

CONSOLIDATED FINANCIAL STATEMENTS

**THE ELLINGTON FUND AND
THE DUKE ELLINGTON SCHOOL
OF THE ARTS PROJECT**

**FOR THE YEARS ENDED
SEPTEMBER 30, 2020 AND 2019**

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

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CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Ellington Fund and The Duke Ellington School of the Arts Project
Washington, D.C.

We have audited the accompanying consolidated financial statements of the The Ellington Fund and The Duke Ellington School of the Arts Project, collectively, Ellington), which comprise the consolidated statements of financial position as of September 30, 2020, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ellington as of September 30, 2020, and the consolidated changes in its net assets and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Prior Year Comparative Statements

The financial statements of Ellington for the year ended September 30, 2019 were audited by other auditors, whose report dated February 24, 2020, expressed an unmodified opinion on those statements.

Gelman Rosenberg & Freedman

January 21, 2021

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 5,654,983	\$ 4,274,201
Accounts receivable	106,510	36,521
Grants receivable	286,876	308,750
Prepaid expenses	35,840	21,275
Investments without donor restrictions	28,803	27,698
Endowment investments	22,113,739	22,966,679
Fixed assets, net of accumulated depreciation of \$637,148 and \$604,047 for 2020 and 2019, respectively	86,142	110,317
Art collection	<u>508,945</u>	<u>508,945</u>
TOTAL ASSETS	<u>\$ 28,821,838</u>	<u>\$ 28,254,386</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Paycheck protection program loans	\$ 181,955	\$ -
Line of credit	877,389	998,825
Accounts payable and accrued liabilities	422,812	309,153
Scholarships payable	97,505	89,269
Unearned management fees	<u>5,416,286</u>	<u>4,451,151</u>
Total liabilities	<u>6,995,947</u>	<u>5,848,398</u>

NET ASSETS (DEFICIT)

Without donor restrictions	(1,486,715)	(1,536,769)
With donor restrictions	<u>23,312,606</u>	<u>23,942,757</u>
Total net assets (deficit)	<u>21,825,891</u>	<u>22,405,988</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 28,821,838</u>	<u>\$ 28,254,386</u>

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

	<u>2020</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
DCPS management fees	\$ 6,521,279	\$ -	\$ 6,521,279
Ellington Fund contributions	<u>1,925,833</u>	<u>-</u>	<u>1,925,833</u>
Subtotal	8,447,112	-	8,447,112
Grants and contributions	248,997	1,990,605	2,239,602
Investment (loss) income, net	1,304	(1,669,243)	(1,667,939)
Performance income	123,502	-	123,502
In-kind contributions	146,008	-	146,008
Fees income	159,010	-	159,010
Auditorium rental	66,419	-	66,419
Special event	-	-	-
Product sales	-	-	-
Other income	58,199	-	58,199
Net assets released from donor restrictions	<u>951,513</u>	<u>(951,513)</u>	<u>-</u>
Total support and revenue	<u>10,202,064</u>	<u>(630,151)</u>	<u>9,571,913</u>
EXPENSES			
Program Services:			
Arts	3,672,352	-	3,672,352
Academics	2,733,699	-	2,733,699
Student Services	1,249,381	-	1,249,381
Scholarships	<u>66,142</u>	<u>-</u>	<u>66,142</u>
Total program services	<u>7,721,574</u>	<u>-</u>	<u>7,721,574</u>
Supporting Services:			
General and Administrative	2,158,729	-	2,158,729
Fundraising	<u>271,707</u>	<u>-</u>	<u>271,707</u>
Total supporting services	<u>2,430,436</u>	<u>-</u>	<u>2,430,436</u>
Total expenses	<u>10,152,010</u>	<u>-</u>	<u>10,152,010</u>
Change in net assets	50,054	(630,151)	(580,097)
Net assets (deficit) at beginning of year	<u>(1,536,769)</u>	<u>23,942,757</u>	<u>22,405,988</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ (1,486,715)</u>	<u>\$ 23,312,606</u>	<u>\$ 21,825,891</u>

2019		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 7,277,866	\$ -	\$ 7,277,866
<u>1,884,758</u>	<u>-</u>	<u>1,884,758</u>
9,162,624	-	9,162,624
552,527	426,246	978,773
2,809	445,288	448,097
262,102	-	262,102
322,991	349,245	672,236
55,127	-	55,127
159,955	-	159,955
115,780	-	115,780
18,942	-	18,942
37,515	-	37,515
<u>337,429</u>	<u>(337,429)</u>	<u>-</u>
<u>11,027,801</u>	<u>883,350</u>	<u>11,911,151</u>
3,793,643	-	3,793,643
3,794,525	-	3,794,525
578,231	-	578,231
<u>65,414</u>	<u>-</u>	<u>65,414</u>
<u>8,231,813</u>	<u>-</u>	<u>8,231,813</u>
1,998,459	-	1,998,459
<u>291,147</u>	<u>-</u>	<u>291,147</u>
<u>2,289,606</u>	<u>-</u>	<u>2,289,606</u>
<u>10,521,419</u>	<u>-</u>	<u>10,521,419</u>
506,382	883,350	1,389,732
<u>(2,043,151)</u>	<u>23,059,407</u>	<u>21,016,256</u>
<u>\$ (1,536,769)</u>	<u>\$ 23,942,757</u>	<u>\$ 22,405,988</u>

**THE ELLINGTON FUND AND
THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Program Services				Supporting Services				Total Expenses
	Arts	Academics	Student Services	Scholarships	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	
Personnel	\$ 3,346,984	\$ 2,637,462	\$ 1,220,090	\$ -	\$ 7,204,536	\$ 1,603,723	\$ 173,222	\$ 1,776,945	\$ 8,981,481
Contract and consultant services	75,621	12,999	11,551	-	100,171	190,866	53,757	244,623	344,794
Accounting and legal services	-	-	-	-	-	208,483	-	208,483	208,483
Field trips, travel and retreats	122,072	4,111	1,075	-	127,258	756	338	1,094	128,352
Scholarship expenses	13,500	-	-	66,142	79,642	-	-	-	79,642
Office, art and production supplies	47,922	9,016	2,602	-	59,540	16,146	1,044	17,190	76,730
Printing and advertising	12,393	11,267	5,979	-	29,639	16,257	18,155	34,412	64,051
Interest	-	-	-	-	-	40,847	-	40,847	40,847
Miscellaneous	500	40,944	500	-	41,944	(1,408)	-	(1,408)	40,536
Insurance	-	-	-	-	-	36,740	2,197	38,937	38,937
Depreciation	29,735	-	-	-	29,735	3,367	-	3,367	33,102
Catering	809	3,086	988	-	4,883	6,657	13,417	20,074	24,957
Dues, fees, books and publications	5,368	2,522	6,549	-	14,439	11,095	(3,587)	7,508	21,947
Equipment and instrument purchases	7,422	4,027	-	-	11,449	5,523	-	5,523	16,972
Licenses, bank charges and fines	5,008	-	47	-	5,055	5,384	86	5,470	10,525
Telephone and internet	-	6,634	-	-	6,634	1,905	281	2,186	8,820
Repairs and maintenance	494	-	-	-	494	8,224	-	8,224	8,718
Professional development	4,462	1,190	-	-	5,652	1,024	530	1,554	7,206
Rentals	-	214	-	-	214	445	4,897	5,342	5,556
Awards and gifts	-	-	-	-	-	29	3,863	3,892	3,892
Postage and delivery	62	227	-	-	289	1,666	504	2,170	2,459
Public relations	-	-	-	-	-	-	2,403	2,403	2,403
Website	-	-	-	-	-	1,000	600	1,600	1,600
TOTAL	\$ 3,672,352	\$ 2,733,699	\$ 1,249,381	\$ 66,142	\$ 7,721,574	\$ 2,158,729	\$ 271,707	\$ 2,430,436	\$ 10,152,010

See accompanying notes to consolidated financial statements.

**THE ELLINGTON FUND AND
THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Program Services				Supporting Services				Total Expenses
	Arts	Academics	Student Services	Scholarships	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	
Personnel	\$ 3,080,566	\$ 3,635,830	\$ 549,473	\$ 272	\$ 7,266,141	\$ 1,302,140	\$ 159,118	\$ 1,461,258	\$ 8,727,399
Contract and consultant services	131,341	21,738	7,650	30,250	190,979	134,810	90,409	225,219	416,198
Accounting and legal services	-	3,092	-	-	3,092	313,927	1,121	315,048	318,140
Field trips, travel and retreats	385,606	19,606	141	297	405,650	23,886	2,864	26,750	432,400
Scholarship expenses	3,250	-	-	30,050	33,300	-	-	-	33,300
Office, art and production supplies	102,329	21,087	4,820	-	128,236	52,570	994	53,564	181,800
Printing and advertising	23,430	10,741	1,434	-	35,605	22,058	6,148	28,206	63,811
Interest	-	-	-	-	-	47,984	-	47,984	47,984
Miscellaneous	-	2,687	536	-	3,223	10,309	1,001	11,310	14,533
Insurance	-	14,221	-	-	14,221	12,309	-	12,309	26,530
Depreciation	25,029	3,587	-	-	28,616	1,195	-	1,195	29,811
Catering	16,009	9,519	6,702	14	32,244	7,022	10,402	17,424	49,668
Dues, fees, books and publications	6,160	8,187	7,475	-	21,822	29,525	4,482	34,007	55,829
Equipment and instrument purchases	13,492	16,570	-	2,946	33,008	8,151	842	8,993	42,001
Licenses, bank charges and fines	822	721	-	2	1,545	12,418	1,254	13,672	15,217
Telephone and internet	-	7,452	-	230	7,682	5,602	155	5,757	13,439
Repairs and maintenance	4,881	16,633	-	606	22,120	11,296	505	11,801	33,921
Professional development	597	2,649	-	-	3,246	1,184	-	1,184	4,430
Awards and gifts	-	-	-	-	-	484	2,237	2,721	2,721
Postage and delivery	131	205	-	249	585	1,301	1,485	2,786	3,371
Public relations	-	-	-	-	-	-	4,715	4,715	4,715
Website	-	-	-	498	498	288	3,415	3,703	4,201
TOTAL	\$ 3,793,643	\$ 3,794,525	\$ 578,231	\$ 65,414	\$ 8,231,813	\$ 1,998,459	\$ 291,147	\$ 2,289,606	\$ 10,521,419

See accompanying notes to consolidated financial statements.

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (580,097)	\$ 1,389,732
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	33,102	29,811
Realized and unrealized loss on investments	2,501,596	475,410
Contributions received for endowment	(1,615,428)	(1,000)
Donation of art collection	-	(349,245)
Donation of musical instruments	-	(35,028)
(Increase) decrease in:		
Accounts receivable	(69,989)	(36,521)
Grants receivable	21,874	(108,750)
Prepaid expenses	(14,565)	22,383
Increase (decrease) in:		
Accounts payable and accrued liabilities	113,659	(28,081)
Scholarships payable	8,236	(29,290)
Unearned management fees	<u>965,135</u>	<u>438,583</u>
Net cash provided by operating activities	<u>1,363,523</u>	<u>1,768,004</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(8,927)	(22,517)
Purchase of investments	(2,559,602)	(5,345,760)
Proceeds from sale of investments	<u>909,841</u>	<u>4,720,948</u>
Net cash used by investing activities	<u>(1,658,688)</u>	<u>(647,329)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	(121,436)	-
Contributions received for endowment	1,615,428	1,000
Proceeds from paycheck protection program loans	<u>181,955</u>	<u>-</u>
Net cash provided by financing activities	<u>1,675,947</u>	<u>1,000</u>
Net increase in cash and cash equivalents	1,380,782	1,121,675
Cash and cash equivalents at beginning of year	<u>4,274,201</u>	<u>3,152,526</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,654,983</u>	<u>\$ 4,274,201</u>
SUPPLEMENTAL INFORMATION:		
Interest Paid	<u>\$ 40,847</u>	<u>\$ 47,984</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS		
Donation of Art Collection and Musical Instruments	<u>\$ -</u>	<u>\$ 384,273</u>

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Ellington Fund (the Fund) is a non-profit, tax-exempt organization that was incorporated on July 10, 1978 under the laws of the District of Columbia. The Fund was established to raise funds for The Duke Ellington School of the Arts, a public high school in the District of Columbia. The Fund's main purpose is to support various programs and activities at the school including curriculum development; counseling and student support; arts and academic courses, equipment, supplies, productions, exhibits, concerts and workshops; and to provide scholarship assistance to graduates of The Duke Ellington School of the Arts in pursuit of college or professional careers. The Fund relies on the general public and private foundations for the majority of its financial support. The Fund is the sole member of The Duke Ellington School of the Arts Project (DESAP), with responsibility for electing the directors of DESAP.

The Duke Ellington School of the Arts Project (DESAP), is a non-profit, tax-exempt membership organization which represents a collaboration of the Fund, the John F. Kennedy Center for the Performing Arts, and The George Washington University. DESAP was formed on April 26, 1999 and began substantive operations on September 13, 2000. DESAP was established for the sole purpose of operating the Duke Ellington School of the Arts in a unique partnership with the District of Columbia Public Schools (DCPS).

Principles of consolidation -

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

Basis of presentation -

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

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Net assets may be subject to donor-imposed stipulations that are more restrictive than Ellington's mission and purpose. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2020 AND 2019

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

Basis of presentation -

- **Net Assets With Donor Restrictions (continued)** - Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

New accounting pronouncement adopted -

During 2020, Ellington adopted ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improved guidance to better distinguish between conditional and unconditional contributions. Ellington adopted the ASU using a modified prospective basis.

During 2019, Ellington adopted ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The ASU reduces three classes of net assets into two: with and without donor restrictions. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. Ellington applied the ASU retrospectively.

Cash and cash equivalents -

Ellington considers all cash and other highly liquid investments, including certificates of deposit, with maturities of three months or less to be cash equivalents, and excluding money market funds held by investment managers in the amount of \$495,251 and \$394,708 for the years ended September 30, 2020 and 2019, respectively. Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year Ellington maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends, realized and unrealized gains and losses are included in investment income, which is presented net of investment expenses paid to external investment advisors, in the accompanying Consolidated Statements of Activities and Changes in Net Assets.

Receivables -

Accounts and grants receivable are recorded at their net realizable value, which approximates fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Fixed assets -

Fixed assets in excess of \$1,000 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to seven years. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation expense for the year ended September 30, 2020 totaled \$33,102 and \$29,811, respectively.

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019

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

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced, by a charge to the Consolidated Statements of Activities and Changes in Net Assets, to its current fair value.

Art collection -

Ellington has capitalized its collections since its inception. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their fair value on the date of donation.

During the year ended September 30, 2019, DESAP received a donation of an art collection from the estate of Peggy Cooper Cafritz with an estimated value of \$349,245. The donated art collection has donor restrictions specifying that the collection must be exhibited in rotation by The Duke Ellington School of the Arts for a period of at least two years, after which time DESAP may sell any such artwork if it so desires. Ellington's art collection, which includes numerous pieces, is collectively valued at \$508,945 as of September 30, 2020 and 2019.

Income taxes -

The Fund and DESAP are exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. The Fund and DESAP are not private foundations.

Uncertain tax positions -

For the years ended September 30, 2020 and 2019, Ellington has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements.

Revenue -

Pursuant to an agreement between DESAP and DCPS, DESAP manages and operates The Duke Ellington School of the Arts in exchange for an annual management fee from DCPS intended to finance the costs of educating the student body. The management fee is recognized ratably over the school year. Payments received in advance are deferred to the appropriate period and are shown as unearned management fees in the consolidated financial statements.

Performance and event fees income are recognized at the time specific activities are held. Special event revenue is recognized at the time the related event has occurred.

Grants and contributions -

Grants and contributions are recognized in the appropriate category of net assets in the period received. Ellington performs an analysis of the individual grant and contribution to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal.

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2020 AND 2019

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

Grants and contributions (continued) -

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

In-kind contributions -

Certain teachers at The Duke Ellington School of the Arts are employees of DCPS and are paid directly by DCPS. DCPS estimates that amounts paid to these teachers were \$1,925,833 and \$1,884,758 for the years ended September 30, 2020 and 2019, respectively. Other in-kind contributions consist of donated materials, services and facilities. In-kind contributions are recorded at their fair value as of the date of the gift and benefit Ellington's program activities.

Ellington is housed in the facility of The Duke Ellington School of the Arts. The facility is owned by the District of Columbia. The market value for this space usage is not readily determinable, and accordingly, no amounts have been reflected in the consolidated financial statements for the use of these donated facilities.

In addition, volunteers have donated significant amounts of their time to Ellington; these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Use of estimates -

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of Ellington are reported as direct expenses to the programmatic area. Salaries are allocated between program and supporting services based on the estimated time employees spend on each function. The remaining costs are specifically allocated whenever practical, or are allocated based on management's best estimate of the benefit received by each functional area.

Scholarships -

Scholarships are recognized as expenses and liabilities at the time recipients are entitled to them. This normally occurs when management approves a specific scholarship and the student recipient is acknowledged with a congratulatory letter.

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2020 AND 2019

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

Scholarships (continued) -

Ellington's policy is to write-off unclaimed amounts after four years from the date of the scholarship. Amounts that will be used for future scholarships are shown as donor restricted other income in the statement of activities. Amounts that have been written off and re-awarded within the same year are shown as other income without donor restrictions.

Risks and uncertainties -

Ellington invests in various investment securities. Investment securities are exposed to various risks such as interest rates, 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 changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Fair value measurement -

Ellington adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. Ellington accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

New accounting pronouncement not yet adopted -

FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. During 2020, the FASB delayed the implementation date under ASU 2020-05 for an additional year. Organizations may elect to adopt the guidance for annual reporting periods beginning after December 15, 2019 and for interim periods within annual reporting periods beginning after December 15, 2020. Early adoption is still permitted.

Ellington plans to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying consolidated financial statements.

Reclassification -

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

Economic uncertainties -

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

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2020 AND 2019

2. INVESTMENTS

In accordance with FASB ASC 820, *Fair Value Measurement*, the Ellington has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Consolidated Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Ellington has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There were no transfers between levels in the fair value hierarchy during the years ended September 30, 2020 and 2019. Transfers between levels are recorded at the end of the reporting period, if applicable.

- *Money market funds* - The money market fund is an open-end funds that is registered with the Securities and Exchange Commission (SEC) and is deemed to be actively traded.
- *Common stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *U.S. Government securities* - Valued at the closing price reported in the active market in which the individual securities are traded.
- *Mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by Ellington are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily value and to transact at that price. Mutual funds held by Ellington are deemed to be actively traded.
- *Corporate bonds* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019

2. INVESTMENTS (Continued)

The table below summarizes, the investments measured at fair value on a recurring basis, by level within the fair value hierarchy as of September 30, 2020.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total September 30, 2020</u>
Investments:				
Money market funds	\$ 495,251	\$ -	\$ -	\$ 495,251
Common stocks	4,266,583	-	-	4,266,583
Corporate bonds	-	1,011,937	-	1,011,937
U.S. Government securities	-	952,986	-	952,986
Equity mutual funds & ETFs	7,142,075	-	-	7,142,075
Fixed income mutual funds	7,642,951	-	-	7,642,951
Real estate mutual funds	<u>630,759</u>	<u>-</u>	<u>-</u>	<u>630,759</u>
TOTAL INVESTMENTS	<u>\$ 20,177,619</u>	<u>\$ 1,964,923</u>	<u>\$ -</u>	<u>\$ 22,142,542</u>

The table below summarizes, the investments measured at fair value on a recurring basis, by level within the fair value hierarchy as of September 30, 2019.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total September 30, 2019</u>
Investments:				
Money market funds	\$ 394,708	\$ -	\$ -	\$ 394,708
Common stocks	7,273,347	-	-	7,273,347
Corporate bonds	-	701,902	-	701,902
U.S. Government securities	-	1,451,850	-	1,451,850
Equity mutual funds & ETFs	6,832,527	-	-	6,832,527
Fixed income mutual funds	<u>6,340,043</u>	<u>-</u>	<u>-</u>	<u>6,340,043</u>
TOTAL INVESTMENTS	<u>\$ 20,840,625</u>	<u>\$ 2,153,752</u>	<u>\$ -</u>	<u>\$ 22,994,377</u>

Included in investment (loss) income are the following:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 946,513	\$ 1,039,463
Realized and unrealized loss	(2,501,596)	(475,410)
Investment expenses	<u>(112,856)</u>	<u>(116,251)</u>
TOTAL INVESTMENT (LOSS) INCOME, NET OF INVESTMENT EXPENSES	<u>\$(1,667,939)</u>	<u>\$ 447,802</u>

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

3. GRANTS RECEIVABLE

As of September 30, 2020 and 2019, contributors to Ellington have made unconditional written promises to give, of which \$286,876 and \$318,012, respectively, remained due and outstanding.

Following is a schedule of amounts due, by year, as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Less than one year	\$ 286,876	\$ 158,750
One to five years	<u>-</u>	<u>150,000</u>
TOTAL GRANTS RECEIVABLE	<u>\$ 286,876</u>	<u>\$ 308,750</u>

4. FIXED ASSETS

Fixed assets consisted of the following at September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Furniture	\$ 155,726	\$ 155,726
Computer equipment	151,007	147,268
Instruments	<u>422,821</u>	<u>456,337</u>
Total Fixed assets	729,554	759,331
Less: Accumulated depreciation and amortization	<u>(643,412)</u>	<u>(649,014)</u>
NET FIXED ASSETS	<u>\$ 86,142</u>	<u>\$ 110,317</u>

5. PAYCHECK PROTECTION PROGRAM LOANS

In May 2020, Ellington received loan proceeds totaling \$181,955 under the Paycheck Protection Program. The promissory notes call for monthly principal and interest payments amortized over the term of the promissory notes with a deferral of payments for the first six months. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory notes may be forgiven by the Small Business Administration in whole or in part. Ellington intends to use the proceeds for purposes consistent with the Paycheck Protection Program and believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan. Ellington intends to apply for forgiveness after completing the 24 week period. If forgiveness is granted, Ellington will record revenue from debt extinguishments during the period that forgiveness was approved.

Principal payments as stated in the promissory notes are due as follows unless otherwise forgiven:

Year Ending September 30,

2021	\$ 117,736
2022	<u>64,219</u>
	<u>\$ 181,955</u>

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019

6. LINE OF CREDIT

During March 2019, the Fund's the line of credit with a maximum amount available of \$1,000,000 was converted into a term loan payable over 60 months with a fixed interest rate of 5.20% per year. The loan was secured by the Fund's investment portfolio held with the commercial bank. All principal and outstanding interest is required to be paid by March 28, 2024. As of September 30, 2019, the outstanding balance on the loan was \$998,825. For the year ended September 30, 2019, interest expense was \$47,984.

In June 2020, the loan was transferred to another financial institution and converted to a line of credit. Under the new agreement, the maximum amount available is \$1,000,000 and the line secured by the Fund's investment portfolio held with the same financial institution. Amounts borrowed under this agreement bear interest at the greater of 1.75% or the Overnight LIBOR-Based Rate plus 1.75%. Interest payments are due monthly beginning in July 2020. All principal and outstanding interest is required to be paid by June 7, 2021. As of September 30, 2020, the outstanding balance on the line of credit was \$877,389. For the year ended September 30, 2020, interest expense was \$40,847.

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Arts and academics	\$ 1,139,150	\$ 1,777,997
Art collection from Peggy Cooper Cafritz	349,245	349,245
Scholarships	<u>185,062</u>	<u>212,685</u>
	1,673,457	2,339,927
Subject to passage of time:		
Endowment to be invested in perpetuity:	<u>21,639,149</u>	<u>21,602,830</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 23,312,606</u>	<u>\$ 23,942,757</u>

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

	<u>2020</u>	<u>2019</u>
Purpose restrictions accomplished:		
Arts and academics	\$ 928,263	\$ 337,429
Scholarships	<u>23,250</u>	<u>-</u>
	<u>\$ 951,513</u>	<u>\$ 337,429</u>

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019

8. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Consolidated Statement of Financial Position date comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 5,654,983	\$ 4,274,201
Accounts receivable	106,510	36,521
Grants receivable	286,876	308,750
Investments without donor restrictions	28,803	27,698
Endowment investments	<u>22,113,739</u>	<u>22,966,679</u>
Subtotal financial assets	28,190,911	27,613,849
Less: Donor restricted funds	<u>(22,963,361)</u>	<u>(23,593,512)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 5,227,550</u>	<u>\$ 4,020,337</u>

Ellington monitors liquidity required to meet its operating needs and other contractual commitments, while striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12 month period, Ellington considers all expenditures related to ongoing activities of development, cultivation, stewardship and operations to be general expenditures. Scholarships are not included in the analysis as scholarship awards are based on net earnings in the endowed scholarship investments on annual basis.

In addition to financial assets available to meet general expenditures over the next 12 months, Ellington operates with a balanced budget and anticipates collecting sufficient revenues to cover general expenditures not covered by donor restricted resources. Ellington receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to support arts and academics and annual student scholarships.

As of September 30, 2019, net assets without donor restrictions had a deficit balance of \$1,536,769. For the year ended September 30, 2020, Ellington had a positive change in net assets without donor restricts of \$50,054. As a result, the net assets without donor restrictions deficit balance decreased to \$1,486,715, as of September 30, 2020.

Much of the accumulated net assets without donor restrictions deficit can be attributed to funding reductions by DCPS. DCPS has indicated that it remains committed to the Ellington's public/private management model. Management has aggressively pressed DCPS for additional funds and contract terms which would provide for full funding of both arts and academic programs of Ellington. These efforts led to an increase in DCPS funding for fiscal 2019 and 2020.

Management intends to continue monitoring the Ellington's deficit in net assets without donor restrictions and will make operational adjustments as dictated by the organization's financial position. In addition, Ellington secured a line of credit of \$1,000,000 during 2020 to allow more time to address the deficit net assets (See Note 5 for details).

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2020 AND 2019

9. RETIREMENT PLAN

Ellington adopted a 403(b) retirement plan effective December 1, 2002. The Plan covers all employees who normally work at least 20 hours per week. Employees must be at least 21 years of age and have completed six months of service in order to participate. Participants are eligible for discretionary employer contributions equal to a uniform percentage, which is determined annually. DESAP's employer contribution for the years ended September 30, 2020 and 2019 totaled \$232,006 and \$236,650, respectively.

10. CONCENTRATION OF REVENUE

Approximately 87% and 78%, respectively of Ellington's revenue for the years ended September 30, 2020 and 2019 was derived from fees paid by DCPS. Ellington has no reason to believe that its relationship with DCPS will be discontinued in the foreseeable future. However, any interruption of this relationships (i.e., the failure to renew agreements or withholding of funds) would adversely affect Ellington's ability to finance ongoing operations.

11. ENDOWMENT

Ellington's endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted until the governing Board appropriates such amounts for expenditures. Most of those net asset also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The governing Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, Ellington considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. Ellington has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, Ellington considers the following factors in making a determination to appropriated or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019

11. ENDOWMENT (Continued)

Endowment net asset composition by type of fund as of September 30, 2020:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 21,639,149	\$ 21,639,149
Accumulated investment earnings	<u>-</u>	<u>445,652</u>	<u>445,652</u>
TOTAL ENDOWMENT FUNDS	<u>\$ -</u>	<u>\$ 22,084,801</u>	<u>\$ 22,084,801</u>

Changes in endowment net assets for the year ended September 30, 2020:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 22,918,900	\$ 22,918,900
Investment loss, net	-	(1,669,244)	(1,669,244)
Contributions	-	1,615,428	1,615,428
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(780,283)</u>	<u>(780,283)</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ -</u>	<u>\$ 22,084,801</u>	<u>\$ 22,084,801</u>

Endowment net asset composition by type of fund as of of September 30, 2019:

	<u>Without donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 21,602,830	\$ 21,602,830
Accumulated investment earnings	<u>-</u>	<u>1,316,070</u>	<u>1,316,070</u>
TOTAL ENDOWMENT FUNDS	<u>\$ -</u>	<u>\$ 22,918,900</u>	<u>\$ 22,918,900</u>

Changes in endowment net assets for the year ended of September 30, 2019:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 22,780,915	\$ 22,780,915
Investment return, net	-	445,285	445,285
Contributions	-	20,500	20,500
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(327,800)</u>	<u>(327,800)</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ -</u>	<u>\$ 22,918,900</u>	<u>\$ 22,918,900</u>

THE ELLINGTON FUND AND THE DUKE ELLINGTON SCHOOL OF THE ARTS PROJECT

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

11. ENDOWMENT (Continued)

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions for donor-restricted endowment funds and continued appropriations for certain programs that was deemed prudent by the Board of Directors. There were no fund deficiencies as of September 30, 2020 and 2019.

Return Objectives and Risk Parameters -

Ellington follows an investment policy for endowment assets that attempts to preserve fully the original corpus and optimize returns. Under such a policy, the endowment assets are invested in a manner that is intended to produce favorable results while taking a prudent approach to risk.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, Ellington relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Ellington targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

Ellington's policies for making appropriations for expenditures are to follow the directive of the donors and to comply with the regulations in the state laws for endowments.

12. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Ellington has evaluated events and transactions for potential recognition or disclosure through January 21, 2021, the date the consolidated financial statements were issued.