Center for Educational Innovation

Independent Auditor's Report and Financial Statements

June 30, 2018

BKD
CPAs & Advisors

Center for Educational Innovation
June 30, 2018

Contents

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Independent Auditor's Report

Board of Trustees
Center for Educational Innovation
New York, New York

We have audited the accompanying financial statements of Center for Educational Innovation, which comprise the statement of financial position as of June 30, 2018, 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 Center for Educational Innovation as of June 30, 2018, 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.

Prior Year Audited by Other Auditors and Summarized Comparative Information

The 2017 financial statements were audited by other auditors and their report thereon, dated March 9, 2018, expressed an unmodified opinion. The summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

BKD, LLP

New York, New York
February 21, 2019

Center for Educational Innovation

Statement of Financial Position

June 30, 2018

(With Summarized Financial Information as of June 30, 2017)

	2018	2017
Assets		
Cash and cash equivalents	$ 485,316	$ 367,624
Cash and cash equivalents, restricted	116,986	116,986
Certificates of deposit	480,127	480,000
Investment held for retirement plan	585,752	665,820
Program fees receivable	367,095	611,074
Government grants receivable	2,098,457	1,672,216
Due from the Center for Educational Innovation Foundation	-	272,365
Prepaid expenses and other assets	26,818	10,009
Property, and equipment, net	31,196	38,925
Total assets	$ 4,191,747	$ 4,235,019
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 417,334	$ 1,059,328
Deferred compensation payable	585,752	665,820
Deferred rent	94,274	87,556
Total liabilities	1,097,360	1,812,704
Net Assets		
Unrestricted	3,077,648	2,422,315
Temporarily restricted	16,739	-
Total net assets	3,094,387	2,422,315
Total liabilities and net assets	$ 4,191,747	$ 4,235,019

Center for Educational Innovation

Statement of Activities

Year Ended June 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Total 2018	Total 2017
Revenues, Gains, (Losses) and Other Support				
Contributions and foundation grants	$ 105,525	$ 225,000	$ 330,525	$ 515,600
Government grants and contracts	4,300,652	-	4,300,652	5,759,059
Consulting income	1,920,372	-	1,920,372	2,282,746
Special event	814,448	-	814,448	-
Direct costs of special event	(168,142)	-	(168,142)	-
Investment income (loss)	(10,269)	-	(10,269)	440
Net assets released from restrictions	208,261	(208,261)	-	-
Total revenues, gains, (losses) and other support	7,170,847	16,739	7,187,586	8,557,845
Expenses				
Program Services				
Project BOOST	2,072,156	-	2,072,156	1,777,539
Public School Consulting	1,743,543	-	1,743,543	2,034,832
Partnership for Innovation in Compensation for Charter Schools (TIF/PICCS)	1,929,083	-	1,929,083	3,221,882
21st Century NYSED	-	-	-	565,226
Other programs	278,583	-	278,583	882,231
Total program services	6,023,365	-	6,023,365	8,481,710
Supporting Services				
Management and general	1,305,414	-	1,305,414	2,075,371
Fundraising	351,513	-	351,513	136,379
Total supporting services	1,656,927	-	1,656,927	2,211,750
Total expenses	7,680,292	-	7,680,292	10,693,460
Change in net assets before CEI Foundation/Fund activity	(509,445)	16,739	(492,706)	(2,135,615)
CEI Foundation/Fund contributions (distributions)	1,164,778	-	1,164,778	(653,441)
Change in Net Assets	655,333	16,739	672,072	(2,789,056)
Net Assets, Beginning of Year	2,422,315	-	2,422,315	5,211,371
Net Assets, End of Year	$ 3,077,648	$ 16,739	$ 3,094,387	$ 2,422,315

Center for Educational Innovation

Statement of Functional Expenses

Year Ended June 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)

	Program Services					Supporting Services				Total	
	Project BOOST	Public School Consulting	Partnership for Innovation in Compensation for Charter Schools (TIF/PICCS)	Other Programs	Total	Management and General	Fundraising	Direct Costs of Special Events	Total	2018	2017
Salaries and wages	$ 296,532	$1,132,993	$ 970,145	$ -	$2,399,670	$ 648,784	$ 277,110	$ -	$ 925,894	$3,325,564	$ 4,470,867
Payroll taxes and employee benefits	41,536	82,142	212,065	-	335,743	159,947	22,124	-	182,071	517,814	783,025
Total salaries and benefits	338,068	1,215,135	1,182,210	-	2,735,413	808,731	299,234	-	1,107,965	3,843,378	5,253,892
Consultants and professional fees	-	388,335	479,367	93,112	960,814	229,268	37,548	-	266,816	1,227,630	2,527,929
Incentives and stipends	-	2,597	-	-	2,597	-	-	-	-	2,597	423,080
Staff and professional development workshops	-	3,531	1,060	17,030	21,621	855	-	-	855	22,476	47,707
Grants to schools	1,734,088	-	-	154,433	1,888,521	-	-	-	-	1,888,521	1,565,315
Printing and postage	-	2,278	1,294	1,736	5,308	10,858	3,264	-	14,122	19,430	32,367
Local travel	-	2,263	4,036	61	6,360	10,827	180	-	11,007	17,367	27,993
Out-of-town travel	-	28,995	3,777	-	32,772	9,088	708	-	9,796	42,568	23,952
Instructional and office supplies	-	8,728	3,466	-	12,194	7,053	53	-	7,106	19,300	106,842
Occupancy	-	-	203,715	-	203,715	109,109	-	-	109,109	312,824	297,250
Telephone	-	3,531	26,902	4,306	34,739	32,262	35	-	32,297	67,036	101,431
Student activities	-	8,707	-	6,650	15,357	-	-	-	-	15,357	8,012
Insurance	-	300	10,991	-	11,291	5,741	-	-	5,741	17,032	22,071
Conferences, meetings, and workshops	-	74,204	2,806	1,206	78,216	26,286	4,721	-	31,007	109,223	142,733
Computer and technology support	-	1,937	7,736	49	9,722	17,169	4,070	-	21,239	30,961	73,500
Depreciation and amortization	-	-	-	-	-	7,729	-	-	7,729	7,729	7,323
Miscellaneous expenses	-	3,002	1,723	-	4,725	30,438	1,700	-	32,138	36,863	32,063
Catering/entertainment, gala	-	-	-	-	-	-	-	168,142	168,142	168,142	-
Subtotal	2,072,156	1,743,543	1,929,083	278,583	6,023,365	1,305,414	351,513	168,142	1,825,069	7,848,434	10,693,460
Less direct costs of special event	-	-	-	-	-	-	-	(168,142)	(168,142)	(168,142)	-
Total expenses	$2,072,156	$1,743,543	$ 1,929,083	$278,583	$6,023,365	$ 1,305,414	$ 351,513	$ -	$1,656,927	$7,680,292	$ 10,693,460

Center for Educational Innovation

Statement of Cash Flows

Year Ended June 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)

	2018	2017
Operating Activities		
Change in net assets	$ 672,072	$ (2,789,056)
Items not requiring (providing) operating cash flows		
Depreciation and amortization	7,729	7,323
Net realized and unrealized loss on investments	14,041	-
Changes in		
Program fees receivable	243,979	883,315
Government grants receivable	(426,241)	(497,617)
Due from the Center for Educational Innovation Foundation	272,365	(272,365)
Prepaid expenses and other assets	(16,809)	31,038
Accounts payable and accrued expenses	(641,994)	49,831
Deferred compensation payable	(80,068)	62,725
Deferred rent	6,718	14,116
Net cash provided by (used in) operating activities	51,792	(2,510,690)
Investing Activities		
Purchase of fixed assets	-	(2,291)
Purchase of investments	(1,200,143)	(62,725)
Proceeds from sale of investments	1,266,043	745,000
Net cash provided by investing activities	65,900	679,984
Increase (Decrease) in Cash and Cash Equivalents	117,692	(1,830,706)
Cash and Cash Equivalents, Beginning of Year	484,610	2,315,316
Cash and Cash Equivalents, End of Year	$ 602,302	$ 484,610
Supplemental Cash Flows Information		
Cash paid for interest	$ 1,170	$ 1,170
Reconciliation of Cash and Cash Equivalents		
Cash and cash equivalents	$ 485,316	$ 367,624
Cash and cash equivalents, restricted	116,986	116,986
	$ 602,302	$ 484,610

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Center for Educational Innovation (CEI) has been established to transform public education in America by shifting accountability from centralized bureaucracies to local schools, and by creating systems of school choices for communities.

CEI's primary sources of revenues are government grants and contracts, consulting income, and special event.

The following are descriptions of CEI's programs:

Project BOOST

Project BOOST (Building Options and Opportunities for Students) is one of CEI's oldest programs, which targets elementary and middle school students in kindergarten through 8th grade, who have demonstrated academic talents but do not have the financial resources necessary to cultivate and enrich their academic quality. The overall goal of the program is to assist and to inspire participating students in gaining admission to the high-quality high schools. CEI offers a triangle of services to build academic, cultural, social and service skills necessary for long-term student growth, academic enrichment, cultural enrichment and community service.

Project BOOST has grown to include a wide range of activities and resources through partnerships with some of NYC's finest academic, social, and cultural institutions. Project BOOST also encourages the student to take full advantage of the opportunities afforded to them, but also emphasizes the need to give back to the communities. Students are taught that regardless of their socio-economic background, they can make fundamental contributions to society by giving of themselves through service.

In 2011 Project BOOST was extended to include the Early Stages program. Early Stages has provided free and significantly reduced-cost theatre tickets to underserved schools and their students. This has afforded the opportunity for exposure to the performing arts, which included attendance at NYC's most renowned performing arts venues, such as Broadway theatres, Lincoln Center, and Carnegie Hall, and to provide multiple opportunities for students to respond to the theatre through workshops, discussions, and writing (since its inception over 50,000 tickets have been made available to students).

To accomplish the goals of Project BOOST, the program provides funding for cultural enrichment experiences, test preparation, academic guidance, college visitations, and community service opportunities through grants to schools funded by NYS Special Legislative grants, private grants and donations. During the 2017-2018 school year, over 150 elementary and middle schools were selected for Project BOOST.

Public School Consulting

Customized services, technical assistance and professional learning to superintendents and school leaders. By design, CEI works directly with teachers, school leaders, and the community to create the schools their children need to succeed by:

- Developing and supporting existing public schools

- Creating, developing and supporting public charter schools
- Training teachers and principals in effective educational practices
- Implementing enrichment programs to increase academic skills and augment the social and cultural experiences of students
- Networking schools to provide peer-level support, share best practices and pool resources
- Providing extensive information services for parents and other interested members of the community
- Restructuring large public schools into smaller learning communities
- Advocating for system-wide adoption of effective school based reforms and public education policies

Partnership for Innovation in Compensation for Charter Schools (TIF/PICCS)

Through the PICCS program CEI has been able to support educators and school leaders to become highly effective professionals in the following ways:

Foster authentic collaboration at all levels of the school through professional learning communities (PLCs) that use data to research student learning challenges and create shared action strategies.

Support teacher effectiveness through observations using the Danielson Framework. Support principal effectiveness through the use of the Vanderbilt Assessment of Leadership in Education (Val-ED).

Provide a comprehensive educator and school leader evaluation system that integrates measures of professional practice and student outcomes to provide educators with an annual review tied to compensation.

Offer extensive professional development and a structure to participate in Instructional Rounds across and within schools.

Assist schools in creating a performance-based salary schedule and teacher career ladder that allows effective teachers to advance their career without leaving the classroom.

Hone the instructional and leadership expertise needed to dramatically improve student achievement, rewarding our most effective educators, and achieving high levels of performance for all students and teachers.

PICCS is funded through grants awarded to CEI by U.S. Department of Education (USDOE) through its Teacher Incentive Fund (TIF) legislative appropriation.

21st Century NYSED

The NYS Education Department’s 21st Century Community Learning Centers program is funded in two middle schools, providing after-school recreational and instructional activities.

Other Programs

School Network activities that typically are for short-term duration and are consistent with the mission of CEI.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

CEI considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2018 and 2017, cash equivalents consisted primarily of money market accounts with brokers.

Certificates of Deposit

Certificates of deposit with maturities greater than three months when originally acquired are valued at fair value and are considered investments for cash flow purposes.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend and interest; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets.

Program Fees and Government Grants Receivable and Allowance

Program fees receivable from consulting services are stated at the amount billed to customers. Grants are recorded as receivables to the extent that expenses have been incurred for the purpose specified by the grantor. Interest is not charged on the outstanding receivables. CEI provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. Management has determined that an allowance for doubtful accounts is not necessary at June 30, 2018.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Leasehold improvements	7 years
Equipment	3-5 years
Furniture and fixtures	5-7 years

Long-Lived Asset Impairment

CEI evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2018 and 2017.

Net Assets

Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use by CEI has been limited by donors to a specific time period or purpose.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Revenue Recognition

Government Grants and Contracts

Support funded by grants is recognized as CEI performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Consulting Income

Revenues from consulting income are from training and educational services provided to public and charter schools. These services are paid for by either the New York City Department of Education (NYCDOE) or by the charter schools. Revenues are recognized as services are provided.

Special Event

CEI conducts a special event in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. All proceeds received are recorded as special events revenues in the accompanying financial statements.

Income Taxes

CEI is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, CEI is subject to federal income tax on any unrelated business taxable income.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the program, management and general and fund raising categories proportional to their related, directly charged expenses.

Operating Lease

Rent expense has been recorded on the straight-line basis over the life of the lease. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

Grants to Schools, Incentives and Stipends

Grants to schools, incentives and stipends are recorded when awarded.

Summarized Financial Information

The 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Note 2: Disclosures About Fair Value of Assets and Investment Return

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and 2017:

	2018		
	Total	**Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**
Investments			
Stable value funds	$ 37,579	$ -	$ 37,579
Mutual funds			
Balanced	9,171	9,171	-
Bond	97,168	97,168	-
Capital appreciation	132,707	132,707	-
Equity	3,107	3,107	-
International	111,821	111,821	-
Large cap	87,250	87,250	-
Mid cap	56,505	56,505	-
Small cap	50,444	50,444	-
Total investments	585,752	548,173	37,579
Certificates of deposit	480,127	-	480,127
	$ 1,065,879	$ 548,173	$ 517,706

	2017		
	Total	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments			
Stable value funds	$ 65,534	$ -	$ 65,534
Mutual funds			
Balanced	20,105	20,105	-
Bond	98,887	98,887	-
Capital appreciation	105,280	105,280	-
Emerging market	6,954	6,954	-
High income	40,358	40,358	-
International	121,471	121,471	-
Large cap	94,275	94,275	-
Mid cap	72,444	72,444	-
Small cap	40,512	40,512	-
Total investments	665,820	600,286	65,534
Certificates of deposit	480,000	-	480,000
	$ 1,145,820	$ 600,286	$ 545,534

The summary of assets for 2017 have been revised from the prior year presentation to include certificates of deposit which are carried at fair value with Level 2 classification.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2018.

Investments and Certificates of Deposit

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Mutual Funds: Valued at the net asset value (NAV) of shares held at year end.

Stable Value Funds: Valued by the annuity provider based on methods disclosed in the respective annuity contract. The contract value approximates fair value which is determined by using a discounted cash flow valuation methodology where the interest rate for the contract is rated at least annually.

Total investment return is comprised of the following:

	2018	2017
Interest and dividend income	$ 3,772	$ 440
Net realized loss on other investments	(14,041)	-
	$ (10,269)	$ 440

Note 3: Property and Equipment

Property and equipment at June 30 consists of:

	2018	2017
Leasehold improvements	$ 20,012	$ 20,012
Equipment	62,266	62,266
Furniture and fixtures	20,536	20,536
	102,814	102,814
Less accumulated depreciation and amortization	(71,618)	(63,889)
	$ 31,196	$ 38,925

Note 4: Letter of Credit

In connection with a lease agreement (Note 6), in March 2016 CEI entered into a letter of credit agreement in the amount of $116,986 with JPMorgan Chase, N.A. (Chase) to be used as a security deposit. Interest is charged at 1% and is collateralized by CEI's account at Chase. The letter of credit which automatically renews was set to expire on October 31, 2018, and has been extended through October 31, 2019. Interest expense was $1,170 in 2018 and 2017.

Note 5: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes:

	2018	2017
After School and weekend programming	$ 16,739	$ -

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2018
After School and weekend programming	$ 133,261
Gilder senior fellow	50,000
Project BOOST	25,000
	$ 208,261

Note 6: Operating Leases

CEI entered into a 45-month noncancelable lease agreement for office space with APF 28 W 44 Owner L.P. (APF) on January 4, 2013 which was set to expire September 30, 2016. On December 31, 2015, APF allowed CEI to break the lease at no cost and to enter into a new lease agreement for less space in the same building commencing January 1, 2016 and expiring on October 31, 2022. As part of the lease agreement, APF agreed to a 3-month rent concession which is being recognized over the term of the lease. Rent expense was $271,099 and $274,890 for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments under operating leases are:

2019	$ 276,903
2020	290,386
2021	304,273
2022	312,942
2023	105,780
Total minimum lease payments	$ 1,290,284

Note 7: Pension and Other Postretirement Benefit Plans

CEI has a defined contribution pension plan covering substantially all employees. The Board of Directors annually determines the amount, if any, of CEI's contributions to the plan. CEI did not make a contribution to the plan for the year ended June 30, 2018. Pension expense was $138,511 for the year ended June 30, 2017.

CEI also has a 457(b) plan for certain executives. Under the terms of this plan, an employee may elect to defer an amount of up to $18,000. As of June 30, 2018 and 2017, CEI has a liability of $585,752 and $665,820, respectively.

Note 8: Contingencies

Certain grants and contracts may be subject to audit by the funding sources and governmental agencies. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying financial statements for such potential claims. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

Note 9: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

At June 30, 2018, CEI's cash accounts exceeded federally insured limits by approximately $420,000.

Accounts Receivable

CEI derived its program receivables and government grants and contracts revenue as follows:

	June 30, 2018		June 30, 2017	
	Program Receivables	Revenue	Program Receivables	Revenue
New York City Department of Education	23%	18%	21%	24%
USDOE	1%	37%	40%	45%
NYS	61%	32%	33%	27%
Other	15%	13%	6%	4%
	100%	100%	100%	100%

Investments

CEI invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statement of financial position.

Note 10: CEI Foundation/Fund Contributions (Distributions)

In December 2015, the Center for Educational Innovation Foundation (the Foundation) was established. In addition, in December 2015, CEI became a donor-sponsored supporting organization of the Morgan Stanley Global Impact Funding Trust, Inc., (the Trust). The Trust, in turn, established a donor advised fund on behalf of CEI. CEI's executive director can recommend donations from the donor advised fund to public charities. Neither the Foundation nor the donor advised fund are controlled by CEI, and accordingly, have not been consolidated into or included within CEI's financial statements.

CEI arranged for the donor advised fund to serve as a vehicle for other donor advised funds to be able to contribute funds to CEI. Morgan Stanley invests the funds held by the donor advised fund. During 2018, the donor advised fund and Foundation contributed $1,745,941 to CEI of which $272,365 was due from the Foundation as of June 30, 2017, $247,600 was reported as special event revenue, $61,198 was reported as a reimbursement of Gala expenses and the remaining $1,164,778 was reported as a CEI Foundation/Fund contribution in the statement of activities. During 2017, CEI transferred $100,000 to the donor advised fund which is reported as a CEI Foundation/Fund distribution. The balances remaining in the donor advised fund was $11,910 and $659,378 at June 30, 2018 and 2017, respectively.

The Trust is the sole member of the Foundation which was established to handle fundraising on behalf of CEI. Morgan Stanley invests the funds held by the Foundation. Other activity within the Foundation's investments during 2018 was $25,503. In 2017, CEI transferred $553,441 to the Foundation which was reported as a CEI Foundation/Fund distribution. The balance of the investments held by the Foundation was $45,011 and $845,616 at June 30, 2018 and 2017, respectively.

Note 11: Subsequent Event

Subsequent events have been evaluated through February 21, 2019, which is the date the financial statements were available to be issued.

Note 12: Future Changes in Accounting Principles

Presentation of Financial Statements for Not-for-Profit Entities

Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, changes requirements for financial statements and notes of all not-for-profit (NFP) entities and is effective for fiscal years beginning after December 15, 2017.

A summary of the changes by financial statement area most relevant to CEI is as follows:

Statement of Financial Position

- The statement of financial position will distinguish between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statement of Activities

- Expenses are reported by both nature and function in one location.

Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the statement of financial position.

- Amounts and purposes of governing Board designations and appropriations as of the end of the period are disclosed.

CEI intends to begin the process of evaluating the impact the amendment will have on the financial statements.

FASB Releases Not-for-Profit Accounting Standard for Grants and Contributions

ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, clarifies existing guidance on determining whether a transaction with a resource provider, e.g., the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional. If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, i.e., the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional.

FASB expects that the new standard could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current generally accepted accounting principles. Because of this, it believes the clarifying guidance about whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, is important. Both the recipient and resource provider would equally apply the guidance. For all non-public entities, the standard will be effective for reporting periods beginning on or after December 15, 2018 including interim periods within annual periods beginning after December 15, 2019.

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption for nonpublic entities and is effective for annual reporting periods that begin on or after December 15, 2018, and interim and annual reporting periods thereafter. CEI intends to begin the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for nonpublic entities for fiscal years beginning after December 15, 2019 and interim periods thereafter. CEI is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.