

Public Education & Business Coalition
Audit and Finance Committee Meeting Agenda
June 30, 2019

1. Highlights of the Financial Statements

- Unmodified (i.e. “clean”) auditor’s report.
- Cash and cash equivalents, short-term investments, and restricted cash total \$1,754,687 at June 30, 2019. Short-term investments are comprised of certificates of deposit. The restricted cash balance includes unspent funds from temporarily restricted contributions and refundable advances. At June 30, 2018, these cash amounts totaled \$1,742,691.
- Accounts receivable decreased to a total of \$143,143 at June 30, 2019 due to a concerted effort by the accounting department to regularly monitor and follow-up on unpaid invoices.
- Contributions receivable decreased to a \$0 balance at June 30, 2019. The prior year balance related to an amount due from the Boettcher Foundation – all FY19 grants were received during the current fiscal year.
- Refundable advances totaled \$233,285 at June 30, 2019 and relate to a multi-year conditional grant from the Colorado Department of Education.
- The change in net assets without donor restriction totaled (\$965,196) for the year ended June 30, 2019 as compared to (\$523,992) for 2018. During the year ended June 30, 2019, there was an overall decrease in earned program revenue. PEBC did not hold the gala that was planned for FY 2019; however, expenses had been incurred prior to canceling the event. Overall expenses decreased during the year, primarily due to better monitoring of spending in 2019 and a decrease in bad debt expense, which totaled \$160,912 in the prior year.
- Key ratios:
 - Program spending as a percentage of total expense was 86% in 2019 and 90% in 2018. A 75% or greater program spending ratio is considered ideal.
 - PEBC’s liquidity note 2 discloses financial assets available totaling \$1,118,127.

2. Operational Matters Letter – prior year comments have been implemented.

3. Management Letter – see attached.

4. Communications with Those Charged with Governance – see attached

5. Other Items

- Update of subsequent events.
- PEBC’s Form 990 tax return has been prepared and is due November 15, 2019.
- The Financial Accounting Standards Board (FASB)’s new reporting requirements for not-for-profits was implemented for the financial statements ending June 30, 2019.

Public Education & Business Coalition
Audit and Finance Committee Meeting Agenda, Continued
June 30, 2019

- FASB issued a new standard related to revenue recognition which will be effective for PEBC's fiscal year ending June 30, 2020. This applies to exchange transactions only and contributions are exempt; however, there may be transactions that have an exchange portion and a contributions portion in which case the exchange portion will follow these new rules. The new standard impacts the timing of when exchange transactions are recognized based on satisfying performance obligations.
- In conjunction with the revenue recognition standard, FASB issued a new standard which clarifies how not-for-profits distinguish between contributions and exchange transactions and also clarifies the accounting guidance for contributions received and made. For resource recipients it is effective for the fiscal year ending June 30, 2020.
- FASB issued a new standard related to accounting for leases. The effective date will probably be delayed to the fiscal year ending June 30, 2022.

6. Appreciation to Staff for Assistance

7. Executive Session with the Auditors

DRAFT

9/5/2019

Public Education & Business Coalition

Financial Statements

June 30, 2019 and 2018

(With Independent Auditor's Report Thereon)

Independent Auditor's Report

Board of Directors Public Education & Business Coalition

We have audited the accompanying financial statements of Public Education & Business Coalition (PEBC), which comprise the statements of financial position as of June 30, 2019 and 2018, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Education & Business Coalition as of June 30, 2019 and 2018, 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.

**Board of Directors
Public Education & Business Coalition**

Emphasis of Matter

As discussed in note 1, Public Education & Business Coalition adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

September 20, 2019

Public Education & Business Coalition
Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 510,690	1,191,364
Short-term investments	410,364	405,565
Restricted cash (note 6)	821,763	133,892
Accounts receivable	143,143	559,727
Contributions receivable (note 3)	—	500,000
Prepaid expenses and other assets	66,112	96,137
Furniture and equipment, net (note 4)	6,649	29,817
Restricted cash—endowment fund (note 6)	11,870	11,870
Total assets	\$ 1,970,591	2,928,372
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 120,704	218,643
Refundable advances (note 5)	233,285	—
Deferred revenue	100,261	180,540
Total liabilities	454,250	399,183
Net assets		
Without donor restrictions		
Board designated (note 9)	53,930	51,692
Undesignated	915,993	1,883,427
Total net assets without donor restrictions	969,923	1,935,119
With donor restrictions (note 6)	546,418	594,070
Total net assets	1,516,341	2,529,189
Commitments (notes 7 and 8)		
Total liabilities and net assets	\$ 1,970,591	2,928,372

See the accompanying notes to the financial statements.

Public Education & Business Coalition
Statement of Activities
Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Contributions and grants			
Foundations	\$ 51,203	1,165,000	1,216,203
Government grants	1,985,139	-	1,985,139
Corporations and others	35,450	-	35,450
Special events revenue	28,700	-	28,700
PEBC Teacher Residency program fees	869,184	-	869,184
Less financial aid and scholarships	(294,534)	-	(294,534)
Net tuition	<u>574,650</u>	<u>-</u>	<u>574,650</u>
Local professional development	363,654	-	363,654
Consulting fees	677,627	-	677,627
Conference tuition	661,939	-	661,939
Interest income and other revenue	42,340	-	42,340
Net assets released from restrictions	<u>1,212,652</u>	<u>(1,212,652)</u>	<u>-</u>
Total support and revenue	<u>5,633,354</u>	<u>(47,652)</u>	<u>5,585,702</u>
Expenses			
Program services			
Education based programs	2,189,979	-	2,189,979
Policy	304,645	-	304,645
Communications	187,819	-	187,819
PEBC Teacher Residency	<u>3,018,379</u>	<u>-</u>	<u>3,018,379</u>
Total program services	<u>5,700,822</u>	<u>-</u>	<u>5,700,822</u>
Supporting services			
General and administrative	630,529	-	630,529
Fund raising	181,167	-	181,167
Special events	<u>86,032</u>	<u>-</u>	<u>86,032</u>
Total supporting services	<u>897,728</u>	<u>-</u>	<u>897,728</u>
Total expenses	<u>6,598,550</u>	<u>-</u>	<u>6,598,550</u>
Change in net assets	<u>(965,196)</u>	<u>(47,652)</u>	<u>(1,012,848)</u>
Net assets at beginning of year	<u>1,935,119</u>	<u>594,070</u>	<u>2,529,189</u>
Net assets at end of year	<u>\$ 969,923</u>	<u>546,418</u>	<u>1,516,341</u>

See the accompanying notes to the financial statements.

Public Education & Business Coalition
Statement of Activities
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions and grants			
Foundations	\$ 51,236	1,302,395	1,353,631
Government grants	1,745,400	-	1,745,400
Corporations and others	16,377	20,750	37,127
Special events revenue	32,385	-	32,385
PEBC Teacher Residency program fees	1,065,100	-	1,065,100
Less financial aid and scholarships	(336,100)	-	(336,100)
Net tuition	729,000	-	729,000
Local professional development	659,388	-	659,388
Consulting fees	1,157,039	-	1,157,039
Conference tuition	648,514	-	648,514
Interest income and other revenue	14,782	-	14,782
Net assets released from restrictions	1,270,945	(1,270,945)	-
Total support and revenue	6,325,066	52,200	6,377,266
Expenses			
Program services			
Education based programs	2,896,989	-	2,896,989
Policy	270,165	-	270,165
PEBC Teacher Residency	2,966,352	-	2,966,352
Total program services	6,133,506	-	6,133,506
Supporting services			
General and administrative	498,173	-	498,173
Fund raising	194,043	-	194,043
Special events	23,336	-	23,336
Total supporting services	715,552	-	715,552
Total expenses	6,849,058	-	6,849,058
Change in net assets	(523,992)	52,200	(471,792)
Net assets at beginning of year	2,459,111	541,870	3,000,981
Net assets at end of year	\$ 1,935,119	594,070	2,529,189

See the accompanying notes to the financial statements.

Public Education & Business Coalition
Statement of Functional Expenses
Year Ended June 30, 2019

	Education based programs	Policy	Communications	PEBC Teacher Residency	Total program services	General and administrative	Fund raising	Special events	Total supporting services	Total expenses
Salaries and personnel	\$ 1,545,232	251,707	94,051	2,057,061	3,948,051	457,113	157,437	—	614,550	4,562,601
Consultants and contract personnel	140,075	28,497	90,365	235,265	494,202	9,121	4,444	5,000	18,565	512,767
Office expenses	143,988	16,214	2,400	231,306	393,908	149,018	4,690	—	153,708	547,616
Printing and publications	5,449	613	1,003	6,749	13,814	1,641	459	221	2,321	16,135
Meetings, travel and conferences	183,055	5,748	—	100,220	289,023	166	9,820	80,811	90,797	379,820
Direct materials and activities	162,906	798	—	20,606	184,310	451	50	—	501	184,811
Stipends, scholarships and release time	1,452	—	—	618,438	619,890	—	—	—	—	619,890
Bad debt expense	210	—	—	31,649	31,859	10,417	4,000	—	14,417	46,276
Depreciation expense	7,612	1,068	—	11,619	20,299	2,602	267	—	2,869	23,168
Total functional expenses	2,189,979	304,645	187,819	3,312,913	5,995,356	630,529	181,167	86,032	897,728	6,893,084
Scholarships netted against revenue	—	—	—	(294,534)	(294,534)	—	—	—	—	(294,534)
Total expenses	\$ 2,189,979	304,645	187,819	3,018,379	5,700,822	630,529	181,167	86,032	897,728	6,598,550

See the accompanying notes to the financial statements.

Public Education & Business Coalition
Statement of Functional Expenses
Year Ended June 30, 2018

	Education based programs	Policy	PEBC Teacher Residency	Total program services	General and administrative	Fund raising	Special events	Total supporting services	Total expenses
Salaries and personnel	\$ 2,090,119	232,713	1,920,946	4,243,778	304,447	164,208	-	468,655	4,712,433
Consultants and contract personnel	166,252	2,965	149,138	318,355	87,360	6,093	2,808	96,261	414,616
Office expenses	145,404	17,296	199,240	361,940	95,648	15,079	-	110,727	472,667
Printing and publications	7,187	628	6,527	14,342	1,255	559	-	1,814	16,156
Meetings, travel and conferences	263,553	15,538	181,030	460,121	7,413	7,284	20,528	35,225	495,346
Direct materials and activities	209,269	35	364	209,668	70	28	-	98	209,766
Stipends, scholarships and release time	9,464	-	674,001	683,465	-	-	-	-	683,465
Bad debt expense	-	-	160,912	160,912	-	-	-	-	160,912
Depreciation expense	5,741	990	10,294	17,025	1,980	792	-	2,772	19,797
Scholarships netted against revenue	2,896,989	270,165	3,302,452	6,469,606	498,173	194,043	23,336	715,552	7,185,158
	-	-	(336,100)	(336,100)	-	-	-	-	(336,100)
Total expenses	\$ 2,896,989	270,165	2,966,352	6,133,506	498,173	194,043	23,336	715,552	6,849,058

See the accompanying notes to the financial statements.

Public Education & Business Coalition
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (1,012,848)	(471,792)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation expense	23,168	19,797
Decrease (increase) in accounts receivable	416,584	(55,188)
Decrease (increase) in contributions receivable	500,000	(500,000)
Decrease in prepaid expenses and other assets	30,025	25,784
Decrease in accounts payable and accrued liabilities	(97,939)	(10,638)
Decrease in deferred rent	-	(12,104)
Increase (decrease) in refundable advances	233,285	(1,000,000)
Increase (decrease) in deferred revenue	(80,279)	86,776
Net cash provided by (used in) operating activities	11,996	(1,917,365)
Cash flows from investing activities		
Decrease (increase) in restricted cash	(687,871)	1,396,108
Decrease (increase) in short-term investments	(4,799)	398,445
Purchases of furniture and equipment	-	(37,751)
Net cash provided by (used in) investing activities	(692,670)	1,756,802
Net decrease in cash and cash equivalents	(680,674)	(160,563)
Cash and cash equivalents at beginning of year	1,191,364	1,351,927
Cash and cash equivalents at end of year	\$ 510,690	1,191,364

See the accompanying notes to the financial statements.

Public Education & Business Coalition
Notes to Financial Statements
June 30, 2019 and 2018

(1) Summary of Significant Accounting Policies

(a) Organization

The Public Education & Business Coalition (PEBC) is a nonprofit organization organized in Colorado whose mission is to cultivate excellence in public schools so all students succeed in learning and in life. PEBC is a partnership of education and business leaders working together to strengthen public schools and to improve academic achievement for all students. PEBC's work is guided by three strategic goals: (1) to provide professional development and consulting services for teachers, principals and administrators; (2) to provide analysis of, and advocacy for, education policies that support positive and sustainable change in schools; and (3) to mobilize corporate and community support and involvement in schools.

PEBC's activities are supported primarily through grants and earned revenue.

(b) Basis of Accounting

The accompanying financial statements of PEBC have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

The financial statements of PEBC have been prepared in accordance with U.S. generally accepted accounting principles, which require PEBC to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and the board of directors, and include board designated funds.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of PEBC or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions.

(d) Cash and Cash Equivalents

PEBC considers all unrestricted highly liquid investments with an initial maturity of three months or less, and that are not part of the investment portfolio, to be cash equivalents.

Public Education & Business Coalition
Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

(e) Short-term Investments

Short-term investments consist of two certificates of deposit totaling \$410,364 and \$405,565 at June 30, 2019 and 2018, respectively, earning interest at a rate of 0.20%. Short-term investments are stated at their fair values based on quoted market prices or other information evaluated periodically by management. Unrealized gains and losses, if any, are included in the change in net assets in the statements of activities.

(f) Restricted Cash

Restricted cash represents restricted contributions and refundable advances received totaling \$821,763 at June 30, 2019 and \$133,892 at June 30, 2018, and (separately) amounts held for contributions restricted by donors for the endowment fund totaling \$11,870 at June 30, 2019 and 2018.

(g) Accounts Receivable

Accounts receivable represents amounts due for the performance of services provided by PEBC to other organizations and individuals. Accounts deemed uncollectible are written off to bad debt expense when that determination is made. The allowance for doubtful accounts was \$0 at June 30, 2019 and 2018 and is based on past collection experience and on analysis of current accounts receivable collectability.

(h) Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows, if the discount is significant to the overall financial statements. The discounts, when significant to the overall financial statements, are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. PEBC uses the direct write-off method to recognize bad debt expense on uncollectible amounts. Uncollectible contributions receivable are expected to be insignificant as of June 30, 2019.

Conditional promises to give are recognized as receivables and revenue when the conditions on which they depend are substantially met. Conditional grants received prior to conditions being met are recorded as a refundable advance in the statement of financial position.

(i) Furniture and Equipment

Property and equipment are stated at cost at the date of purchase or, if donated, at the approximate fair value at the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from two to five years. PEBC's policy is to capitalize all expenditures for furniture and equipment in excess of \$2,500 and with an estimate useful life exceeding one year, and to expense normal repairs and maintenance as incurred. Management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

Public Education & Business Coalition
Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

(j) Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

(k) Donated Goods and Services

Donated goods and services are recorded as contributions and corresponding expenses at their estimated fair values at the date of donation, or capitalized if they meet the capitalization criteria. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of goods and services are recorded as unrestricted support. There were no donated goods or services for the years ended June 30, 2019 and 2018.

(l) Contract and Fee Revenue

A significant portion of PEBC's revenue is derived from contracts and grants to provide services related to their education based programs and the PEBC Teacher Residency program. Amounts received are deemed to be earned and are reported as revenue as services are performed. Cash received but not yet earned is reported as deferred revenue.

(m) Functional Allocation of Expenses

The costs of providing the program and supporting services have been summarized on a functional basis in the accompanying statements of functional expenses. PEBC incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. PEBC also conducts a number of activities which benefit both its program objectives as well as supporting services (i.e. general and administrative and fund raising activities). These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited, based on either financial or nonfinancial data, such as headcount, or estimates of time and effort incurred by personnel.

(n) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Public Education & Business Coalition
Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

(o) Fair Value Measurements

The carrying amount reported in the statements of financial position for cash and cash equivalents, accounts and contributions receivable, accounts payable and accrued liabilities, approximate fair value because of the immediate or short-term maturities of these financial instruments.

PEBC reports required types of financial instruments in accordance with fair value accounting standards. These standards require use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels: quoted market prices in active markets for identical assets and liabilities (Level 1); inputs other than quoted market prices that are observable for the assets and liability, either directly or indirectly (Level 2); and unobservable inputs for the asset or liability (Level 3).

Assets reported under the above fair value hierarchy at June 30, 2019 and 2018, consist of certificates of deposit measured using Level 1 inputs.

(p) Concentrations of Credit Risk

Financial instruments which potentially subject PEBC to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, restricted cash, and accounts receivable. PEBC places its temporary cash and certificate of deposit accounts with creditworthy, high-quality financial institutions. A significant portion of the funds are not insured by the FDIC or similar entity. Credit risk with respect to receivables is generally diversified due to the large number of organizations and credit worthiness of the entities that comprise PEBC's customer base.

(q) Income Taxes

PEBC is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, and contributions received qualify for the charitable contribution deduction. Income from activities not directly related to PEBC's tax-exempt purpose is subject to taxation as unrelated business income. For the years ended June 30, 2019 and 2018, PEBC generated no unrelated business income, and accordingly, the accompanying financial statements contain no provision for income taxes.

PEBC is required to determine whether a tax position (and the related tax benefit) is more likely than not to be sustained upon examination by the applicable taxing authority, based solely on the technical merits of the position. PEBC believes it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are significant to the financial statements. PEBC's tax returns for 2015 through 2017, are subject to examination by the IRS, generally for three years after the date they were filed.

(r) Subsequent Events

PEBC has evaluated subsequent events through September 20, 2019, the date the financial statements were available to be issued.

Public Education & Business Coalition
Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

(s) New Accounting Pronouncement

During 2019, PEBC adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets previously presented in the statements of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions.

(2) Availability and Liquidity

The following reflects PEBC's financial assets as of June 30, 2019, that are available for general expenditure within one year.

Cash and cash equivalents	\$ 510,690
Short-term investments	410,364
Accounts receivable	143,143
Amounts available through board resolution	<u>53,930</u>
Financial assets available for general expenditure within one year	<u>\$ 1,118,127</u>

As part of PEBC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. PEBC has a goal to maintain financial assets on hand to meet 120 days of general operating expenditures, which are, on average, approximately \$1,000,000. Additionally, PEBC has board designated net assets without donor restrictions that, while PEBC does not intend to spend for purposes other than those identified, the amounts could be made available for current operations, if necessary.

(3) Contributions Receivable

Pledges are recorded in the statements of financial position as contributions receivable. There were unconditional contributions receivable of \$0 and \$500,000 at June 30, 2019 and 2018, respectively.

On July 1, 2014, PEBC was awarded a multi-year conditional contribution for the Boettcher Fellows program that is conditioned upon the donor's board of directors approving the grant on an annual basis. During 2019, PEBC was notified that the conditional grant was increased by \$2,750,000 to help fund an additional five years of the program. Conditional contributions not recognized within the financial statements for this program totaled \$3,250,000 as of June 30, 2019.

Public Education & Business Coalition
Notes to Financial Statements

(4) Furniture and Equipment

Furniture and equipment consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 100,181	108,288
Accumulated depreciation	<u>(93,532)</u>	<u>(78,471)</u>
Net furniture and equipment	\$ <u>6,649</u>	<u>29,817</u>

(5) Refundable Advances

PEBC received funds related to conditional promises to give in advance of those conditions being met. These amounts are recorded as refundable advances and restricted cash and totaled \$233,285 and \$0 as of June 30, 2019 and 2018, respectively. When the conditions are met, that is when qualifying expenses are incurred and other conditions are met, refundable advances are then recognized as contribution and grant revenue.

(6) Net Assets with Donor Restrictions

Net assets with donor restrictions consist of contributions and grants that are restricted by the donor or grantor for certain educational activities or for the PEBC Teacher Residency program. Net assets with donor restrictions consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Contributions receivable	\$ —	500,000
Restricted contributions received but not spent	<u>546,418</u>	<u>94,070</u>
Total net assets with donor restrictions	\$ <u>546,418</u>	<u>594,070</u>

During the year ended June 30, 2019 and 2018, net assets totaling \$1,212,652 and \$1,270,945 were released from restriction due to the passage of time or incurring expenditures in accordance with donor restrictions.

Endowment Fund

PEBC's perpetual endowment consists of a donor-restricted endowment fund and totaled \$11,870 as of June 30, 2019 and 2018. As required by generally accepted accounting principles, net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

In accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the perpetual endowment funds consist of (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, unless the donor specifies that the corpus of the endowment fund can be appropriated for expenditure in accordance with PEBC's spending policy.

Public Education & Business Coalition
Notes to Financial Statements

(6) Net Assets with Donor Restrictions, Continued

In accordance with UPMIFA, PEBC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purpose of PEBC and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of PEBC
- (7) The investment policies of PEBC

As of June 30, 2019 and 2018, the portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA totaled \$11,870.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the amount of the original gift. There were no deficiencies of this nature as of June 30, 2019 and 2018.

Return Objectives and Risk Parameters

Endowment assets include those assets of donor-restricted funds that PEBC must hold in perpetuity. PEBC has adopted investment and spending policies for endowment assets that attempt to provide a reasonable, predictable, stable and sustainable level of distribution that supports current needs while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the investment committee of the board, the endowment assets are invested in a manner that is intended to maintain an adequate liquidity to meet the short-term cash flow needs of PEBC and preserve the capital base and the optimization rate of return with appropriate risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, PEBC allocates its investment to three pools of funds. Pools 1 and 2 consist of operating funds which are expected to be spent in the normal course of business over the next 0-12 months. Pools 1 and 2 investments are placed in lower risk investments, including cash, cash equivalents, bonds and other debt instruments. Pool 3 funds are expected to be used in more than 12 months and whose returns are maximized in high-income/growth managed funds with appropriate risk. Pool 3 investments are invested in longer term investments with the objective of growth and income with moderate risk. PEBC did not have any Pool 3 investments at June 30, 2019 and 2018.

Spending Policy and How the Investment Objectives Relate to Spending Policy

PEBC presently does not have a spending policy and has not made any distributions of its endowment during the years ended June 30, 2019 and 2018.

Public Education & Business Coalition
Notes to Financial Statements

(7) Leases

PEBC has a non-cancelable operating lease for office space and parking that expires in July 2021. PEBC also has a non-cancelable operating lease for copier equipment that is scheduled to expire in October 2022. Future minimum lease payments for all leases for the years ending June 30 are as follows:

2020	\$ 223,575
2021	56,394
2022	11,905
2023	<u>2,620</u>
	<u>\$ 294,494</u>

Total rent expense for operating leases was \$264,144 in 2019 and \$245,309 in 2018.

(8) Retirement Plan

PEBC has a tax deferred annuity plan (TDAP) and a defined contribution plan. All employees are immediately eligible to participate and may make voluntary contributions to the TDAP. Under the terms of the defined contribution plan (as amended) PEBC makes discretionary matching contributions of up to 3% of an employee's base salary. PEBC did not provide for matching contributions to the plan in 2019 or 2018.

(9) Board Designated Net Assets

Board designated net assets consist of funds to be used on marketing, branding and technology to invest in the impact that the organization can make. The board authorized a reserve of \$200,000 during the year ended June 30, 2017, of which \$146,070 has been subsequently used for the outlined purposes through June 30, 2019.

DRAFT

9/3/2019

September 20, 2019

CONFIDENTIAL

Board of Directors
Public Education & Business Coalition
600 Grant Street, Suite 525
Denver, Colorado 80203

Dear Members of the Board:

In planning and performing our audit of the financial statements of Public Education & Business Coalition (PEBC), as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered PEBC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PEBC's internal control. Accordingly, we do not express an opinion on the effectiveness of PEBC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of PEBC's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in PEBC's internal control to be significant deficiencies:

Net Assets (Significant Deficiency)

Currently, there is not a formal process for tracking and monitoring the use of restricted net assets.

Recommendation: It is important that contributions and grants are initially recognized and spent in accordance with donor restrictions and requirements. PEBC should implement effective controls that allow for the Controller to review contribution and grant supporting documentation prior to entry in the general ledger, noting whether there are any restrictions or conditions that would affect the recognition of these awards, and classifying as such within the accounting software. The Controller should also monitor the subsequent use of these funds.

Audit Adjustment and Overhead Allocations (Significant Deficiency)

As a result of our audit, KCE made an adjustment to accounts payable to properly state the balance at year-end. In addition, overhead allocations should be completed as part of the year-end closing process.

Recommendation: We recommend that PEBC implement internal control processes that provide for the proper year-end entries to be made and reviewed prior to the closing of the books. We also recommend that the Controller review the allocation methods on a regular basis, and post overhead allocations prior to closing the books for the year.

* * * * *

This communication is intended solely for the information and use of management, the board of directors, and others within PEBC, and is not intended to be, and should not be, used by anyone other than these specified parties.

We would like to express our appreciation to the personnel of PEBC for their cooperation and assistance during the course of our audit.

Sincerely,

Public Education & Business Coalition
Communication with Those Charged with Governance
June 30, 2019

AREA	COMMENT
Our Responsibility Under U.S. Generally Accepted Auditing Standards (GAAS)	Audit performed in accordance with GAAS. The objective of an audit is reasonable, but not absolute, assurance about whether the financials are free of material misstatement. Our audit does not relieve you or management of your responsibilities.
Other Information in Documents Containing Audited Financials	None.
Planned Scope and Timing of Audit	The audit was performed according to the planned scope and timing previously communicated to you in our engagement letter dated June 21, 2019.
Significant Audit Items	<ol style="list-style-type: none"> 1. Management has the responsibility for selection and use of appropriate accounting policies. The significant policies used are listed in Note 1 to the financial statements. 2. ASU No. 2016-14, <i>Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities</i> was adopted during the year. 3. We noted no transactions that were entered into in the year ended June 30, 2019 with an absence of authoritative guidance or consensus. 4. There were no significant accounting transactions recognized in a different period than when the transaction occurred. 5. Sensitive accounting estimates include the following: the allocation of expenses and the collectibility of receivables. 6. Financial statement disclosures are neutral, consistent and clear.
Difficulties Encountered in Performing the Audit	We encountered no significant difficulties in dealing with management in performing and completing our audit.
Corrected and Uncorrected Misstatements	All audit adjustments have been accepted and posted to the books by PEBC. There were no uncorrected misstatements.
Disagreements with Management	No disagreements arose with management during the course of our audit on financial accounting, reporting or auditing matters.

(Continued)

Public Education & Business Coalition
Communication with Those Charged with Governance, Continued
June 30, 2019

AREA	COMMENT
Management Representations	We requested certain representations from management that are included in their representation letter dated September 20, 2019.
Management Consultations with Other Independent Accountants	We are not aware of any consultations by management with other accountants about accounting and auditing matters.
Other Audit Findings or Issues	There were no discussions of the application of certain accounting principles prior to our retention as auditor.

This communication is intended solely for the information and use of the board of directors and management and is not intended to be and should not be used by anyone other than these specified parties.

September 20, 2019