



NATIONAL ALLIANCE OF BLACK SCHOOL EDUCATORS, INC.

Financial Statements and Independent Auditor's Report
For the Year Ended December 31, 2018



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NATIONAL ALLIANCE OF BLACK SCHOOL EDUCATORS, INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2018

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Statements of Financial Position.....	3
Statements of Activities and Change in Net Assets.....	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements.....	7

DRAFT FOR DISCUSSION PURPOSE ONLY

INDEPENDENT AUDITOR'S REPORT

Members of the General Board
National Alliance of Black School Educators, Inc. ("NABSE").

Report on the Financial Statements²

We have audited the accompanying Statement of Financial Position of the National Association of Black School Educators (NABSE) of December 31, 2018 and were engaged to audit the related statements of activity, 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 conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion on the Statement of Activities and Cash Flows paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the activities and cash flows.

We conducted our audit of the balance sheet 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 balance sheet is 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.³ 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 unmodified opinion on NABSE's financial position.

Basis for Disclaimer of Opinion on the Statements of Activities and Cash Flows

The audit of the prior year statements resulted in a disclaimed opinion by the predecessor auditor due to National Alliance of Black School Educators, Inc. having not implemented the plans that were developed from the going concern assessment and that the effect of such a limitation was so material and pervasive to the financial report that the auditor was unable to obtain sufficient appropriate audit evidence to complete the audit. We were unable to satisfy ourselves by performing other auditing procedures concerning the opening payable and receivable balances at January 1, 2018 that were disclaimed by the prior auditor. Since opening receivable and payable balances enter into the determination of change in net assets and cash flows, we were unable to determine whether any adjustments might have been necessary in respect of the change in net assets for the year reported in the statements of activities and the net cash flows from operating activities reported in the cash flow statement.

Disclaimer of Opinion on the Results of Operations and Cash Flows

Because of the significance of the matter described in the Basis for Disclaimer of Opinion on the Results of Operations and Cash Flows paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations and cash flows for the year ended December 31, 2017. Accordingly, we do not express an opinion on the activities and cash flows for the year ended December 31, 2017.

Opinion on the Financial Position

In our opinion, the Statement of Financial Position presents fairly, in all material respects, the financial position of NABSE as of December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Lanham, MD
(Date)

NATIONAL ALLIANCE OF BLACK SCHOOL EDUCATORS, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS

Current assets:	
Cash and cash equivalents	\$ 16,263
Accounts receivable, net	311,181
Other current assets	22
Total current assets	327,466
 Fixed Assets net of accumulated depreciation	 426,318
 Total assets	 \$ 753,784

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued liabilities	\$ 1,279,404
Total current liabilities	1,279,404
 Long-term Liabilities	
Mortgage Loan	1,717,000
Total liabilities	2,996,404
 Net assets	
Unrestricted	(2,242,620)
Total net assets	(2,242,620)
Total liabilities and net assets	\$ 753,784

See accompanying notes to the financial statements.

NATIONAL ALLIANCE OF BLACK SCHOOL EDUCATORS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Revenue

Conference Revenue		
Registration	\$	451,202
Other Conference Revenue		119,678
Total Conference Revenue		<u>570,880</u>
Membership		94,980
Corporate Sponsorship/Contribution		106,422
Advertising		15,000
Rental Income		247,822
Career Center		30,485
Aspiring Supt		1,375
Capital Campaign		677
Other Income		4,458
Total Revenue		<u><u>1,072,099</u></u>

Expenses

Program Services:

Conference		<u>320,228</u>
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Total Program Services:		<u><u>320,228</u></u>
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Supporting Services

Building Expenses		257,351
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Management & General		<u>603,384</u>
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Total expenses		<u><u>1,180,963</u></u>
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Change in net assets from operations		(108,864)
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Extraordinary Items

Settlement Expense		<u>(300,000)</u>
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Change in Net Assets		(408,864)
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Net Assets Beginning		(2,470,245)
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Prior Period Adjustment		<u>636,489</u>
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Net assets at beginning of year As adjusted		<u>(1,833,756)</u>
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Net Assets at the End of the Year	\$	<u><u>(2,242,620)</u></u>
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See accompanying notes to the financial statements.

NATIONAL ALLIANCE OF BLACK SCHOOL EDUCATORS, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program			Total	
	Services	Supporting Services			
	Conference	Building Expenses			Management & General
Expenses					
Property Insurance	\$ -	\$ 11,186	\$ -	\$ 11,186	
Interest Payments	-	206,040	-	206,040	
Property Taxes	-	40,125	-	40,125	
Accounting Fees	-	-	71,566	71,566	
Building Repairs	-	-	979	979	
Conferences	85,689	-	-	85,689	
Lodging Meals	176,043	-	-	176,043	
Consulting	-	-	78,676	78,676	
Credit Card Processing	-	-	19,637	19,637	
Equipment Rental	42,210	-	-	42,210	
Insurance	-	-	6,354	6,354	
Postage Shipping	-	-	3,042	3,042	
IT Services	-	-	38,669	38,669	
Legal Counsel	-	-	59,701	59,701	
Transportation Parking	-	-	13,465	13,465	
Depreciation	-	-	30,930	30,930	
Others	16,286	-	28,273	44,559	
Speaking Fees	-	-	2,120	2,120	
Supplies	-	-	4,495	4,495	
Travel	-	-	1,191	1,191	
Utilities	-	-	19,968	19,968	
Bad Debt Expense	-	-	224,318	224,318	
Total Operating Expenses	\$ 320,228	\$ 257,351	\$ 603,384	\$ 1,180,963	

See accompanying notes to the financial statements.

NATIONAL ALLIANCE OF BLACK SCHOOL EDUCATORS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (408,864)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization	31,650
Decrease(increase) in operating assets:	
Accounts receivable	71,028
Other Current Assets	(2,861)
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	307,026
Net cash provided by operating activities	<u>(2,021)</u>
 Net increase (decrease) in cash and cash equivalents	 (2,021)
Cash and cash equivalents at beginning of year	<u>18,284</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 16,263</u></u>

SUPPLEMENTAL INFORMATION:

Interest Paid	<u><u>\$ -</u></u>
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See accompanying notes to the financial statements.

NATIONAL ALLIANCE OF BLACK SCHOOL EDUCATORS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 ORGANIZATION

The National Alliance of Black School Educators, Inc. (NABSE) is a non-profit organization which was established to promote and facilitate the education of all students (black students in particular); to establish a coalition of black educators and others directly or indirectly involved in educational opportunities; to identify and develop black professionals who will assume leadership positions in education; and to influence public policy concerning the education of black people. To achieve this purpose, NABSE publishes and distributes reports, conducts research, and sponsors seminars, conferences and panel discussions with experts in the field of education.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements presented follow the recommendation of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 958-205, Not for Profit Entities - Presentation (FASB ASC 958-205). In accordance with FASB 958-205, NABSE is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Fixed Assets - Fixed assets are stated at cost. Fixed assets are depreciated or amortized on a straight-line basis, over their estimated useful lives of thirty years for the building; ten years for the building improvements, five years for furniture and three years for equipment. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation is a non-cash item. Value of assets does not reflect the fair market value of NABSE property.

Cash and Cash Equivalent - NABSE considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Income Tax Status - NABSE is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A), and has been classified as an organization that is not a private foundation under Section 509(a)(2).

The Organization adopted the provisions of ASC 740-10-05 on January 1, 2009. ASC 740-10-05 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under ASC 740-10-05, tax positions must initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax

NATIONAL ALLIANCE OF BLACK SCHOOL EDUCATORS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. The Organization did not have any unrecognized tax benefits and there was no effect on our financial condition or results of operations as a result of adopting ASC 740-10-05.

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The tax years from 2012 through 2014, are subject to examination by the Internal Revenue Service. The Organization is currently not under any federal or state audits.

Interest and penalties are zero and the Organization's policy is to expense interest and penalties, if any, to income tax expense as incurred. The Organization does not expect any material changes in unrecognized tax benefits in the next twelve months. The Organization has no unrecognized tax benefits as of December 31, 2018.

The net assets are reported in two self-balancing groups as follows:

Unrestricted net assets – include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of NABSE and include both internally designated and undesignated resources.

Temporarily restricted net assets - include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of NABSE and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Contributions and Grants - Contributions and grants are recorded as revenue in the year notification is received from the donor. Contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

NATIONAL ALLIANCE OF BLACK SCHOOL EDUCATORS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the 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 Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 3 – CONCENTRATION OF CREDIT RISK

NABSE's cash balances in financial institutions at times may exceed the federally insured limit of \$250,000. At December 31, 2018, NABSE cash balances at financial institutions did not exceed the federally insured limit.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable consist of the following as of December 31, 2018:

Accounts receivable consist of the following as of December 31, 2018:

Conference registration	\$	143,829
Corporate Contributions		78,452
Membership dues		20,895
Institutional Membership		109,228
Superintendent Summit		15,100
Rebate Receivable and Other		67,542
Rent Receivable		50,260
Total		485,306
Allowance for uncollectable receivables		(174,125)
Accounts receivable, net	\$	311,181

NATIONAL ALLIANCE OF BLACK SCHOOL EDUCATORS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2018

Land	\$ 333,939
Building and Improvements	1,346,299
Furniture, Equipment and Software	93,612
Donated equipment	92,600
Sub total	<u>1,866,450</u>
Less: accumulated depreciation	<u>(1,440,132)</u>
Property and equipment, net	<u><u>\$ 426,318</u></u>

Depreciation expense for the year was \$30,930

NOTE 6 – NOTES PAYABLE

Woodbridge Mortgage Investment Fund 3A, LLC, made a commercial term loan (“Loan”) in the amount of \$1,717,000 evidenced by that certain Deed of Trust Note dated July 14, 2016 (“Note”), secured by that certain Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing dated July 14, 2016 (“Deed of Trust”), securing the Loan against the real property located at 308, 310 and 312 Pennsylvania Avenue S.E., Washington, D.C., further secured by that certain Assignment of Rents and Leases (“Assignment of Rents”), a General Security Agreement (“Security Agreement”) and a Guaranty (“Guaranty”) made by Marietta English in favor of Holder (the foregoing and all other documents evidencing the Loan collectively referred to as the Loan Documents”). Woodbridge Mortgage Investment Fund 3A, LLC sold and assigned all of its right, title and interest in the Loan and Loan Documents on September 7, 2016 pursuant to KEYSTONE REAL ESTATE LENDING FUND, L.P (“Holder”).

NABSE and Holder entered into that certain fourth Amendment to Deed of Trust Note on November 8, 2018 whereby the Loan was extended to November 30, 2019 when all amounts outstanding become due.

NOTE 7 - LEASE COMMITMENT

During 2018 NABSE leased its office building to 3 commercial tenants. Two of the leases expired in 2018 and one lease entered into in May 2011 expires in April of 2022. Under the terms of the lease the tenant pays a base lease amount and a proportionate share of property taxes and insurance. Total rental income for 2018 was \$168,060.

Future rental income expected under the one unexpired lease is as follows:

**NATIONAL ALLIANCE OF BLACK SCHOOL EDUCATORS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 - LEASE COMMITMENT (Continued)

Fiscal Year	Total
2019	\$ 10,083
2020	11,131
	<u>993,306</u>
	<u>\$ 1,014,520</u>

The remaining tenants operate under a month-to-month agreement and continue to operate in the building through the date of this audit report.

NOTE 8 - BAD DEBT EXPENSE

The Organization reports accounts receivable for services rendered at net realizable amounts from third-party payers, members and others. The Organization provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions and trends.

NOTE 9 - GOING CONCERN - NET DEFICIENCY

During the 2018-year end, NABSE showed a positive trend from operating activities and has begun paying down long outstanding payables and reducing the net asset deficiency. The 2018 conference revenues exceeded expenses by over \$250,000 and building operations basically broke even. Historically the organization has had operating losses, negative cash flows from operations, and working capital deficiencies. The positive trajectory has continued and with new leadership the organization appears headed in the right direction. NABSE has employed a Consulting Executive Director in order to continue to secure funding and sponsorships to enhance the financial stability.

NABSE has also re-launched of the organization structure coupled with the strategic financial plan that has resulted in several added partnerships that will serve as increased revenue generators as well as, additional revenue streams for years to come. Partnerships are also helping to reduce cost and generate exposure with other national organizations as we continue to upgrade our leadership development programs. Through these partnerships and a strategic social media campaign, NABSE has increased our membership database from 2,100 to the current total of over 5,000 educators from across the nation. The 2019 membership report should show a significant increase in revenue generated from membership fees.

NATIONAL ALLIANCE OF BLACK SCHOOL EDUCATORS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 9 - GOING CONCERN - NET DEFICIENCY (Continued)

The positive financial management and resulting trend indicates that NABSE is able to operate over the next 12 months with projected revenues from increased membership, sponsorship and the capital campaign expected to continue to exceed the organizational expenses. In addition, NABSE is in the process of refinancing the NABSE national office which has an assessed value of over \$5 million. The refinance and possible sale of the building will increase the funding available to carry out the continued vision and mission of the organization. The strategic financial decisions are expected to ensure that NABSE remains on a positive financial path.

NOTE 10 – LEGAL SETTLEMENT

On February 23, 2018 the Superior Court of the District of Columbia issued a judgment order requiring that NABSE pay \$300,000 to the plaintiff. This judgment is a second priority lien on NABSE's building. All amounts are due and owing and are recorded as a payable and an extraordinary item in these financial statements.

NOTE 11 – RELATED PARTY TRANSACTIONS

There is a \$42,000 loan payable to a former member of NABSE's Board that remains outstanding at December 31, 2018

NOTE 12 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$658,084 was necessary to address opening balance issues in the 2017 financial statements. The previous auditor issued a disclaimer of opinion on the 2017 financial statements in part due to their inability to obtain sufficient audit evidence to complete the audit. The major component of the prior period adjustment was for incorrect entries to accounts payable in prior years.

NOTE 13 - SUBSEQUENT EVENTS

In preparing these financial statements, Management evaluated events and transactions for potential recognition through (Date), the date the financial statements were available to be issued.