

FULFILLMENT FUND

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

June 30, 2019 and 2018



Gurseley | Schneider LLP
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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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, 2019 and 2018, and the related statements of activities and changes in net assets, 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 above present fairly, in all material respects, the financial position of Fulfillment Fund as of June 30, 2019 and 2018, 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.



December 3, 2019
Los Angeles, California

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statements of Financial Position
June 30, 2019 and 2018

ASSETS

	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 711,156	\$ 1,460,651
Unconditional promises to give, current portion, net	212,587	130,361
Prepaid expenses	36,702	92,543
Deposits and other assets	40,588	33,580
TOTAL CURRENT ASSETS	1,001,033	1,717,135
OTHER ASSETS		
Investments	-	1,120,847
Unconditional promises to give, net of current portion	30,869	61,629
Cash surrender value of life insurance policies	423,016	402,263
Property and equipment, net	24,447	49,477
TOTAL OTHER ASSETS	478,332	1,634,216
TOTAL ASSETS	\$ 1,479,365	\$ 3,351,351

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 355,613	\$ 544,671
Scholarships payable, net	-	1,000
TOTAL LIABILITIES	355,613	545,671
NET ASSETS		
Without donor restrictions - board designated reserves	588,288	2,321,682
With donor restrictions	535,464	483,998
TOTAL NET ASSETS	1,123,752	2,805,680
TOTAL LIABILITIES AND NET ASSETS	\$ 1,479,365	\$ 3,351,351

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2019

	Without Donor Restriction	With Donor Restriction	Total
REVENUES AND SUPPORT			
Contributions	\$ 827,766	\$ 808,994	\$ 1,636,760
Special event income, net of \$271,705 of direct costs	692,076	114,775	806,851
In-kind contributions	131,308	-	131,308
Fees for management services	56,514	-	56,514
Investment and other income, net	17,944	-	17,944
Subtotal	1,725,608	923,769	2,649,377
Net assets released from restrictions	872,303	(872,303)	-
Total Revenues and Support	2,597,911	51,466	2,649,377
EXPENSES			
Program services	3,293,702	-	3,293,702
Administrative services	298,348	-	298,348
Development	739,255	-	739,255
Total Expenses	4,331,305	-	4,331,305
CHANGE IN NET ASSETS	(1,733,394)	51,466	(1,681,928)
NET ASSETS, Beginning of Year	2,321,682	483,998	2,805,680
NET ASSETS, End of Year	\$ 588,288	\$ 535,464	\$ 1,123,752

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, 2018

	Without Donor Restriction	With Donor Restriction	Total
REVENUES AND SUPPORT			
Contributions	\$ 199,036	\$ 815,622	\$ 1,014,658
Special event income, net of \$380,560 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, net	272,932	-	272,932
Subtotal	2,035,313	1,167,779	3,203,092
Net assets released from restrictions	1,579,670	(1,579,670)	-
Total Revenues and Support	3,614,983	(411,891)	3,203,092
EXPENSES			
Program services	3,765,703	-	3,765,703
Administrative services	293,381	-	293,381
Development	942,983	-	942,983
Total Expenses	5,002,067	-	5,002,067
CHANGE IN NET ASSETS	(1,387,084)	(411,891)	(1,798,975)
NET ASSETS, Beginning of Year	3,708,766	895,889	4,604,655
NET ASSETS, End of Year	\$ 2,321,682	\$ 483,998	\$ 2,805,680

See Accompanying Notes to Financial Statements

FULLFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended June 30, 2019

	Program Services				Support Services		Total Expenses
	Mentor Services	High School Program	Post-Secondary Program	Total Program Services	Administrative Services	Development	
Awards and gifts	\$ 3,617	\$ 5,600	\$ 226	\$ 9,443	\$ 197	\$ 3,607	\$ 13,247
Bad debt	-	-	-	-	-	6,437	6,437
Conferences and training	18	926	876	1,820	28	54	1,902
Depreciation	2,969	12,837	2,744	18,550	4,277	2,203	25,030
Fringe benefits	54,820	182,404	31,967	269,191	12,686	60,081	341,958
In-kind services	13,118	80,787	11,594	105,499	16,490	8,495	130,484
Insurance	2,594	10,425	2,398	15,417	4,038	2,080	21,535
Meals, activities, and travel	11,011	72,908	5,857	89,776	1,475	3,557	94,808
Memberships and dues	482	1,597	1,116	3,195	404	1,504	5,103
Mileage and parking	11,205	41,796	9,722	62,723	15,834	9,626	88,183
Outside services	51,957	173,568	52,078	277,603	55,422	85,479	418,504
Postage and delivery	748	731	202	1,681	256	2,034	3,971
Printing	398	7,030	442	7,870	540	3,369	11,779
Public relations and advertising	1,344	1,538	1,316	4,198	736	1,022	5,956
Rent	47,893	212,978	45,508	306,379	73,229	37,853	417,461
Repairs and maintenance	4,023	14,342	2,227	20,592	789	34,630	56,011
Salaries and temp employees	370,762	1,100,914	235,495	1,707,171	102,826	471,629	2,281,626
Scholarships, net	-	-	347,925	347,925	-	-	347,925
Supplies	5,106	5,650	1,338	12,094	1,220	1,522	14,836
Telephone	3,040	12,664	2,794	18,498	4,214	2,174	24,886
Unrelated business income tax	2,368	9,519	2,190	14,077	3,687	1,899	19,663
Total Functional Expenses	\$ 587,473	\$ 1,948,214	\$ 758,015	\$ 3,293,702	\$ 298,348	\$ 739,255	\$ 4,331,305

In-kind services above includes donated goods and services. The most significant items are \$79,773 for donated legal services and \$42,539 for non-fundraising venue and catering event expenses.

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

	Program Services				Support Services		Total Expenses
	Mentor Services	High School Program	Post-Secondary Program	Total Program Services	Administrative Services	Development	
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	41,243	125,063	29,693	195,999	23,583	60,709	280,291
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	\$ 817,787	\$ 2,037,847	\$ 910,069	\$ 3,765,703	\$ 293,381	\$ 942,983	\$ 5,002,067

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).

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (1,681,928)	\$ (1,798,975)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	25,030	30,319
Net loss on disposition of property and equipment	-	855
Unrealized / realized (gains) losses on investments	12,029	(244,336)
Change in discount on unconditional promises to give	(296)	(10,538)
Change in allowance on unconditional promises to give	(1,818)	(18,011)
(Increase) decrease in assets:		
Unconditional promises to give	(49,352)	440,440
Prepaid expenses	55,841	(15,796)
Deposits and other assets	(7,008)	132,824
Cash surrender value of life insurance policies	(20,753)	(21,357)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(189,058)	(27,542)
Scholarships payable, net	(1,000)	1,000
	(1,858,313)	(1,531,117)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received for sales of investments	1,108,818	2,096,345
Cash paid for purchases of property and equipment	-	(2,937)
	1,108,818	2,093,408
NET INCREASE (DECREASE) IN CASH, RESTRICTED CASH, AND CASH EQUIVALENTS	(749,495)	562,291
CASH, RESTRICTED CASH, AND CASH EQUIVALENTS; BEGINNING OF YEAR	1,460,651	898,360
END OF YEAR	\$ 711,156	\$ 1,460,651

See Accompanying Notes to Financial Statements

FULLFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2019 and 2018

NOTE 1 – ORGANIZATION

Fulfillment Fund ("the Organization") is established as a California nonprofit public benefit corporation and is one of L.A.'s oldest and largest college access and college success nonprofits. Fulfillment Fund provides forward-thinking, high quality, individualized college access and success services to students and graduates from low-income communities at our partner high schools in Los Angeles. Founded in 1977, today the Fulfillment Fund's mission is to make college a reality for students growing up in educationally and economically under-resourced communities. Our life-changing programs empower students to not only access and afford higher education, but also to graduate college successfully and build crucial life skills. With a proven track record of reaching significant numbers of students and creating a meaningful impact in the communities we serve, our overarching goals are to provide meaningful access to postsecondary educational opportunities for high school students, and to continue supporting those students by empowering them to achieve college success on their terms.

Fulfillment Fund seeks to support all students, no matter what their academic achievement, who are from communities with high need and little resources. Fulfillment Fund seeks to partner with schools who may have some resources but lack the tools and subject matter expertise to effectively support these goals. In focusing on these pockets of high need, Fulfillment establishes a sustainable business model that capitalizes on partnerships and carefully stewards the investments of the philanthropic community. Fulfillment Fund is a leading college access and success organization with a multi-pronged approach to programming. 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. The Fulfillment Fund model helps to grow the college-going culture in the schools it serves as well as the broader Los Angeles community. The Fulfillment Fund College Access and Success Model promotes higher education and college-going culture in under-resourced partner schools through two primary programs: College Access Program and College Success.

The College Access Program for high school students is designed around a classroom-based curriculum, individualized college counseling, financial aid workshops, and experiential learning opportunities such as college tours and Fulfillment Fund's annual signature college fair event, Destination College. The College Success Program helps ensure 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, Fulfillment Fund continues to cultivate and leverage strategic partnerships in the community to promote service delivery. As they graduate from college, the program Alumni support the Fulfillment Fund and the next generation of students by becoming donors, volunteers and speakers at our events, perpetuating a cycle of giving in the community.

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:

- *Without Donor Restrictions* – are not subject to donor-imposed stipulations. These 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, 2019 and 2018, the board has designated net assets without donor restrictions as restricted for long-term purposes amounting to \$588,288 and \$2,321,682, respectively.
- *With Donor Restrictions* — Net assets that are subject to donor-imposed restrictions that limit the use of their contributions. Donor restrictions may result in *temporarily restricted net assets*, where the use of contributions is limited by donor-imposed stipulations that either expire by the passage of time or when used for specified purposes. Donor restrictions may also result in *permanently restricted net assets*, where the donor stipulations neither expire by the passage of time nor can be fulfilled or otherwise removed by the Organization's actions. As of June 30, 2019 and 2018, the Organization had \$535,464 and \$483,988 in donor restricted net assets, respectively.

FULLFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2019 and 2018

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

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 net assets without restrictions, unless their use is restricted by donors to a specified purpose or future period. Investment income is presented net of investment direct investment management expenses.

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 net assets with restrictions. When a restriction expires, net assets with restrictions are reclassified to net assets without restrictions.

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 \$247,002 and \$205,911 for the years ended June 30, 2019 and 2018, respectively. These amounts are included in in-kind contributions in the accompanying statements of activities. For the years ended June 30, 2019 and 2018, \$115,694 and \$94,108, respectively, of the donated goods and services is included in special event income in the accompanying statements of activities.

Many unpaid volunteers make 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 in excess of 5,000 hours of service during the years ended June 30, 2019 and 2018.

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 asset’s 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.

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.

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2019 and 2018

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

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, 2019 and 2018 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, 2019, there was one individual donor that made up approximately 48% of the Fulfillment Fund's unconditional promises to give. For the year ended June 30, 2018, there were one individual donor that made up approximately 12% 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 fundraising event approximately made up 36% of total revenues during the year ended June 30, 2019. 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.

The Fulfillment Fund offers employer-provided parking. Under section 512 (a)(7) of the Tax Cuts and Jobs Act of 2017, effective after December 31, 2017, this benefit is considered Unrelated Business Income ("UBI") subject to tax for the Fulfillment Fund. UBI taxes related to this benefit is \$19,663 for the year ended June 30, 2019. There was no UBI for the year ended June 30, 2018.

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, 2019 and 2018, 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, 2019 and 2018

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, 2020 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.

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 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.

Reclassifications– Certain amounts from prior year have been reclassified to conform to the current year presentation.

Subsequent Events – Subsequent events have been evaluated through December 3, 2019, the date the financial statements were available to be issued.

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2019 and 2018

NOTE 3 – FACTORS AFFECTING LIQUIDITY

The Organization’s financial assets that are not subject to donor restriction and are available within one year of June 30, 2019, for general expenditures are as follows:

Cash and cash equivalents	\$	711,156
Unconditional promises to give, current portion, net		212,587
Subtotal		923,743
Permanently restricted net assets		(292,008)
	\$	631,735

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. These monitoring tools are supplemented by a number of liquidity-generating strategies such as expansion of earned income, increased donor contributions, and close monitoring of operational efficiency.

In November of 2019, Fulfillment Fund received an anonymous unrestricted donation of \$1,000,000, and is actively seeking an additional unrestricted donation of \$1,000,000 from the same donor before the end of fiscal year 2020. Management believes that its liquid financial assets and anticipated board reserve appropriations through these identified additional large donations provide it with sufficient liquidity to meet the Organization’s future operating expenditures.

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.

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NOTE 4 – FAIR VALUE MEASUREMENTS

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 29% and 42% of total assets, respectively, as of June 30, 2019 and June 30, 2018.

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

	June 30, 2018	
	Fair Value	Cost Basis
Pooled endowment assets	\$ 1,021,390	\$ 875,438
Short-term bond mutual fund	16,906	17,406
Bond market mutual fund	14,855	15,726
World stock mutual fund	67,696	47,486
Total	\$ 1,120,847	\$ 956,056

As of June 30, 2019, 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
Cash surrender value of life insurance policies	\$ 423,016	\$ -	\$ -	\$ 423,016

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

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NOTE 4 – FAIR VALUE MEASUREMENTS – (CONTINUED)

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,	
	2019	2018
Balance, beginning of year	\$ 1,423,653	\$ 2,684,415
Net purchases, sales and other settlements	(987,808)	(1,483,013)
Total net gains included in changes in assets	(12,829)	222,251
Balance, end of year	<u>\$ 423,016</u>	<u>\$ 1,423,653</u>

Investment income, net for the years ended June 30, 2019 and 2018 are summarized as follows:

	June 30,	
	2019	2018
Interest and dividends	\$ 13,459	\$ 31,952
Realized gains and (losses), net	12,721	73,068
Unrealized gains and (losses), net	(24,750)	171,268
Change in cash surrender value of life insurance	20,754	21,357
Investment fees	(4,240)	(24,713)
Total	<u>\$ 17,944</u>	<u>\$ 272,932</u>

NOTE 5 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

	June 30,	
	2019	2018
Unrestricted promises to give	\$ 251,030	\$ 196,078
Restricted to Post-Secondary Program	6,250	3,000
Restricted to Mentoring Services	1,900	10,750
Gross unconditional promises to give	<u>\$ 259,180</u>	<u>\$ 209,828</u>

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NOTE 5 – UNCONDITIONAL PROMISES TO GIVE – (CONTINUED)

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

	June 30,	
	2019	2018
Within one year	\$ 220,997	\$ 137,745
One to five years	38,183	72,083
Gross unconditional promises to give	259,180	209,828
Less discount to reflect at present value	(5,088)	(5,384)
Less allowance for uncollectible pledges	(10,636)	(12,454)
Net unconditional promises to give	243,456	191,990
Less current portion	(212,587)	(130,361)
Long-term portion	\$ 30,869	\$ 61,629

Management applied a 2.0% discount rate for the years ended June 30, 2019 and 2018 to compute the present value of the pledge obligations. Approximately \$55,497 (24%) and \$31,187 (15%) of gross unconditional promises to give were past due at June 30, 2019 and 2018, respectively.

The allowance for unconditional promises to give had the following activity in 2019 and 2018:

	June 30,	
	2019	2018
Balance, beginning of year	\$ (12,454)	\$ (30,465)
Amounts written-off	8,255	106,633
Increase in allowance for uncollectible pledges	(6,437)	(88,622)
Balance, end of year	\$ (10,636)	\$ (12,454)

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	2019	2018
Computers and software	\$ 349,352	\$ 425,473
Furniture and equipment	177,588	177,588
Leasehold improvements	144,788	144,788
Property and equipment, total cost basis	671,728	747,849
Less accumulated depreciation	647,281	698,372
Total	\$ 24,447	\$ 49,477

Depreciation expenses was \$25,030 and \$30,319 for the years ended June 30, 2019 and 2018, respectively.

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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,	
	2019	2018
Gross balance, beginning of year	\$ 1,000	\$ -
New scholarships awarded	347,925	412,425
Payments made to scholarship students	(348,925)	(411,425)
Write-offs / forfeitures	-	-
Net scholarship payable - current	<u>\$ -</u>	<u>\$ 1,000</u>

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS – TEMPORARILY RESTRICTED

Temporarily restricted net assets at June 30, 2019 and 2018 consist of the following:

	June 30,	
	2019	2018
Promises to give restricted due to time	\$ 251,030	\$ 196,078
Restricted to Post-Secondary Program	6,250	3,000
Restricted to Mentoring Services	1,900	10,750
Gross unconditional promises to give	259,180	209,828
Less discount	(5,088)	(5,384)
Less allowance for uncollectible pledges	(10,636)	(12,454)
Net unconditional promises to give	<u>\$ 243,456</u>	<u>\$ 191,990</u>

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS – PERMANENTLY RESTRICTED NET ASSETS AND BOARD-DESIGNATED RESERVES

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.

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 2019 and 2018.

At June 30, 2019, permanently restricted and unrestricted board-designated reserve net assets consisted of the following:

	Board-Designated Reserve	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ 292,008	\$ 292,008
Board-designated reserve funds	588,288	-	588,288
Total, end of year	<u>\$ 588,288</u>	<u>\$ 292,008</u>	<u>\$ 880,296</u>

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NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS – PERMANENTLY RESTRICTED NET ASSETS AND BOARD-DESIGNATED RESERVES – (CONTINUED)

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

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

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

	June 30,	
	2019	2018
Money market fund, Vanguard	\$ 317,097	\$ 203,708
Mutual funds, Vanguard	-	99,457
Pooled endowment assets, UCLA Fund	-	1,021,390
	<u>\$ 317,097</u>	<u>\$ 1,324,555</u>

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NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS – PERMANENTLY RESTRICTED NET ASSETS AND BOARD-DESIGNATED RESERVES – (CONTINUED)

For the year ended June 30, 2019, Fulfillment Fund's endowment and unrestricted board-designated net assets changed as follows:

	Board-Designated Reserve	Permanently Restricted	Total
Net assets, beginning of year	\$ 2,321,682	\$ 292,008	\$ 2,613,690
Net investment return	(2,810)	-	(2,810)
Appropriation of endowment assets for expenditure	(1,730,584)	-	(1,730,584)
Net assets, end of year	<u>\$ 588,288</u>	<u>\$ 292,008</u>	<u>\$ 880,296</u>

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

	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	<u>\$ 2,321,682</u>	<u>\$ 292,008</u>	<u>\$ 2,613,690</u>

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, 2019 were as follows:

<u>Years Ending June 30,</u>	<u>Premises</u>	<u>Equipment</u>	<u>Total</u>
2020	\$ 390,875	\$ 42,336	\$ 433,211
2021	156,512	32,031	188,543
2022	-	7,650	7,650
Total	<u>\$ 547,387</u>	<u>\$ 82,017</u>	<u>\$ 629,404</u>

Rent expenses under the operating leases, including month to month, amounted to \$417,461 and \$443,256 for the years ended June 30, 2019 and 2018, 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.

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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, 2019 and 2018 amounted to \$14,695 and \$76,195, respectively. Two directors of Fulfillment Fund are also directors of FFLV.

Amounts due from board directors as of June 30, 2019 and 2018 amounted to \$151,100 and \$30,933, respectively. These receivable balances are included in unconditional promises to give on the statements of financial position.