

THE EDUCATION TRUST
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

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111 Rockville Pike
Suite 600
Rockville, Maryland 20850

☎ 301.231.6200
☎ 301.231.7630
www.aronsonllc.com
info@aronsonllc.com

Independent Auditor's Report

Board of Directors
The Education Trust
Washington, D.C.

We have audited the accompanying financial statements of **The Education Trust** (the Organization) which comprise the Statements of Financial Position as of June 30, 2019 , and the related Statements of Activities and Changes in Net Assets, Functional Expenses and Cash Flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

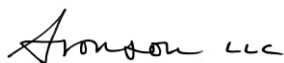
An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

Independent Auditor's Report (continued)

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **The Education Trust** as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Rockville, Maryland
February 26, 2020

The Education Trust

Statement of Financial Position

<i>June 30,</i>	2019
Assets	
Current assets	
Cash and cash equivalents	\$ 4,995,090
Contributions receivable, current portion	11,151,667
Accounts receivable	244,617
Prepaid expenses	360,527
Total current assets	16,751,901
Investments	6,572,588
Contributions receivable, net of current portion	2,674,883
Property and equipment, net	606,747
Deposits	175,325
Total assets	\$ 26,781,444
Liabilities and Net Assets	
Current liabilities	
Accounts payable	\$ 811,234
Accrued payroll and related expenses	1,356,303
Deferred rent, current portion	251,391
Total current liabilities	2,418,928
Long term liabilities	
Deferred rent, net of current portion	186,475
Total liabilities	2,605,403
Net assets	
Without donor restrictions	6,334,934
With donor restrictions	17,841,107
Total net assets	24,176,041
Total liabilities and net assets	\$ 26,781,444

The accompanying Notes to Financial Statements are an integral part of these financial statements.

The Education Trust

Statement of Activities and Changes in Net Assets

<i>Years Ended June 30,</i>	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
Support and revenue			
Grants and contributions	\$ 62,787	\$ 21,921,775	\$ 21,984,562
Contracts	404,513	-	404,513
Program service fees	173,417	-	173,417
Registration fees	70,979	-	70,979
Investment income	218,034	-	218,034
Other income	69,853	-	69,853
Net assets released from restrictions (Purpose)	17,310,965	(17,310,965)	-
Net assets released from restrictions (Time)	3,558,333	(3,558,333)	-
Total support and revenue	21,868,881	1,052,477	22,921,358
Expenses			
Program services	18,711,005	-	18,711,005
Fundraising	472,188	-	472,188
General and administrative	1,165,099	-	1,165,099
Total expenses	20,348,292	-	20,348,292
Change in net assets	1,520,589	1,052,477	2,573,066
Net assets, beginning of year	4,814,345	16,788,630	21,602,975
Net assets, end of year	\$ 6,334,934	\$ 17,841,107	\$ 24,176,041

The accompanying Notes to Financial Statements are an integral part of these financial statements.

The Education Trust

Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services										2019 Total
	P -12 Policy & Practice	Higher Education Policy & Practice	Advocacy and Legislative Affairs	Communications	Education Trust Midwest	Education Trust New York	Education Trust West	Total Program Services	Fundraising	General and Administrative	
Personnel expenses	\$ 1,964,496	\$ 1,235,189	\$ 1,499,122	\$ 1,727,785	\$ 881,775	\$ 909,883	\$ 3,236,353	\$ 11,454,603	\$ 238,548	\$ 697,489	\$ 12,390,640
Consulting	152,526	89,260	457,070	160,290	209,826	301,510	572,358	1,942,840	185,908	120,120	2,248,868
Travel and meetings	137,885	329,361	330,313	52,504	45,119	71,689	359,325	1,326,196	7,614	73,196	1,407,006
Subgrants	178,557	-	-	-	15,000	450,000	406,807	1,050,364	-	-	1,050,364
Professional resources	43,878	41,412	42,819	167,764	45,803	150,551	164,524	656,751	5,730	54,690	717,171
Depreciation and amortization	45,367	28,524	34,620	39,900	22,792	24,729	100,887	296,819	5,511	32,865	335,195
Occupancy	167,577	102,754	124,710	143,733	190,045	145,102	530,593	1,404,514	19,845	136,044	1,560,403
Office expenses	60,962	38,735	50,527	55,325	76,841	52,119	244,409	578,918	9,032	50,695	638,645
Total expenses	\$ 2,751,248	\$ 1,865,235	\$ 2,539,181	\$ 2,347,301	\$ 1,487,201	\$ 2,105,583	\$ 5,615,256	\$ 18,711,005	\$ 472,188	\$ 1,165,099	\$ 20,348,292

The accompanying Notes to Financial Statements are an integral part of these financial statements.

The Education Trust

Statement of Cash Flows

<i>Year Ended June 30,</i>	2019
Cash flows from operating activities	
Change in net assets	\$ 2,573,066
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Change in discount on contribution receivable	59,869
Depreciation and amortization	335,195
Unrealized gain on investments	(69,551)
Loss on disposal	2,432
(Increase) decrease in:	
Contributions receivable	(2,915,654)
Accounts receivable	(144,778)
Prepaid expenses	(28,864)
Deposit	(44,208)
Increase (decrease) in:	
Accounts payable	410,310
Accrued expenses	409,939
Deferred rent	(222,345)
Net cash provided by operating activities	365,411
Cash flows from investing activities	
Purchase of property and equipment	(230,068)
Purchase of investments	(3,384,900)
Proceeds from redemptions of investments	3,115,836
Net cash used in investing activities	(499,132)
Net change in cash and cash equivalents	(133,721)
Cash and cash equivalents, beginning of year	5,128,811
Cash and cash equivalents, end of year	\$ 4,995,090

The accompanying Notes to Financial Statements are an integral part of these financial statements.

The Education Trust

Notes to Financial Statements

1. Organization and significant accounting policies

Organization – The Education Trust (“Organization”) is a nonprofit organization that promotes high academic achievement for all students at all levels - pre-kindergarten through college. The Education Trust's goal is to close the gaps in opportunity and achievement that consign far too many young people - especially those from low-income families or who are black, Latino, or American Indian - to lives on the margins of the American mainstream.

Although many organizations speak up for the adults employed by schools and colleges, The Education Trust speaks up for students, especially those whose needs and potential are often overlooked. The Education Trust evaluates every policy, every practice, and every dollar spent through a single lens: what is right for students. The Education Trust carries out its mission in three primary ways:

Working alongside educators, parents, students, policymakers, and civic and business leaders in communities across the country, providing practical assistance in their efforts to transform schools and colleges into institutions that serve all students well.

Analyzing local, state, and national data and using what is learned to help build broader understanding of achievement and opportunity gaps and the actions necessary to close them.

Participating actively in national and state policy debates, bringing lessons learned from on-the-ground work and from unflinching data analyses to build the case for policies that will help all students and schools reach high levels of achievement.

Basis of accounting: The Organization maintains its records using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions: Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time, or net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the actions of the Organization.

Cash and cash equivalents: For purposes of financial statement presentation, the Organization considers all highly liquid debt instruments with initial maturities of ninety days or less to be cash equivalents. The Organization maintains cash balances which may exceed federally insured limits. Management does not believe that this results in any significant credit risk.

The Education Trust

Notes to Financial Statements

Contributions receivable: The Organization records unconditional contributions of gifts in the financial statements at the time contributions are made or received. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience and specific allowances for known trouble accounts. All accounts or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts. Receivables expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on contributions is computed at a discount rate approximating the prevailing borrowing rate of 5%.

Management believes that all contributions are collectible; therefore, there is no provision for doubtful accounts in the accompanying financial statements.

Accounts receivable: Services performed and billed under contracts but not yet received are shown as accounts receivable. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience and specific allowances for known trouble accounts. All accounts or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts. Receivables expected to be collected in future years are recorded at the present value of their estimated future cash flows. All balances are considered fully collectible by the Organization, therefore no allowance was deemed necessary as of June 30, 2019.

Prepaid expenses: Prepaid expenses are predominantly payments for rent and insurance paid in advance.

Investments: Investments are stated at fair value and consist of money market funds, certificates of deposits, and corporate fixed income. Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Property and equipment: Property and equipment of the Organization are recorded at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is being computed on a straight-line basis over estimated lives of three to thirteen years. Leasehold improvements are amortized over their remaining useful life or remaining lease term, whichever is shorter. The Organization capitalizes all fixed assets greater than \$1,000.

The Education Trust

Notes to Financial Statements

Revenue Recognition:

Grants and contributions: The Organization recognizes all unconditional contributions and grants received as income in the period received or pledged. Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions, depending on the absence or existence of donor stipulations that limit the use of the contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Donated services, furniture, and software are valued at the vendor's estimated cost of the project or item. For the year ended June 30, 2019, the recognized value of donated services and furniture was \$10,063. Donated services, furniture, and software were included in contributions on the Statements of Activities and Changes in Net Assets.

Contracts: Fees for service contract revenue is recognized and billed monthly as work is performed. Amounts received in advance are included in deferred revenue on the Statements of Financial Position.

Program service fees: Service fees are collected by the Organization for speaking engagements and consultation support and are recognized upon performance of the service.

Registration fees: Fees are recognized by the Organization during the month in which the conference or seminar is held.

Other income: Other income includes rental income from subleases, royalties and other miscellaneous income which are recognized as revenue when earned.

Functional allocation of expenses: The costs of the Organization providing the various programs and other activities have been summarized on a functional basis in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The Education Trust

Notes to Financial Statements

Expenses that are allocated include the following:

Expense	Method of Allocation
Personnel expenses	Time and effort by department
Professional resources	Time and effort by department
Depreciation	Time and effort by department
Occupancy	Time and effort by department
Office expenses	Time and effort by department

Income tax status: The Organization is exempt from federal income tax under 501(c)(3) of the Internal Revenue Code, and is classified as an organization that is not private foundation.

Under provisions contained in the 2017 Tax Cuts and Jobs Act that became effective on January 1, 2018, a business deduction for certain unqualified transportation fringes (QTF) is no longer available to tax-exempt organizations. The IRC provides that a tax-exempt organization's UBTI is increased by the amount of the QTF expense that is nondeductible under the IRC. This requires The Education Trust to add the nondeductible amount associated with providing its employees with certain transportation fringe benefits to its UBTI. The accompanying financial statements include \$4,672 for federal and state taxes paid for 2019 related to QTF.

The Organization evaluates uncertainty in income tax positions based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of June 30, 2019, there are no accruals for uncertain tax positions. If applicable, the Organization records interest and penalties as a component of income tax expense. Tax years from 2016 through the current year remain open for examination by tax authorities.

The Education Trust

Notes to Financial Statements

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently adopted accounting standards: On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. The Organization has adopted ASU 2016-14 and has adjusted the presentation of these statements accordingly.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through February 26, 2020, which is the date the financial statements were available to be issued.

2. Liquidity and availability of resources

The following represents the Organization's financial assets at June 30, 2019:

Financial assets at year-end:

Cash and cash equivalents	\$ 4,995,090
Investments	6,572,588
Accounts receivable	244,617
Promise to give	13,826,550

Total resources available	25,638,845
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Less amounts not available to be used within one year:

With donor restrictions for time and purpose long-term	(5,051,872)
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Financial assets available to meet general expenditures over the next twelve months

\$ 20,586,973

The Organization strives to maintain liquid financial assets sufficient to cover 3 – 4 months of general expenditures.

The Education Trust

Notes to Financial Statements

- 3. Contributions receivable** At June 30, 2019, the Organization has contributions receivable from corporations and private foundations.

Contributions receivable consist of the following as of June 30:

	<u>2019</u>
Due within one year	\$ 11,151,667
Contributions receivable, one to five years	2,815,666
Subtotal	13,967,333
Present value discount	(140,783)
Total contributions receivable	\$ 13,826,550

The receivables collectible beyond one year have been discounted to their present value using a discount rate of 5%.

- 4. Investments** The following is a summary of the Organization's investments as of June 30, 2019.

	<u>2019</u>
Money market fund	\$ 1,046,057
Corporate fixed income	21,171
Certificates of deposit	5,505,360
Total investments	\$ 6,572,588

- 5. Fair value** The Organization value certain assets at fair value in accordance with a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the entity to develop its own assumptions.

The Education Trust

Notes to Financial Statements

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. There have been no changes in the fair value methodologies used at June 30, 2019. The fair value of the Organization's investments is as follows:

		Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
June 30, 2019	Total			
Money market fund	\$ 1,046,057	\$ 1,046,057	\$ -	\$ -
Corporate fixed income	21,171	-	21,171	-
Certificates of deposit	5,505,360	-	5,505,360	-
Total	\$ 6,572,588	\$ 1,046,057	\$ 5,526,531	\$ -

Level 2 values were developed utilizing the current interest rates for certificates of deposit with similar time to maturity, discounting the future payments to present value at year end. Corporate fixed income values were developed utilizing prices for similar assets in markets without active trading volumes. The money market fund is valued at cost which approximates fair value.

6. Property and equipment

Property and equipment of the Organization consist of the following:

June 30,	2019
Leasehold improvements	\$ 1,406,326
Furniture and equipment	888,484
Total	2,294,810
Less: Accumulated depreciation and amortization	(1,688,063)
Net	\$ 606,747
Depreciation expense	\$ 121,079
Amortization expense	214,116
Total depreciation and amortization expense	\$ 335,195

The Education Trust

Notes to Financial Statements

7. Operating leases

The Education Trust is obligated, as lessee, under non-cancelable operating leases for office spaces in Washington, D.C., Royal Oak, Michigan, and Oakland, California, through various dates up to June 2024. The minimum payments required under the lease are expensed on a pro rata basis over the term of the lease.

The difference between the amounts expensed and the required lease payments is reflected as deferred rent in the accompanying Statement of Financial Position. The following is a schedule by year of future minimum rental payments required under the operating leases that have an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2019.

Year Ending June 30,	Amount
2020	\$ 1,724,132
2021	731,802
2022	311,357
2023	302,789
2024	153,632
Total	\$ 3,223,712

Total rent expense of the Organization for the year ended June 30, 2019 was \$1,560,403.

The Education Trust

Notes to Financial Statements

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- 8. Net assets with donor restrictions** Net assets with donor restrictions of the Organization consist of amounts restricted for time and purpose by donors for the following programs:

P - 12 Policy and Practice: Work alongside educators, advocates, and policymakers to identify causes of the achievement gap and to promote the practices and policies for P-12 Education.

Higher Education Policy and Practice: Work equity-centered and focuses on closing gaps in access and success and on making college more affordable for students, particularly those from low-income families and families of color.

Communications: Provide creative visual and digital voice through editorial and digital communications.

Advocacy and Legislative Affairs: Engage policymakers and diverse coalitions of advocates in demanding and securing equity-advancing policy change at the national and state levels.

Education Trust – Midwest: Fierce advocates for the high academic achievement of all students - particularly those of color and living in poverty in Midwest region.

Education Trust - New York: Relentless advocates of educational justice for students across New York State - particularly those of color or living in poverty.

Education Trust – West: Advocates for educational justice and the high academic achievement of all California students, pre-k through college, particularly those of color and living in poverty.

The Education Trust

Notes to Financial Statements

Net assets with donor restrictions were as follows:

	Net assets with donor restrictions at June 30, 2018	Contributions	Net assets released from restrictions	Net assets with donor restrictions at June 30, 2019
Advocacy and Legislative Affairs	\$ 3,990,954	\$ 2,685,000	\$ (3,861,255)	\$ 2,814,699
P-12 Policy and Practice	567,773	3,694,235	(1,318,841)	2,943,167
Higher Education Policy and Practice	1,246,906	1,550,000	(1,729,174)	1,067,732
Communications	10,000	490,000	(194,179)	305,821
General Operation	4,130,613	1,850,000	(5,329,501)	651,112
Education Trust- Midwest	1,186,408	2,790,000	(1,352,363)	2,624,045
Education Trust- New York	926,004	3,998,576	(2,027,915)	2,896,665
Education Trust- West	4,810,884	4,923,835	(5,056,070)	4,678,649
Discount	(80,912)	(59,871)	-	(140,783)
Total	\$ 16,788,630	\$ 21,921,775	\$ (20,869,298)	\$ 17,841,107

9. Concentration Concentrations existed for the Organization in support and revenue of 17% from one private foundation for the year ended June 30, 2019, and contributions receivable of 42% from two private foundations as of June 30, 2019.

10. Pension plan The Organization maintains a 403(b) defined contribution retirement plan. All employees of the Organization are eligible to participate following the completion of three months of service. The Organization contributes 4% of each participant's annual salary and will match up to an additional 3% of an employee's contribution. The participants are immediately fully vested in all contributions. The Organization contributed \$631,908 to the plan during the year ended June 30, 2019.

The Organization also maintains a tax deferred annuity plan. Employees of the Organization are eligible to participate in this plan immediately upon hire. The Organization made no contributions to this plan during the year ended June 30, 2019.