

GLOUCESTER EDUCATION FOUNDATION, INC.

Financial Statements

March 31, 2015

(With Independent Auditors' Report Thereon)

GLOUCESTER EDUCATION FOUNDATION, INC.

Financial Statements

March 31, 2015

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Provanzano & Marchesiani P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

To the Board of Directors
Gloucester Education Foundation, Inc.

We have audited the accompanying statement of financial position of Gloucester Education Foundation, Inc. (a nonprofit organization) as of March 31, 2015, and the related notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement 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 the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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 statement of financial position referred to in the first paragraph presents fairly, in all material respects, the financial position of Gloucester Education Foundation, Inc. as of March 31, 2015 in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Statements of Activities, Functional Expenses, and Cash Flows

Because we were not engaged to audit the statements of activities, functional expenses and cash flows, we did not extend our auditing procedures to enable us to express an opinion on the statements of activities, functional expenses, and cash flows for the year ended March 31, 2015. Accordingly, we express no opinion on the statements of activities, functional expenses, and cash flows for the year ended March 31, 2015.

Parsons & Marchisani P.C.

Wakefield, MA
September 3, 2015

GLOUCESTER EDUCATION FOUNDATION, INC.

Statement of Financial Position

March 31, 2015

Assets

Current assets:	
Cash and cash equivalents	\$ 484,593
Marketable securities	127,271
Unconditional promises to give	<u>32,500</u>
Total current assets	644,364
Other assets	
Unconditional promises to give	<u>600</u> <u>5,000</u>
Total assets	<u>\$ 649,964</u>

Net Assets

Net assets:	
Unrestricted	\$ 358,079
Temporarily restricted	<u>291,885</u>
Total net assets	<u>\$ 649,964</u>

See accompanying notes to financial statements.

GLOUCESTER EDUCATION FOUNDATION, INC.

Statement of Activities
(Unaudited)

Year ended March 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Contributions and grants	\$ 231,801	\$ 330,926	\$ 562,727
Investment Income, net	5,966	-	5,966
Realized loss from sale of marketable securities	(2,927)	-	(2,927)
Unrealized gain on marketable securities	3,876	-	3,876
Net assets released from restrictions	165,465	(165,465)	-
Total revenue and support	404,181	165,461	569,642
Expenses:			
Program expenses	276,115	-	276,115
Management and general expenses	25,962	-	25,962
Fundraising expenses	38,703	-	38,703
Total expenses	340,780	-	340,780
Change in net assets	63,401	165,461	228,862
Net assets, beginning of year	294,678	126,424	421,102
Net assets, end of year	\$ 358,079	\$ 291,885	\$ 649,964

See accompanying notes to financial statements.

GLOUCESTER EDUCATION FOUNDATION, INC.

Statement of Functional Expenses
(Unaudited)

Year ended March 31, 2015

	Program expenses	Management and general expenses	Fundraising expenses	Total
Program support	\$ 240,603	\$ -	\$ -	\$ 240,603
Payroll	30,721	10,241	10,240	51,202
Payroll taxes	2,631	877	877	4,385
Payroll processing	-	707	-	707
Professional fees	-	4,587	29	4,616
Filing fees	-	125	-	125
Bank charges	-	806	-	806
Insurance	-	1,393	-	1,393
Membership dues	-	524	524	1,048
Advertising	-	1,450	-	1,450
Hospitality and catering	-	-	390	390
Office expenses	-	693	-	693
Computer expense	-	564	565	1,129
Supplies	-	231	231	462
Conferences, conventions and meetings	-	240	360	600
Rent	2,160	720	720	3,600
Telephone	-	1,234	1,233	2,467
Printing and postage	-	1,570	14,134	15,704
Other special event costs	-	-	9,400	9,400
	\$ 276,115	\$ 25,962	\$ 38,703	\$ 340,780

See accompanying notes to financial statements.

GLOUCESTER EDUCATION FOUNDATION, INC.

Statement of Cash Flows
(Unaudited)

Year ended March 31, 2015

Cash flows from operating activities:	
Change in net assets	\$ 228,862
Adjustments to reconcile net assets to net cash provided by operating activities:	
Unrealized gain on marketable securities	(3,876)
Realized loss from sale of marketable securities	2,927
Change in operating assets:	
Unconditional promises to give	<u>22,500</u>
Net cash provided by operating activities	<u>250,413</u>
Cash flows from investing activities:	
Acquisition of marketable securities	(40,116)
Proceeds from sale of marketable securities	<u>12,637</u>
Net cash used in investing activities	<u>(27,479)</u>
Net change in cash and cash equivalents	222,934
Cash and cash equivalents, beginning of year	<u>261,659</u>
Cash and cash equivalents, end of year	<u>\$ 484,593</u>

See accompanying notes to financial statements.

GLOUCESTER EDUCATION FOUNDATION, INC.

Notes to Financial Statements

March 31, 2015

(1) Summary of Significant Accounting Policies

(a) *Nature of Business*

The Gloucester Education Foundation, Inc. (the "Foundation") was established in 2005 to provide financial support for the public schools of Gloucester, Massachusetts.

The Foundation is classified as a tax-exempt, not-for-profit organization under Internal Revenue Code Section 501(c)(3). In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

(b) *Basis of Accounting*

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(c) *Financial Statement Presentation*

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted, and permanently restricted assets.

(d) *Revenue Recognition/Contributions*

Contributions and grants (hereinafter "contributions") are recorded at fair value as revenue when received or pledged unconditionally.

Contributions are generally available for unrestricted use in the related year unless specifically restricted by the donor or by law. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restriction.

Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of noncash assets are recorded at their fair value in the period received. During the year ended March 31, 2015, the Foundation received no contributions of noncash assets.

GLOUCESTER EDUCATION FOUNDATION, INC.

Notes to Financial Statements

March 31, 2015

(e) *Marketable Securities Valuation and Income Recognition*

The Foundation's marketable securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Trading securities are recorded at fair value on the statement of financial position in current assets, with the change in fair value during the period included in the statement of activities.

(f) *Income Taxes*

Income related to the Foundation's charitable purpose is tax-exempt. However, should the Foundation have unrelated business income (UBIT) it would be taxable. For the year ended March 31, 2015, there was no unrelated business income tax payable.

The Income Taxes topic of the Financial Accounting Standards Board Accounting Standards Codification (hereinafter "FASB ASC") prescribes a comprehensive model for how an organization should measure, recognize, present and disclose in its financial statements uncertain tax positions that the Foundation has taken or expects to take on a tax return.

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the financial statements. Management does not believe its evaluation of tax positions will significantly change within the next twelve months. Any changes in tax positions will be recorded when the ultimate outcome becomes known. Management believes their estimates are appropriate based on current facts and circumstances.

The Foundation recognizes income tax benefits only in the event that a position is more likely than not to be sustained upon examination by the applicable taxing authority. Tax years from 2012 through the current year remain open for examination by Federal and state tax authorities. The Foundation is subject to routine audits by taxing jurisdictions; however, there are no audits for any tax periods in progress.

(g) *Cash and Cash Equivalents*

The Foundation considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents unless restricted by a donor or Board of Directors for a long-term purpose. The carrying value of cash and cash equivalents approximates fair value.

The Foundation maintains cash balances at federally insured banks. Accounts at the banks are fully insured by the Federal Deposit Insurance Corporation and the Deposit Insurance Fund. The Foundation has not experienced any losses in such accounts. Management of the Foundation believes that they are not exposed to any significant credit risk on cash and cash equivalents.

GLOUCESTER EDUCATION FOUNDATION, INC.

Notes to Financial Statements

March 31, 2015

(h) Unconditional Promises to Give

Unconditional promises to give that are expected to be collected over various years are recorded at net realizable value.

(i) Functional Allocation of Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated among the programs and supporting services benefited based on allocation factors determined by management. Fundraising expenses include costs associated with the identification, cultivation and development of contributors. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide overall support and direction of the Foundation.

(j) Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant item subject to such estimates and assumptions include fair market value of marketable securities. Actual results could differ from those estimates.

(k) Subsequent Events

The Foundation's management evaluated events or transactions subsequent to the statement of financial position date for potential recognition or disclosure in the financial statements through September 3, 2015, which is the date the financial statements were available for issuance.

(2) Marketable Securities

The Foundation's marketable securities as of March 31, 2015 are summarized as follows:

	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Fair Value</u>
Trading securities:			
Mutual funds	\$ 11,009	\$ 1,159	\$ 86,531
Common stocks	4,303	513	34,797
Bond	<u>355</u>	<u>-</u>	<u>5,943</u>
	<u>\$ 15,667</u>	<u>\$ 1,672</u>	<u>\$ 127,271</u>

GLOUCESTER EDUCATION FOUNDATION, INC.

Notes to Financial Statements

March 31, 2015

Realized gains and losses are determined on a specific identification method. During the year ended March 31, 2015 sale proceeds and gross realized losses on marketable securities classified as trading securities were:

Sale proceeds	\$ <u>12,053</u>
Gross realized losses	\$ <u>2,927</u>

(3) Fair Value Measurement

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides a framework for measuring fair value. That framework provides 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 prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2: Inputs to the valuation methodology are prices determined using other significant observable inputs, including quoted prices for similar assets or liabilities; or,
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for assets measured at fair value.

Mutual funds, Common Stocks and Bond: Valued at the net asset value (NAV) of shares held by the Foundation at year end.

The following sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of March 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 86,531	\$ -	\$ -	\$ 86,531
Common stocks	34,797	-	-	34,797
Bond	<u>5,943</u>	-	-	<u>5,943</u>
Total assets at fair value	\$ <u>127,271</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>127,271</u>

GLOUCESTER EDUCATION FOUNDATION, INC.

Notes to Financial Statements

March 31, 2015

(4) Unconditional Promises to Give

At March 31, 2015, unconditional promises to give were receivables to be received in the future. Amounts are presented at fair value on the statement of financial position and are deemed fully collectible by management; therefore, a reserve for uncollectible promises to give has not been recorded.

(5) Net Assets

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Foundation. The Foundation has grouped its unrestricted net assets into the following categories:

- Operating – Amounts which bear no external restrictions and are currently available for operations.
- Board designated – Funds set aside by the Board of Directors to be used for purposes approved by the Board.

On an annual basis, the Board of Directors is allowed to transfer up to 5% of the thirteen month average balance of the board designated unrestricted net assets to the operating account. For the year ended March 31, 2015, this amount totaled \$7,884. At March 31, 2015, board designated unrestricted net assets totaled \$214,299.

Temporarily Restricted Net Assets

The Foundation receives contributions which are restricted by donors for specific purposes. These contributions, including future promises to give, are recorded as temporarily restricted net assets until they are expended for their restricted purposes or as time restrictions expire.

Temporarily restricted net assets consist of the following:

Cash and cash equivalents	\$	254,385
Unconditional promises to give		<u>37,500</u>
	\$	<u>291,885</u>

GLOUCESTER EDUCATION FOUNDATION, INC.

Notes to Financial Statements

March 31, 2015

Temporarily restricted net assets have been restricted to support the following programs:

Gloucester 21C Initiative	\$	195,000
Bay State Reading Institute		30,000
Other		<u>66,885</u>
	\$	<u>291,885</u>

Temporarily restricted net assets released from restrictions during fiscal year 2015 were based on the satisfaction of time and purpose restrictions for various programs including the Executive Director salary and Bay State Reading Institute program.

Permanently Restricted Net Assets

Permanently restricted net assets represent contributions and other inflows of net assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. At March 31, 2015, the Foundation had no permanently restricted net assets.

(6) Funding Concentrations

During fiscal year 2015, the Foundation received contributions from one source totaling approximately \$205,000, which approximate 36% of total revenue and support.

(7) Related Party Transactions

The Foundation leases its office space from a related entity owned by the President and a board member of the Foundation. The lease is classified as an operating lease and provides for minimum annual rentals, including utilities, of \$3,600 through June, 2015. Rent expense for the year ended March 31, 2015 totaled \$3,600. The future minimum lease payments are as follows:

<u>Year ending March 31:</u>	<u>Amount</u>
2016	\$ <u>900</u>