

CONSOLIDATED FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2018**

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CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Educate!
Denver, Colorado

We have audited the accompanying consolidated financial statements of Educate! and subsidiaries (collectively, Educate!), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Educate! as of December 31, 2019, and the consolidated change in its net assets and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited Educate!'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 10, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Friedman

August 20, 2020

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,906,588	\$ 2,438,254
Grants receivable	3,688,276	2,205,353
Accounts receivable	17,998	18,783
Prepaid expenses and other current assets	<u>29,118</u>	<u>28,603</u>
Total current assets	<u>8,641,980</u>	<u>4,690,993</u>
OTHER ASSETS		
Grants receivable, net of current portion	<u>770,852</u>	<u>734,597</u>
TOTAL ASSETS	<u>\$ 9,412,832</u>	<u>\$ 5,425,590</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ <u>160,107</u>	\$ <u>92,888</u>
NET ASSETS		
Without donor restrictions	5,472,661	2,998,086
With donor restrictions	<u>3,780,064</u>	<u>2,334,616</u>
Total net assets	<u>9,252,725</u>	<u>5,332,702</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,412,832</u>	<u>\$ 5,425,590</u>

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**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE				
Grants	\$ 4,069,641	\$ 4,741,230	\$ 8,810,871	\$ 5,584,132
Contributions	128,506	691,000	819,506	235,549
Program fees and other income	63,947	-	63,947	43,002
Interest income	3,489	-	3,489	1,787
Net assets released from donor restrictions	<u>3,986,782</u>	<u>(3,986,782)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>8,252,365</u>	<u>1,445,448</u>	<u>9,697,813</u>	<u>5,864,470</u>
EXPENSES				
Program Services	<u>5,221,478</u>	<u>-</u>	<u>5,221,478</u>	<u>4,454,910</u>
Supporting Services:				
General and Administrative	211,518	-	211,518	190,894
Fundraising	<u>347,776</u>	<u>-</u>	<u>347,776</u>	<u>327,811</u>
Total supporting services	<u>559,294</u>	<u>-</u>	<u>559,294</u>	<u>518,705</u>
Total expenses	<u>5,780,772</u>	<u>-</u>	<u>5,780,772</u>	<u>4,973,615</u>
Change in net assets before other items	2,471,593	1,445,448	3,917,041	890,855
OTHER ITEMS				
Currency conversion gain	<u>2,982</u>	<u>-</u>	<u>2,982</u>	<u>51,630</u>
Change in net assets	2,474,575	1,445,448	3,920,023	942,485
Net assets at beginning of year	<u>2,998,086</u>	<u>2,334,616</u>	<u>5,332,702</u>	<u>4,390,217</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,472,661</u>	<u>\$ 3,780,064</u>	<u>\$ 9,252,725</u>	<u>\$ 5,332,702</u>

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**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	2019			2018		
	Supporting Services			Total Expenses	Total Expenses	
	Program Services	General and Administrative	Fundraising			Total Supporting Services
Salaries, benefits and payroll taxes	\$ 3,167,024	\$ 36,605	\$ 278,244	\$ 314,849	\$3,481,873	\$ 2,807,074
Conferences, meetings and travel	1,226,460	3,129	23,090	26,219	1,252,679	1,114,721
Contract services	243,694	75,992	41,204	117,196	360,890	455,567
Grants	129,903	-	-	-	129,903	139,278
Materials, equipment and supplies	101,459	107	12	119	101,578	84,916
Occupancy expenses	95,595	38,246	-	38,246	133,841	106,556
Printing and stationery	59,509	5,571	11	5,582	65,091	100,889
Telephone and telecommunications	82,004	202	1,369	1,571	83,575	69,006
Other expenses	115,830	7,672	3,846	11,518	127,348	93,958
Bad debt	-	43,994	-	43,994	43,994	1,650
TOTAL	\$ 5,221,478	\$ 211,518	\$ 347,776	\$ 559,294	\$5,780,772	\$ 4,973,615

See accompanying consolidated notes to financial statements.

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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,920,023	\$ 942,485
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in discount on non-current grants receivable	12,085	22,205
(Increase) decrease in:		
Grants receivable	(1,531,263)	(778,213)
Accounts receivable	785	(10,347)
Prepaid expenses and other current assets	(515)	3,740
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>67,219</u>	<u>(43,081)</u>
Net cash provided by operating activities	<u>2,468,334</u>	<u>136,789</u>
Net increase in cash and cash equivalents	2,468,334	136,789
Cash and cash equivalents at beginning of year	<u>2,438,254</u>	<u>2,301,465</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,906,588</u>	<u>\$ 2,438,254</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Educate! is a non-profit organization, which is incorporated in the State of Colorado and maintains its U.S. headquarters in Denver, Colorado. Educate!'s mission is to develop young leaders and entrepreneurs in Africa. Educate! delivers to 16-20 year old youth within Ugandan and Rwandan schools a practical and relevant model of education, comprised of a leadership and entrepreneurship course, interactive teaching, intensive mentorship, experience starting an enterprise, and access to out of school networks and resources. Through advocacy and direct service in schools, Educate! is working to get this model to be part of the education system.

Skilled Learning Inc., a U.S. corporation, was incorporated in October 2019 in the state of Delaware and was established as a wholly owned subsidiary of Educate!. Skilled Learning Inc. at the time of formation authorized 10,000,000 shares of capital stock at a par value of \$0.00001 per share, all of which were issued and held by Educate!.

Learning Point Limited, a Kenyan limited liability company, was established in October 2019 as a wholly owned subsidiary of Skilled Learning Inc. Learning Point Limited at the time of formation authorized 1,000 shares of capital stock at a par value of 100 Kenyan Shillings per share, all of which were issued and held by Skilled Learning Inc..

The accounts of Educate! have been consolidated with Skilled Learning Inc. and Learning Point Limited pursuant to the criterion established by FASB ASC 958-810, Not-for-Profit Entities Consolidation. Under FASB ASC 958-810, consolidation is required if a separate not-for-profit organization has control (i.e., major voting interest) and significant economic interest in that other organization. All significant inter-company accounts and transactions have been eliminated in consolidation.

Basis of presentation -

The accompanying consolidated financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors are reported 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 Consolidated Statement of Activities and Change in Net Assets as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Basis of presentation (continued) -

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Educate!'s financial statements for the year ended December 31, 2018, from which the summarized information was derived.

New accounting pronouncements adopted -

During 2019, Educate! and subsidiaries early adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. Analysis of the various provisions of this standard resulted in no significant changes in the way the Educate! recognized revenue; however, the presentation and disclosures of revenue have been enhanced. The Educate! has elected to opt out of all (or certain) disclosures not required for nonpublic entities and also elected a modified retrospective approach for implementation.

Also during 2019, Educate! and subsidiaries adopted ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improve guidance to better distinguish between conditional and unconditional contributions. Educate! and subsidiaries adopted the ASU using a modified prospective basis.

Cash and cash equivalents -

Educate! and subsidiaries considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, Educate! and subsidiaries maintain cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

As of December 31, 2019, Educate! and subsidiaries had \$209,566 of cash and cash equivalents held at financial institutions in foreign countries. The majority of funds held in foreign countries are uninsured.

Receivables -

Grants and accounts receivable are recorded at their net realizable value, which approximates fair value. Grants receivable that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and contribution revenue.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Fixed assets -

Fixed assets in excess of \$5,000 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. There was no depreciation expense for the year ended December 31, 2019.

Income taxes -

Educate! is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. Educate! is not a private foundation.

Skilled Learning, Inc. is a single member limited liability companies and is considered as a disregarded entity for tax purposes.

Learning Point Limited is a Kenyan limited liability company which is subject to income tax in Kenya based on net profits realized during each calendar year.

Uncertain tax positions -

For the year ended December 31, 2019, Educate! and subsidiaries have documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements.

Grants and contributions -

Grants and contributions are recognized in the appropriate category of net assets in the period received. Educate! and subsidiaries perform an analysis of the individual grants and contributions to determine if the revenue streams follow the contributions rules or if considered an exchange transaction depending on whether the transaction is reciprocal or nonreciprocal.

For grants and contributions qualifying under the contributions rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions and grants and contracts qualifying as contributions that are unconditional that have donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements.

Grant agreements qualifying as conditional contributions contain a right of return and a barrier. Revenue is recognized when the condition or conditions are satisfied. As such, Educate! and subsidiaries recognizes revenue for these conditional contributions when the related barrier has been overcome. Funds received in advance of the incurrence of qualifying expenditures are recorded as refundable advances. For contributions and grants and contracts treated as contributions, Educate! and subsidiaries had approximately \$3,085,800 in unrecognized conditional awards as of December 31, 2019.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Grants and contributions (continued) -

Grants and contracts classified as exchange transactions follow ASU 2014-09, *Revenue from Contracts With Customers* and record revenue when the performance obligations are met. The revenue is recorded directly to without donor restrictions and the transaction price is based on expenses incurred in compliance with the criteria stipulated in the grant or contract agreements. Grants and contracts receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant and contract agreements. Funding received in advance of incurring the related expenses is recorded as deferred revenue.

Foreign currency translation -

The United States dollar (Dollars) is the functional currency for Educate! and subsidiaries operations. Transactions in currencies other than U.S. Dollars are translated into Dollars at the historical rate of exchange during the month of the transaction. All assets and liabilities denominated in currencies other than U.S. Dollars currency are translated into Dollars at the exchange rate in effect at the date of the Consolidated Statement of Financial Position.

Use of estimates -

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of Educate! and subsidiaries are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

Reclassification -

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation.

New accounting pronouncement (not yet adopted) -

FASB issued ASU 2019-01, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

New accounting pronouncement (not yet adopted) (continued) -

Educate! and subsidiaries plan to adopt the new ASU at the respective required implementation dates.

2. GRANTS RECEIVABLE

As of December 31, 2019, contributors to Educate! have made unconditional written promises to give, of which \$4,511,616, remained due and outstanding. Amounts due beyond one year of the Consolidated Statement of Financial Position date have been recorded at the present value of the estimated cash flows, using a discount rate of 4.75%. Grants are due as follows as of December 31, 2019:

Less than one year	\$ 3,688,276
One to five years	<u>823,340</u>
Total	4,511,616
Less: Allowance to discount balance to present value	<u>(52,488)</u>
GRANTS RECEIVABLE	<u>\$ 4,459,128</u>

3. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2019:

Subject to expenditure for specified purpose:	
Educate! Rwanda	\$ 1,126,664
E! Experience	960,553
Youth Business Experience	71,428
M&E and Scale	2,589
Subject to passage of time:	
Time Restricted	<u>1,618,830</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 3,780,064</u>

The following net assets with donor restrictions were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Educate! Rwanda	\$ 1,155,095
E! Experience	724,384
Educate! Kenya	426,197
M&E and Scale	244,927
Youth Business Experience	234,573
National Program	9,127
Innovation	9,127
Scholarships	9,127
Passage of Time	<u>1,174,225</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 3,986,782</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

4. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Consolidated Statement of Financial Position date comprise the following at December 31, 2019:

Cash and cash equivalents	\$ 4,906,588
Grants receivable	4,459,128
Accounts receivable	<u>17,998</u>
Subtotal financial assets available within one year	9,383,714
Less: Donor restricted funds	<u>(2,627,737)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 6,755,977</u>

Educate! is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Educate! must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Educate!'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. As of December 31, 2019, Educate! has financial assets equal to approximately 14 months of operating expenses.

5. COMMITMENT

In March 2018, Educate! signed an agreement with the IKEA Foundation, under reference number RG-1610-00772, for the project Catalytic Education Reforms in Kenya. The total financial commitment under this award is \$4,170,000, of which \$1,084,200 was received and recognized as donor restricted revenue during the year ending December 31, 2018. The remaining commitment of \$3,085,800 is subject to the condition of approval of the progress reports by IKEA Foundation and therefore has not been recorded as revenue in the accompanying financial statements. During the year ended December 31, 2019, Educate! had total expenditures for this project of \$376,197 and therefore has been released from donor restrictions.

6. LEASE COMMITMENTS

Educate! and subsidiaries lease various office spaces in the United States, Uganda, Kenya, and Rwanda with various termination dates through October 1, 2021.

The following is a schedule of the future minimum lease payments:

<u>Year Ending December 31,</u>	
2020	\$ 115,861
2021	<u>25,101</u>
	<u>\$ 140,962</u>

Occupancy expenses, including utilities, for the year ended December 31, 2019 were \$133,841.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

7. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, Educate! has evaluated events and transactions for potential recognition or disclosure through August 20, 2020, the date the consolidated financial statements were issued.

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact Educate!'s operations. The overall potential impact is unknown at this time.

On April 14, 2020, Educate! entered into a two-year promissory note agreement in the amount of \$218,515 with a 1% fixed interest rate under the Paycheck Protection Program. The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note, unless otherwise forgiven. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the Small Business Administration in whole or in part.