

FULFILLMENT FUND

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

June 30, 2018 and 2017



Gurseley | Schneider LLP
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT	1 – 2
FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4 – 5
Statements of Functional Expenses	6 – 7
Statements of Cash Flows	8
Notes to Financial Statements	9 – 21

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, 2018 and 2017, 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.

Opinion

In our opinion, the financial statements referred to in the previous page present fairly, in all material respects, the financial position of Fulfillment Fund as of June 30, 2018 and 2017, 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

November 30, 2018
Los Angeles, California

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statements of Financial Position
June 30, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,460,651	\$ 898,360
Unconditional promises to give, current portion, net	130,361	432,579
Prepaid expenses	92,543	76,747
Deposits and other assets	33,580	166,404
TOTAL CURRENT ASSETS	1,717,135	1,574,090
OTHER ASSETS		
Investments	1,120,847	2,972,856
Unconditional promises to give, net of current portion	61,629	171,302
Cash surrender value of life insurance policies	402,263	380,906
Property and equipment, net	49,477	77,714
TOTAL OTHER ASSETS	1,634,216	3,602,778
TOTAL ASSETS	\$ 3,351,351	\$ 5,176,868

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 544,671	\$ 572,213
Scholarships payable, net	1,000	-
TOTAL LIABILITIES	545,671	572,213
NET ASSETS		
Unrestricted	-	1,027,918
Unrestricted - board designated reserves	2,321,682	2,680,848
Temporarily restricted	191,990	603,881
Permanently restricted	292,008	292,008
TOTAL NET ASSETS	2,805,680	4,604,655
TOTAL LIABILITIES AND NET ASSETS	\$ 3,351,351	\$ 5,176,868

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Contributions	\$ 199,036	\$ 815,622	\$ -	\$ 1,014,658
Special event income, net of \$338,560 of direct costs	1,351,347	352,157	-	1,703,504
In-kind contributions	111,803	-	-	111,803
Fees for management services	100,195	-	-	100,195
Investment and other income	53,309	-	-	53,309
Realized and unrealized gains and losses, net	244,336	-	-	244,336
Subtotal	2,060,026	1,167,779	-	3,227,805
Net assets released from restrictions	1,579,670	(1,579,670)	-	-
Total Revenues and Support	3,639,696	(411,891)	-	3,227,805
EXPENSES				
Program services	3,774,835	-	-	3,774,835
Administrative services	307,090	-	-	307,090
Development	944,855	-	-	944,855
Total Expenses	5,026,780	-	-	5,026,780
CHANGE IN NET ASSETS	(1,387,084)	(411,891)	-	(1,798,975)
NET ASSETS, Beginning of Year	3,708,766	603,881	292,008	4,604,655
NET ASSETS, End of Year	\$ 2,321,682	\$ 191,990	\$ 292,008	\$ 2,805,680

See Accompanying Notes to Financial Statements

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Contributions	\$ 1,808,342	\$ 749,729	\$ -	\$ 2,558,071
Special event income, net of \$440,191 of direct costs	1,449,013	212,840	-	1,661,853
In-kind contributions	307,194	-	-	307,194
Fees for management services	116,592	-	-	116,592
Investment and other income	71,789	-	-	71,789
Realized and unrealized gains and losses, net	381,759	-	-	381,759
Subtotal	4,134,689	962,569	-	5,097,258
Net assets released from restrictions	1,167,978	(1,167,978)	-	-
Total Revenues and Support	5,302,667	(205,409)	-	5,097,258
EXPENSES				
Program services	3,873,200	-	-	3,873,200
Administrative services	394,994	-	-	394,994
Development	1,119,379	-	-	1,119,379
Total Expenses	5,387,573	-	-	5,387,573
CHANGE IN NET ASSETS	(84,906)	(205,409)	-	(290,315)
NET ASSETS, Beginning of Year	3,793,672	809,290	292,008	4,894,970
NET ASSETS, End of Year	\$ 3,708,766	\$ 603,881	\$ 292,008	\$ 4,604,655

See Accompanying Notes to Financial Statements

FULLFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program Services				Support Services		
	Mentor Services	High School Program	Post-Secondary Program	Total Program Services	Administrative Services	Development	Total Expenses
Awards and gifts	\$ 3,636	\$ 4,866	\$ 1,218	\$ 9,720	\$ 137	\$ 2,133	\$ 11,990
Bad debt	-	-	-	-	88,622	-	88,622
Conferences and training	735	3,526	1,059	5,320	194	273	5,787
Depreciation	4,652	15,397	3,108	23,157	2,897	4,265	30,319
Fringe benefits	76,528	208,881	41,312	326,721	20,735	82,790	430,246
In-kind services	32,377	99,620	19,924	151,921	21,170	31,131	204,222
Insurance	6,067	18,667	3,733	28,467	3,967	5,833	38,267
Meals, activities, and travel	17,139	69,208	10,960	97,307	2,130	22,434	121,871
Memberships and dues	1,109	3,619	2,743	7,471	356	3,131	10,958
Mileage and parking	13,816	45,912	8,706	68,434	7,927	11,943	88,304
Outside services	43,189	131,051	30,891	205,131	37,292	62,581	305,004
Postage and delivery	1,605	369	375	2,349	163	1,794	4,306
Printing	802	4,221	727	5,750	523	6,789	13,062
Public relations and advertising	2,892	8,464	2,068	13,424	1,723	23,084	38,231
Rent	67,286	224,332	42,568	334,186	43,437	65,633	443,256
Repairs and maintenance	2,567	29,124	3,082	34,773	671	20,825	56,269
Salaries and temp employees	535,080	1,155,643	321,227	2,011,950	72,500	595,611	2,680,061
Scholarships, net	-	-	412,425	412,425	-	-	412,425
Supplies	7,500	11,697	3,214	22,411	1,224	2,523	26,158
Telephone	2,753	9,238	1,927	13,918	1,422	2,082	17,422
Total Functional Expenses	\$ 819,733	\$ 2,043,835	\$ 911,267	\$ 3,774,835	\$ 307,090	\$ 944,855	\$ 5,026,780

In-kind services above includes donated goods and services. The most significant items include venue and catering for events (\$94,108), donated legal services (\$29,477) and all other (\$80,667).

FULLFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended June 30, 2017

	Program Services				Support Services		
	Mentor Services	High School Program	Post-Secondary Program	Total Program Services	Administrative Services	Development	Total Expenses
Awards and gifts	\$ 5,633	\$ 8,295	\$ 7,074	\$ 21,002	\$ 408	\$ 2,776	\$ 24,186
Bad debt	-	-	-	-	123,589	-	123,589
Conferences and training	4,262	5,553	5,272	15,087	1,885	2,179	19,151
Depreciation	7,563	14,273	5,119	26,955	5,067	8,929	40,951
Fringe benefits	82,673	158,296	58,239	299,208	29,810	81,794	410,812
In-kind services	57,692	102,648	38,212	198,552	39,336	69,306	307,194
Insurance	7,159	12,737	4,742	24,638	4,881	8,600	38,119
Meals, activities, and travel	24,851	95,994	19,789	140,634	2,957	66,099	209,690
Memberships and dues	1,380	5,099	2,200	8,679	512	3,883	13,074
Mileage and parking	15,949	31,600	11,917	59,466	9,851	22,608	91,925
Outside services	83,051	171,805	63,074	317,930	55,487	211,873	585,290
Postage and delivery	1,298	782	796	2,876	296	3,221	6,393
Printing	495	2,153	220	2,868	226	8,968	12,062
Public relations and advertising	12	25,038	6	25,056	2	2	25,060
Rent	82,043	157,473	54,912	294,428	50,622	121,522	466,572
Repairs and maintenance	1,702	4,241	1,034	6,977	768	35,482	43,227
Salaries and temp employees	540,319	1,052,552	362,328	1,955,199	67,332	456,939	2,479,470
Scholarships, net	-	-	428,913	428,913	-	-	428,913
Supplies	10,027	17,099	4,034	31,160	226	12,136	43,522
Telephone	3,296	7,838	2,438	13,572	1,739	3,062	18,373
Total Functional Expenses	\$ 929,405	\$ 1,873,476	\$ 1,070,319	\$ 3,873,200	\$ 394,994	\$ 1,119,379	\$ 5,387,573

In-kind services above includes donated goods and services. The most significant items include venue and catering for events (\$142,900), donated legal services (\$39,000) and all other (\$125,000).

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (1,798,975)	\$ (290,315)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	30,319	40,951
Net loss on disposition of property and equipment	855	-
Unrealized / realized (gains) losses on investments	(244,336)	(381,759)
Change in discount on unconditional promises to give	(10,538)	1,235
Change in allowance on unconditional promises to give	(18,011)	(7,586)
Change in allowance on scholarships payable	-	2,062
(Increase) decrease in assets:		
Unconditional promises to give	440,440	238,944
Prepaid expenses	(15,796)	(20,616)
Deposits and other assets	132,824	(18,347)
Cash surrender value of life insurance policies	(21,357)	(23,024)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(27,542)	(56,900)
Deferred revenue	-	(10,000)
Scholarships payable, net	1,000	(13,750)
	(1,531,117)	(539,105)
NET CASH USED FOR OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received for sales of investments	2,096,345	860,000
Cash paid for purchases of investments	-	(18,690)
Cash paid for purchases of property and equipment	(2,937)	(10,085)
	2,093,408	831,225
NET CASH PROVIDED BY INVESTING ACTIVITIES		
NET INCREASE IN CASH, RESTRICTED CASH, AND CASH EQUIVALENTS	562,291	292,120
CASH, RESTRICTED CASH, AND CASH EQUIVALENTS;		
 BEGINNING OF YEAR	898,360	606,240
 END OF YEAR	\$ 1,460,651	\$ 898,360

See Accompanying Notes to Financial Statements

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 1 – ORGANIZATION

Fulfillment Fund (“the Organization”) is established as a California nonprofit public benefit corporation. Serving the Los Angeles community for almost 40 years, the mission of the Fulfillment Fund is to make college a reality for students growing up in educationally and economically under-resourced communities. Fulfillment Fund meets the needs of under-resourced youth in Los Angeles by building relationships, illuminating opportunities, and changing lives. Fulfillment Fund's 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.

Fulfillment Fund is a leading college access organization with a multi-pronged model for success. Nine in ten of 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 program helps ensure our students have the financial support they need to reach their higher education goals. The support includes scholarships, textbook stipends, a transfer scholar's 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 Organization 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 fee from FFLV for the reimbursement of costs to provide FFLV with management services. Fulfillment Fund ceased providing management services to FFLV in November 2018.

Fulfillment Fund also earns management fees for providing technical assistance to other nonprofit organizations.

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* – 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, 2018 and 2017, the board has designated unrestricted net assets as restricted for long-term purposes amounting to \$2,321,682 and \$2,680,848, respectively.
- *Temporarily restricted net assets* – are subject to donor-imposed stipulations that 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, 2018 and 2017, the Fulfillment Fund had temporarily restricted net assets of \$191,990 and \$603,881, respectively.

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018 and 2017

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

- *Permanently restricted net assets* – are 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, 2018 and 2017, 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. For the purpose of understanding changes in cash flows, Fulfillment Fund presents changes in restricted cash along with changes in cash and cash equivalents.

Investments – Investments are presented at fair value. 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 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 Goods and Services – 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 \$205,911 and \$385,236 for the years ended June 30, 2018 and 2017, respectively. These amounts are included in in-kind contributions in the accompanying statements of activities. For the years ended June 30, 2018 and 2017, \$94,108 and \$78,042, respectively, of the donated goods and services is included in special event income 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 9,571 and 5,363 hours of service during the years ended June 30, 2018 and 2017.

Property and Equipment – Property and equipment are stated at cost, or if contributed, at fair value at the date of contribution. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$1,000 and the useful life is greater than two years.

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. Maintenance and repair costs are charged to expense as incurred.

Gifts of 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, as well as, gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

FULLFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018 and 2017

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

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, 2018 and 2017 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 – Financial instruments that 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.

Unconditional Promises to Give – For the year ended June 30, 2018, there was one individual donor that made up approximately 12% of the Fulfillment Fund's unconditional promises to give. For the year ended June 30, 2017, there were three individual and foundation donors that made up approximately 46% 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.

Contribution Revenues – One donor contributed approximately 12% of total revenues during the year ended June 30, 2018.

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. No such positions have been identified. During the years ended June 30, 2018 and 2017, the Fulfillment Fund recognized no interest or penalties.

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.

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018 and 2017

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

Administrative Services Expenses Allocation – 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.

Effect of Recently Issued Accounting Standards — In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "*Leases*" (*Topic 842*). This ASU requires a lessee to recognize a right-of-use asset and a lease liability under most operating leases in its balance sheet. For non-public entities, the standard is effective for fiscal years beginning after December 15, 2019 and interim periods beginning the following year. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients during the period of adoption. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. Management is currently evaluating the impact this change in accounting standards will have on Fulfillment Fund's financial statements and related disclosures.

In May 2014, FASB issued ASU 2014-09, "*Revenue from Contracts with Customers*," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. In July 2015, the FASB approved a one-year deferral of this standard, with a revised effective date for fiscal years beginning after December 15, 2017. Early adoption is permitted, although not prior to fiscal years beginning after December 15, 2016. The standard permits the use of either the retrospective or modified retrospective (cumulative effect) transition method. Management is currently evaluating the impact this change in accounting standards will have on Fulfillment Fund's financial statements and related disclosures and has not yet selected a transition method.

On August 18, 2016, FASB issued new rules for nonprofit organizations under ASU 2016-14 "*Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*" ("NFP"). This ASU changes the financial reporting format for nonprofit organization financial statements to simplify the way in which NFPs quantify and qualify their financial performance, their liquidity and cash flows, and their classification of net assets.

Five changes included in ASU 2016-14 are:

- (1) The existing three-class system of classifying net assets as unrestricted, temporarily unrestricted and permanently restricted, will be replaced with a simpler two-class structure. Going forward, NFPs will differentiate net assets solely between those net assets with donor restriction and net assets without donor restrictions. NFPs will still be required to disclose the nature and amounts of donor-imposed restrictions.
- (2) The presentation of required disclosure of underwater endowment funds will change. When the fair market value of a donor-restricted endowment is less than the original gift amount or the amount the NFP is required to maintain by the donor or by law, NFPs will also be required to report the amount of the deficiency and their governing boards' policies or decisions to reduce or spend from these funds.
- (3) NFPs will be required to disclose in financial statement notes qualitative information regarding how they will manage available liquid resources to meet cash needs for general expenses for the year following the balance sheet date. In addition, NFPs will be required to provide on the face of financial statements or in disclosure notes detailed quantitative information regarding their availability of financial assets at the balance sheet date to meet cash needs for the next year.

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018 and 2017

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

- (4) Expenses by both their natural classification and their functional classification will be presented either on the face of the statement of activities, as a separate statement or in the notes to the financial statements. In addition to this change in the presentation of expenses, the method used to allocate costs among program and supporting activities functions is required to be disclosed.
- (5) Finally, NFP's may continue to present the statement of cash flows using either the direct or indirect method of reporting. However, under the new reporting standard, NFPs employing the direct method to report cash flow will no longer be required to provide a reconciliation of net income to the cash amounts presented under the indirect method.

ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Management is currently evaluating the impact this change in accounting standards will have on the Organization's financial statements and related disclosures.

Finally, on June 21, 2018, the FASB completed its project on revenue recognition of grants and contracts by not-for-profit entities by issuing ASU 2018-08, "*Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.*" The amendments provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

Specifically, the amendments provide:

- (1) Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- (2) Help an entity to evaluate whether contributions are considered conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation
- (3) Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is met in the same period that revenue is recognized.

ASU 2018-08 is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods beginning after December 15, 2019. Early adoption of the amendments in the Update is permitted. Management is currently evaluating the impact these changes in accounting standards will have on the Organization's financial statements and related disclosures.

Subsequent Events – Subsequent events have been evaluated through November 30, 2018, the date the financial statements were available to be issued.

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 3 – FACTORS AFFECTING LIQUIDITY

In fiscal year 2012, the Fulfillment Fund received a five-year, \$5 million grant from a donor with a directive to invest the money to help more students. These funds were designated by the Board as operating reserves and programs were expanded to serve more students. Along with other donations, these reserves continue to provide liquidity and flexibility to run the Organization at a net deficit while serving our expanded base of students.

As of June 30, 2018, all of Fulfillment Fund's unrestricted net assets, which totaled \$2,321,682, were internally designated as board reserves. Board-designated reserves are funds available to draw upon to meet normal operating expenses, with the approval of the board of directors. These unrestricted board reserves comprised a majority of the Fund's investment portfolio at June 30, 2018, as presented in Note 9. With the exception of a permanently restricted endowment fund of \$292,008, none of the Organization's net assets are subject to contractual, donor, or legal restrictions.

The Organization's financial assets that are not subject to donor restriction and are available within one year of June 30, 2018, for general expenditures is as follows:

Cash and cash equivalents	\$	1,460,651
Investments		<u>1,120,847</u>
 Total financial assets available within one year		 2,581,498
 Less amounts unavailable for general expenditures within one year due to being permanently restricted by donors in perpetuity:		 <u>(292,008)</u>
		 <u><u>\$ 2,289,490</u></u>

As part of its liquidity management, the Fulfillment Fund invests cash that is in excess of its quarterly operational requirements in short-term, liquid investments. All investment redemptions must be approved by the board's investment committee chair.

In addition, the organization has instituted a number of steps to monitor its liquidity position. First, management forecasts and monitors the Organization's quarterly cash flow needs on a weekly basis. Second, the audit committee and investment committee board chairs review the cash flow position and projections with management on a quarterly basis to aide in identifying any unanticipated cash flow needs. Finally, the Organization's liquidity position is presented to the Board at quarterly board meetings for review.

The board has approved a management budget for the fiscal year ending June 30, 2019, which projects a decrease in expenses compared to the year ended June 30, 2018. Management believes that the combination of the decrease in expenses, its liquid financial assets, and anticipated board reserve appropriations provide it with sufficient liquidity to meet the Organization's future operating expenditures.

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 4 – 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 42% and 52% of total assets, respectively, as of June 30, 2018 and June 30, 2017.

As of June 30, 2018 and 2017, the Fulfillment Fund's investments (excluding the life insurance policies above) consisted of:

	June 30, 2018		June 30, 2017	
	Fair Value	Cost Basis	Fair Value	Cost Basis
Pooled endowment assets	\$ 1,021,390	\$ 875,438	\$ 2,303,509	\$ 2,305,887
Short-term bond mutual fund	16,906	17,406	161,562	163,068
Bond market mutual fund	14,855	15,726	158,968	163,159
World stock mutual fund	67,696	47,486	348,817	263,240
Total	\$ 1,120,847	\$ 956,056	\$ 2,972,856	\$ 2,895,354

As of June 30, 2018, 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	\$ 1,021,390	\$ -	\$ -	\$ 1,021,390
Mutual funds	99,457	99,457	-	-
Cash surrender value of life insurance policies	402,263	-	-	402,263
Total	\$ 1,523,110	\$ 99,457	\$ -	\$ 1,423,653

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 4 – FAIR VALUE MEASUREMENTS – (CONTINUED)

As of June 30, 2017, 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	\$ 2,303,509	\$ -	\$ -	\$ 2,303,509
Mutual funds	669,347	669,347	-	-
Cash surrender value of life insurance policies	380,906	-	-	380,906
Total	\$ 3,353,762	\$ 669,347	\$ -	\$ 2,684,415

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,	
	2018	2017
Balance, beginning of year	\$ 2,684,415	\$ 2,838,197
Net purchases, sales and other settlements	(1,483,014)	(475,706)
Total net gains included in changes in assets	222,251	321,924
Balance, end of year	<u>\$ 1,423,653</u>	<u>\$ 2,684,415</u>

NOTE 5 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

	June 30,	
	2018	2017
Unrestricted promises to give	\$ 196,078	\$ 536,268
Restricted to Post-Secondary Program	3,000	100,000
Restricted to Mentoring Services	10,750	14,000
Gross unconditional promises to give	<u>\$ 209,828</u>	<u>\$ 650,268</u>

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 5 – UNCONDITIONAL PROMISES TO GIVE – (CONTINUED)

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

	June 30,	
	2018	2017
Within one year	\$ 137,745	\$ 450,680
One to five years	<u>72,083</u>	<u>199,588</u>
Gross unconditional promises to give	<u>209,828</u>	<u>650,268</u>
Less discount to reflect at present value	(5,384)	(15,922)
Less allowance for uncollectible pledges	<u>(12,454)</u>	<u>(30,465)</u>
Net unconditional promises to give	191,990	603,881
Less current portion	<u>130,361</u>	<u>432,579</u>
Long-term portion	<u>\$ 61,629</u>	<u>\$ 171,302</u>

Management applied a 2.0% discount rate for the years ended June 30, 2018 and 2017 to compute the present value of the pledge obligations. Approximately \$31,187 (15%) and \$178,138 (27%) of gross unconditional promises to give were past due at June 30, 2018 and 2017, respectively.

The allowance for unconditional promises to give had the following activity in 2018 and 2017:

	June 30,	
	2018	2017
Balance, beginning of year	\$ (30,465)	\$ (38,051)
Amounts written-off	106,633	131,175
Increase in allowance for uncollectible pledges	<u>(88,622)</u>	<u>(123,589)</u>
Balance, end of year	<u>\$ (12,454)</u>	<u>\$ (30,465)</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	2018	2017
Computers and software	\$ 425,473	\$ 479,373
Furniture and equipment	177,588	182,701
Leasehold improvements	<u>144,788</u>	<u>144,788</u>
Property and equipment, total cost basis	747,849	806,862
Less accumulated depreciation	<u>698,372</u>	<u>729,148</u>
Total	<u>\$ 49,477</u>	<u>\$ 77,714</u>

Depreciation expenses was \$30,319 and \$40,951 for the years ended June 30, 2018 and 2017, respectively.

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 7 – 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,	
	2018	2017
Gross balance, beginning of year	\$ -	\$ 13,750
New scholarships awarded	412,425	428,913
Payments made to scholarship students	411,425	(386,413)
Write-offs / forfeitures	-	(56,250)
	<u> </u>	<u> </u>
Net scholarship payable - current	<u>\$ 1,000</u>	<u>\$ -</u>

The reserve for scholarships payable had the following activity in 2018 and 2017:

	June 30,	
	2018	2017
Balance, beginning of year	\$ -	\$ (2,062)
Write - offs / forfeitures	-	56,250
Addition to allowance	-	(54,188)
	<u> </u>	<u> </u>
Balance, end of year	<u>\$ -</u>	<u>\$ -</u>

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 and 2017 consist of the following:

	June 30,	
	2018	2017
Promises to give restricted due to time	\$ 196,078	\$ 536,268
Restricted to Post-Secondary Program	3,000	100,000
Restricted to Mentoring Services	10,750	14,000
	<u> </u>	<u> </u>
Gross unconditional promises to give	209,828	650,268
Less discount	(5,384)	(15,922)
Less allowance for uncollectible pledges	(12,454)	(30,465)
	<u> </u>	<u> </u>
Net unconditional promises to give	<u>\$ 191,990</u>	<u>\$ 603,881</u>

NOTE 9 – BOARD RESERVES AND PERMANENTLY RESTRICTED NET ASSETS

In 1998, the Fulfillment Fund began receiving contributions toward an endowment fund. These funds are classified in net assets as permanently restricted. During 2013, the funds of the endowment were transferred to investment accounts along with unrestricted and board-designated reserve net assets.

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 9 – BOARD RESERVES AND PERMANENTLY RESTRICTED NET ASSETS – (CONTINUED)

Any interest and dividend income that is generated by the endowment and unrestricted board-designated funds are available to be appropriated for general operational use. There were no new endowment funds received during 2018 and 2017.

At June 30, 2018, permanently restricted and unrestricted board-designated reserve net assets consisted of the following:

	Unrestricted Board-Designated Reserve	Permanently Restricted	Total
	<u> </u>	<u> </u>	<u> </u>
Donor-restricted funds	\$ -	\$ 292,008	\$ 292,008
Unrestricted board-designated funds	<u>2,321,682</u>	<u>-</u>	<u>2,321,682</u>
Total, end of year	<u>\$ 2,321,682</u>	<u>\$ 292,008</u>	<u>\$ 2,613,690</u>

At June 30, 2017, permanently restricted and unrestricted board-designated reserve net assets consisted of the following:

	Unrestricted Board-Designated Reserve	Permanently Restricted	Total
	<u> </u>	<u> </u>	<u> </u>
Donor-restricted funds	\$ -	\$ 292,008	\$ 292,008
Unrestricted board-designated funds	<u>2,680,848</u>	<u>-</u>	<u>2,680,848</u>
Total, end of year	<u>\$ 2,680,848</u>	<u>\$ 292,008</u>	<u>\$ 2,972,856</u>

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization invests its endowment funds with conservative investment objectives, including authorized investments and allocation targets and ranges, in line with its investment policy for all investments. The earnings from the endowment funds support general operations.

The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 Organization 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.

In accordance with SPMIFA, the Fulfillment Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 9 – BOARD RESERVES AND PERMANENTLY RESTRICTED NET ASSETS – (CONTINUED)

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

	June 30,	
	2018	2017
Money market fund, Vanguard	\$ 203,708	\$ -
Mutual funds, Vanguard	99,457	669,347
Pooled endowment assets, UCLA Fund	1,021,390	2,303,509
	\$ 1,324,555	\$ 2,972,856

For the year ended June 30, 2018, Fulfillment Fund's endowment and unrestricted board-designated net assets changed as follows:

	Unrestricted Board-Designated Reserve	Permanently Restricted	Total
Net assets, beginning of year	\$ 2,680,848	\$ 292,008	\$ 2,972,856
Net investment return	251,575	-	251,575
Appropriation of endowment assets for expenditure	(610,741)	-	(610,741)
Net assets, end of year	\$ 2,321,682	\$ 292,008	\$ 2,613,690

For the year ended June 30, 2017, Fulfillment Fund's endowment and unrestricted board-designated net assets changed as follows:

	Unrestricted Board-Designated Reserve	Permanently Restricted	Total
Net assets, beginning of year	\$ 3,307,554	\$ 292,008	\$ 3,599,562
Net investment return	400,514	-	400,514
Appropriation of endowment assets for expenditure	(1,027,220)	-	(1,027,220)
Net assets, end of year	\$ 2,680,848	\$ 292,008	\$ 2,972,856

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 10 – COMMITMENTS

Lease Obligations

The Fulfillment Fund leases its office space and certain equipment under non-cancellable operating leases that expire in August 31, 2023 and June 30, 2022, respectively. The office lease has an early termination option on August 31, 2020. The future minimum lease payments required under the non-cancelable operating leases at June 30, 2018 were as follows:

<u>Year Ending June 30,</u>	<u>Premises</u>	<u>Equipment</u>	<u>Total</u>
2019	\$ 378,522	\$ 32,500	\$ 411,022
2020	390,875	18,180	409,055
2021	156,512	17,940	174,452
2022	-	7,650	7,650
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 925,909</u>	<u>\$ 76,270</u>	<u>\$ 1,002,179</u>

Rent expenses under the operating leases, including month to month, amounted to \$443,256 and \$466,572 for the years ended June 30, 2018 and 2017, respectively.

Legal Matters

In the ordinary course of business, the Fulfillment Fund is subject to certain lawsuits and other potential legal actions. In the opinion of management, such matters will not have a material effect on the financial position of the Fulfillment Fund.

NOTE 11 – RELATED PARTY TRANSACTIONS

As referenced in Note 1, Fulfillment Fund provides managerial support services to FFLV. Revenues earned from these services for the years ended June 30, 2018 and 2017 amounted to \$76,195 and \$116,592, respectively.

Amounts due from FFLV as of June 30, 2018 and 2017 amounted to \$4,353 and \$96,990, respectively. These receivable balances are included in deposits and other assets on the statements of financial position. Subsequent to June 30, 2018, Fulfillment Fund ceased to provide management support to FFLV and all outstanding receivables were collected.

Two directors of Fulfillment Fund are also directors of FFLV.