

EAST GRAND RAPIDS SCHOOLS FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

EAST GRAND RAPIDS SCHOOLS FOUNDATION

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REPORT OF INDEPENDENT AUDITOR

To the Board of Directors
East Grand Rapids Schools Foundation
East Grand Rapids, Michigan

Report on the Financial Statements

We have audited the accompanying statements of financial position of the East Grand Rapids Schools Foundation (a not-for-profit organization) as of June 30, 2018, and the related statements of activities, net assets, statement of functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information is derived from the Organization's 2017 financial statements which were audited by Lori J Lemieux Dated October 31, 2017, which resulted in an unqualified opinion on them.

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 my audits. We conducted my audits 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 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 do not express such an opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



REPORT OF INDEPENDENT AUDITOR- CONTINUED

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 aspects, the financial position of the East Grand Rapids Schools Foundation as of June 30, 2018, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

William T Morgan CPA

William T Morgan, CPA
Morgan & Associates CPAs
Grand Rapids, Michigan
October 25, 2018

**EAST GRAND RAPIDS SCHOOLS FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017**

ASSETS

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents - operating	\$ 440,156	\$ 170,502
Cash and cash equivalents - restricted	82,013	20,528
Total Cash and Cash Equivalents	<u>522,169</u>	<u>191,030</u>
Prepaid expenses	12,402	6,106
Accounts receivable	400	1,200
Pledges receivable, current portion (Note 2)	689,246	438,856
Investments (Note 3)	<u>5,904,911</u>	<u>4,307,117</u>
TOTAL CURRENT ASSETS	7,129,128	4,944,309
Other Assets		
Net Fixed Assets (Note 6)	2,845	
Pledges receivable (Note 2)	<u>906,098</u>	<u>554,116</u>
TOTAL OTHER ASSETS	<u>908,943</u>	<u>554,116</u>
TOTAL ASSETS	<u>\$ 8,038,071</u>	<u>\$ 5,498,425</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 11,312	\$ 14,016
Grants payable	<u>247,888</u>	<u>196,222</u>
TOTAL CURRENT LIABILITIES	259,200	210,238
Long-term Liabilities		
Alumni funds held	<u>11,303</u>	<u>6,483</u>
Net Assets (Note 5)		
Unrestricted	298,848	261,355
Temporarily Restricted	1,699,779	1,299,530
Permanently Restricted	<u>5,768,942</u>	<u>3,720,819</u>
TOTAL NET ASSETS	<u>7,767,568</u>	<u>5,281,704</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,038,071</u>	<u>\$ 5,498,425</u>

See notes to financial statements.

**EAST GRAND RAPIDS SCHOOLS FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
JUNE 30, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions and gifts	\$ 598,514	5,200	\$ 2,045,184	\$ 2,648,898
Investment income	9,208	123,162	-	132,370
Net realized gain on sale of investments	42,030	634,352	-	676,382
Special events (net of direct expenses of \$71,636)	12,242		2,939	15,181
Release from restrictions:				
Satisfaction of restriction	250,993	(250,993)	-	-
TOTAL SUPPORT & REVENUE	<u>912,988</u>	<u>511,721</u>	<u>2,048,123</u>	<u>3,472,831</u>
EXPENSES				
Program Services				
East Grand Rapids Schools Grant Program	577,149	-	-	577,149
Supporting Services				
General and administrative	98,495	-	-	98,495
Fundraising	191,526	-	-	191,526
TOTAL EXPENSES	<u>867,170</u>	<u>-</u>	<u>-</u>	<u>867,170</u>
Net unrealized loss in fair market value of investments	(8,325)	(111,472)	-	(119,797)
CHANGE IN NET ASSETS	<u>37,493</u>	<u>400,249</u>	<u>2,048,123</u>	<u>2,485,864</u>
NET ASSETS AT BEGINNING OF PERIOD	<u>261,355</u>	<u>1,299,530</u>	<u>3,720,819</u>	<u>5,281,704</u>
NET ASSETS AT END OF PERIOD	<u>\$ 298,848</u>	<u>\$ 1,699,779</u>	<u>\$ 5,768,942</u>	<u>\$ 7,767,568</u>

See notes to financial statements.

**EAST GRAND RAPIDS SCHOOLS FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
JUNE 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions and gifts	\$ 484,815	5,700	\$ 1,171,649	\$ 1,662,164
Investment income	7,287	97,466	-	104,753
Net realized gain on sale of investments	36,890	493,900	-	530,790
Special events (net of direct expenses of \$126,000)	55,415	-	13,301	68,716
Release from restrictions:				
Satisfaction of restriction	231,755	(231,755)	-	-
TOTAL SUPPORT & REVENUE	<u>816,162</u>	<u>365,311</u>	<u>1,184,950</u>	<u>2,366,423</u>
 EXPENSES				
Program Services				
East Grand Rapids Schools Grant Program	569,172	-	-	569,172
Supporting Services				
General and administrative	51,609	-	-	51,609
Fundraising	139,120	-	-	139,120
TOTAL EXPENSES	<u>759,901</u>	<u>-</u>	<u>-</u>	<u>759,901</u>
Net unrealized loss in fair market value of investments	(8,378)	(112,179)	-	(120,557)
CHANGE IN NET ASSETS	<u>47,883</u>	<u>253,132</u>	<u>1,184,950</u>	<u>1,485,965</u>
NET ASSETS AT BEGINNING OF PERIOD	<u>213,472</u>	<u>1,046,398</u>	<u>2,535,869</u>	<u>3,795,739</u>
 NET ASSETS AT END OF PERIOD	<u>\$ 261,355</u>	<u>\$ 1,299,530</u>	<u>\$ 3,720,819</u>	<u>\$ 5,281,704</u>

See notes to financial statements.

**EAST GRAND RAPIDS SCHOOLS FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017**

CASH FLOWS FROM OPERATING ACTIVITIES	2018	2017
Change in Net Assets	\$ 2,485,864	\$ 1,485,965
Adjustments to reconcile the change in net assets to net cash from operating activities		
Net unrealized loss in fair market value of investments	119,797	120,557
Amortization of Fixed Asset	-	
Change in operating assets and liabilities:		
Prepaid expenses	(6,296)	(3,438)
Accounts receivable	800	11,406
Pledges receivable	(1,591,117)	(1,049,470)
Alumni funds held	4,820	1,421
Accounts and Grants payable	48,962	24,381
Net Cash Provided by Operating Activities	1,062,830	590,822
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	\$ 1,408,935	\$ 1,274,654
Purchase of investments	(2,140,626)	(1,996,658)
Net Cash Used in Investing Activities	(731,691)	(722,004)
NET INCREASE IN CASH	331,139	(131,182)
CASH AT BEGINNING OF YEAR	191,030	322,212
CASH AT END OF YEAR	\$ 522,169	\$ 191,030

See notes to financial statements.

EAST GRAND RAPIDS SCHOOLS FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017

/-- PROGRAM SERVICES--/ /---SUPPORTING SERVICES---/

	East Grand Rapids	General and				
	Schools Grant Program	Administrative	Fundraising		Total 2018	Total 2017
Grant expense	\$ 409,257				\$ 409,257	\$ 412,067
Salaries and benefits	65,092	47,662	76,526		189,280	143,657
Accounting and investment fees	31,216	7,292	47,798		86,306	86,306
Office rent	9,904	7,252	11,644		28,800	28,799
Printing, postage and office	6,055	3,160	29,366		38,581	73,114
Travel and meeting expenses	271	3,287	4,400		7,958	4,578
Miscellaneous	55,354	29,842	21,792		106,988	11,380
TOTAL EXPENSES	\$ 577,149	\$ 98,495	\$ 191,526		\$ 867,170	\$ 759,901

See notes to financial statements.

**EAST GRAND RAPIDS SCHOOLS FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION – The East Grand Rapids Schools Foundation (the “Foundation”) was established and incorporated in 1983. The Foundation is an independent not-for-profit organization exempt from federal income tax under Section 501 (c) 3 of the Internal Revenue Code. The East Grand Rapids Schools Foundation enriches the educational experience of our students by funding excellence in teaching and learning that requires financial support beyond that of the East Grand Rapids Public Schools.

BASIS OF ACCOUNTING – Revenues and expenses are recorded on the accrual basis of accounting.

FINANCIAL STATEMENT PRESENTATION – Net assets and changes in net assets are classified into three types – unrestricted, temporarily restricted and permanently restricted – based on the existence or absence of donor-imposed restrictions.

Description of the asset classes is as follows:

Unrestricted Net Assets – Represent funds available for support of current operations and/or funds not limited by donor-imposed stipulations.

Temporarily Restricted Net Assets – Represent funds whose use is limited by donor-imposed stipulations that expire either by passage of time or fulfillment of the stipulations. The funds are reported as temporarily restricted revenues upon receipt and are transferred to Unrestricted Net Assets when the time or purpose restrictions have been met, unless the restrictions are met in the same period as the contribution is made.

Permanently Restricted Net Assets – Represent funds subject to donor-imposed stipulations requiring that the principal be permanently invested.

CASH AND CASH EQUIVALENTS - For purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments to be cash equivalents.

CONTRIBUTIONS – Contributions are recorded as income when an unconditional promise to give has been made.

INVESTMENTS – Investments are carried at fair market value. Fair values for all investments were determined using quoted market prices in active markets. Net unrealized gains and losses of investments are recognized in the accompanying Statement of Activities.

GRANTS – Grants payable consists of scholarships and grants awarded to the East Grand Rapids teachers and students for the support of various educational and co-curricular enhancements. These grants are expected to be paid within the next year.

**EAST GRAND RAPIDS SCHOOLS FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DONATED SERVICES, MATERIALS AND EQUIPMENT– Agencies, business firms and others contribute materials and services toward the fulfillment of projects initiated by the East Grand Rapids Schools Foundation. To the extent that contributions of materials and services are objectively measurable and represent program or support expenditures that would otherwise be incurred by the Foundation, they are reflected in both public support and program expense in the accompanying financial statements. The value of donated items has been estimated at approximately \$12,713 and \$6,223 for the years ended June 30, 2018 and 2017, respectively.

The Foundation utilizes office space and office overhead free of charge from the East Grand Rapids Schools. The value of this office space has been estimated at \$28,800 per year and is included in the financial statements as a contribution with a corresponding expense.

No volunteer services have been valued in the financial statements in as much as there is no objective basis available to measure the value of such services; however, a number of volunteers have donated substantial amounts of their time to the Foundation's programs.

CONCENTRATION OF CREDIT RISK – The Foundation may have in the bank at any given time amounts that are in excess of the FDIC limit of \$250,000.

USE OF ESTIMATES – The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – PLEDGES RECEIVABLE

The EGR NOW AND FOREVER! campaign is an endowment campaign to support excellence in education by funding enhancements to teaching and learning that are not covered by the regular school budget.

Pledges outstanding at June 30, 2018 and 2017 are as follows:

	2018	2017
Pledges receivable	\$1,613,021	\$1,003,972
Less current portion (due within one year)	(704,889)	(438,856)
Long term pledges receivable	<u>908,132</u>	<u>565,116</u>
less discount to present value	<u>(17,677)</u>	<u>(-11,000)</u>
Discounted long-term pledges receivable	<u>\$ 890,455</u>	<u>\$ 554,116</u>

**EAST GRAND RAPIDS SCHOOLS FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

Note 2 – PLEDGES RECEIVABLE (continued)

Future payments of pledges receivable are expected to be collected as follows:

<u>Year ended June 30,</u>	
2019	\$ 327,350
2020	210,966
2021	26,966
2022	<u>1,047,739</u>
	\$1,613,021

Note 3 – INVESTMENTS

The Foundation's investments in marketable securities measured at fair market value on a recurring basis at quoted prices in active markets for identical assets (Level 1). The Foundation's investments at June 30, 2018 and 2017 consist of the following:

	2018	2017
Equities	\$4,185,738	\$3,014,385
Fixed Income Securities	<u>1,719,173</u>	<u>1,292,732</u>
Total Investments	<u>\$5,904,911</u>	<u>\$4,307,117</u>

Net gains from investment transactions for the years ended June 30, 2018 and 2017 includes net unrealized gains/(losses) of (\$119,797) and (\$120,557), respectively and net realized gains of \$676,382 and \$530,790, respectively.

Investment fees and expenses associated with the maintenance of the portfolio were \$33,865 and \$26,368 for the years ended June 30, 2018 and 2017, respectively. These expenses are included in the Statement of Functional Expenses under "Accounting and Investment Fees".

**EAST GRAND RAPIDS SCHOOLS FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

Note 4 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurement).

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Quoted prices in markets that are not considered active or financial instruments for which significant inputs include quoted prices for similar assets or liabilities, interest rate, credit risk, etc.

Level 3 – Significant unobservable inputs which may include the Foundation's own assumptions in determining fair value.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets measured at fair value on a recurring basis on June 30, 2017 are:

	<u>Total</u>	<u>Level 1 Quoted Prices</u>
Investments:		
Municipal & Treasury bonds	\$ 447,466	\$ 447,466
Corporate bonds	1,719,173	1,719,173
Index/Mutual funds	84,477	84,477
Preferred stock	180,482	180,482
Common stock	3,473,313	3,473,313
Total	\$5,904,911	\$5,904,911

As of June 30, 2018, the fair value of the Level 1 investments was valued at the closing price reported on the active market on which the individual securities are traded.

**EAST GRAND RAPIDS SCHOOLS FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

Note 5 – NET ASSETS

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are comprised of the following at June 30:

	<u>2018</u>	<u>2017</u>
Scholarship Funds	\$ 181,228	\$ 138,554
Purpose restricted Funds	277,816	212,398
Endowment Earnings	<u>1,240,735</u>	<u>948,578</u>
	<u>\$1,699,779</u>	<u>\$1,299,530</u>

PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted by donors for the Endowment Fund. However, net investment income earned from permanently restricted net assets is to be used to support the programs and mission of the Foundation. The annual amount available for all grants of the Foundation will be 5% of the average market value of the Endowment of the Foundation, net of expenses, as of the end of the twelve preceding quarters.

The Investment policy of the Foundation includes reasonable efforts to preserve capital, to use care and precaution with respect to the risk taken in the selection of securities, and the review of performance measured over a three to five year moving average.

The Board of Directors of East Grand Rapids Schools Foundation has interpreted current Michigan law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds when explicit donor stipulations require it. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the policies of the Foundation.

**Endowment Net Asset Composition by Type of Fund
As of June 30, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
General Endowment	\$338,089	\$1,289,515	\$5,138,519	\$6,766,123
Scholarships	-	150,800	91,370	242,170
Middle School	-	4,181	11,821	16,002
We the People Fund	-	49,743	32,310	82,053
Performing Arts	-	64,569	31,744	96,313
Rose Fund	-	6,361	-	6,361
Nicholas Fund	-	8,103	33,117	41,219
Kehm Fund	-	837	20,178	21,015
Gerken Fund	-	125,670	409,883	535,554
Total	\$338,089	\$1,699,779	\$5,768,942	\$7,806,809

EAST GRAND RAPIDS SCHOOLS FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

Note 5 – NET ASSETS - continued

Changes in Endowment Net Assets
For the year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, Beginning of year	\$ 300,268	\$1,299,530	\$3,720,819	\$5,320,617
Investment return:				
Investment Income and gain on investment	39,591	676,382	-	715,973
Investment fees	(1,770)	(32,095)	-	(33,865)
Total Investment return	\$ 37,821	\$ 644,287	-	\$ 682,108
Contributions to Endowment	-	5,200	2,048,122	2,053,322
Expenditures	-	(249,238)	-	(249,238)
Endowment net assets, End of year	\$ 338,089	\$1,699,779	\$5,768,942	\$7,806,809

NOTE 6- LAND, BUILDINGS, IMPROVEMENTS, FURNISHINGS, AND EQUIPMENT

Land, Buildings, Improvements, Furnishing, and Equipment consist of the following:

	<u>June 30, 2018</u>
Furnishings and Equipment	\$ 15,514
Less: Accumulated Depreciation	(12,669)
Net Property and Equipment	2,845

Note 7 – COMPARATIVE FINANCIAL STATEMENTS

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Note 8 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 25, 2018, which is the date the financial statements were made available.