

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

Consolidated Financial Statements

June 30, 2018

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, 2018, 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 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.

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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, 2018 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, 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 1, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

May 30, 2019

The English-Speaking Union of the United States

Consolidated Statement of Financial Position June 30, 2018 (with comparative amounts at June 30, 2017)

	June 30	
	2018	2017
ASSETS		
Cash and cash equivalents	\$ 2,434,327	\$ 1,648,133
Accounts receivable	53,288	9,649
Promises to give receivable	750	200,941
Prepaid expenses and other assets	28,530	28,039
Investments held by National Headquarters, at fair value	14,134,031	13,247,085
Investments held by branches, at fair value	5,828,247	5,088,387
Headquarters building, net of accumulated depreciation	3,717,191	3,182,481
Office equipment, net of accumulated depreciation	<u>23,940</u>	<u>34,350</u>
	<u>\$ 26,220,304</u>	<u>\$ 23,439,065</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 423,545	\$ 248,174
Line of credit payable	1,000	1,000
Capital lease payable	<u>24,385</u>	<u>34,121</u>
Total Liabilities	<u>448,930</u>	<u>283,295</u>
 Net Assets		
Unrestricted		
Investment in headquarters building and office equipment	3,741,131	3,216,831
Board designated	12,852,786	12,029,980
Undesignated	<u>3,648,483</u>	<u>2,857,389</u>
Total Unrestricted	20,242,400	18,104,200
Temporarily restricted	2,821,468	2,348,414
Permanently restricted	<u>2,707,506</u>	<u>2,703,156</u>
Total Net Assets	<u>25,771,374</u>	<u>23,155,770</u>
	<u>\$ 26,220,304</u>	<u>\$ 23,439,065</u>

See notes to consolidated financial statements

The English-Speaking Union of the United States

Consolidated Statement of Activities Year Ended June 30, 2018 (with summarized totals for the year ended June 30, 2017)

	Unrestricted				Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
	Undesignated	Board Designated	Investment in Building and Office Equipment	Total				
OPERATING REVENUE AND SUPPORT								
Operating Revenue								
Membership dues	\$ 219,880	\$ -	\$ -	\$ 219,880	\$ -	\$ -	\$ 219,880	\$ 262,976
Education	<u>284,742</u>	-	-	<u>284,742</u>	-	-	<u>284,742</u>	<u>207,490</u>
Total Operating Revenue	504,622	-	-	504,622	-	-	504,622	470,466
Contributions	1,094,386	-	-	1,094,386	220,171	-	1,314,557	845,045
Board allocated investment income - HQ	574,003	(574,003)	-	-	61,545	-	61,545	59,622
Board allocated investment income - branches	-	-	-	-	131,938	-	131,938	131,328
Branch events and meetings	384,095	-	-	384,095	-	-	384,095	395,273
Speakers and conferences	29,660	-	-	29,660	-	-	29,660	25,559
Special events income, net of event expenses of \$39,832 in 2018 and \$56,972 in 2017	5,611	-	-	5,611	55,340	-	60,951	43,778
Other revenue	52,785	-	-	52,785	-	-	52,785	37,914
Transfers from Board designated reserves - HQ	451,354	(451,354)	-	-	-	-	-	-
Transfers from Board designated reserves - branches	7,303	(7,303)	-	-	-	-	-	-
Net assets released from restrictions	<u>714,899</u>	-	-	<u>714,899</u>	<u>(714,899)</u>	-	-	-
Total Operating Revenue and Support	<u>3,818,718</u>	<u>(1,032,660)</u>	-	<u>2,786,058</u>	<u>(245,905)</u>	-	<u>2,540,153</u>	<u>2,008,985</u>
OPERATING EXPENSES								
Program Services								
Membership services	105,755	-	-	105,755	-	-	105,755	99,180
Branch events and meetings	455,657	-	-	455,657	-	-	455,657	455,607
Speakers and conferences	46,066	-	-	46,066	-	-	46,066	70,692
Education	1,661,772	-	-	1,661,772	-	-	1,661,772	1,466,043
Communications	49,337	-	-	49,337	-	-	49,337	77,238
Branch services	128,505	-	-	128,505	-	-	128,505	143,111
Depreciation and amortization	-	-	103,939	103,939	-	-	103,939	77,221
Total Program Services	<u>2,447,092</u>	-	<u>103,939</u>	<u>2,551,031</u>	-	-	<u>2,551,031</u>	<u>2,389,092</u>
Supporting Services								
Management and general	716,660	-	-	716,660	-	-	716,660	519,367
Fundraising	91,684	-	-	91,684	-	-	91,684	112,411
Depreciation and amortization	-	-	34,854	34,854	-	-	34,854	41,482
Total Supporting Services	<u>808,344</u>	-	<u>34,854</u>	<u>843,198</u>	-	-	<u>843,198</u>	<u>673,260</u>
Total Operating Expenses	<u>3,255,436</u>	-	<u>138,793</u>	<u>3,394,229</u>	-	-	<u>3,394,229</u>	<u>3,062,352</u>
Change in Net Assets from Operations	563,282	(1,032,660)	(138,793)	(608,171)	(245,905)	-	(854,076)	(1,053,367)
NON-OPERATING ITEMS								
Investment return - National Headquarters	-	2,468,425	-	2,468,425	108,601	-	2,577,026	1,878,183
Investment return - branches	155,784	33,537	-	189,321	610,358	-	799,679	488,976
Other gain on investment	5,023	-	-	5,023	-	-	5,023	-
Endowment gift	-	-	-	-	-	4,350	4,350	5,000
Legal reorganization and travel expenses	-	-	-	-	-	-	-	(68,777)
Transfer from Board designated reserves for capital improvements	646,496	(646,496)	-	-	-	-	-	-
Transfer of building and equipment purchases	(663,093)	-	663,093	-	-	-	-	-
Non-operating transfers (branches)	<u>83,602</u>	-	-	<u>83,602</u>	-	-	<u>83,602</u>	<u>6,251,804</u>
Change in Net Assets	791,094	822,806	524,300	2,138,200	473,054	4,350	2,615,604	7,501,819
NET ASSETS								
Beginning of year	<u>2,857,389</u>	<u>12,029,980</u>	<u>3,216,831</u>	<u>18,104,200</u>	<u>2,348,414</u>	<u>2,703,156</u>	<u>23,155,770</u>	<u>15,653,951</u>
End of year	<u>\$ 3,648,483</u>	<u>\$ 12,852,786</u>	<u>\$ 3,741,131</u>	<u>\$ 20,242,400</u>	<u>\$ 2,821,468</u>	<u>\$ 2,707,506</u>	<u>\$ 25,771,374</u>	<u>\$ 23,155,770</u>

See notes to consolidated financial statements

The English-Speaking Union of the United States

Consolidated Statement of Cash Flows
Year Ended June 30, 2018
(with comparative amounts for the year ended June 30, 2017)

	Year Ended	
	June 30	
	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	<u>\$ 2,615,604</u>	<u>\$ 7,501,819</u>
Adjustments to reconcile change in net assets to net cash from operating activities		
Non-operating transfers of assets - branches	(83,602)	(6,251,804)
Permanently restricted gift	(4,350)	(5,000)
Net realized and unrealized gain on investments	(3,295,067)	(2,266,078)
Depreciation and amortization	138,793	118,703
Changes in Operating Assets and Liabilities		
Accounts receivable	(43,639)	199
Promises to give receivable	200,191	185,690
Prepaid expenses and other assets	(491)	(20,836)
Accounts payable and accrued expenses	175,371	108,273
Total Adjustments	<u>(2,912,794)</u>	<u>(8,130,853)</u>
Net Cash From Operating Activities	<u>(297,190)</u>	<u>(629,034)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Cash from non-operating transfers - branches	-	1,482,123
Purchase of equipment and building improvements	(663,093)	(158,411)
Net proceeds from investments	<u>1,751,863</u>	<u>820,553</u>
Net Cash From Investing Activities	<u>1,088,770</u>	<u>2,144,265</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted gift	4,350	5,000
Principal payments on capital lease	<u>(9,736)</u>	<u>(9,050)</u>
Net Cash From Financing Activities	<u>(5,386)</u>	<u>(4,050)</u>
 Increase in Cash and Cash Equivalents	786,194	1,511,181
 CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,648,133</u>	<u>136,952</u>
End of year	<u>\$ 2,434,327</u>	<u>\$ 1,648,133</u>
 SUPPLEMENTAL CASH FLOW INFORMATION		
Non-Cash Investing and Financing Activities		
Assets acquired through capital lease	<u>\$ -</u>	<u>\$ 38,305</u>

See notes to consolidated financial statements

The English-Speaking Union of the United States

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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, during the year ended June 30, 2017, \$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 existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Temporarily restricted net assets comprise time and purpose restricted pledges. Permanently restricted net assets are comprised of donor restricted pledges that are kept in perpetuity from which only the income generated from each pledge is expendable.

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Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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 years ended June 30, 2018 and 2017.

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Notes to Consolidated Financial Statements
June 30, 2018 and 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. 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 statements of activities for each of the years ended June 30, 2018 and 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.

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Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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, 2015.

Reclassification

Certain information in the fiscal 2017 statement of activities was reclassified to conform to the fiscal 2018 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 May 30, 2019.

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 \$750 and \$200,941 at June 30, 2018 and 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.

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Notes to Consolidated Financial Statements
June 30, 2018 and 2017

5. Investments and Investment Return *(continued)*

The following are the types of investments held by HQ at June 30, 2018 and 2017 grouped by the fair value hierarchy for those investments measured at fair value on a recurring basis (except temporary cash investments):

<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	<u>11,599,243</u>	<u>-</u>	<u>11,599,243</u>
Total Investments at Fair Value	<u>\$13,153,283</u>	<u>\$ 774,088</u>	13,927,371
Temporary cash investment at cost			<u>206,660</u>
Total Investments			<u>\$14,134,031</u>
 <u>2017</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	\$ 1,543,281	\$ 659,688	\$ 2,202,969
Equity securities	<u>10,243,510</u>	<u>-</u>	<u>10,243,510</u>
	11,786,791	659,688	12,446,479
Other			
Private equity (I)	<u>-</u>	<u>-</u>	<u>16,481</u>
Total Investments at Fair Value	<u>\$11,786,791</u>	<u>\$ 659,688</u>	12,462,960
Temporary cash investment at cost			<u>784,125</u>
Total Investments			<u>\$13,247,085</u>

- l) 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 were no unfunded commitments related to this investment. During fiscal 2018, the private equity fund liquidated its assets and ESU redeemed the proceeds of the fair value of the investment

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Notes to Consolidated Financial Statements
June 30, 2018 and 2017

5. Investments and Investment Return *(continued)*

The following are the types of investments held by the branches at June 30, 2018 and 2017 grouped by the fair value hierarchy for those investments measured at fair value on a recurring basis (except temporary cash investments):

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>5,265,489</u>	<u>307,850</u>	-	<u>5,573,339</u>
Other				
Beneficial Interest in Trust (II)	-	-	118,993	118,993
Total Investments at Fair Value	<u>\$ 5,265,489</u>	<u>\$ 307,850</u>	<u>\$ 118,993</u>	<u>5,692,332</u>
Temporary cash investment at cost				135,915
Total Investments				<u>\$ 5,828,247</u>

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
	<u>4,604,329</u>	<u>292,452</u>	-	<u>4,896,781</u>
Other				
Beneficial Interest in Trust (II)	-	-	34,036	34,036
Total Investments at Fair Value	<u>\$ 4,604,329</u>	<u>\$ 292,452</u>	<u>\$ 34,036</u>	<u>4,930,817</u>
Temporary cash investment at cost				157,570
Total Investments				<u>\$ 5,088,387</u>

(II) ESU maintains two beneficial interests in certain trusts administered by third parties. This trust is valued at \$118,993 and \$34,036 at June 30, 2018 and 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.

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Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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:

	<u>Beneficial Interests in Trusts</u>
Balance, July 1, 2016	\$ -
Non-operating transfer	32,638
Interest and dividends	331
Purchase of investments	1,242
Fees and expenses	(700)
Unrealized gain	<u>525</u>
Balance, June 30, 2017	34,036
Non-operating transfer	83,602
Interest and dividends	363
Purchase of investments	1,250
Fees and expenses	(174)
Unrealized (loss)	<u>(84)</u>
Balance, June 30, 2018	<u>\$ 118,993</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, 2018 and 2017

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, 2018 and 2017:

2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
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	<u>(73,144)</u>	<u>(5,042)</u>	<u>(78,186)</u>
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	<u>-</u>	<u>32,966</u>	<u>32,966</u>
Total Allocated to Operations	578,250	61,545	639,795
Allocated to Non-operating Activities	<u>1,890,175</u>	<u>108,601</u>	<u>1,998,776</u>
	<u>\$ 2,468,425</u>	<u>\$ 170,146</u>	<u>\$ 2,638,571</u>

2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
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	<u>(58,551)</u>	<u>(4,242)</u>	<u>(62,793)</u>
Total Investment Return	<u>1,806,883</u>	<u>130,922</u>	<u>1,937,805</u>
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	<u>-</u>	<u>31,542</u>	<u>31,542</u>
Total Allocated to Operations	581,021	59,622	640,643
Allocated to Non-operating Activities	<u>1,225,862</u>	<u>71,300</u>	<u>1,297,162</u>
	<u>\$ 1,806,883</u>	<u>\$ 130,922</u>	<u>\$ 1,937,805</u>

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Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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, 2018 and 2017:

2018

	Unrestricted	Temporarily Restricted	Total
Dividends and interest	\$ 36,636	\$ 54,288	\$ 90,924
Unrealized appreciation	110,056	512,636	622,692
Realized gain on investment sales	50,698	195,054	245,752
Custody and advisory fees	<u>(8,069)</u>	<u>(19,682)</u>	<u>(27,751)</u>
Total Investment Return	<u>189,321</u>	<u>742,296</u>	<u>931,617</u>
Allocated to operations:			
Education	<u>-</u>	<u>131,938</u>	<u>131,938</u>
Total Allocated to Operations	<u>-</u>	<u>131,938</u>	<u>131,938</u>
Allocated to Non-operating Activities	<u>189,321</u>	<u>610,358</u>	<u>799,679</u>
	<u>\$ 189,321</u>	<u>\$ 742,296</u>	<u>\$ 931,617</u>

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	<u>(9,189)</u>	<u>(15,921)</u>	<u>(25,110)</u>
Total Investment Return	<u>182,066</u>	<u>438,238</u>	<u>620,304</u>
Allocated to operations:			
Education	<u>-</u>	<u>131,328</u>	<u>131,328</u>
Total Allocated to Operations	<u>-</u>	<u>131,328</u>	<u>131,328</u>
Allocated to Non-operating Activities	<u>182,066</u>	<u>306,910</u>	<u>488,976</u>
	<u>\$ 182,066</u>	<u>\$ 438,238</u>	<u>\$ 620,304</u>

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Notes to Consolidated Financial Statements
June 30, 2018 and 2017

5. Investments and Investment Return *(continued)*

The following is a reconciliation of the HQ investment activity for fiscal years 2018 and 2017 in the donor restricted and unrestricted board designated funds:

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Balance, July 1, 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	<u>(581,021)</u>	<u>(81,003)</u>	<u>-</u>	<u>(662,024)</u>
Balance, June 30, 2017	11,876,547	664,361	517,585	13,058,493
Contributions	-	-	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
Custody fees	(73,144)	(5,042)	-	(78,186)
Transfers to operations	(451,354)	-	-	(451,354)
Capital costs	(646,496)	-	-	(646,496)
Appropriation for expenditure	<u>(574,003)</u>	<u>(87,883)</u>	<u>-</u>	<u>(661,886)</u>
Balance, June 30, 2018	<u>\$ 12,673,119</u>	<u>\$ 746,624</u>	<u>\$ 521,935</u>	<u>\$ 13,941,678</u>
Comprised of the following:				
Donor restricted funds	\$ -	\$ 746,624	\$ 521,935	\$ 1,268,559
Board designated funds	<u>12,673,119</u>	<u>-</u>	<u>-</u>	<u>12,673,119</u>
Total Funds	<u>\$ 12,673,119</u>	<u>\$ 746,624</u>	<u>\$ 521,935</u>	<u>\$ 13,941,678</u>

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Notes to Consolidated Financial Statements
June 30, 2018 and 2017

5. Investments and Investment Return *(continued)*

The following is a reconciliation of the branches investment activity for fiscal years 2018 and 2017 in the donor restricted and unrestricted board designated funds:

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Balance, July 1, 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
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	<u>\$ 179,667</u>	<u>\$ 1,820,952</u>	<u>\$ 2,185,571</u>	<u>\$ 4,186,190</u>
Comprised of the following:				
Donor restricted funds	\$ -	\$ 1,820,952	\$ 2,185,571	\$ 4,006,523
Board designated funds	179,667	-	-	179,667
Total funds	<u>\$ 179,667</u>	<u>\$ 1,820,952</u>	<u>\$ 2,185,571</u>	<u>\$ 4,186,190</u>

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.

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Notes to Consolidated Financial Statements
June 30, 2018 and 2017

6. Headquarters' Building and Office Equipment

Building and office equipment at June 30, 2018 and 2017 consisted of the following:

	June 30	
	2018	2017
Land	\$ 930,900	\$ 930,900
Building and improvements	<u>4,274,755</u>	<u>3,611,662</u>
	5,205,655	4,542,562
Less accumulated depreciation	<u>1,488,464</u>	<u>1,360,081</u>
	<u>\$3,717,191</u>	<u>\$ 3,182,481</u>
Office equipment	\$ 117,506	\$ 117,506
Less accumulated depreciation	<u>93,566</u>	<u>83,156</u>
	<u>\$ 23,940</u>	<u>\$ 34,350</u>

Depreciation expense for the years ended June 30, 2018 and 2017 in the amount of \$138,793 and \$118,703 has been allocated to various programs (\$103,939 and \$77,221 for 2018 and 2017) and supporting services (\$34,854 and \$41,482 for 2018 and 2017) 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 \$9,576 and \$4,788 at June 30, 2018 and 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, 2018 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, 2018 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 June 30	
2019	\$ 9,576
2020	9,576
2021	<u>5,233</u>
	<u>\$ 24,385</u>

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Notes to Consolidated Financial Statements
June 30, 2018 and 2017

9. Temporarily Restricted Net Assets

Temporarily restricted net assets of \$2,821,468 at June 30, 2018 and \$2,348,414 at June 30, 2017 are to be used for the ESU's education programs.

During the years ended June 30, 2018 and 2017 the restrictions on certain temporarily restricted net assets were satisfied as follows:

	<u>2018</u>	<u>2017</u>
Education	\$ 714,899	\$ 560,862

10. Permanently Restricted Net Assets

Permanently restricted net assets of \$2,707,506 at June 30, 2018 and \$2,703,156 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 ESU's education programs.

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 \$46,077 and \$46,835 for the years ended June 30, 2018 and 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 \$33,233 and \$63,642 were paid to the law firm in fiscal 2018 and 2017.

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