

Sobrato Early Academic Language

Financial Statements

June 30, 2020



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 12



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sobrato Early Academic Language
Oakland, California

We have audited the accompanying financial statements of Sobrato Early Academic Language (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2020, 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 as of June 30, 2020, 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.

Emphasis of Matter

As discussed in Note 10 of the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. 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^{LLP}
San Jose, California

January 8, 2021

Sobrato Early Academic Language
Statement of Financial Position
June 30, 2020

ASSETS

Current assets	
Cash	\$ 2,447,159
Accounts receivable	355,255
Prepaid expenses	27,371
Deposits	<u>7,164</u>
Total current assets	<u>2,836,949</u>
Property and equipment, net	<u>52,839</u>
Total assets	<u><u>\$ 2,889,788</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 7,321
Accrued expenses	529,305
Note payable - Paycheck Protection Program	<u>741,000</u>
Total current liabilities	<u>1,277,626</u>
Net assets	
Without donor restrictions	1,245,248
With donor restrictions	<u>366,914</u>
Total net assets	<u>1,612,162</u>
Total liabilities and net assets	<u><u>\$ 2,889,788</u></u>

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

Sobrato Early Academic Language
Statement of Activities
For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Grants and contributions	\$ 7,797,134	\$ 1,019,000	\$ 8,816,134
In-kind contributions	31,694	-	31,694
Program services fee revenue	1,028,770	-	1,028,770
Interest income	6,780	-	6,780
Net assets released from restriction	652,086	(652,086)	-
Total support and revenue	9,516,464	366,914	9,883,378
Functional expenses			
Program services			
Innovation	429,748	-	429,748
Policy	167,330	-	167,330
Research	569,562	-	569,562
SEAL Practice	5,904,832	-	5,904,832
Total program services	7,071,472	-	7,071,472
Support services			
General and administrative	651,892	-	651,892
Fundraising	547,852	-	547,852
Total support services	1,199,744	-	1,199,744
Total functional expenses	8,271,216	-	8,271,216
Change in net assets	1,245,248	366,914	1,612,162
Net assets, beginning of year	-	-	-
Net assets, end of year	\$ 1,245,248	\$ 366,914	\$ 1,612,162

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

Sobrato Early Academic Language
Statement of Functional Expenses
For the Year Ended June 30, 2020

	Program Services				Total Program Services	Support Services			Total
	Innovation	Policy	Research	SEAL Practice		General and Administrative	Fundraising	Total Support Services	
Personnel expenses									
Salaries and wages	\$ 224,624	\$ 73,052	\$ 261,150	\$ 2,476,331	\$ 3,035,157	\$ 532,157	\$ 188,098	\$ 720,255	\$ 3,755,412
Employee benefits	71,199	22,586	81,876	780,049	955,710	23,847	64,154	88,001	1,043,711
Payroll taxes	18,033	5,892	20,979	198,724	243,628	40,730	15,087	55,817	299,445
Total personnel expenses	313,856	101,530	364,005	3,455,104	4,234,495	596,734	267,339	864,073	5,098,568
Stipends	-	-	-	500,000	500,000	-	-	-	500,000
Program consultants	28,223	38,307	28,826	281,055	376,411	-	46,839	46,839	423,250
Professional services	28,992	8,236	32,945	321,218	391,391	3,410	24,709	28,119	419,510
Program supplies	8,582	2,329	9,154	285,357	305,422	-	6,911	6,911	312,333
Demonstration sites	-	-	-	247,021	247,021	-	-	-	247,021
Program videos	5,683	1,624	6,495	63,327	77,129	-	161,121	161,121	238,250
Travel	6,402	4,272	12,920	154,200	177,794	-	7,057	7,057	184,851
Conferences, conventions, and meetings	6,178	1,728	4,353	148,179	160,438	-	4,225	4,225	164,663
District on loan	4,694	1,341	5,365	108,353	119,753	-	4,024	4,024	123,777
Dues and subscriptions	6,125	1,865	7,046	68,235	83,271	25,904	5,144	31,048	114,319
Rent	7,637	2,182	8,728	85,099	103,646	-	6,546	6,546	110,192
Research & evaluations	-	-	74,673	-	74,673	-	-	-	74,673
Technology	4,836	1,382	5,527	54,884	66,629	-	4,144	4,144	70,773
Meals and entertainment	1,714	870	2,482	56,511	61,577	-	4,699	4,699	66,276
Insurance	2,262	646	2,587	25,209	30,704	24,653	1,939	26,592	57,296
Office supplies	2,287	376	1,664	19,149	23,476	-	1,229	1,229	24,705
Equipment rental	537	154	614	9,803	11,108	-	460	460	11,568
Depreciation	596	171	681	6,642	8,090	-	511	511	8,601
Facilities	474	135	542	5,317	6,468	-	406	406	6,874
Utilities	390	111	446	4,346	5,293	-	334	334	5,627
Postage	71	20	81	3,799	3,971	-	61	61	4,032
Miscellaneous	160	37	372	1,476	2,045	862	112	974	3,019
Bank charges	49	14	56	548	667	50	42	92	759
Repairs and maintenance	-	-	-	-	-	279	-	279	279
	<u>\$ 429,748</u>	<u>\$ 167,330</u>	<u>\$ 569,562</u>	<u>\$ 5,904,832</u>	<u>\$ 7,071,472</u>	<u>\$ 651,892</u>	<u>\$ 547,852</u>	<u>\$ 1,199,744</u>	<u>\$ 8,271,216</u>
Percentage of total	<u>5.2 %</u>	<u>2.0 %</u>	<u>6.9 %</u>	<u>71.4 %</u>	<u>85.5 %</u>	<u>7.9 %</u>	<u>6.6 %</u>	<u>14.5 %</u>	<u>100.0 %</u>

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

Sobrato Early Academic Language
Statement of Cash Flows
For the Year Ended June 30, 2020

Cash flows from operating activities	
Change in net assets	\$ 1,612,162
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	8,601
Changes in operating assets and liabilities	
Accounts receivable	(355,255)
Prepaid expenses	(27,371)
Deposits	(7,164)
Accounts payable	7,321
Accrued expenses	<u>529,305</u>
Net cash provided by operating activities	<u>1,767,599</u>
Cash flows from investing activities	
Purchase of equipment	<u>(61,440)</u>
Net cash used in investing activities	<u>(61,440)</u>
Cash flows from financing activities	
Proceeds from note payable - Paycheck Protection Program	<u>741,000</u>
Net cash provided by financing activities	<u>741,000</u>
Net increase in cash	2,447,159
Cash, beginning of year	<u>-</u>
Cash, end of year	<u>\$ 2,447,159</u>

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

Sobrato Early Academic Language
Notes to Financial Statements
June 30, 2020

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, 2020.

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.

Sobrato Early Academic Language
Notes to Financial Statements
June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash

Cash balances exclude donor restricted receipts and amounts designated for long-term purposes. 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, 2020.

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, 2020. The accrued vacation balance as of June 30, 2020 was \$224,049 and is included in accrued expenses on statement of financial position.

Grants and contributions

Grants and contributions are recorded at their fair value and 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, 2020.

Sobrato Early Academic Language
Notes to Financial Statements
June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Program service fees revenue

Program services fees revenue is recognized as revenue in the period services is provided. 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 \$31,694 of in-kind rent during the year ended June 30, 2020.

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.

Subsequent events

The Organization has evaluated subsequent events for recognition and disclosure January 8, 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.

Sobrato Early Academic Language
Notes to Financial Statements
June 30, 2020

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Furniture and equipment	\$ 61,440
Accumulated depreciation	<u>(8,601)</u>
	<u>\$ 52,839</u>

Depreciation expense for the year ended June 30, 2020 was \$8,601.

4. 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. The term of the loan is two years and the annual interest rate is 1.00%. Payments of principal and interest are 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 can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds. The Organization believes that it will likely qualify for full forgiveness, but there is uncertainty around the standards and operation of the PPP, and no assurance is provided that the Organization will obtain forgiveness in whole or in part. The loan will be recognized in the statement of activities in the period the Organization receives formal approval of forgiveness.

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Purpose restricted	<u>\$ 366,914</u>
--------------------	-------------------

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

Purpose restricted	<u>\$ 652,086</u>
--------------------	-------------------

6. 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, 2020 were \$230,586.

Sobrato Early Academic Language
Notes to Financial Statements
June 30, 2020

7. COMMITMENTS

The Organization leases commercial office space in the cities of Oakland, Milpitas, and Whittier. On July 2019 the Organization entered into a lease agreement for its office space in Oakland for one year. Monthly rent expense for this office space was \$3,525. The Organization extended the lease in Oakland through December 2020 with monthly rent of \$3,173. The Organization began a month-month lease for the office space in Whittier with monthly payments of approximately \$700, effective until September 30, 2021. In addition, effective July 2019 the Organization leases a building in Milpitas for monthly rent of \$1 under an agreement that expired in March 2020. The fair value of the donated rent for Milpitas is \$31,964. Due to the effects of COVID-19, the office space in Milpitas lease renewal has been postponed until the pandemic concerns are minimal and spaces are re-opened for regular operations.

The scheduled minimum lease payments under the lease terms are as follows:

Year ending June 30,

2021	\$ <u>19,874</u>
	<u>\$ 19,874</u>

The rent expense, including donated rent for the year ended June 30, 2020 was \$110,192.

8. RELATED PARTY TRANSACTIONS

For the year ended June 30, 2020, \$6,800,000 of total grants and contributions and program service fees revenue were provided by Sobrato Family Foundation (see Note 1).

9. 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.

Short-term receivables consists of accounts receivable expected to be received within one year from June 30, 2020. Short-term receivables without donor restrictions will be available to support general operations of the Organization.

Sobrato Early Academic Language
Notes to Financial Statements
June 30, 2020

9. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

The following is a quantitative disclosure which describes financial assets that are available as of June 30, 2020 to fund general expenditures and other obligations when they become due for one year:

Financial Assets	
Cash	\$ 2,447,159
Accounts receivable	<u>355,255</u>
	<u>2,802,414</u>
Less: Amounts unavailable for general expenditure within one year:	
Net assets with purpose restrictions	<u>(366,914)</u>
	<u>(366,914)</u>
	<u>\$ 2,435,500</u>

10. RISKS AND UNCERTAINTIES

In December 2019, an outbreak of a novel strain of coronavirus ("COVID-19") originated in Wuhan, China, and has since spread to a number of other countries, including the U.S. 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 4).

COVID-19 could adversely affect the economics and financial markets of many countries including the United States, resulting in an economic downturn that could affect the Organization in a variety of ways. The Organization cannot anticipate all of the ways in which COVID-19 could adversely impact the Organization's operations.