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Independent Auditor's Report

To the Board of Directors
Fulfillment Fund
Los Angeles, California

We have audited the accompanying financial statements of Fulfillment Fund which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

* Accredited in Business Valuation

† Certified in Financial Forensics

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fulfillment Fund as of June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gursey | Schneider LLP

October 9, 2015
Los Angeles, California

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statements of Financial Position
June 30, 2015 and 2014

| | <u>ASSETS</u> | |
|--|---------------------|---------------------|
| | 2015 | 2014 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,669,662 | \$ 2,438,589 |
| Unconditional promises to give, current portion, net | 463,852 | 440,993 |
| Prepaid expenses | 96,723 | 95,524 |
| Deposits and other assets | 105,858 | 57,335 |
| TOTAL CURRENT ASSETS | 2,336,095 | 3,032,441 |
| OTHER ASSETS | | |
| Investments | 3,551,885 | 3,399,633 |
| Unconditional promises to give, net of current portion | 548,387 | 617,128 |
| Cash surrender value of life insurance policies | 336,544 | 314,438 |
| Property and equipment, net | 208,623 | 310,235 |
| Restricted cash (endowment assets) | 166,744 | 166,725 |
| TOTAL OTHER ASSETS | 4,812,183 | 4,808,159 |
| TOTAL ASSETS | \$ 7,148,278 | \$ 7,840,600 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 624,685 | \$ 546,231 |
| Deferred revenue | 66,145 | 61,080 |
| Scholarships payable, current portion, net | 44,944 | 246,725 |
| TOTAL CURRENT LIABILITIES | 735,774 | 854,036 |
| SCHOLARSHIPS PAYABLE, NET OF CURRENT PORTION | - | 27,083 |
| TOTAL LIABILITIES | 735,774 | 881,119 |
| NET ASSETS | | |
| Unrestricted | 1,681,677 | 2,335,002 |
| Unrestricted - board designated reserves | 3,426,621 | 3,274,350 |
| Temporarily restricted | 1,012,198 | 1,058,121 |
| Permanently restricted | 292,008 | 292,008 |
| TOTAL NET ASSETS | 6,412,504 | 6,959,481 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 7,148,278 | \$ 7,840,600 |

See Accompanying Notes to Financial Statements

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statement of Activities
For the Year Ended June 30, 2015

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| REVENUES AND SUPPORT | | | | |
| Contributions | \$ 1,064,416 | \$ 1,554,635 | \$ - | \$ 2,619,051 |
| Special event income, net of \$529,380 of direct costs | 1,108,656 | 177,030 | - | 1,285,686 |
| In-kind contributions | 29,303 | - | - | 29,303 |
| Fees for management services | 130,889 | - | - | 130,889 |
| Investment and other income | 56,388 | - | - | 56,388 |
| Realized and unrealized gains and losses, net | 117,760 | - | - | 117,760 |
| Subtotal | 2,507,412 | 1,731,665 | - | 4,239,077 |
| Net assets released from restrictions | 1,777,588 | (1,777,588) | - | - |
| Total Revenues and Support | <u>4,285,000</u> | <u>(45,923)</u> | <u>-</u> | <u>4,239,077</u> |
| EXPENSES | | | | |
| Program services | 3,569,414 | - | - | 3,569,414 |
| Administrative services | 322,063 | - | - | 322,063 |
| Development | 894,577 | - | - | 894,577 |
| Total Expenses | <u>4,786,054</u> | <u>-</u> | <u>-</u> | <u>4,786,054</u> |
| CHANGE IN NET ASSETS | (501,054) | (45,923) | - | (546,977) |
| NET ASSETS, Beginning of Year | <u>5,609,352</u> | <u>1,058,121</u> | <u>292,008</u> | <u>6,959,481</u> |
| NET ASSETS, End of Year | <u>\$ 5,108,298</u> | <u>\$ 1,012,198</u> | <u>\$ 292,008</u> | <u>\$ 6,412,504</u> |

See Accompanying Notes to Financial Statements

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statement of Activities
For the Year Ended June 30, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|-------------------------|---------------------------|---------------------------|-------------------------|
| REVENUES AND SUPPORT | | | | |
| Contributions | \$ 955,710 | \$ 1,355,844 | - | \$ 2,311,554 |
| Special event income, net of \$532,645 of direct costs | 1,382,558 | 230,643 | - | 1,613,201 |
| In-kind contributions | 165,006 | - | - | 165,006 |
| Fees for management services | 135,697 | - | - | 135,697 |
| Investment and other income | 93,899 | - | - | 93,899 |
| Realized and unrealized gains and losses, net | 315,203 | - | - | 315,203 |
| Subtotal | 3,048,073 | 1,586,487 | - | 4,634,560 |
| Net assets released from restrictions | 2,141,509 | (2,141,509) | - | - |
| Total Revenues and Support | 5,189,582 | (555,022) | - | 4,634,560 |
| EXPENSES | | | | |
| Program services | 3,660,182 | - | - | 3,660,182 |
| Administrative services | 258,583 | - | - | 258,583 |
| Development | 892,198 | - | - | 892,198 |
| Total Expenses | 4,810,963 | - | - | 4,810,963 |
| CHANGE IN NET ASSETS | 378,619 | (555,022) | - | (176,403) |
| NET ASSETS, Beginning of Year | 5,230,733 | 1,613,143 | 292,008 | 7,135,884 |
| NET ASSETS, End of Year | \$ 5,609,352 | \$ 1,058,121 | \$ 292,008 | \$ 6,959,481 |

See Accompanying Notes to Financial Statements

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended June 30, 2015

| | Program Services | | | | | Support Services | | | Total Expenses |
|--|-------------------|---------------------|------------------------|------------------------|-------------------|-------------------------|---------------------|-------|----------------|
| | Mentor Services | High School Program | Post-Secondary Program | Total Program Services | | Administrative Services | Development | Total | |
| | | | | | | | | | |
| Awards and gifts | \$ 1,209 | \$ 6,893 | \$ 4,437 | \$ 12,539 | \$ 254 | \$ 696 | \$ 13,489 | | |
| Conferences and training | 2,218 | 3,314 | 897 | 6,429 | 434 | 24,183 | 31,046 | | |
| Depreciation | 18,196 | 39,463 | 9,689 | 67,348 | 17,132 | 17,132 | 101,612 | | |
| Fringe benefits | 87,992 | 178,800 | 47,797 | 314,589 | 46,559 | 82,886 | 444,034 | | |
| In-kind contributions | 5,247 | 11,381 | 2,794 | 19,422 | 4,941 | 4,941 | 29,304 | | |
| Insurance | 7,949 | 17,239 | 4,232 | 29,420 | 7,484 | 7,484 | 44,388 | | |
| Meals, cultural activities, and travel | 30,862 | 114,059 | 21,150 | 166,071 | 5,765 | 22,951 | 194,787 | | |
| Memberships and dues | 302 | 1,472 | 1,893 | 3,667 | 63 | 586 | 4,316 | | |
| Mileage and parking | 19,402 | 35,731 | 15,012 | 70,145 | 12,368 | 15,203 | 97,716 | | |
| Outside services | 37,880 | 91,797 | 22,949 | 152,626 | 27,815 | 81,695 | 262,136 | | |
| Postage and delivery | 2,071 | 533 | 635 | 3,239 | 202 | 2,258 | 5,699 | | |
| Printing | 2,829 | 8,899 | 1,343 | 13,071 | 2,374 | 5,307 | 20,752 | | |
| Public relations and advertising | 2,241 | 4,212 | 1,035 | 7,488 | 1,830 | 1,830 | 11,148 | | |
| Rent | 69,187 | 159,604 | 37,572 | 266,363 | 63,401 | 68,911 | 398,675 | | |
| Repairs and maintenance | 4,481 | 13,539 | 2,297 | 20,317 | 1,630 | 28,801 | 50,748 | | |
| Salaries and temporary employees | 563,405 | 1,224,155 | 306,445 | 2,094,005 | 123,658 | 521,065 | 2,738,728 | | |
| Scholarships, net | - | - | 270,110 | 270,110 | - | - | 270,110 | | |
| Supplies | 11,793 | 19,740 | 5,530 | 37,063 | 3,583 | 4,974 | 45,620 | | |
| Telephone | 3,644 | 10,033 | 1,825 | 15,502 | 2,570 | 3,674 | 21,746 | | |
| Total Functional Expenses | \$ 870,908 | \$ 1,940,864 | \$ 757,642 | \$ 3,569,414 | \$ 322,063 | \$ 894,577 | \$ 4,786,054 | | |

In-kind contributions above includes donated goods and services. The most significant items include donated catering for events (\$18,990), professional and consulting services (\$3,903) and all other (\$6,411).

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended June 30, 2014

| | Program Services | | | | | Support Services | | | Total Expenses |
|--|-------------------|---------------------|------------------------|------------------------|-------------------|-------------------------|---------------------|-------|----------------|
| | Mentor Services | High School Program | Post-Secondary Program | Total Program Services | | Administrative Services | Development | Total | |
| | | \$ | \$ | \$ | \$ | | | | |
| Awards and gifts | 5,418 | 13,710 | 1,692 | 20,820 | 882 | 4,922 | 26,624 | | |
| Conferences and training | 1,402 | 2,069 | 399 | 3,870 | - | 15,891 | 19,761 | | |
| Depreciation | 20,029 | 39,837 | 7,263 | 67,129 | 13,756 | 13,756 | 94,641 | | |
| Fringe benefits | 81,855 | 161,463 | 35,541 | 278,859 | 29,588 | 63,774 | 372,220 | | |
| In-kind contributions | 38,755 | 66,169 | 21,243 | 126,167 | 19,419 | 19,421 | 165,007 | | |
| Insurance | 9,084 | 18,068 | 3,294 | 30,446 | 6,239 | 6,239 | 42,924 | | |
| Meals, cultural activities, and travel | 21,995 | 81,053 | 15,083 | 118,131 | 3,805 | 31,175 | 153,111 | | |
| Memberships and dues | 667 | 2,504 | 2,361 | 5,532 | 35 | 79 | 5,646 | | |
| Mileage and parking | 18,295 | 34,898 | 9,861 | 63,054 | 10,043 | 11,871 | 84,968 | | |
| Outside services | 35,982 | 81,815 | 16,419 | 134,216 | 20,140 | 149,647 | 304,003 | | |
| Postage and delivery | 1,897 | 2,182 | 608 | 4,687 | 541 | 3,289 | 8,517 | | |
| Printing | 4,109 | 13,301 | 1,836 | 19,246 | 2,609 | 9,350 | 31,205 | | |
| Public relations and advertising | 3,196 | 5,959 | 1,086 | 10,241 | 2,058 | 2,057 | 14,356 | | |
| Rent | 78,110 | 181,824 | 29,654 | 289,588 | 44,515 | 52,618 | 386,721 | | |
| Repairs and maintenance | 3,981 | 11,561 | 1,776 | 17,318 | 1,072 | 17,055 | 35,445 | | |
| Salaries and temporary employees | 596,596 | 1,181,325 | 247,292 | 2,025,213 | 99,668 | 482,263 | 2,607,145 | | |
| Scholarships, net | - | - | 388,154 | 388,154 | - | - | 388,154 | | |
| Supplies | 14,583 | 20,562 | 4,452 | 39,597 | 2,209 | 5,741 | 47,547 | | |
| Telephone | 3,995 | 12,612 | 1,307 | 17,914 | 2,004 | 3,050 | 22,968 | | |
| Total Functional Expenses | \$ 939,949 | \$ 1,930,912 | \$ 789,321 | \$ 3,660,182 | \$ 258,583 | \$ 892,198 | \$ 4,810,963 | | |

In-kind contributions above includes donated goods and services. The most significant items include donated catering for events (\$26,249), rent for use of facilities (\$30,000), professional and consulting services (\$94,107) and all other (\$14,650).

FULLFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statement of Cash Flows
For the Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in net assets | \$ (546,977) | \$ (176,403) |
| Adjustments to reconcile changes in net assets to net cash used in operating activities: | | |
| Depreciation | 101,612 | 94,641 |
| Unrealized/realized gains on investments | (117,760) | (315,203) |
| Change in discount on unconditional promises to give | (1,495) | (5,005) |
| Change in allowance on unconditional promises to give | 1,527 | (9,051) |
| Change in discount on scholarships payable | 542 | (227) |
| Change in allowance on scholarships payable | 40,219 | 6,581 |
| (Increase) decrease in assets: | | |
| Unconditional promises to give | 45,850 | 572,578 |
| Prepaid expenses | (48,523) | (20,705) |
| Deposits and other assets | (1,199) | (32,047) |
| Cash surrender value of life insurance policies | (22,106) | (21,840) |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 78,454 | (567,697) |
| Deferred revenue | 5,065 | (28,620) |
| Scholarships payable | (269,625) | 7,100 |
| | (734,416) | (495,898) |
| NET CASH USED IN OPERATING ACTIVITIES | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash received for sales of investments | 98,412 | - |
| Cash paid for purchases of investments | (132,923) | (71,841) |
| Cash paid for purchases of property and equipment | - | (25,515) |
| | (34,511) | (97,356) |
| NET CASH USED IN INVESTING ACTIVITIES | | |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (768,927) | (593,254) |
| CASH AND CASH EQUIVALENTS, Beginning of Year | 2,438,589 | 3,031,843 |
| CASH AND CASH EQUIVALENTS, End of Year | \$ 1,669,662 | \$ 2,438,589 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| <i>Non-Cash Investing and Financing Activities:</i> | | |
| Leasehold improvements acquired as rent incentives | \$ - | \$ 144,788 |

See Accompanying Notes to Financial Statements

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015 and 2014

NOTE 1 – GENERAL AND ORGANIZATION

Fulfillment Fund is organized as a California nonprofit public benefit corporation. Serving the Los Angeles community for more than 37 years, the mission of the Fulfillment Fund is to make college a reality for students growing up in educationally and economically under-resourced communities. We meet the needs of under-resourced youth in Los Angeles by building relationships, illuminating opportunities, and changing lives. Our vision is that all students, regardless of circumstances, will one day have the opportunity to attend college, graduate, and actively participate in transforming their communities and creating a better society.

The Fulfillment Fund is a leading college access organization with a multi-pronged model for success. Nine in ten Fulfillment Fund high school graduates go on to college, compared to only five in ten low-income high school graduates nationally. Our model helps to grow the college-going culture in the schools we serve as well as the broader Los Angeles community. Guided by our Strategic Plan, our College Access and Success Model promotes higher education and college-going culture in under-resourced partner schools through three primary programs: College Access Program, Mentoring, and Post-Secondary. Our College Access Program for high school students is designed around our classroom-based curriculum, individualized college counseling, financial aid workshops, SAT prep, and experiential learning opportunities; such as college tours and our annual signature college fair event, Destination College. Mentoring is the second component of our core programs; we begin matching students with caring adult role models starting in the 7th grade to provide support for the challenging transition to high school. Our Post-Secondary support helps ensure our students have the financial services they need to reach their higher education goals which include scholarships, textbook stipends, a transfer scholars initiative, and internship support through a professional development series. In addition, we continue to cultivate and leverage strategic partnerships in the community to promote our service delivery. As they graduate from college, our alumni support the Fulfillment Fund and the next generation of students by becoming donors, mentors, volunteers and speakers at our events; perpetuating a cycle of giving in the community.

During 2013, the Fulfillment Fund opened and operated a second office in Las Vegas, Nevada to administer high school programs. The initial operating funds of the Las Vegas entity were provided by the Fulfillment Fund. In February 2013, Fulfillment Fund Las Vegas (“FFLV”) was incorporated as a Nevada non-profit corporation. Fulfillment Fund earns a management fee from FFLV for the reimbursement of costs to provide FFLV with management service.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Presentation – The financial statements are presented utilizing the accrual basis of accounting. The Fulfillment Fund recognizes contributions, including unconditional promises to give, as revenue in the period in which they are received. Revenues, gains, expenses and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Fulfillment Fund and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of the board of directors, or may otherwise be limited by contractual agreements with outside parties. During the years ended June 30, 2015 and 2014, the board has designated unrestricted net assets as restricted for long-term purposes amounting to \$3,426,621 and \$3,274,350, respectively.

FULLFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Fulfillment Fund and / or the passage of time. As restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions. As of June 30, 2015 and 2014, the Fulfillment Fund had temporarily restricted net assets of \$1,012,198 and \$1,058,121, respectively.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that resources be maintained in perpetuity by the Fulfillment Fund. Investment income generated from these funds is available for general support of the Fulfillment Fund unless otherwise stipulated by the donor. As of June 30, 2015 and 2014, the Fulfillment Fund had permanently restricted net assets of \$292,008.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents – The Fulfillment Fund considers highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents. Cash restricted as to use includes cash permanently restricted for an endowment.

Investments – Purchases and sales of investments are recorded on the trade date. Dividend income is recorded based on the record date. Interest income is recorded as earned on an accrual basis. Bond premiums and discounts are amortized to the first call date using a method that approximates the effective interest method. Realized gains and losses are recorded upon disposition of securities. Investment income and realized and unrealized gains and losses are recognized as unrestricted net assets, unless their use is temporarily or permanently restricted by donors to a specified purpose or future period.

Promises to Give – Contributions are recognized when the donor makes a promise to give the Fulfillment Fund that is, in substance, unconditional. Contributions that are restricted by the donor or provided for future periods are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Services and Equipment – Donated services are recognized if the services received create or enhance long-lived assets, require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated goods are recognized at fair value at the time of contribution. Donated goods and services totaled \$29,303 and \$165,006 for the years ended June 30, 2015 and 2014, respectively. These amounts are included in in-kind contributions in the accompanying statements of activities.

A number of unpaid volunteers have made significant contributions of their time to the Fulfillment Fund. The value of this contributed time is not reflected in these statements since it is not possible to value or objectively measure these contributions. The Fulfillment Fund estimates that such volunteers provided approximately 17,000 hours of service during both years ended June 30, 2015 and 2014.

Property and Equipment – Property and equipment are stated at cost or, if contributed, at fair value at the date of contribution. Depreciation and amortization are provided over the estimated useful life of each class of depreciable asset and are computed using the straight-line method. Depreciation expense is calculated on straight-line method over three years for computers and software and four years for furniture and equipment. Depreciation for leasehold improvements is computed over the lesser of the assets useful life or lease term.

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Gifts are long-lived assets such as property and equipment are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Absent explicit donor stipulations about how long these long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets – Long-lived assets such as property and equipment are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. Further, long-lived assets held for sale are to be stated at the lower cost or fair market value less costs to sell. The Fulfillment Fund has determined that no events occurred during the years ended June 30, 2015 and 2014 that would give rise to impairment of its long-lived assets.

Functional Allocation of Expenses – Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on estimates determined by management. The Fulfillment Fund allocates salary, program administrative, general administrative and facilities expenses to programs based upon level of effort, time reporting and employee headcount.

Concentration of Risk – Financial instruments which potentially subject the Fulfillment Fund to concentrations of credit risk consist of cash, money market funds, certificates of deposit, agencies and unconditional promises to give. The Fulfillment Fund places its cash with high-credit, quality financial institutions. These investments are monitored by the Fulfillment Fund's investment committee and made in the manner consistent with policies and guidelines established by the investment committee and approved by the board of directors. The Federal Deposit Insurance Corporation ("FDIC") insures cash up to \$250,000 per institution and the Securities Investor Protection Corporation ("SIPC") protects investments up to \$500,000 per investor. In the normal course of operations, such cash and investment balances may exceed the FDIC and SIPC insurance limits. However, the Fulfillment Fund has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

For the years ended June 30, 2015 and 2014, there were two and three individual and foundation donors that made up approximately 31% and 54%, respectively, of the Fulfillment Fund's unconditional promises to give. Each of these donors either has long-standing associations with the Fulfillment Fund or has provided substantial financial support to the Fulfillment Fund. An allowance has been provided for potential uncollectible amounts associated with all unconditional promises to give.

Income Taxes – The Fulfillment Fund is exempt from federal income and excise taxes and California franchise taxes as an organization described under Section 501(c)(3) of the Internal Revenue Code and related state codes. However, the Fulfillment Fund is subject to income taxes on any net income that is derived from a trade business, regularly carried on and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the combined financial statements taken as a whole.

The Fulfillment Fund evaluates tax positions and recognizes a liability for any positions that would not be considered "more likely than not" to be upheld under a tax authority examination. If such issues exist, the Fulfillment Fund's policy will be to recognize any tax liability so recorded, including applicable interest and penalties, as a component of income tax expense. During the years ended June 30, 2015 and 2014, the Fulfillment Fund recognized no interest or penalties.

The Fulfillment Fund's income tax returns remain subject to examination for all tax years ended on or after June 30, 2012 with regard to all tax positions and the results reported.

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Outside Services – Outside services include expenses in the following areas: curriculum development, program evaluation consulting, graphic design work, human resources, accounting and auditing services, bank fees and payroll processing.

Administrative Services Expenses – Administrative services activities are those that are not identifiable with a single program or fundraising activity, but that are indispensable to the conduct of those activities and to the Fulfillment Fund's existence. They include oversight, finance, human resources, communications and information technology.

Subsequent Events – Subsequent events have been evaluated through October 9, 2015, the date the financial statements were available to be issued.

NOTE 3 – FAIR VALUE MEASUREMENTS

The Fulfillment Fund's investments are reported at fair value in the accompanying statements of financial position. Fair value is defined as the price that would be received upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. A three-tiered hierarchy is employed to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect assumptions market participants would use in pricing the asset developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the entity's own assumptions in determining fair value of investments)

The Fulfillment Fund classifies its investment in a pooled endowment fund (managed by the UCLA Foundation) and the cash surrender value of two life insurance policies in the Level 3 fair value hierarchy. The total amount of assets measured using Level 3 valuation methodologies represented approximately 41% of total assets as of June 30, 2015 and 35% of total assets as of June 30, 2014.

As of June 30, 2015 and 2014, the Fulfillment Fund's investments (excluding the life insurance policies above) consisted of:

| | June 30, 2015 | | June 30, 2014 | |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| | Fair Value | Cost Basis | Fair Value | Cost Basis |
| Pooled endowment assets | \$ 2,603,892 | \$ 2,637,342 | \$ 2,463,329 | \$ 2,247,934 |
| Short-term bond mutual fund | 338,112 | 339,693 | 334,020 | 334,962 |
| Bond index mutual fund | 174,113 | 179,739 | 171,154 | 174,969 |
| Equity index mutual fund | 435,768 | 358,174 | 431,130 | 348,562 |
| Total | <u>\$ 3,551,885</u> | <u>\$ 3,514,947</u> | <u>\$ 3,399,633</u> | <u>\$ 3,106,427</u> |

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NOTE 3 – FAIR VALUE MEASUREMENTS – (CONTINUED)

As of June 30, 2015, the Fulfillment Fund's investments were classified by level within the valuation hierarchy as follows:

| | Total | Fair Value Designation | | |
|---|---------------------|------------------------|-------------|---------------------|
| | | Level 1 | Level 2 | Level 3 |
| Pooled endowment assets | \$ 2,603,892 | \$ - | \$ - | \$ 2,603,892 |
| Mutual funds | 947,993 | 947,993 | - | - |
| Cash surrender value of life insurance policies | 336,544 | - | - | 336,544 |
| Total | \$ 3,888,429 | \$ 947,993 | \$ - | \$ 2,940,436 |

As of June 30, 2014, the Fulfillment Fund's investments were classified by level within the valuation hierarchy as follows:

| | Total | Fair Value Designation | | |
|---|---------------------|------------------------|-------------|---------------------|
| | | Level 1 | Level 2 | Level 3 |
| Pooled endowment assets | \$ 2,463,329 | \$ - | \$ - | \$ 2,463,329 |
| Mutual funds | 936,304 | 936,304 | - | - |
| Cash surrender value of life insurance policies | 314,438 | - | - | 314,438 |
| Total | \$ 3,714,071 | \$ 936,304 | \$ - | \$ 2,777,767 |

The changes in Level 3 assets (pooled endowment fund and cash surrender value of life insurance policies) measured at fair value on a recurring basis are summarized as follows:

| | June 30, | |
|---|---------------------|---------------------|
| | 2015 | 2014 |
| Balance, beginning of year | \$ 2,777,767 | \$ 2,463,373 |
| Net purchases, sales and other settlements | 11,389 | 81,796 |
| Total net gains included in changes in assets | | |
| Net gains | 151,280 | 232,598 |
| Balance, end of year | \$ 2,940,436 | \$ 2,777,767 |

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NOTE 4 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

| | June 30, | |
|--------------------------------------|---------------------|---------------------|
| | 2015 | 2014 |
| Unrestricted promises to give | \$ 402,447 | \$ 866,797 |
| Restricted to Post-Secondary Program | 671,500 | 251,500 |
| Restricted to Mentoring Services | 3,000 | 4,500 |
| | <u>1,076,947</u> | <u>1,122,797</u> |
| Gross unconditional promises to give | <u>\$ 1,076,947</u> | <u>\$ 1,122,797</u> |

Unconditional promises to give are expected to be received as follows:

| | June 30, | |
|---|-------------------|-------------------|
| | 2015 | 2014 |
| Within one year | \$ 482,575 | \$ 457,875 |
| One to five years | 594,372 | 664,922 |
| | <u>1,076,947</u> | <u>1,122,797</u> |
| Gross unconditional promises to give | 1,076,947 | 1,122,797 |
| Less discount to reflect at present value | (20,578) | (22,073) |
| Less allowance for uncollectible pledges | <u>(44,130)</u> | <u>(42,603)</u> |
| Net unconditional promises to give | 1,012,239 | 1,058,121 |
| Less current portion | <u>463,852</u> | <u>440,993</u> |
| Long-term portion | <u>\$ 548,387</u> | <u>\$ 617,128</u> |

Management applied a 2.0% discount rate for the years ended June 30, 2015 and 2014 to compute the present value of the pledge obligation. Approximately \$44,944 (4.2%) and \$246,250 (21.9%) of gross unconditional promises to give were past due at June 30, 2015 and 2014, respectively.

The reserve for unconditional promises to give had the following activity in 2015 and 2014:

| | June 30, | |
|---|--------------------|--------------------|
| | 2015 | 2014 |
| Balance, beginning of year | \$ (42,603) | \$ (51,654) |
| Amounts written-off | 14,792 | 25,500 |
| Increase in allowance for uncollectible pledges | <u>(16,319)</u> | <u>(16,449)</u> |
| Balance, end of year | <u>\$ (44,130)</u> | <u>\$ (42,603)</u> |

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NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

| | June 30, | |
|-------------------------------|-------------------|-------------------|
| | 2015 | 2014 |
| Computers and software | \$ 469,543 | \$ 470,311 |
| Furniture and equipment | 182,701 | 182,701 |
| Leasehold improvements | 144,788 | 144,788 |
| | <u>797,032</u> | <u>797,800</u> |
| Less accumulated depreciation | <u>588,409</u> | <u>487,565</u> |
| Total | <u>\$ 208,623</u> | <u>\$ 310,235</u> |

The Fulfillment Fund incurred depreciation expenses of \$101,612 and \$94,641 for the years ended June 30, 2015 and 2014, respectively.

NOTE 6 – SCHOLARSHIPS PAYABLE

The Fulfillment Fund provides scholarships to students to help support the costs of continuing the students' education. Scholarships payable consist of the following

| | June 30, | |
|---|-----------------|------------------|
| | 2015 | 2014 |
| Gross balance, beginning of year | \$ 322,500 | \$ 315,400 |
| New scholarships awarded | 390,450 | 401,750 |
| Payments made to scholarship students | (611,825) | (381,650) |
| Write - offs / forfeitures | <u>(48,250)</u> | <u>(13,000)</u> |
| Gross balance, end of year | 52,875 | 322,500 |
| Less discount | - | (542) |
| Less allowance for scholarships payable | <u>(7,931)</u> | <u>(48,150)</u> |
| Net scholarship payable | 44,944 | 273,808 |
| Less current portion | <u>44,944</u> | <u>246,725</u> |
| Long-term portion | <u>\$ -</u> | <u>\$ 27,083</u> |

The reserve for scholarships payable had the following activity in 2015 and 2014:

| | June 30, | |
|--|-------------------|--------------------|
| | 2015 | 2014 |
| Balance, beginning of year | \$ (48,150) | \$ (54,731) |
| Write - offs / forfeitures | 48,250 | 13,000 |
| Addition to allowance for scholarships payable | <u>(8,031)</u> | <u>(6,419)</u> |
| Balance, end of year | <u>\$ (7,931)</u> | <u>\$ (48,150)</u> |

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NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2015 and 2014 consist of the following:

| | June 30, | |
|--|---------------------|---------------------|
| | 2015 | 2014 |
| Promises to give restricted due to time | \$ 402,447 | \$ 866,797 |
| Restricted to Post-Secondary Program | 671,500 | 251,500 |
| Restricted to Mentoring Services | 3,000 | 4,500 |
| Gross unconditional promises to give | 1,076,947 | 1,122,797 |
| Less discount | (20,578) | (22,073) |
| Less allowance for uncollectible pledges | (44,130) | (42,603) |
| Net unconditional promises to give | <u>\$ 1,012,239</u> | <u>\$ 1,058,121</u> |

NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS

The Fulfillment Fund had one donor-restricted endowment fund which was held in a money market account and was classified in net assets as permanently restricted. During 2013, the funds of the endowment were reinvested in various mutual funds along with unrestricted and board-designated reserve net assets.

At June 30, 2015, permanently restricted and board-designated reserve net assets consisted of the following:

| | Board-Designated Reserve | Permanently Restricted | Total |
|------------------------|-----------------------------|---------------------------|---------------------|
| Donor-restricted funds | \$ - | \$ 292,008 | \$ 292,008 |
| Board-designated funds | 3,426,621 | - | 3,426,621 |
| Total, end of year | <u>\$ 3,426,621</u> | <u>\$ 292,008</u> | <u>\$ 3,718,629</u> |

At June 30, 2014, permanently restricted and board-designated reserve net assets consisted of the following:

| | Board-Designated Reserve | Permanently Restricted | Total |
|------------------------|-----------------------------|---------------------------|---------------------|
| Donor-restricted funds | \$ - | \$ 292,008 | \$ 292,008 |
| Board-designated funds | 3,274,350 | - | 3,274,350 |
| Total, end of year | <u>\$ 3,274,350</u> | <u>\$ 292,008</u> | <u>\$ 3,566,358</u> |

Any interest and dividend income that is generated by the endowment and board-designated funds are available to be appropriated for general operational use. There were no new endowments received during 2015 and 2014.

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NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS – (CONTINUED)

These permanently restricted and board-designated reserve net assets are invested in the following accounts:

| | June 30, 2015 | June 30, 2014 |
|--|---------------------|---------------------|
| Money market fund, Vanguard | \$ 166,744 | \$ 166,725 |
| Mutual funds, Vanguard | 947,993 | 936,304 |
| Pooled endowment assets, UCLA Foundation | <u>2,603,892</u> | <u>2,463,329</u> |
| | <u>\$ 3,718,629</u> | <u>\$ 3,566,358</u> |

For the year ended June 30, 2015, Fulfillment Fund's endowment net assets changed as follows:

| | Board-Designated Reserve | Permanently Restricted | Total |
|-------------------------------|-----------------------------|---------------------------|---------------------|
| Net assets, beginning of year | \$ 3,274,350 | \$ 292,008 | \$ 3,566,358 |
| Net investment return | | | |
| Interest income | 152,271 | - | 152,271 |
| Appropriate of endowment | | | |
| Assets for expenditure | <u>-</u> | <u>-</u> | <u>-</u> |
| Net assets, end of year | <u>\$ 3,426,621</u> | <u>\$ 292,008</u> | <u>\$ 3,718,629</u> |

For the year ended June 30, 2014, Fulfillment Fund's endowment net assets changed as follows:

| | Board-Designated Reserve | Permanently Restricted | Total |
|-------------------------------|-----------------------------|---------------------------|---------------------|
| Net assets, beginning of year | \$ 2,887,306 | \$ 292,008 | \$ 3,179,314 |
| Net investment return | | | |
| Interest income | 387,027 | 17 | 387,044 |
| Appropriate of endowment | | | |
| Assets for expenditure | <u>17</u> | <u>(17)</u> | <u>-</u> |
| Net assets, end of year | <u>\$ 3,274,350</u> | <u>\$ 292,008</u> | <u>\$ 3,566,358</u> |