

**SPONSORS FOR EDUCATIONAL
OPPORTUNITY, INC.**

AUDITED FINANCIAL STATEMENTS

AUGUST 31, 2020 AND 2019

**WATSONRICE LLP
CERTIFIED PUBLIC ACCOUNTANTS**

**SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
AUGUST 31, 2020 AND 2019**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sponsors for Educational Opportunity, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Sponsors for Educational Opportunity, Inc., which comprise the statements of financial position as of August 31, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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 involves 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.

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

INDEPENDENT AUDITOR'S REPORT – CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sponsors for Educational Opportunity, Inc. as of August 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Watson Rice LLP

New York, New York
March 30, 2021

SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash (Note 4)	\$ 14,545,710	\$ 6,981,959
Contributions receivable, net (Note 5)	5,215,412	7,254,732
Partner receivable	713,226	1,045,560
Grants receivable, net (Note 5)	6,784,976	41,656
Other current assets (Note 14)	1,326,957	979,326
Investments (Note 6)	15,351,925	14,518,341
Prepaid expenses	422,640	408,053
Property, furniture and equipment, net (Note 7)	<u>7,335,409</u>	<u>7,667,085</u>
Total Assets	<u>\$ 51,696,255</u>	<u>\$ 38,896,712</u>
Liabilities and Net Assets		
<u>Liabilities</u>		
Accounts payable and accrued expenses	\$ 973,958	\$ 1,149,079
Other current liabilities (Note 14)	1,415,098	940,939
Paycheck Protection Program Loan (Note 8)	<u>2,758,311</u>	<u>-</u>
Total Liabilities	<u>5,147,367</u>	<u>2,090,018</u>
<u>Net Assets</u>		
Without donor restrictions		
Net investment in property, furniture and equipment	7,335,409	7,667,085
Designated by the Board for endowment (Note 11)	12,327,771	10,526,821
Designated by the Board for Scholars NYC Expansion Fund	10,911,729	7,190,933
Designated by the Board for operating reserve	<u>2,000,000</u>	<u>2,000,000</u>
	<u>32,574,909</u>	<u>27,384,839</u>
With donor restrictions		
Purpose restrictions	13,163,979	8,611,855
Perpetual in nature	<u>810,000</u>	<u>810,000</u>
	<u>13,973,979</u>	<u>9,421,855</u>
Total Net Assets	<u>46,548,888</u>	<u>36,806,694</u>
Total Liabilities and Net Assets	<u>\$ 51,696,255</u>	<u>\$ 38,896,712</u>

See notes to financial statements.

SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Contributions and grants (Notes 5 and 12)	\$ 15,857,712	\$ 8,941,473	\$ 24,799,185
Special events, net of direct costs (Note 13)	9,712,683	-	9,712,683
In-kind contributions (Note 9)	1,839,220	-	1,839,220
Net investment return	1,800,950	374,663	2,175,613
Net assets released from restrictions (Note 10)	<u>4,764,012</u>	<u>(4,764,012)</u>	<u>-</u>
Total Revenues and Other Support	<u>33,974,577</u>	<u>4,552,124</u>	<u>38,526,701</u>
Expenses			
Program services	23,859,016	-	23,859,016
Supporting services:			
Management and general	2,949,473	-	2,949,473
Development	<u>1,976,018</u>	<u>-</u>	<u>1,976,018</u>
Total Expenses	<u>28,784,507</u>	<u>-</u>	<u>28,784,507</u>
Changes in Net Assets (Note 12)	5,190,070	4,552,124	9,742,194
Net Assets, Beginning of Year	<u>27,384,839</u>	<u>\$ 9,421,855</u>	<u>36,806,694</u>
Net Assets, End of Year	<u>\$ 32,574,909</u>	<u>\$ 13,973,979</u>	<u>\$ 46,548,888</u>

See notes to financial statements.

SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Contributions and grant (Notes 5 and 12)	\$ 13,055,850	\$ 6,020,697	\$ 19,076,547
Special events, net of direct costs (Note 13)	6,459,752	-	6,459,752
In-kind contributions (Note 9)	2,400,711	-	2,400,711
Net investment return	493,599	113,907	607,506
Net assets released from restrictions (Note 10)	<u>5,962,821</u>	<u>(5,962,821)</u>	<u>-</u>
Total Revenues and Other Support	<u>28,372,733</u>	<u>171,783</u>	<u>28,544,516</u>
Expenses			
Program services	22,270,414	-	22,270,414
Supporting services:			
Management and general	2,707,910	-	2,707,910
Development	<u>1,621,204</u>	<u>-</u>	<u>1,621,204</u>
Total Expenses	<u>26,599,528</u>	<u>-</u>	<u>26,599,528</u>
Changes in Net Assets (Note 12)	1,773,205	171,783	1,944,988
Net Assets, Beginning of Year	<u>25,611,634</u>	<u>9,250,072</u>	<u>34,861,706</u>
Net Assets, End of Year	<u>\$ 27,384,839</u>	<u>\$ 9,421,855</u>	<u>\$ 36,806,694</u>

See notes to financial statements.

SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2020

	Program Services	Supporting Services		Total
		Management/ General	Development	
Salaries	\$11,877,639	\$ 1,278,202	\$ 976,345	\$14,132,186
Payroll taxes and benefits	2,796,455	414,741	241,774	3,452,970
Contractor and consultant services and other professional services	2,889,703	500,052	589,796	3,979,551
Scholarship, stipends and grants	2,409,491	-	-	2,409,491
Printing	34,641	3,605	27,682	65,928
Travel and conferences	797,987	44,044	19,831	861,862
Property maintenance fees	520,771	115,756	28,249	664,776
Postage and shipping	30,238	3,178	1,353	34,769
Telephone	124,058	41,637	17,353	183,048
Supplies	205,918	20,222	5,414	231,554
Equipment maintenance	164,762	64,674	15,176	244,612
Miscellaneous	122,207	64,771	14,961	201,939
In-kind space (Note 9)	666,000	46,015	-	712,015
In-kind services (Note 9)	1,038,063	89,142	-	1,127,205
Total Expenses Before Depreciation	23,677,933	2,686,039	1,937,934	28,301,906
Depreciation	181,083	263,434	38,084	482,601
 Total Expenses	<u>\$23,859,016</u>	<u>\$ 2,949,473</u>	<u>\$ 1,976,018</u>	<u>\$28,784,507</u>

See notes to financial statements.

SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2019

	Program Services	Supporting Services		Total
		Management/ General	Development	
Salaries	\$10,151,023	\$ 1,154,185	\$ 842,081	\$12,147,289
Payroll taxes and benefits	2,371,212	294,633	218,047	2,883,892
Contractor and consultant services and other professional services	2,684,410	469,067	459,789	3,613,266
Scholarship, stipends and grants	1,052,180	-	-	1,052,180
Printing	123,825	16,497	31,299	171,621
Travel and conferences	1,792,876	56,817	26,039	1,875,732
Property maintenance fees	586,350	153,589	3,491	743,430
Postage and shipping	34,617	4,133	16,474	55,224
Telephone	119,024	41,886	7,398	168,308
Supplies	284,266	30,845	2,090	317,201
Equipment maintenance	326,193	115,232	4,780	446,205
Miscellaneous	124,376	44,674	4,204	173,254
In-kind space (Note 9)	1,486,382	18,993	-	1,505,375
In-kind services (Note 9)	825,000	70,336	-	895,336
Total Expenses Before Depreciation	21,961,734	2,470,887	1,615,692	26,048,313
Depreciation	308,680	237,023	5,512	551,215
Total Expenses	<u>\$22,270,414</u>	<u>\$ 2,707,910</u>	<u>\$ 1,621,204</u>	<u>\$26,599,528</u>

See notes to financial statements.

SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 9,742,194	\$ 1,944,988
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	482,601	551,215
Receipt of contributed securities	(360,600)	(598,850)
Unrealized appreciation in fair value of investments	(1,699,650)	(273,376)
(Increase) decrease in assets:		
Contributions receivable	2,039,320	(1,000,997)
Partner receivable	332,334	(850,160)
Grants receivable	(6,743,320)	1,568,954
Other current assets	(347,631)	(143,377)
Prepaid expenses	(14,587)	(130,294)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(175,121)	(55,195)
Other current liabilities	474,159	176,806
Net cash provided by operating activities	<u>3,729,699</u>	<u>1,189,714</u>
Cash Flows from Investing Activities		
Purchase of property, furniture and equipment	(150,925)	(189,466)
Purchase of investments	(276,507)	(315,597)
Net proceeds from sale of investments	<u>1,503,173</u>	<u>5,321</u>
Net cash provided by (used in) investing activities	<u>1,075,741</u>	<u>(499,742)</u>
Cash Flow from Financing Activity		
Proceeds from paycheck protection program loan	<u>2,758,311</u>	<u>-</u>
Net Increase in Cash	7,563,751	689,972
Cash, Beginning of Year	<u>6,981,959</u>	<u>6,291,987</u>
Cash, End of Year	<u>\$ 14,545,710</u>	<u>\$ 6,981,959</u>

See notes to financial statements.

**SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019**

1. NATURE OF ACTIVITIES

Sponsors for Educational Opportunity, Inc. (“SEO” or the “Organization”) is a nonprofit organization founded in 1963 to help create a more equitable society by preparing underserved and/or underrepresented young people for college and career success. SEO provides superior educational and career programs to young people and is funded entirely by contributions from private organizations and individuals.

Services are provided through four major programs:

- The Scholars Program is supplemental education program that prepares low-income students from New York City and San Francisco public high schools to gain entry and succeed at competitive colleges. The program assists high school and college students, providing academic preparation for competitive college admissions, graduation, and ultimately, career success. SEO Scholars provides academic classes, guidance, mentoring, and enriching life experiences that prepare students to take leadership roles in all areas of their lives.
- The SEO Career Program recruits, trains, and coaches outstanding underrepresented college students from across the country for summer internships that lead to coveted full time jobs careers with investment banks and other leading global companies.
- The SEO Law Fellowship program is the nation’s only paid, pre-law program, providing internships at leading law firms, as well as law school academic preparation. This selective program targets underrepresented incoming law school students who have both exceptional promise and demonstrated accomplishments in their undergraduate and professional careers.
- SEO’s Alternative Investments program prepares high-achieving young professionals from underrepresented populations to secure and excel in positions within the alternative investments sector through education, exposure, training, and mentoring. As a result, participants are gaining economic influence in business and philanthropy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

**SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting and Presentation – Continued

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

SEO reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Tax Status

SEO is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and has been classified as a public charity under Sections 509(a)(1) and 170(b)(1)(A)(vi) of the IRC.

SEO has analyzed the tax position taken in its filings with the Internal Revenue Service and state jurisdiction where it operates. SEO believes that its income tax filing position will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on SEO’s financial condition, results of operation or cash flows. Accordingly, SEO has not recorded any reserves, or related accruals for interest and penalties for uncertain tax positions at August 31, 2020 and 2019.

The Organization is subject to routine audits by taxing jurisdiction; however, there are currently no audits for any tax periods in progress.

**SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash

Cash includes amounts on deposits in checking and savings accounts. Amounts held in money market mutual funds for long-term purposes are classified as investments.

Contributions Receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises.

Investments

The Organization carries investments in money market funds, mutual funds and equities at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and direct internal investment expenses.

Fair Value Hierarchy

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

**SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Hierarchy – Continued

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Property, Furniture and Equipment

All acquisitions of property, furniture and equipment in excess of \$1,000, and all expenditures for repairs, maintenance and renewals that materially prolong the useful lives of assets are capitalized. Property, furniture and equipment are carried at cost or, if donated, at the approximate fair value at the date of the donation. Depreciation and amortization is computed using the straight-line method over estimated useful lives of the assets ranging from 5 to 39 years. Donations of property, furniture and equipment are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose.

Revenue Recognition

All contributions are considered to be without donor restrictions, unless specifically restricted by the donor or subject to legal restrictions. Contributions are generally recorded when notification of a gift is received. Contributions restricted by the donor or grantor for specific purposes or projects are recorded as revenues in the period granted at face value. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received.

Expense Recognition and Allocation

The cost of providing SEO's programs and other activities is summarized on a functional basis in the statements of activities and statements of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, benefits, and payroll taxes are allocated based on the respective program area, with the exception of those employees who are allocated across all departments based on estimated time spent.
- Other than personnel services costs are allocated based on full time equivalent.

**SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Expense Recognition and Allocation – Continued

Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the organization.

Development costs are expensed as incurred, even though they may result in contributions received in future years.

Reclassifications

Prior year information has been reclassified where necessary to make it comparable with current year information.

Recently Issued Accounting Pronouncements

Revenue Recognition

The FASB has issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), that affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts).

This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

In June 2020, the FASB issued ASU 2020-05, which defers the effective date of ASU 2014-09 by one year for entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of ASU 2014-09. Those entities may elect to adopt the guidance for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning December 15, 2020. Management is currently evaluating the impact of this ASU on the financial statements and will implement when applicable.

SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Accounting Pronouncements – Continued

Contributed Nonfinancial Assets

On September 17, 2020, FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958) – Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial assets. This ASU requires a not-for-profit entity to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. It also requires a not-for-profit to disclose:

- a. Contributed nonfinancial assets recognized within the statement of activities disaggregated by category that depicts the type of contributed nonfinancial assets; and
- b. For each category of contributed nonfinancial assets recognized (as identified in (a)):
 - Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used.
 - The not-for-profit’s policy (if any) about monetizing rather than utilizing contributed nonfinancial assets.
 - A description of any donor-imposed restrictions associated with the contributed nonfinancial assets.
 - The valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, Fair Value Measurement, at initial recognition.
 - The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

ASU No. 2020-07 is effective retrospectively for annual reporting periods beginning after June 15, 2021, and interim periods with annual reporting periods beginning after June 15, 2022. Early adoption is permitted. Management is currently evaluating the impact of this ASU on the financial statements and will implement when applicable.

SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Accounting Pronouncements – Continued

Accounting for Leases

The FASB issued its new lease accounting guidance in ASU No. 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

In June 2020, the FASB issued ASU 2020-05, which defers the effective date of ASU 2016-02 for one year for entities in the “all other” category and public not for profit entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of leases.

Therefore, ASU 2016-02 is effective for entities within “all other” category for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Management is currently evaluating the impact of this ASU on the financial statements and will implement when applicable.

**SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure that is, without donor or other restrictions limiting their use, within one year of August 31, comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$14,545,710	\$ 6,981,959
Contributions receivable	5,215,412	7,254,732
Partner receivable	713,226	1,045,560
Grants receivable	6,784,976	41,656
Investments	<u>15,351,925</u>	<u>14,518,341</u>
Total financial assets	42,611,249	29,842,248
Less financial assets held to meet donor imposed restrictions		
Purpose restricted net assets	(12,649,304)	(8,241,083)
Donor restricted endowment funds	(1,324,675)	(1,180,772)
Less financial assets not available within one year:		
Contributions receivable	(2,519,740)	(4,529,000)
Grant Receivable	(6,366,866)	-
Less board-designated endowment fund	<u>(12,327,771)</u>	<u>(10,526,821)</u>
Amount available for general expenditures within one year	<u>\$ 7,422,893</u>	<u>\$ 5,364,572</u>

The above table reflects donor restricted and board designated endowment funds as unavailable because it is the Organization's intention to invest those for the long-term support of the organization. However, in the case of need, the Board of Directors could appropriate resources from either the donor-restricted funds available for general use or from its board designated endowment fund. Note 11 provides more information about those funds and about the spending policies for all endowment funds.

As part of the liquidity management plan, the Organization invest cash in excess of daily requirements in money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was \$12,327,771 and \$10,526,821 as of August 31, 2020 and 2019, respectively.

**SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

4. CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash in bank deposit accounts in various financial institutions, which at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (“FDIC”) up to certain limits. At August 31, 2020 and 2019, the Organization had approximately \$14,152,313 and \$6,768,974, respectively, in excess of FDIC-insured limits. The Organization has not experienced any losses in such accounts.

5. CONTRIBUTIONS AND GRANTS RECEIVABLE, NET

Contributions and grants receivable are scheduled to be collected as follows at August 31:

	2020		2019	
	Contributions	Grants	Contributions	Grants
Within one year	\$ 2,930,422	\$ 1,000,000	\$ 3,372,749	\$ 41,656
In one to five years	2,519,740	5,866,866	4,529,000	-
In more than five years	-	500,000	-	-
	5,450,162	7,366,866	7,901,749	41,656
Less: Discount to present value	(196,897)	(581,890)	(609,164)	-
Allowance for uncollectible pledges	(37,853)	-	(37,853)	-
Net amount	<u>\$ 5,215,412</u>	<u>\$ 6,784,976</u>	<u>\$ 7,254,732</u>	<u>\$ 41,656</u>

Contributions and grants expected to be collected in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 3.25% and 5.25% in 2020 and 2019, respectively. The 3.25% and 5.25% discount rates were bank prime loan rate.

6. INVESTMENTS

Investments are comprised of the following:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Cash and money market funds	\$ 883,820	\$ 883,820	\$ 2,017,897	\$ 2,017,897
Mutual funds and equities	9,239,552	14,468,105	8,974,656	12,500,444
Total Investments	<u>\$ 10,123,372</u>	<u>\$ 15,351,925</u>	<u>\$ 10,992,553</u>	<u>\$ 14,518,341</u>

As of August 31, 2020 and 2019, all investments were considered level 1 investments.

**SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

7. PROPERTY, FURNITURE AND EQUIPMENT, NET

Property, furniture and equipment consist of the following:

	<u>2020</u>	<u>2019</u>
Office condominium	\$ 10,426,110	\$ 10,397,371
Furniture and equipment	3,094,549	2,972,363
Leasehold improvements	<u>14,920</u>	<u>14,920</u>
	13,535,579	13,384,654
Less accumulated depreciation and amortization	<u>(6,200,170)</u>	<u>(5,717,569)</u>
	<u>\$ 7,335,409</u>	<u>\$ 7,667,085</u>

Depreciation expense charged to operations in 2020 and 2019 were \$482,601 and \$551,215, respectively.

8. PAYCHECK PROTECTION PROGRAM LOAN

On May 7, 2020, the Organization received a loan of \$2,758,311 under the Paycheck Protection Program (“PPP”) provided by Grow America Fund, Inc. (“Lender”) payable over two years at an interest of 1%, with a deferral of payments for the first six months.

On November 10, 2020, the Organization has submitted the PPP loan forgiveness application. Although the Organization believes it is probable that the PPP loan will be forgiven, the Organization’s actions and information must be evaluated further by the Lender and the SBA before forgiveness is formally granted. Therefore, the Organization has elected the transaction under ASC 470, Debt. As of August 31, 2020, full amount is reflected as loan liability in the statement of financial position.

9. IN-KIND CONTRIBUTIONS

In 2020 and 2019, SEO received donated services and free facility usage as follows:

	<u>2020</u>	<u>2019</u>
In-kind space	\$ 712,015	\$ 1,505,375
In-kind services:		
Seminars, orientation, speakers and others	<u>1,127,205</u>	<u>895,336</u>
Total	<u>\$ 1,839,220</u>	<u>\$ 2,400,711</u>

The values of these donations were included as in-kind contributions with corresponding expenses in the financial statements.

SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Scholars Program	\$ 9,474,761	\$ 6,770,659
Career Program	1,801,189	401,651
College Program	729,550	418,773
San Francisco Scholars	568,804	500,000
Alternative Investments	<u>75,000</u>	<u>150,000</u>
	<u>12,649,304</u>	<u>8,241,083</u>
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
Restricted by donors for Scholars Program	<u>514,675</u>	<u>370,772</u>
	<u>514,675</u>	<u>370,772</u>
Perpetual in nature, earnings from which are subjected to endowment spending policy and appropriation:		
Scholars Program	<u>810,000</u>	<u>810,000</u>
	<u>810,000</u>	<u>810,000</u>
Total endowments	<u>1,324,675</u>	<u>1,180,772</u>
	<u>\$ 13,973,979</u>	<u>\$ 9,421,855</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors as follows for the years ended August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Satisfaction of purpose restrictions		
High School Scholars Program	\$ 3,381,977	\$ 3,820,112
Career Program	808,910	1,247,658
College Program	173,125	695,051
San Francisco Scholars	325,000	125,000
Alternative Investments	<u>75,000</u>	<u>75,000</u>
	<u>\$ 4,764,012</u>	<u>\$ 5,962,821</u>

**SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

11. ENDOWMENT FUNDS

The Board of Directors approved the amount of \$10 million for the SEO endowment goal. The Endowment consist of the investment and investment income. With the Board directive to double the number of students served within SEO’s Scholars Program, it was decided that annual surpluses will be allocated toward the Scholars NYC Expansion Fund.

Board-designated Endowment

As of August 31, 2017, it was decided to designate the \$8,972,451 million of net assets without donor restrictions as a general endowment funds to support SEO’s mission. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as net assets without donor restrictions.

Composition and changes in board-designated endowment net assets for the years ended August 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Board-designated endowment net assets		
Beginning of year	\$ 10,526,821	\$ 10,012,614
Investment income	<u>1,800,950</u>	<u>514,207</u>
Board-designated endowment net assets, end of year	<u>\$ 12,327,771</u>	<u>\$ 10,526,821</u>

Donor-designated Endowments (NYPMIFA)

The Organization’s endowment consists of three individual funds. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

SEO’s Board of Directors has interpreted the New York Prudent Management of Institutional Funds Act (“NYPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary.

**SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

11. ENDOWMENT FUNDS – CONTINUED

Donor-designated Endowments (NYPMIFA) – Continued

As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the endowment fund, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation or deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policy of the organization.

Investment and Spending Policies

As established in SEO Endowment Policy Resolution dated March 29, 2011, the overall, long-term financial objective for the endowment is capital preservation and to maintain its real (inflation-adjusted) purchasing power measured over periods of at least ten years. New endowment contributions are expected to increase the real purchasing power of the endowment assets. Income generation and capital appreciation are additional objectives for the endowment. The rate of investment return will include both investment income (dividends and interest) and capital gains. Inflation will be measured by the Consumer Price Index.

As resolved, SEO is authorized to spend all of the yearly income and any net appreciation, if applicable, from the donor restricted endowment.

Endowment net asset composition by type of fund as of August 31, 2020 and 2019 are as follows:

	<u>Net Endowment Funds as of August 31, 2020</u>		
	<u>Without Donor</u>	<u>With Donor</u>	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 12,327,771	\$ -	\$ 12,327,771
Donor-restricted endowment funds			
Original donor-restricted amount and amounts			
required to be maintained in perpetuity by donor	-	810,000	810,000
Accumulated investment gains	-	514,675	514,675
Total Funds	<u>\$ 12,327,771</u>	<u>\$ 1,324,675</u>	<u>\$ 13,652,446</u>

**SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

11. ENDOWMENT FUNDS – CONTINUED

Donor-designated Endowments (NYPMIFA) – Continued

Investment and Spending Policies – Continued

	<u>Net Endowment Funds as of August 31, 2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 10,526,821	\$ -	\$ 10,526,821
Donor-restricted endowment funds			
Original donor-restricted amount and amounts required to be maintained in perpetuity by donor	-	810,000	810,000
Accumulated investment gains	-	370,772	370,772
Total Funds	<u>\$ 10,526,821</u>	<u>\$ 1,180,772</u>	<u>\$ 11,707,593</u>

The changes in endowment net assets for the years ended August 31, 2020 and 2019 are as follows:

	<u>Changes in Endowment Funds at August 31, 2020</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 10,526,821	\$ 1,180,772	\$ 11,707,593
Net investment return	1,800,950	143,903	1,944,853
Amounts appropriated for expenditure	-	-	-
Endowment net assets, end of year	<u>\$ 12,327,771</u>	<u>\$ 1,324,675</u>	<u>\$ 13,652,446</u>

	<u>Changes in Endowment Funds at August 31, 2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 10,012,614	\$ 1,137,022	\$ 11,149,636
Net investment return	514,207	43,750	557,957
Amounts appropriated for expenditure	-	-	-
Endowment net assets, end of year	<u>\$ 10,526,821</u>	<u>\$ 1,180,772</u>	<u>\$ 11,707,593</u>

**SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

12. MULTIYEAR CONTRIBUTIONS, CHANGES IN NET ASSETS, DONOR RESTRICTED NET ASSETS AND ENDOWMENT NET ASSETS

In 2020, SEO recognized as contribution a multiyear pledge receivable totaling \$7,566,866 with a present value of \$6,981,828 using a discount rate of 3.25%. If this receivable was not included in 2020 contributions and instead accounted for on a cash basis, changes in net assets and donor restricted – purpose restricted net assets for 2020 would have been as follows:

Changes in net assets:

	<u>August 31, 2020</u>
Changes in net assets, as reported	\$ 9,742,194
Multiyear pledges receivable for 2020 (net of discount)	(6,981,828)
Multiyear pledges received	<u>2,054,000</u>
	<u>\$ 4,814,366</u>

Purpose Restricted Net Assets

	<u>August 31, 2020</u>
Purpose restricted net assets, as reported	\$ 13,163,979
Multiyear pledges receivable (net of discount)	<u>(6,981,828)</u>
	<u>\$ 6,182,151</u>

In 2019, SEO recognized as contribution a multiyear pledge receivable totaling \$3,987,000 with a present value of \$3,787,922 using a discount rate of 5.25%. If this receivable was not included in 2019 contributions and instead accounted for on a cash basis, changes in net assets and donor restricted – purpose restricted net assets for 2019 would have been as follows:

Changes in net assets:

	<u>August 31, 2019</u>
Changes in net assets, as reported	\$ 1,944,988
Multiyear pledges receivable for 2019 (net of discount)	(3,787,922)
Multiyear pledges received	<u>2,129,000</u>
	<u>\$ 286,066</u>

Purpose Restricted Net Assets

	<u>August 31, 2019</u>
Purpose restricted net assets, as reported	\$ 8,611,855
Multiyear pledges receivable (net of discount)	<u>(3,787,922)</u>
	<u>\$ 4,823,933</u>

SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED

13. SPECIAL EVENTS

In 2020, special events represent net proceeds from the awards dinner held on April 29, 2020, an Alternative Investments Conference held on March 4, 2020, and The San Francisco Achievement Benefit held on November 11, 2019. In 2019, special events represent net proceeds from the awards dinner held on April 29, 2019, an Alternative Investments Conference held on March 6, 2019, and The San Francisco Achievement Benefit held on November 1, 2018.

	<u>2020</u>	<u>2019</u>
Revenues	\$ 10,484,546	\$ 7,612,513
Less: Direct Costs	<u>(771,863)</u>	<u>(1,152,761)</u>
Net Proceeds	<u>\$ 9,712,683</u>	<u>\$ 6,459,752</u>

14. PENSION PLAN

SEO contributes to the 403(b) retirement plan managed by the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). All full-time personnel are eligible to make voluntary contributions immediately upon employment with SEO and any time thereafter. In addition, SEO automatically contributes 2.5% of eligible compensation after one year of employment. SEO makes discretionary matching contributions up to an additional 2.5% for employees who have completed one year of service. The vesting schedule for employer contributions is over a three-year period. Employee accounts are self-managed. SEO contributions for the years ended August 31, 2020 and 2019 were \$409,613 and \$326,545, respectively.

Effective August 15, 2013, SEO contributes to the 457(b) retirement plan managed by the Metropolitan Life Insurance Company (MetLife). Full-time staff with earnings of \$135,000 or more are eligible to participate immediately. There is no vesting period and employee accounts are self-managed. An individual can defer up to half of the statutory limitation (\$9,750 of \$19,500 for 2020) from his or her salary. SEO makes an employer matching contribution up to the statutory limitation. All deferred assets related to the 457(b) retirement plan are the property of SEO and are subject to claim by SEO's general creditors until they are distributed upon termination of employment as defined in the agreement. As of August 31, 2020 and 2019, investments in these accounts consist of mutual funds valued at \$1,248,986 and \$895,611, respectively, and are included as other current assets with corresponding liability in the financial statements.

15. SUBSEQUENT EVENTS

Subsequent to August 31, 2020 and through March 30, 2021, the date through which management evaluated subsequent events and on which the financial statements were available for issuance, management has concluded that there were no subsequent events to be disclosed.