
Contributions	817,010	32,833	-	849,843	302,023	-	1,151,866	958,300
Allocated investment income to operations	-	585,923	-	585,923	181,584	-	767,507	786,744
Appropriations for expenditure	636,938	(636,938)	-	-	-	-	-	-
Branch events and meetings	322,842	-	-	322,842	-	-	322,842	488,559
Speakers and conferences	51,670	-	-	51,670	-	-	51,670	54,405
Special events income, net of event expenses of \$0 in 2020 and \$34,747 in 2019	-	-	-	-	-	-	-	17,159
Other revenue	71,230	-	-	71,230	-	-	71,230	57,709
Transfers from Board designated reserves - HQ	407,938	(407,938)	-	-	-	-	-	-
Transfers from Board designated reserves - branches	8,408	(8,408)	-	-	-	-	-	-
Transfer of donated stock proceeds	26,445	(26,445)	-	-	-	-	-	-
Net assets released from restrictions	636,153	-	-	636,153	(636,153)	-	-	-
Total Operating Revenue and Support	3,320,331	(460,973)	-	2,859,358	(152,546)	-	2,706,812	2,916,573
OPERATING EXPENSES								
Program Services								
Membership services	12,927	-	1,018	13,945	-	-	13,945	70,817
Branch events and meetings	348,893	-	-	348,893	-	-	348,893	474,005
Speakers and conferences	65,070	-	5,098	70,168	-	-	70,168	43,567
Education	1,112,942	-	87,254	1,200,196	-	-	1,200,196	1,368,998
Communications	6,360	-	504	6,864	-	-	6,864	31,969
Branch services	113,600	-	8,911	122,511	-	-	122,511	59,979
Total Program Services	1,659,792	-	102,785	1,762,577	-	-	1,762,577	2,049,335
Supporting Services								
Management and general	997,261	-	-	997,261	-	-	997,261	1,272,054
Fundraising	199,585	-	-	199,585	-	-	199,585	126,993
Depreciation and amortization	-	-	102,321	102,321	-	-	102,321	82,694
Total Supporting Services	1,196,846	-	102,321	1,299,167	-	-	1,299,167	1,481,741
Total Operating Expenses	2,856,638	-	205,106	3,061,744	-	-	3,061,744	3,531,076
Change in Net Assets from Operations	463,693	(460,973)	(205,106)	(202,386)	(152,546)	-	(354,932)	(614,503)
NON-OPERATING ITEMS								
Investment return - National Headquarters	-	522,071	-	522,071	54,515	-	576,586	(452,381)
Investment return - branches	120,534	12,933	-	133,467	168,471	-	301,938	(5,538)
Other non-operating income	(367)	-	-	(367)	-	-	(367)	6,721
Transfer from operations	(174,506)	174,506	-	-	-	-	-	-
Transfer of building and equipment purchases	(241,634)	-	241,634	-	-	-	-	-
Branch asset valuation adjustment	61,400	-	-	61,400	-	-	61,400	-
Change in Net Assets	229,120	248,537	36,528	514,185	70,440	-	584,625	(1,065,701)
NET ASSETS								
Beginning of year	3,792,825	11,891,324	3,824,297	19,508,446	2,776,914	2,707,506	24,992,866	26,058,567
End of year	\$ 4,021,945	\$ 12,139,861	\$ 3,860,825	\$ 20,022,631	\$ 2,847,354	\$ 2,707,506	\$ 25,577,491	\$ 24,992,866

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, 2020 (with summarized totals for the year ended June 30, 2019)

	Program Services						Management and General	Fundraising	Total Expenses 2020	Total Expenses 2019	
	Membership Services	Speakers and Conferences	Branch Services	Communications	Education	Branch Events and Meetings					Total Programs
Salaries, payroll taxes and benefits	\$ 12,459	\$ -	\$ 101,394	\$ -	\$ 362,881	\$ -	\$ 476,734	\$ 424,966	\$ 115,250	\$ 1,016,950	\$ 1,247,770
Professional and consulting fees	293	8,121	1,060	175	276,382	-	286,031	265,320	64,320	615,671	810,324
Scholarships and awards	150	-	-	-	261,584	-	261,734	14,059	-	275,793	196,423
Travel and meetings	-	42,195	43	52	35,300	-	77,590	41,406	2,850	121,846	203,193
Occupancy (Utilities and maintenance)	25	-	344	328	94,901	-	95,598	43,268	-	138,866	110,207
In-kind rent	-	-	-	-	52,500	-	52,500	-	-	52,500	52,500
Branch events and meetings	-	-	-	-	-	348,893	348,893	-	-	348,893	474,005
Administrative and miscellaneous	-	14,754	712	5,805	29,394	-	50,665	131,723	17,124	199,512	206,595
Insurance and finance fees	-	-	10,047	-	-	-	10,047	76,519	41	86,607	97,907
Total Expenses	12,927	65,070	113,600	6,360	1,112,942	348,893	1,659,792	997,261	199,585	2,856,638	3,398,924
Add: Depreciation	1,018	5,098	8,911	504	87,254	-	102,785	102,321	-	205,106	166,899
Less costs with direct benefits to donors	-	-	-	-	-	-	-	-	-	-	(34,747)
Total Expenses	\$ 13,945	\$ 70,168	\$ 122,511	\$ 6,864	\$ 1,200,196	\$ 348,893	\$ 1,762,577	\$ 1,099,582	\$ 199,585	\$ 3,061,744	\$ 3,531,076

See notes to consolidated financial statements

The English-Speaking Union of the United States

Consolidated Statement of Cash Flows
Year Ended June 30, 2020
(with comparative amounts for the year ended June 30, 2019)

	Year Ended	
	June 30	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 584,625	\$ (1,065,701)
Adjustments to reconcile change in net assets to net cash from operating activities		
Non-operating transfers of assets - branches	(61,400)	-
Net realized and unrealized gain on investments	(1,341,164)	(16,884)
Depreciation and amortization	205,106	166,899
Gain on write-off of capital lease payable	(13,213)	-
Changes in Operating Assets and Liabilities		
Accounts receivable	19,527	(28,644)
Promises to give receivable	750	-
Prepaid expenses and other assets	12,664	(15,622)
Accounts payable and accrued expenses	(42,540)	(268,317)
Total Adjustments	(1,220,270)	(162,568)
Net Cash From Operating Activities	(635,645)	(1,228,269)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase/Increase of certificates of deposit	(8,706)	(300,000)
Purchase of equipment and building improvements	(142,658)	(250,065)
Net proceeds from investments	1,053,933	817,412
Net Cash From Investing Activities	902,569	267,347
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from paycheck protection program loan	159,900	-
Repayment of line-of-credit	-	(1,000)
Principal payments on capital lease	(20,154)	(9,576)
Net Cash From Financing Activities	139,746	(10,576)
 Increase (Decrease) in Cash and Cash Equivalents	 406,670	 (971,498)
CASH AND CASH EQUIVALENTS		
Beginning of year	1,462,829	2,434,327
End of year	\$ 1,869,499	\$ 1,462,829
Non-cash investing and financing activities		
Purchase of equipment through lease agreement	\$ 98,976	\$ -

See notes to consolidated financial statements

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Notes to Consolidated Financial Statements
June 30, 2020 and 2019

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, 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, 2019, ESU adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance provides a framework for evaluating whether grants and contributions should be accounted for as exchange transactions or as non-exchange transactions. Analysis of various provisions of this standard resulted in no significant changes in the way ESU recognized contributions, and therefore no changes to the previously issued audited financial statements were required.

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Notes to Consolidated Financial Statements
June 30, 2020 and 2019

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 plus accrued interest 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.

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Notes to Consolidated Financial Statements
June 30, 2020 and 2019

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, 2020 and 2019.

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, 2020 and 2019 was \$52,500, all of which was allocated to program services.

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Notes to Consolidated Financial Statements
June 30, 2020 and 2019

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, 2017.

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, 2021.

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Notes to Consolidated Financial Statements
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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, 2020 and 2019 grouped by the fair value hierarchy for those investments measured at fair value on a recurring basis (except temporary cash investments):

<u>2020</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	\$ -	\$ 525,056	\$ 525,056
Equity securities	12,471,667	-	12,471,667
Total Investments at Fair Value	<u>\$ 12,471,667</u>	<u>\$ 525,056</u>	12,996,723
Temporary cash investment at cost			177,067
Total Investments			<u>\$ 13,173,790</u>
 <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
	<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>

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Notes to Consolidated Financial Statements
June 30, 2020 and 2019

5. Investments and Investment Return *(continued)*

The following are the types of investments held by the branches at June 30, 2020 and 2019 grouped by the fair value hierarchy for those investments measured at fair value on a recurring basis (except temporary cash investments):

2020

Description	Level 1	Level 2	Level 3	Total
Investments at Fair Value by Level of Input				
Fixed income	\$ -	\$ 328,284	\$ -	\$ 328,284
Equity securities	4,558,082	-	-	4,558,082
Mutual funds	1,072,555	-	-	1,072,555
	<u>5,630,637</u>	<u>328,284</u>	-	5,958,921
Other				
Beneficial Interest in Trusts (I)	-	-	382,285	382,285
Total Investments at Fair Value	<u>\$ 5,630,637</u>	<u>\$ 328,284</u>	<u>\$ 382,285</u>	6,341,206
Temporary cash investment at cost				282,578
Total Investments				<u>\$ 6,623,784</u>

2018

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>	-	5,748,128
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>	6,142,488
Temporary cash investment at cost				170,988
Total Investments				<u>\$ 6,313,476</u>

- (I) ESU maintains four beneficial interests in certain trusts administered by third parties. These trusts are valued at \$382,285 and \$394,360 at June 30, 2020 and 2019. 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. Changes in the beneficial interest in trusts is recorded as part of investment return – branches on the accompanying consolidated statement of activities.

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Notes to Consolidated Financial Statements
June 30, 2020 and 2019

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 2020 and 2019:

	<u>Beneficial Interests in Trusts</u>
Balance, July 1, 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	394,360
Interest and dividends	9,875
Distributions	(26,354)
Fees and expenses	(2,515)
Unrealized gains	<u>6,919</u>
Balance, June 30, 2020	<u>\$ 382,285</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, 2020 and 2019

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, 2020 and 2019:

2020

	Board Designated	With Donor Restrictions	Total
Dividends and interest	\$ 210,356	\$ 22,028	\$ 232,384
Unrealized appreciation	518,153	54,259	572,412
Realized gain on investment sales	442,613	46,348	488,961
Custody and advisory fees	(63,128)	(6,610)	(69,738)
Total Investment Return	<u>\$ 1,107,994</u>	<u>\$ 116,025</u>	<u>\$ 1,224,019</u>
Allocated to operations:			
General operations	\$ 470,726	\$ -	\$ 470,726
Speaker and member services	6,361	-	6,361
Education	108,836	23,512	132,348
Book services	-	37,998	37,998
Total Allocated to Operations	585,923	61,510	647,433
Allocated to Non-operating Activities	522,071	54,515	576,586
	<u>\$ 1,107,994</u>	<u>\$ 116,025</u>	<u>\$ 1,224,019</u>

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>

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Notes to Consolidated Financial Statements
June 30, 2020 and 2019

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, 2020 and 2019:

2020

	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest	\$ 82,376	\$ 93,959	\$ 176,335
Unrealized appreciation depreciation	54,550	212,897	267,447
Realized gain on investment sales	7,174	5,207	12,381
Custody and advisory fees	(10,633)	(23,518)	(34,151)
Total Investment Return	\$ 133,467	\$ 288,545	\$ 422,012
Allocated to operations:			
Education	\$ -	\$ 120,074	\$ 120,074
Total Allocated to Operations	-	120,074	120,074
Allocated to Non-operating Activities	133,467	168,471	301,938
	\$ 133,467	\$ 288,545	\$ 422,012

2019

	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest	\$ 62,380	\$ 81,071	\$ 143,451
Unrealized appreciation	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

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Notes to Consolidated Financial Statements
June 30, 2020 and 2019

5. Investments and Investment Return *(continued)*

The following is a reconciliation of the HQ investment activity for fiscal years 2020 and 2019 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, 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	11,720,740	718,497	521,935	12,961,172
Contributions	32,833	4,990	-	37,823
Interest and dividends	210,356	22,028	-	232,384
Unrealized appreciation	518,153	54,259	-	572,412
Realized appreciation	442,613	46,348	-	488,961
Transfers to operations	(407,938)	(103,878)	-	(511,816)
Transfers from operations	174,506	-	-	174,506
Custody fees	(63,128)	(6,610)	-	(69,738)
Transfer of donated stock proceeds	(26,445)	-	-	(26,445)
Appropriation for expenditure	(636,938)	(71,046)	-	(707,984)
Balance, June 30, 2020	<u>\$ 11,964,752</u>	<u>\$ 664,588</u>	<u>\$ 521,935</u>	<u>\$ 13,151,275</u>
Comprised of the following:				
Donor restricted funds	\$ -	\$ 664,588	\$ 521,935	\$ 1,186,523
Board designated funds	<u>11,964,752</u>	<u>-</u>	<u>-</u>	<u>11,964,752</u>
Total Funds	<u>\$ 11,964,752</u>	<u>\$ 664,588</u>	<u>\$ 521,935</u>	<u>\$ 13,151,275</u>

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Notes to Consolidated Financial Statements
June 30, 2020 and 2019

5. Investments and Investment Return *(continued)*

The following is a reconciliation of the branches investment activity for fiscal years 2020 and 2019 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, 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	170,584	1,659,420	2,185,571	4,015,575
Interest and dividends	4,211	93,959	-	98,170
Unrealized appreciation	9,543	212,897	-	222,440
Realized appreciation	233	5,207	-	5,440
Custody fees	(1,054)	(23,518)	-	(24,572)
Transfer to operations	(8,408)	-	-	(8,408)
Appropriation for expenditure	-	(120,074)	-	(120,074)
Balance, June 30, 2020	\$ 175,109	\$ 1,827,891	\$ 2,185,571	\$ 4,188,571
Comprised of the following:				
Donor restricted funds	\$ -	\$ 1,827,891	\$ 2,185,571	\$ 4,013,462
Board designated funds	175,109	-	-	175,109
Total funds	\$ 175,109	\$ 1,827,891	\$ 2,185,571	\$ 4,188,571

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, 2020 and 2019

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, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 1,869,499	\$ 1,462,829
Certificates of deposit	308,706	300,000
Investments, at fair value	19,797,574	19,448,943
Accounts receivable	62,405	82,682
Less: donor restricted net assets	(5,554,860)	(5,484,420)
Add: time or purpose restrictions expected to releases	215,961	260,083
Less: Board designated net assets	(12,139,861)	(11,891,324)
Add: Estimated Board designated investment spend rate allocation to operations	675,000	675,000
Less: Investments in beneficial interests in perpetual trusts	(382,285)	(394,360)
Total Available for General Expenditure	\$ 4,852,139	\$ 4,459,433

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, 2020 and 2019 consisted of the following:

	June 30	
	2020	2019
Land	\$ 930,900	\$ 930,900
Building and improvements	4,667,478	4,524,820
	5,598,378	5,455,720
Less accumulated depreciation	1,817,971	1,645,787
	\$ 3,780,407	\$ 3,809,933
Office equipment	\$ 98,976	\$ 117,506
Less accumulated depreciation	18,558	103,142
	\$ 80,418	\$ 14,364

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Notes to Consolidated Financial Statements
June 30, 2020 and 2019

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

Depreciation expense for the years ended June 30, 2020 and 2019 in the amount of \$205,106 and \$166,899 has been allocated to various programs (\$102,785 and \$84,205 for 2020 and 2019) and supporting services (\$102,321 and \$82,694 for 2020 and 2019) based on management's estimate of the benefit. Office equipment includes an asset held under a capital lease totaling \$98,976 (\$117,506 – 2019) and related accumulated depreciation of \$18,558 at June 30, 2020 (\$103,142 – 2019).

8. Paycheck Protection Program Loan

On May 1, 2020, ESU received loan proceeds in the amount of \$159,900 under the Paycheck Protection Program (the "PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), provides for loans to qualifying entities for amounts up to 2.5 times the 2019 average monthly payroll expenses of the qualifying entity. The PPP loan bears an interest rate of 1% per annum. All or a portion of the PPP loan principal and accrued interest is forgivable as long as the borrower uses the loan proceeds for eligible purposes, as described in the CARES Act, over a period of either eight or twenty-four weeks (the "Covered Period"). It is the intention of ESU to apply for forgiveness of this loan. As of June 30, 2020, the PPP loan is reported as a liability on the statement of financial position. Although Management believes ESU has met all conditions under the PPP loan requirements at June 30, 2020, income from the forgiveness of the PPP loan will not be recognized until ESU receives notification of forgiveness from the Small Business Administration in accordance with Accounting Standards Codification ("ASC") 470 Debt.

9. Capital Lease

ESU is committed under a capital lease for office equipment. The lease expires in 2024 and provides for the following minimum annual payments.

<u>Year Ending June 30</u>	
2021	\$ 24,744
2022	24,744
2023	24,744
2024	6,186
	<u>\$ 80,418</u>

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Notes to Consolidated Financial Statements
June 30, 2020 and 2019

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

Net assets of \$2,847,354 at June 30, 2020 and \$2,776,914 at June 30, 2019 are to be used for the ESU's education programs.

During the years ended June 30, 2020 and 2019 donor restricted net assets of \$636,153 and \$583,243 were released from restriction during the years ended June 30, 2020 and 2019 for ESU's education programs.

11. Net Assets With Donor Restrictions – Perpetual in Nature

Net assets of \$2,707,506 at June 30, 2020 and 2019 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.

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 \$24,461 and \$45,227 for the years ended June 30, 2020 and 2019.

13. Related Party Transactions

A member of ESU's board is a partner in a law firm, which provided legal services to ESU. Legal service fees totaling \$15,415 were paid to the law firm in fiscal 2019.

14. Risks and Uncertainties

In March 2020, a novel strain of COVID-19 was declared a global pandemic by the World Health Organization. This pandemic has negatively affected the U.S. and global economies, disrupted global supply chains and financial markets, led to significant travel and transportation restrictions, including mandatory business closures and orders to shelter in place. The COVID-19 pandemic remains fluid and the extent of the impact may adversely affect business, however management is unable to predict the extent or nature of these impacts at this time.

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