

**Sobrato Early Academic Language Program**

Financial Statements

June 30, 2021



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Sobrato Early Academic Language Program  
Milpitas, California

We have audited the accompanying financial statements of Sobrato Early Academic Language Program (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, 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 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.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sobrato Early Academic Language Program as of June 30, 2021, 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.

**Change in Accounting Principle**

As described in Note 2 to the financial statements, the Organization has adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino<sup>LLP</sup>  
San Jose, California

December 15, 2021

Sobrato Early Academic Language Program  
Statement of Financial Position  
June 30, 2021

ASSETS

Current assets		
Cash	\$	3,264,744
Accounts receivable		499,361
Investments in marketable securities		2,067,447
Prepaid expenses		84,488
Deposits		<u>17,664</u>
Total current assets		<u>5,933,704</u>
Property and equipment, net		<u>61,835</u>
Total assets	\$	<u><u>5,995,539</u></u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$	205,768
Accrued expenses		<u>491,436</u>
Total current liabilities		<u>697,204</u>
Net assets		
Without donor restrictions		4,798,335
With donor restrictions		<u>500,000</u>
Total net assets		<u>5,298,335</u>
Total liabilities and net assets	\$	<u><u>5,995,539</u></u>

The accompanying notes are an integral part of these financial statements.

Sobrato Early Academic Language Program  
Statement of Activities  
For the Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Grants and contributions	\$ 8,400,127	\$ 500,000	\$ 8,900,127
Paycheck Protection Program loan forgiveness	741,000	-	741,000
In-kind contributions	67,838	-	67,838
Program services fee revenue	564,901	-	564,901
Interest income	8,965	-	8,965
Investment income	71,940	-	71,940
Net assets released from restriction	<u>366,914</u>	<u>(366,914)</u>	<u>-</u>
Total support and revenue	<u>10,221,685</u>	<u>133,086</u>	<u>10,354,771</u>
Functional expenses			
Program services			
Policy	231,101	-	231,101
Research	705,792	-	705,792
SEAL Practice	<u>4,559,005</u>	<u>-</u>	<u>4,559,005</u>
Total program services	<u>5,495,898</u>	<u>-</u>	<u>5,495,898</u>
Support services			
General and administrative	760,934	-	760,934
Fundraising	<u>411,766</u>	<u>-</u>	<u>411,766</u>
Total support services	<u>1,172,700</u>	<u>-</u>	<u>1,172,700</u>
Total functional expenses	<u>6,668,598</u>	<u>-</u>	<u>6,668,598</u>
Change in net assets	3,553,087	133,086	3,686,173
Net assets, beginning of year	<u>1,245,248</u>	<u>366,914</u>	<u>1,612,162</u>
Net assets, end of year	<u>\$ 4,798,335</u>	<u>\$ 500,000</u>	<u>\$ 5,298,335</u>

The accompanying notes are an integral part of these financial statements.

Sobrato Early Academic Language Program  
Statement of Functional Expenses  
For the Year Ended June 30, 2021

	Program Services				Support Services			Total
	Policy	Research	SEAL Practice	Total Program Services	General and Administrative	Fundraising	Total Support Services	
Personnel expenses								
Salaries and wages	\$ 153,428	\$ 345,213	\$ 2,589,097	\$ 3,087,738	\$ 479,463	\$ 268,499	\$ 747,962	\$ 3,835,700
Employee benefits	35,859	80,684	606,185	722,728	113,307	62,754	176,061	898,789
Payroll taxes	11,674	26,266	196,992	234,932	36,477	22,199	58,676	293,608
Total personnel expenses	<u>200,961</u>	<u>452,163</u>	<u>3,392,274</u>	<u>4,045,398</u>	<u>629,247</u>	<u>353,452</u>	<u>982,699</u>	<u>5,028,097</u>
Program consultants	558	139,366	292,157	432,081	-	-	-	432,081
Professional services	18,285	92,141	324,563	434,989	51,743	27,428	79,171	514,160
Program supplies	1	581	118,565	119,147	-	-	-	119,147
Demonstration sites	-	-	193,561	193,561	-	-	-	193,561
Program videos	-	-	13,540	13,540	-	-	-	13,540
Travel and mileage	2	3	5,888	5,893	254	3	257	6,150
Conferences, conventions, and meetings	72	322	4,441	4,835	180	108	288	5,123
Dues and subscriptions	3,820	8,595	67,800	80,215	9,550	5,730	15,280	95,495
Rent	3,556	3,556	28,449	35,561	32,292	17,777	50,069	85,630
Meetings and convenings	-	-	57	57	12,109	91	12,200	12,257
Insurance	889	1,999	15,772	18,660	16,311	1,333	17,644	36,304
Office supplies	297	668	6,720	7,685	743	446	1,189	8,874
Equipment rental	877	1,974	15,574	18,425	2,193	1,316	3,509	21,934
Depreciation	1,106	2,489	19,637	23,232	2,769	1,660	4,429	27,661
Facilities	74	74	592	740	370	370	740	1,480
Utilities	313	313	2,861	3,487	1,563	1,563	3,126	6,613
Postage	53	120	1,926	2,099	133	133	266	2,365
Miscellaneous	7	15	116	138	901	10	911	1,049
Bank charges	230	518	4,090	4,838	576	346	922	5,760
Taxes and licenses	-	895	50,422	51,317	-	-	-	51,317
	<u>\$ 231,101</u>	<u>\$ 705,792</u>	<u>\$ 4,559,005</u>	<u>\$ 5,495,898</u>	<u>\$ 760,934</u>	<u>\$ 411,766</u>	<u>\$ 1,172,700</u>	<u>\$ 6,668,598</u>
Percentage of total	<u>3.4 %</u>	<u>10.6 %</u>	<u>68.4 %</u>	<u>82.4 %</u>	<u>11.4 %</u>	<u>6.2 %</u>	<u>17.6 %</u>	<u>100.0 %</u>

The accompanying notes are an integral part of these financial statements.

Sobrato Early Academic Language Program  
Statement of Cash Flows  
For the Year Ended June 30, 2021

Cash flows from operating activities	
Change in net assets	\$ 3,686,173
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	27,661
Paycheck Protection Program loan forgiveness	(741,000)
Realized and unrealized gain on investments	(71,940)
Changes in operating assets and liabilities	
Accounts receivable	(144,106)
Prepaid expenses	(57,117)
Deposits	(10,500)
Accounts payable	198,447
Accrued expenses	<u>(37,869)</u>
Net cash provided by operating activities	<u>2,849,749</u>
Cash flows from investing activities	
Purchase of equipment	(36,657)
Purchase of investments	<u>(1,995,507)</u>
Net cash used in investing activities	<u>(2,032,164)</u>
Net increase in cash	817,585
Cash, beginning of year	<u>2,447,159</u>
Cash, end of year	<u><u>\$ 3,264,744</u></u>

The accompanying notes are an integral part of these financial statements.



Sobrato Early Academic Language Program  
Notes to Financial Statements  
June 30, 2021

1. NATURE OF OPERATIONS

Sobrato Early Academic Language (the "Organization" or "SEAL") is a nonprofit corporation incorporated in California on July 1, 2019. Effective July 1, 2019, SEAL separated from Sobrato Family Foundation and became a new organization.

The Organization has developed and operates a program known as Sobrato Early Academic Language. The Sobrato Early Academic Language program is a research-based model ("Model") that is designed to provide high-quality education to all English Learners starting in preschool through elementary school, and to prevent the development of Long-Term English Learners. SEAL provides professional development, curriculum support, and technical assistance to school systems which bolsters learning for all children, but is especially critical for English Learners. The Model develops language and literacy skills for academic success and prepares all children for the Common Core standards. SEAL has replicated the Model in over 20 public school districts and over 100 schools in California, and is helping to train school district personnel in order to implement the program properly.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The Organization's financial statements are presented in accordance with accounting principle generally accepted in the United States of America on an accrual basis. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

The Organization reports its financial position and operating activities in two classes of net assets:

- *Net assets without donor restrictions* - includes those assets that are not subject to donor imposed restrictions and can be used for the general operations of the Organization. The Board of Directors has discretionary control in carrying out the operations of the Organization.
- *Net assets with donor restrictions* - includes those assets which are subject to donor stipulations and for which the applicable restriction was not met as of end of the current reporting period. Other donor-imposed restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. There are no net assets restricted in perpetuity as of June 30, 2021.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law. Expirations of restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases from net assets with donor restrictions and recognized as net assets without donor restrictions. Contributions that are restricted by the donor/grantor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

Sobrato Early Academic Language Program  
Notes to Financial Statements  
June 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 at the date of the financial statements and the reported amounts of revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash

Cash balances exclude donor restricted receipts and amounts designated for long-term purposes. Cash also excludes cash temporarily held for reinvestment in the Organization's investment portfolio. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Accounts receivable

Accounts receivable represents billed and uncollected program services fee revenue provided by the Organization. The Organization uses the allowance method to account for uncollected receivables. The allowance for doubtful accounts is based on historical experience and an evaluation of the outstanding receivables at the end of the year. No allowance for doubtful accounts was deemed necessary at June 30, 2021.

Fair value measurements

Fair Value is defined as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability.

The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of nonperformance risk.

In determining fair value, the Organization utilizes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Organization for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Sobrato Early Academic Language Program  
Notes to Financial Statements  
June 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *Level 1* - Quoted prices in active markets for identical assets or liabilities. Investments in Level 1 include cash equivalents, U.S. Treasury bills and listed equity and fixed income securities.
- *Level 2* - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- *Level 3* - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Organization has no investments that are categorized as Level 3.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Property and equipment

Furniture, equipment and leasehold improvements are carried at cost or, if donated, at their fair value at the date of donation. The Organization capitalizes all acquisitions of property in excess of \$1,000. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which range from three to five years.

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30, 2021. The accrued vacation balance as of June 30, 2021 was \$324,038 and is included in accrued expenses on statement of financial position.

Grants and contributions

Grants and contributions are recognized as revenue when the donor makes an unconditional promise to give to the Organization. Donor-restricted grants and 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 as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Net assets released from restrictions represent satisfaction of donor restrictions or the passage of time. Conditional promises to give are not recognized until the barriers on which they depend are substantially met and the promises become unconditional. There were no conditional promises as of June 30, 2021.

Sobrato Early Academic Language Program  
Notes to Financial Statements  
June 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government support

A portion of the Organization's revenue is derived from cost-reimbursable contracts from governmental agencies, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. The revenue generated from these contracts meets the criteria to be classified as conditional contributions as they contain barriers related to the incurrence of qualifying expenditures and a right of return or release. Amounts received are recognized as revenues when the Organization has incurred expenditures in compliance with specific contract or grant provisions.

Program service fees revenue

Program services fees revenue is recognized as revenue in the period services are provided which occurs during the academic school years within the Organization's fiscal year. Program service fees revenue received in advance of the services provided is deferred until the services are provided.

In-kind contributions

In-kind contributions are reflected as contributions at fair value at the date of donation and are reported as support without donor restrictions unless specific donor stipulations specify how donated assets must be used. All donated services which require a specialized skill and which the Organization would have paid for if not donated, are recorded in the financial statements as in-kind contribution revenue at the estimated fair value at the time the services are rendered. The Organization received \$67,838 of in-kind rent during the year ended June 30, 2021.

Functional expense allocations

Directly identifiable expenses are charged to program and support services. Indirect functional expenses are allocated to program and support services based on an analysis of personnel time.

Income taxes

The Organization is exempt from federal income tax under Section 501 (c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Organization is also exempt from state income tax under Section 23701(d) of the California Revenue and Taxation Code.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

Sobrato Early Academic Language Program  
Notes to Financial Statements  
June 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

The Organization has evaluated subsequent events for recognition and disclosure through December 15, 2021, the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the Organization's financial statements.

Change in accounting principle

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation. Revenue from contributions and investment income are not impacted by this new standard.

The Organization adopted ASU 2014-09 with a date of the initial application of July 1, 2020, using the full retrospective method. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

3. INVESTMENTS

Investments consisted of the following:

Cash equivalents	\$ 99,637
Fixed income	487,886
Mutual funds	558,098
Equity securities	<u>921,826</u>
	<u>\$ 2,067,447</u>

Sobrato Early Academic Language Program  
Notes to Financial Statements  
June 30, 2021

3. INVESTMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's investment assets at fair value as of June 30, 2021:

	Level 1	Level 2	Level 3	Fair Value
Cash equivalents	\$ 99,637	\$ -	\$ -	\$ 99,637
Fixed income	487,886	-	-	487,886
Mutual funds	558,098	-	-	558,098
Equity securities	921,826	-	-	921,826
	\$ 2,067,447	\$ -	\$ -	\$ 2,067,447

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Furniture and equipment	\$ 98,097
Accumulated depreciation	(36,262)
	\$ 61,835

Depreciation expense for the year ended June 30, 2021 was \$27,661.

5. NOTE PAYABLE - PAYCHECK PROTECTION PROGRAM

On April 19, 2020, the Organization received loan proceeds of \$741,000 from a promissory note issued under the Paycheck Protection Program ("PPP") established under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and administered under the U.S. Small Business Administration ("SBA"). The term of the loan was two years and the annual interest rate is 1.00%. Payments of principal and interest were deferred for ten months after the covered period, or once forgiveness is applied for, until the SBA remits loan forgiveness. Under the terms of the CARES Act, PPP loan recipients could apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness was to be determined based on the use of the loan proceeds.

On May 5, 2021, the Organization received notice that the SBA had approved forgiveness of the Organization's PPP loan in full.

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Purpose restricted	\$ 500,000
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Sobrato Early Academic Language Program  
Notes to Financial Statements  
June 30, 2021

6. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets with donor restrictions released from restriction during the year were as follows:

Purpose restricted	\$ <u>366,914</u>
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7. RETIREMENT PLAN

The Organization maintains a tax deferred 401(k) retirement plan to provide retirement benefits for all eligible employees. The plan provides for Organization discretionary matching contributions for up to 6% of eligible employee compensation. The Organization's contributions for the year ended June 30, 2021 were \$224,125.

8. COMMITMENTS

The Organization leases commercial office space in the cities of Berkeley, Oakland and Milpitas. From July 2020 through December 2020, the Organization leased a space in Oakland for \$3,173 per month. The lease was terminated effective December 31, 2020. The Organization leases a space in Milpitas for which the monthly rent and CAM fees are \$5,154. For the year ended June 30, 2021, the rent and CAM charges were waived and reflected as in-kind contributions. The Organization leases a space in Berkeley, effective May 24, 2021 for \$675 per month. Lastly, effective February 28, 2021, the Organization ended a month to month lease in Whittier which had monthly payments of \$700. All ongoing lease agreements were on a month to month basis.

The rent expense, including the fair value of in-kind space provided to the Organization for the year ended June 30, 2021 was \$85,630.

Grants

Conditions contained within grants awarded to the Organization are subject to the funding agencies' criteria under which expenditures may be charged against the grant. Should costs incurred against the grants not comply with the established criteria that govern the grants, the Organization could be held responsible for the repayments to the funding source for any disallowed costs or be subject to reductions of future funding in the amount of the disallowed costs. Management is not aware of any material questioned costs for any such grants.

9. RELATED PARTY TRANSACTIONS

For the year ended June 30, 2021, \$6,535,890 of total grants and contributions and program service fees revenue were provided by Sobrato Family Foundation (see Note 1).

10. LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. All donor restricted net assets would be released and used within the next fiscal year.

Sobrato Early Academic Language Program  
Notes to Financial Statements  
June 30, 2021

10. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

The following is a quantitative disclosure which describes financial assets that are available as of June 30, 2021 to fund general expenditures and other obligations when they become due for one year:

Financial Assets	
Cash	\$ 3,264,744
Accounts receivable	499,361
Investments in marketable securities	<u>2,067,447</u>
	<u>\$ 5,831,552</u>

11. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization characterized COVID-19 as a global pandemic. In addition, several states in the U.S., including California, where the Organization is located, have declared a state of emergency. In response, the U.S. Government enacted the CARES Act, which includes significant provisions to provide relief and assistance to affected organizations, including the Organization (Note 5).

The Organization's business model needed to shift in response to this pandemic. Prior to the pandemic, the vast majority of our programmatic services were delivered in person to schools, districts, and administrators. In person activities have been, and remain, suspended due to this crisis. The organization pivoted toward online delivery of our programmatic services. Operations were significantly impacted, but not critically impacted as our training and coaching models are ideally suited for online delivery in addition to the in person delivery we previously relied upon. Thus, the majority of the Organization's work was able to continue during the height of the crisis and business shut downs. The Organization's staff continue to work remotely. The Organization is monitoring state and federal guidelines, and working closely with our school district partners to return to more normal operations in the future.