

**ARCADIA EDUCATIONAL FOUNDATION
(A CALIFORNIA NONPROFIT CORPORATION)**

**Independent Auditors' Report
and Financial Statements
For the Year Ended
December 31, 2018**

**ARCADIA EDUCATIONAL FOUNDATION
(A CALIFORNIA NONPROFIT CORPORATION)**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Arcadia Educational Foundation
Arcadia, California

We have audited the accompanying financial statements of Arcadia Educational Foundation (the Foundation), a California nonprofit public benefit corporation, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, cash flows, and functional expenses 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Trustees
Arcadia Educational Foundation

Opinion

In our opinion, the financial statements referred to on page one present fairly, in all material respects, the financial position of the Foundation as of December 31, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen, LLP
Glendora, CA
April 16, 2019

**ARCADIA EDUCATIONAL FOUNDATION
(A CALIFORNIA NONPROFIT CORPORATION)**

**STATEMENT OF FINANCIAL POSITION
December 31, 2018**

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 944,358
Investments (Note 8)	100
Accounts receivable	2,470
Scrip inventory, at cost	174,221
Prepaid expenses	<u>8,159</u>
Total current assets	<u>1,129,308</u>

LONG-TERM ASSETS:

Office improvements, computers and software, net	791
Endowment (Note 6)	<u>154,163</u>
Total long-term assets	<u>154,954</u>
Total assets	<u><u>\$ 1,284,262</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 10,259
Due to schools	<u>182,062</u>
Total current liabilities	<u>192,321</u>

NET ASSETS:

Without donor restrictions	916,478
With donor restrictions (Note 9)	<u>175,463</u>
Total net assets	<u>1,091,941</u>
Total liabilities and net assets	<u><u>\$ 1,284,262</u></u>

The accompanying notes are an integral part of these financial statements.

**ARCADIA EDUCATIONAL FOUNDATION
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**STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES:			
Scrip sales	\$ 1,108,684	\$ -	\$ 1,108,684
Summer school tuition	1,000,564	-	1,000,564
Contributions	173,928	10,232	184,160
Investment return	3,512	(8,660)	(5,148)
Net assets released from restrictions	2,000	(2,000)	-
Total revenues	2,288,688	(428)	2,288,260
EXPENSES:			
Program services	2,169,331	-	2,169,331
Management and general	111,026	-	111,026
Fundraising	8,139	-	8,139
Total expenses	2,288,496	-	2,288,496
Change in net assets	192	(428)	(236)
Net assets, beginning of year	916,286	175,891	1,092,177
Net assets, end of year	\$ 916,478	\$ 175,463	\$ 1,091,941

The accompanying notes are an integral part of these financial statements.

**ARCADIA EDUCATIONAL FOUNDATION
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**STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (236)
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	592
Net unrealized loss on investments	13,353
Change in operating assets:	
Accounts receivable	1,598
Scrip inventory	(22,369)
Prepaid expenses	807
Change in operating liabilities:	
Accounts payable and accrued liabilities	(10,210)
Due to schools	(1,981)
Net cash flows from operating activities	<u>(18,446)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of investments	<u>(4,685)</u>
Net cash flows from investing activities	<u>(4,685)</u>
Net change in cash and cash equivalents	(23,131)
Cash and cash equivalents, beginning of year	<u>967,489</u>
Cash and cash equivalents, end of year	<u>\$ 944,358</u>

The accompanying notes are an integral part of these financial statements.

**ARCADIA EDUCATIONAL FOUNDATION
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**STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018**

	Program Services	Management and General	Fundraising	Total Expenses
Contributions to District	\$ 116,050	\$ -	\$ -	\$ 116,050
Cost of scrip	1,104,740	-	-	1,104,740
Summer school programs	181,357	-	-	181,357
Other salaries and wages	677,696	74,951	-	752,647
Other employee benefits	9,879	597	-	10,476
Payroll taxes	59,238	5,907	-	65,145
Other fees	-	9,420	-	9,420
Advertising & marketing	-	1,064	-	1,064
Office expenses	-	962	-	962
Information technology	-	5,898	-	5,898
Occupancy expense	8,121	2,707	-	10,828
Depreciation expense	332	260	-	592
Insurance expense	11,918	5,870	-	17,788
Other expenses	-	3,390	8,139	11,529
	<u>\$ 2,169,331</u>	<u>\$ 111,026</u>	<u>\$ 8,139</u>	<u>\$ 2,288,496</u>

The accompanying notes are an integral part of these financial statements.

**ARCADIA EDUCATIONAL FOUNDATION
(A CALIFORNIA NONPROFIT CORPORATION)**

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – Arcadia Educational Foundation (the Foundation) is a nonprofit 501(c)(3) corporation, organized under the Nonprofit Public Benefit Corporation Law for public and charitable purposes. The Foundation’s purpose is to provide financial support in order to assist the Arcadia Unified School District (the District). The Foundation raises funds to help preserve, maintain and improve educational programs and facilities for the students of the schools within the District, operates a summer school program in order to further the educational opportunities for students, and performs additional activities to promote the quality and growth of the District, its schools and its students.

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, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Accounting – The financial statements of the Foundation are presented on the accrual basis of accounting. Using this method, revenues are recognized when earned and expenses are recognized in the period in which the liability is incurred (goods have been received or services rendered).

Net Asset Classes – Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- **Net Assets With Donor Restrictions** – Net assets subject to donor- (or certain grantor-) imposed restrictions. 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. 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 when the assets are placed in service. Donor-imposed restrictions are released when a 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.

**ARCADIA EDUCATIONAL FOUNDATION
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**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as Net Assets Released from Restrictions.

Accounts Receivable – Accounts receivable primarily represent amounts due from donors as of December 31, 2018. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

Office Improvements, Computers and Software – Office improvements, computers and software are stated at cost, if purchased, or at estimated fair value if donated. Depreciation is calculated on a straight-line basis over the estimated useful lives of the asset.

Scrip Inventory – The Foundation purchases scrip from local supermarkets and various vendors. Volunteers of the Foundation sell the scrip to the general public at face value and the schools within the District are allocated eighty percent of the discount rate based on where the sales took place. As of December 31, 2018, due to schools in the Statement of Financial Position represents the scrip earnings allocated to the schools and scrip inventory in the Statement of Financial Position represents the amount of unsold scrip, at cost.

Donated Services – A number of volunteers donate their time to the Foundation’s programs and supporting services. These donated services have not been reflected in the financial statements as no objective basis is available to measure the value of their services.

Investments – Investments are recorded at fair value. Both unrealized gains and losses from the fluctuation of fair value and realized gains and losses from the sale of investments are reflected in the Statement of Activities, if they are material.

**ARCADIA EDUCATIONAL FOUNDATION
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**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Compensated Absences – Accumulated unpaid employee vacation benefits are recognized as a liability of the Foundation. The current portion of the liability, if material, is recognized at year-end. The entire compensated absences liability is reported on the Statement of Financial Position. Employees of the Foundation are paid for days or hours worked based upon Board approved schedules which include vacation. Sick leave with pay is provided when employees are absent for health reasons. Sick leave is accumulated at one hour for every 30 hours worked for part-time employees; this can be carried over into the following year up to a maximum of 48 hours. Full time employees have seven days of sick leave per year, which resets at the beginning of each year with no carry-over. There were no accumulated compensated absence benefits at December 31, 2018.

Contributions – All contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as contributions with donor restrictions. Restricted contributions that are received and released in the same period are reported as promises to give without donor restrictions. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Change in Accounting Principle – On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly.

Income Taxes – The Foundation is a non-profit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The Foundation files informational returns in the U.S. federal jurisdiction, and the state of California.

Functional Allocation of Expenses – The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**ARCADIA EDUCATIONAL FOUNDATION
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**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Evaluation of Subsequent Events – The Foundation has evaluated subsequent events through April 16, 2019, the date these financial statements were available to be issued.

NOTE 2: LIQUIDITY AND AVAILABILITY

Financial assets are assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date. Financial assets available for general expenditures comprise cash and cash equivalents, investments, and accounts receivable for the total amount of \$946,928.

The Foundation's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

NOTE 3: CONCENTRATION OF CREDIT RISK

The Foundation maintains its interest bearing cash operating accounts with four financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (NCUA) up to \$250,000 per financial institution. The Foundation occasionally has a need to maintain a cash balance in excess of the insured amount, actively participates in a diversification program, and accepts the risk of maintaining excess cash balances. The Foundation has not incurred any losses in these accounts.

NOTE 4: DISTRICT TRANSACTIONS

The Foundation actively conducts fundraising campaigns to benefit the District. During 2018, the Foundation raised \$163,000 to fund programs at the District. The District charges the Foundation for summer school facilities, technology, and materials based on the number of students enrolled in the summer school program. The amount paid to the District for these costs in 2018 was \$94,260.

In September 2014, the Foundation entered into a lease agreement with the District to rent an office space at Holly Avenue Elementary School for \$10,828 per year, due in 12 monthly installments, and for the use of facilities, technology, and materials owned by the District and used by the Foundation for its summer school program. This lease has been renewed on an annual basis since then. The amount paid in 2018 under this agreement was \$10,828. Future payments to the District for the Foundation's office lease will be \$7,219 in 2019.

**ARCADIA EDUCATIONAL FOUNDATION
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**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE 5: FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, other employee benefits, payroll taxes, and depreciation, which are allocated on the basis of estimates of time and effort.

NOTE 6: ENDOWMENT AND NET ASSETS CLASSIFICATION

The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

The purpose of the Endowment Fund is to ensure stable, long term funding for the benefit of the students of the Arcadia Unified School District. To meet this goal, the Fund is to accumulate principal until it reaches a minimum year-end value (minimum disbursement value) currently set at \$1,000,000. The Board of Trustees has reserved the right to change the minimum disbursement value to a lower value in order to distribute the funds sooner. The spend rate is yet to be determined until the minimum disbursement value is met.

The Foundation has adopted policies for return on investments to achieve a moderate rate of return and risk for initial investments. Appropriations of expenditures, after the minimum disbursement value is achieved, are made by approval of the Board of Trustees.

**ARCADIA EDUCATIONAL FOUNDATION
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**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE 6: ENDOWMENT AND NET ASSETS CLASSIFICATION

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

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

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or the UPMIFA requires the Foundation to retain as a fund of perpetual duration. Subsequent gains that restore the fair value of the endowment fund to the required level are classified as an increase in unrestricted net assets and temporarily restricted net assets, as appropriate. There were no deficiencies of this nature as of December 31, 2018.

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

	<u>With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 164,341
Investment return, net	(8,660)
Contributions	10,232
Other changes	<u>(218)</u>
Endowment net assets, end of year	<u>\$ 165,695</u>

NOTE 7: OFFICE IMPROVEMENTS, COMPUTERS AND SOFTWARE

Office improvements, computers and software in the accompanying financial statements is presented net of accumulated depreciation. The Foundation capitalizes all expenditures for office improvements, computers and software in excess of \$500. Depreciation expense was \$592 as of December 31, 2018.

**ARCADIA EDUCATIONAL FOUNDATION
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**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE 7: OFFICE IMPROVEMENTS, COMPUTERS AND SOFTWARE

The components of office improvements, computers and software as of December 31, 2018 are as follows:

Office improvements	\$ 11,836
Computers and software	<u>65,272</u>
Subtotal	77,108
Less accumulated depreciation	<u>(76,317)</u>
Total office improvements, computers and software	<u><u>\$ 791</u></u>

NOTE 8: INVESTMENTS, ENDOWMENTS AND FAIR VALUE MEASUREMENTS

In accordance with fair value reporting standards, levels 1 through 3 have been assigned to the fair value measurement of investment.

The fair value level of measurement is determined as follows:

Level 1 – Quoted prices in an active market for identical assets

Level 2 – Quoted prices for similar assets and market-corroborated inputs. The Foundation had no Level 2 investments at December 31, 2018.

Level 3 – The Foundation’s own assumptions about market participation, including unobservable assumptions about risk, developed based on the best information available in the circumstances. The Foundation had no Level 3 investments at December 31, 2018.

Investments at December 31, 2018 consisted of the following:

<u>Investment Type (Level)</u>	<u>Fair Value</u>
Money market account (1)	\$ 100
Domestic stocks (1)	76,324
International stocks (1)	29,403
Domestic bonds (1)	<u>48,436</u>
Total investments	<u><u>\$ 154,263</u></u>

**ARCADIA EDUCATIONAL FOUNDATION
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**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE 8: INVESTMENTS, ENDOWMENTS AND FAIR VALUE MEASUREMENTS

For the year ended December 31, 2018, investment returns consisted of the following:

Interest	\$ 3,520
Dividends	4,685
Net unrealized gains (loss)	<u>(13,353)</u>
Total investment return (loss)	<u>\$ (5,148)</u>

NOTE 9: NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2018, net assets with donor restrictions are restricted for the following purposes:

Subject to Expenditure for Specified Purpose:	
College counseling	\$ 9,550
Endowment earnings	<u>19,704</u>
Total	29,254
Endowments:	
Subject to appropriation and expenditure when a specified event occurs:	
Restricted by donors for:	
Available for general use	<u>\$ 146,209</u>
Total	<u>146,209</u>
Total net assets with donor restrictions	<u>\$ 175,463</u>

Net Assets were released from donor restrictions by incurring expenses satisfying the restrictions as follows for the year ended December 31, 2018:

Satisfaction of Purpose Restrictions:	
Mini-grants	\$ (1,500)
College counseling	<u>(500)</u>
Total Net Assets Released from Donor Restrictions	<u>\$ (2,000)</u>