

La Cañada Flintridge Educational Foundation and Subsidiary

Consolidated Financial Report

Year Ended June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
La Cañada Flintridge Educational Foundation and Subsidiary
La Cañada Flintridge, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the La Cañada Flintridge Educational Foundation and Subsidiary (a California nonprofit organization) (the Foundation), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 of 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 Foundation'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 Foundation'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 financial position of the Foundation 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.

Hutchinson and Bloodgood LLP

November 16, 2018
Glendale, California

LA CAÑADA FLINTRIDGE EDUCATIONAL FOUNDATION AND SUBSIDIARY

Consolidated Statement of Financial Position
June 30, 2018

ASSETS

Cash and cash equivalents	\$ 1,947,038
Certificates of deposit	800,001
Pledges receivable, net	206,508
Prepaid expenses and other current assets	24,298
Property and equipment, net	6,000
Investments	<u>8,116,230</u>
Total assets	<u>\$ 11,100,075</u>

LIABILITIES

Accounts payable	\$ 46,290
Accrued expenses	96,995
Deferred revenues	87,319
Grant payable	<u>2,106,500</u>
Total liabilities	<u>2,337,104</u>

NET ASSETS

Unrestricted	8,189,023
Temporarily restricted	<u>573,948</u>
Total net assets	<u>8,762,971</u>
Total liabilities and net assets	<u>\$ 11,100,075</u>

LA CAÑADA FLINTRIDGE EDUCATIONAL FOUNDATION AND SUBSIDIARY

Consolidated Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Public support and revenue				
Special events:				
Special events revenue	\$ 307,650	\$ --	\$ --	\$ 307,650
Less costs of direct benefits to donors	<u>227,023</u>	<u>--</u>	<u>--</u>	<u>227,023</u>
Net revenue from special events	<u>80,627</u>	<u>--</u>	<u>--</u>	<u>80,627</u>
Sale of goods:				
Sale of goods - gross	287,541	--	--	287,541
Less cost of goods sold	<u>73,753</u>	<u>--</u>	<u>--</u>	<u>73,753</u>
Net income from sale of goods	<u>213,788</u>	<u>--</u>	<u>--</u>	<u>213,788</u>
Contributions	2,486,321	133,500	--	2,619,821
Donated goods and services	335,639	--	--	335,639
Summer school tuition	270,218	--	--	270,218
Other	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
	<u>3,092,178</u>	<u>133,500</u>	<u>--</u>	<u>3,225,678</u>
Net assets released from restrictions	<u>427,408</u>	<u>(427,408)</u>	<u>--</u>	<u>--</u>
Total public support and revenue	<u>3,814,001</u>	<u>(293,908)</u>	<u>--</u>	<u>3,520,093</u>
EXPENSES				
Program services	2,281,557	--	--	2,281,557
Support services				
Management and general	370,623	--	--	370,623
Fundraising	<u>517,337</u>	<u>--</u>	<u>--</u>	<u>517,337</u>
Total expenses	<u>3,169,517</u>	<u>--</u>	<u>--</u>	<u>3,169,517</u>
Change in net assets, before investment income	644,484	(293,908)	--	350,576
Investment income	<u>569,662</u>	<u>--</u>	<u>--</u>	<u>569,662</u>
Change in net assets	<u>1,214,146</u>	<u>(293,908)</u>	<u>--</u>	<u>920,238</u>
Net assets, beginning of year	<u>6,974,877</u>	<u>867,856</u>	<u>--</u>	<u>7,842,733</u>
Net assets, end of year	<u>\$ 8,189,023</u>	<u>\$ 573,948</u>	<u>\$ --</u>	<u>\$ 8,762,971</u>

LA CAÑADA FLINTRIDGE EDUCATIONAL FOUNDATION AND SUBSIDIARY

Consolidated Statement of Cash Flows
Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	<u>\$ 920,238</u>
Adjustment to reconcile changes in net assets to net cash provided by operating activities:	
Unrealized loss on investments	1,883
(Increase) decrease in:	
Prepaid expenses and other current assets	32,329
Pledges receivable	231,864
Increase (decrease) in:	
Accounts payable	17,099
Accrued expenses	96,995
Deferred revenues	783
Grant payable	<u>106,500</u>
Total adjustments	<u>487,453</u>
Net cash provided by operating activities	<u>1,407,691</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net purchases of investments	(874,980)
Net maturities of certificates of deposit	(150,297)
Acquisition of software	<u>(6,000)</u>
Net cash used in investing activities	<u>(1,031,277)</u>
Net increase in cash and cash equivalents	376,414

CASH AND CASH EQUIVALENTS, beginning of year 1,570,624

CASH AND CASH EQUIVALENTS, end of year \$ 1,947,038

LA CAÑADA FLINTRIDGE EDUCATIONAL FOUNDATION AND SUBSIDIARY

Consolidated Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services and Summer School	Management and General	Fundraising	Total
Salaries	\$ 180,575	\$ 33,545	\$ 97,333	\$ 311,453
Employee benefits	--	1,175	2,503	3,678
Payroll taxes and insurance	25,911	3,245	9,416	38,572
Grants	2,027,886	66,564	--	2,094,450
Bad debt	--	--	56,929	56,929
Accounting	339	50,939	--	51,278
Professional fees	6,636	14,275	31,160	52,071
Bank and data processing	1,301	62,141	3,686	67,128
Office supplies	912	15,367	--	16,279
Computer expense	--	3,995	130	4,125
Printing	1,615	15,920	8,220	25,755
Postage	323	8,192	--	8,515
Miscellaneous	11,023	7,703	--	18,726
Dues and subscriptions	1,283	305	100	1,688
Occupancy	8,119	45,602	325	54,046
Special events expenses	11,633	5,993	306,808	324,434
Promotion	900	4,500	--	5,400
Insurance	2,345	19,230	586	22,161
Meals and entertainment	556	5,567	141	6,264
Equipment costs	<u>200</u>	<u>6,365</u>	<u>--</u>	<u>6,565</u>
Total expenses	<u>\$ 2,281,557</u>	<u>\$ 370,623</u>	<u>\$ 517,337</u>	<u>\$ 3,169,517</u>

LA CAÑADA FLINTRIDGE EDUCATIONAL FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements
June 30, 2018

NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The La Cañada Flintridge Educational Foundation (LCFEF or the Foundation) is a nonprofit California corporation. LCFEF's primary purpose is to assist in the achievement and maintenance of a superior public education system within the La Cañada Unified School District (District) by receiving contributions from the public and making contributions to the District, and by financing programs and projects designed to benefit the children enrolled in its schools.

LCFEF Summer School was established in June 2012 to conduct a summer school program for students residing in or near La Cañada Flintridge and to provide other educational programs in support of the mission of LCFEF.

Summary of Significant Accounting Policies

Principle of Consolidation: The consolidated financial statements include LCFEF and its wholly-owned subsidiary, LCFEF Summer School, hereinafter referred to collectively as the "Foundation". All inter-organization balances and transactions have been eliminated in consolidation.

Basis of Accounting: The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting.

Financial Statement Presentation: The Foundation distinguishes between contributions and other revenue sources that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. It also requires recognition of contributed services meeting certain criteria at fair values. The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Functional Allocation of Expenses: The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates: The preparation of 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 and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: For the purpose of the statement of cash flows, the Foundation considers all highly-liquid cash investments purchased with an original maturity of three months or less to be cash equivalents. The Foundation has cash which at times throughout the year could exceed the federally insured limits. Management believes that credit risk to these accounts is minimal.

LA CAÑADA FLINTRIDGE EDUCATIONAL FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements
June 30, 2018

NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable: Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the pledges are received. Amortization of the discounts is included in contribution revenue. Conditional pledges are not included as support until the conditions are substantially met.

Investments: Investments received by gift or bequest are recorded at fair market value at the time of transfer to the Foundation. Purchased investments are initially recorded at cost. The Foundation reports investments in mutual funds in the statements of financial position at fair value and reports realized and unrealized gains and losses in the statement of activities.

Property and Equipment: Property and equipment are stated at cost, except for those assets received as donations, which are stated at their estimated fair values at the time of donation. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows:

Improvements	7 years
Website	5 years
Equipment, furniture and fixtures	5 to 7 years

Expenditures for maintenance and repairs are charged to expense; betterments and major renewals are capitalized.

Net Assets: All financial transactions have been recorded and reported as either unrestricted, temporarily restricted or permanently restricted net assets:

Unrestricted net assets consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of the Foundation and include those expendable resources which have been designated for special use by the Foundation.

Temporarily restricted net assets represent those amounts which are donor restricted for specific purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or a 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. The Foundation reports restricted contributions, whose restrictions are met in the same reporting period, as unrestricted support. Temporarily restricted net assets at June 30, 2018 amounted to \$573,948, consisting of \$203,518 for building improvements, \$123,500 for Stem instructional innovation fund and \$246,930 for future programs.

Permanently restricted net assets result from contributions from donors who place restrictions on the use of the funds which mandate that the original principal be invested in perpetuity. This original principal is reported as a permanently restricted net asset, the income from which may be either temporarily restricted or unrestricted, depending on the donor's specifications. There were no permanently restricted net assets at June 30, 2018.

LA CAÑADA FLINTRIDGE EDUCATIONAL FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements
June 30, 2018

NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue: In the absence of donor restrictions, contributions and bequests are considered to be available for unrestricted use. Contributions are recognized in the period when the contribution is received or unconditional promise to give is made. Program service fees, including tuition from the Summer School, are recognized in the period the program or tuition takes place. Payments received in advance of programs or classes are deferred at year-end. Assets received with donor-imposed conditions are reported as a liability until the conditions have been substantially met or explicitly waived by the donor.

Donated Goods and Services: The Foundation recognizes professional services at their fair market value at the time of services performed as contributions if those services require specialized skills that would need to be purchased if they were not donated. The value of such services amounted to approximately \$100 for the year ended June 30, 2018. A substantial number of volunteers have donated significant amounts of their time to the Foundation's programs and other services, and its fundraising and membership campaigns. No donated services are recognized in the consolidated financial statements since the services do not require specialized skills. The value of significant donated goods and free use of facilities is reflected as contributions in the accompanying consolidated financial statements at their estimated fair values at the date of contribution. During the year ended June 30, 2018, LCFEF received contributed goods and free use of facilities in the amounts of approximately \$290,000 and \$45,000, respectively.

Income Taxes: The Foundation is a nonprofit organization qualifying under section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. As such, the Foundation is exempt from federal and state income taxes. No provision has been made for income taxes. The Foundation is not considered a private foundation.

The Foundation's tax years that are open for examination by the Internal Revenue Service and Franchise Tax Board are three and four years, respectively.

Accounting principles generally accepted in the United States of America require the Foundation management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken uncertain tax positions that more-likely-than-not would not be sustained upon examination by applicable taxing authorities. At June 30, 2018, there are no uncertain tax positions taken, or expected to be taken, that would require recognition or disclosure.

Recent Accounting Pronouncement: In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This ASU improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Foundation is assessing the impact this ASU will have on its financial statements.

LA CAÑADA FLINTRIDGE EDUCATIONAL FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements
June 30, 2018

NOTE 2. PLEDGES RECEIVABLE

Pledges receivable are unconditional and totaled \$246,930 at June 30, 2018. Of the pledges receivable, \$125,816 is due in less than one year and \$121,114 in one to five years. The non-current pledges receivable are discounted at 2.0%. The unamortized discount is \$2,422 at June 30, 2018. At June 30, 2018, the Foundation has reserved \$38,000 for doubtful pledges.

NOTE 3. INVESTMENTS

The market value of investments is as follows as of June 30, 2018:

Mutual funds	\$ 7,754,171
Mutual funds - Harrington	<u>362,059</u>
	<u>\$ 8,116,230</u>

Net investment income for the year ended June 30, 2018 is as follows:

Income:	
Dividend and interest	\$ 158,516
Realized gain on sale of investments	457,327
Unrealized loss on investments	<u>(1,883)</u>
	613,960
Less investment expenses	<u>(44,298)</u>
	<u>\$ 569,662</u>

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2018 consist of the following:

Improvements	\$ 1,589
Software	16,845
Equipment, furniture and fixtures	<u>2,791</u>
	21,225
Less accumulated depreciation and amortization	<u>(15,225)</u>
Net book value	<u>\$ 6,000</u>

Depreciation and amortization expense for the year ended June 30, 2018 was \$--. The acquired software was implemented subsequent to year end.

LA CAÑADA FLINTRIDGE EDUCATIONAL FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements
June 30, 2018

NOTE 5. FAIR VALUE MEASUREMENT

Fair value is determined based on assumptions that a market participant would use in pricing an asset or liability. Measurements of fair value are classified within a hierarchy based upon valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following table summarizes financial assets measured at fair value on a recurring basis as of June 30, 2018. The Foundation had no financial liabilities measured at fair value at June 30, 2018.

	Fair Value Measurements Using			Total
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual funds	<u>\$ 8,116,230</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 8,116,230</u>

NOTE 6. TRUSTEE DESIGNATED ENDOWMENT FUND

The purpose of the Endowment Fund is to enhance the long-term stability of the Foundation and increase the amount of the Foundation's gift to the La Cañada Unified School District. A portion of the Endowment Fund assets are to be invested in a prudent manner with the goal of achieving moderate current income and growth in capital over time. The Board of Trustees have elected to cause the funds to be managed by the California Community Foundation.

LA CAÑADA FLINTRIDGE EDUCATIONAL FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements
June 30, 2018

NOTE 6. TRUSTEE DESIGNATED ENDOWMENT FUND (Continued)

The bylaws of the Foundation's Endowment Fund allow the Board of Trustees to annually transfer funds to the Foundation's unrestricted net assets. As per the bylaws, the amount of the transfer is equal to the lesser of:

- (a) 5% of the market value of the assets of the Endowment Fund based on the average balance over a sixteen quarter period, or
- (b) 5% of the market value of the assets of the Endowment Fund as of the end of the calendar quarter immediately preceding the date of such transfer.

The reconciliation of the endowment fund by asset class is as follows:

	Board Designated Fund	Rose N. Harrington Fund
Beginning balance	\$ 6,889,767	\$ 353,366
Contribution	317,199	--
Unrealized gain (loss)	(2,432)	549
Grants paid	--	(13,764)
Investment income	591,321	24,522
Investment expense	<u>(41,684)</u>	<u>(2,614)</u>
Ending balance	<u>\$ 7,754,171</u>	<u>\$ 362,059</u>

NOTE 7. GRANT PAYABLE

The Board of Directors of the Foundation approved a contribution in the amount of \$2,106,500 to the La Cañada Unified School District for the year ended June 30, 2018.

NOTE 8. INTERFUND TRANSACTIONS

The Foundation receives monies that are for the Foundation's operating and endowment Funds. The Foundation has separate bank accounts for each Fund, and utilizes interfund transactions to facilitate the transfer of funds to the appropriate account. At June 30, 2018, the endowment fund owed the operating fund \$107,310.

NOTE 9. SUBSEQUENT EVENTS

Management has evaluated subsequent events and noted none for recognition and disclosure through November 16, 2018, the date on which the consolidated financial statements were available to be issued.