

FULFILLMENT FUND

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

For Years Ended

June 30, 2014 and 2013



Gurseley | Schneider LLP
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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CERTIFIED
PUBLIC ACCOUNTANTS
& ADVISORS

Independent Auditor’s Report

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, 2014 and 2013, 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.

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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, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gursey | Schneider LLP

October 10, 2014
Los Angeles, California

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statements of Financial Position
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,438,589	\$ 3,031,843
Unconditional promises to give, current portion, net	440,993	837,949
Prepaid expenses	95,524	63,477
Deposits and other assets	<u>57,335</u>	<u>36,630</u>
 TOTAL CURRENT ASSETS	 <u>3,032,441</u>	 <u>3,969,899</u>
OTHER ASSETS		
Investments	3,399,633	3,012,621
Unconditional promises to give, net of current portion	617,128	778,694
Cash surrender value of life insurance policies	314,438	292,598
Property and equipment, net	310,235	234,573
Restricted cash (endowment assets)	<u>166,725</u>	<u>166,693</u>
 TOTAL OTHER ASSETS	 <u>4,808,159</u>	 <u>4,485,179</u>
 TOTAL ASSETS	 <u>\$ 7,840,600</u>	 <u>\$ 8,455,078</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 546,231	\$ 969,140
Deferred revenue	61,080	89,700
Scholarships payable, current portion, net	<u>246,725</u>	<u>245,819</u>
 TOTAL CURRENT LIABILITIES	 854,036	 1,304,659
 SCHOLARSHIPS PAYABLE, NET OF CURRENT PORTION	 <u>27,083</u>	 <u>14,535</u>
 TOTAL LIABILITIES	 <u>881,119</u>	 <u>1,319,194</u>
NET ASSETS		
Unrestricted	2,335,002	2,343,427
Unrestricted - board designated reserves	3,274,350	2,887,306
Temporarily restricted	1,058,121	1,613,143
Permanently restricted	<u>292,008</u>	<u>292,008</u>
 TOTAL NET ASSETS	 <u>6,959,481</u>	 <u>7,135,884</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 7,840,600</u>	 <u>\$ 8,455,078</u>

See Accompanying Notes to Financial Statements

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Contributions	\$ 955,710	\$ 1,355,844	\$ -	\$ 2,311,554
Special event income, net of \$532,645 of direct costs	1,382,558	230,643	-	1,613,201
In-kind contributions	165,006	-	-	165,006
Fees for management services	135,697	-	-	135,697
Investment and other income	93,899	-	-	93,899
Realized and unrealized gains and losses, net	315,203	-	-	315,203
Subtotal	3,048,073	1,586,487	-	4,634,560
Net assets released from restrictions:	2,141,509	(2,141,509)	-	-
Total Revenues and Support	5,189,582	(555,022)	-	4,634,560
EXPENSES				
Program services	3,660,182	-	-	3,660,182
Administrative services	258,583	-	-	258,583
Development	892,198	-	-	892,198
Total Expenses	4,810,963	-	-	4,810,963
CHANGE IN NET ASSETS	378,619	(555,022)	-	(176,403)
NET ASSETS, July 1, 2013	5,230,733	1,613,143	292,008	7,135,884
NET ASSETS, June 30, 2014	\$ 5,609,352	\$ 1,058,121	\$ 292,008	\$ 6,959,481

See Accompanying Notes to Financial Statements

FULLFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statement of Activities
For the Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Contributions	\$ 753,911	\$ 1,219,026	-	\$ 1,972,937
Special event income, net of \$348,929 of direct costs	1,639,925	355,000	-	1,994,925
In-kind contributions	151,590	-	-	151,590
Fees for services	15,029	-	-	15,029
Investment and other income	76,715	-	-	76,715
Realized and unrealized gains and losses, net	111,894	-	-	111,894
Subtotal	2,749,064	1,574,026	-	4,323,090
Net assets released from restrictions:	1,617,572	(1,617,572)	-	-
Total Revenues and Support	<u>4,366,636</u>	<u>(43,546)</u>	<u>-</u>	<u>4,323,090</u>
EXPENSES				
Program services	4,228,899	-	-	4,228,899
Administrative services	282,179	-	-	282,179
Development	776,412	-	-	776,412
Total Expenses	<u>5,287,490</u>	<u>-</u>	<u>-</u>	<u>5,287,490</u>
CHANGE IN NET ASSETS	(920,854)	(43,546)	-	(964,400)
NET ASSETS, July 1, 2012	<u>6,151,587</u>	<u>1,656,689</u>	<u>292,008</u>	<u>8,100,284</u>
NET ASSETS, June 30, 2013	<u>\$ 5,230,733</u>	<u>\$ 1,613,143</u>	<u>\$ 292,008</u>	<u>\$ 7,135,884</u>

See Accompanying Notes to Financial Statements

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

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

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

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended June 30, 2013

	Program Services				Support Services		
	Mentor Services	High School Program	Post-Secondary Program	Total Program Services	Administrative Services	Development	Total Expenses
Salaries and temporary employees	\$ 549,296	\$ 1,164,665	\$ 218,785	\$ 1,932,746	\$ 107,786	\$ 464,646	\$ 2,505,178
Grants expense	135,797	475,290	67,898	678,985	-	-	678,985
Fringe benefits	81,571	171,934	29,071	282,576	32,585	57,305	372,466
Rent	71,994	153,460	29,734	255,188	56,587	49,246	361,021
Outside services	32,722	171,581	16,213	220,516	19,099	109,191	348,806
Scholarships, net	-	-	304,742	304,742	-	-	304,742
Meals, cultural activities, and travel	27,566	104,516	13,572	145,654	4,108	9,750	159,512
In-kind contributions	52,534	48,875	9,073	110,482	18,292	15,365	144,139
Mileage and parking	23,246	44,662	10,491	78,399	11,982	10,678	101,059
Depreciation	15,919	34,525	6,409	56,853	12,921	10,854	80,628
Insurance	8,959	26,324	3,606	38,889	7,270	6,107	52,266
Supplies	10,257	26,485	3,174	39,916	2,170	2,277	44,363
Repairs and maintenance	4,859	14,071	2,213	21,143	1,797	17,432	40,372
Printing	4,749	13,390	1,905	20,044	3,666	5,674	29,384
Telephone	3,389	10,199	1,271	14,859	2,094	1,909	18,862
Postage and delivery	1,516	2,529	433	4,478	628	8,302	13,408
Awards and gifts	1,587	4,297	1,244	7,128	245	3,683	11,056
Conferences and training	1,335	6,305	506	8,146	141	1,704	9,991
Public relations and advertising	1,760	3,125	581	5,466	755	656	6,877
Memberships and dues	300	1,053	1,336	2,689	53	1,633	4,375
Total Functional Expenses	\$ 1,029,356	\$ 2,477,286	\$ 722,257	\$ 4,228,899	\$ 282,179	\$ 776,412	\$ 5,287,490

In-kind contributions above includes donated goods and services. The most significant items include donated catering for events (\$43,015), rent for use of facilities rents (\$30,000), a vehicle used for prize award (\$29,788) and all other (\$41,336).

See Accompanying Notes to Financial Statements

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Statement of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (176,403)	\$ (964,400)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	94,641	80,628
Unrealized/realized gain on investments	(315,203)	(111,894)
Change in discount on unconditional promises to give	(5,005)	(36,152)
Change in allowance on unconditional promises to give	(9,051)	1,573
Change in discount on scholarships payable	(227)	2,511
Change in allowance on scholarships payable	6,581	15,531
(Increase) decrease in assets:		
Unconditional promises to give	572,578	74,625
Deposits and other assets	(32,047)	(6,030)
Prepaid expenses	(20,705)	(5,230)
Cash surrender value of life insurance policies	(21,840)	(21,907)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(567,697)	669,945
Deferred revenue	(28,620)	-
Scholarships payable	7,100	(86,100)
	CASH USED FOR OPERATING ACTIVITIES	(386,900)
	(495,898)	(386,900)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(71,841)	(1,759,902)
Cash paid for purchases of fixed assets	(25,515)	(263,844)
	CASH USED FOR INVESTING ACTIVITIES	(2,023,746)
	(97,356)	(2,023,746)
NET DECREASE IN CASH	(593,254)	(2,410,646)
CASH AT BEGINNING OF YEAR	3,031,843	5,442,489
CASH AT END OF YEAR	\$ 2,438,589	\$ 3,031,843

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Non-Cash Investing and Financing Activities:

Increase in cash surrender value of life insurance	\$ 21,840	\$ 21,907
Leasehold improvements acquired as rent incentives	\$ 144,788	\$ -
In-kind donation of computer software	\$ -	\$ 7,451

FULLFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2014 and 2013

NOTE 1 – GENERAL AND ORGANIZATION

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

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

During 2013, the Fulfillment Fund opened and operated a second office in Las Vegas, Nevada to administer high school programs. The initial operating funds of the Las Vegas entity were provided by the Fulfillment Fund. In February 2013, Fulfillment Fund Las Vegas (“FFLV”) was incorporated as a Nevada non-profit corporation. The Fulfillment Fund transferred \$678,985 to FFLV as a grant awarded during the year ending June 30, 2013.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- *Unrestricted net assets* – Net assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of the board of directors, or may otherwise be limited by contractual agreements with outside parties. During the year ended June 30, 2014 and 2013, the board has designated unrestricted net assets as restricted for long-term purposes amounting to \$3,274,350 and \$2,887,306, respectively.

FULLFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2014 and 2013

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

- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Fulfillment Fund and / or the passage of time. As restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that resources be maintained in perpetuity by the Fulfillment Fund. Investment income generated from these funds is available for general support of the Fulfillment Fund unless otherwise stipulated by the donor. As of June 30, 2014 and 2013, the Fulfillment Fund had permanently restricted net assets of \$292,008.

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

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

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

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

Donated Services and Equipment – Donated services are recognized if the services received create or enhance long-lived assets, require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated goods are recognized at fair value at the time of contribution. Donated goods and services totaled \$165,006 and \$151,590 for the years ended June 30, 2014 and 2013, respectively. These amounts are included in in-kind contributions in the accompanying statements of activities.

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

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2014 and 2013

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

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

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

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

Impairment of Long-Lived Assets – Long-lived assets to be held are reviewed for events or changes in circumstances, which indicate that their carrying value may not 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, 2014 and 2013 that would give rise to impairment of its long-lived assets.

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

Concentration of Risk – Financial instruments which potentially subject the Fulfillment Fund to concentrations of credit risk consist of cash, money market funds, certificates of deposit, agencies and unconditional promises to give. The Fulfillment Fund places its cash with high-credit, quality financial institutions. These investments are monitored by the Fulfillment Fund's investment committee and made in the manner consistent with policies and guidelines established by the investment committee and approved by the board of directors. The Federal Deposit Insurance Corporation ("FDIC") insures cash up to \$250,000 per institution and the Securities Investor Protection Corporation ("SIPC") protects investments up to \$500,000 per investor. In the normal course of operations, such cash and investment balances 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.

There are three individual and foundation donors that make up approximately 54% of the 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.

FULLFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2014 and 2013

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

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 organization’s policy will be to recognize any tax liability so recorded, including applicable interest and penalties, as a component of income tax expense.

The Fulfillment Fund’s income tax returns remain subject to examination for all tax years ended on or after June 30, 2011 with regard to all tax positions and the results reported.

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

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

Subsequent Events – Subsequent events have been evaluated through October 10, 2014, the date the financial statements were available to be issued.

NOTE 3 – FAIR VALUE MEASUREMENTS

The Fulfillment Fund’s investments are reported at fair value in the accompanying statement 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.

FULFILLMENT FUND
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2014 and 2013

NOTE 3 – FAIR VALUE MEASUREMENTS – (CONTINUED)

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 35% of total assets as of June 30, 2014 and 29% of total assets as of June 30, 2013.

As of June 30, 2014 and 2013, the Fulfillment Fund’s investments (excluding the life insurance policies above) consisted of:

	June 30, 2014		June 30, 2013	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Pooled endowment assets	\$ 2,463,329	\$ 2,247,934	\$ 2,170,775	\$ 2,047,161
Short-term bond mutual fund	334,020	334,962	165,402	166,976
Bond index mutual fund	171,154	174,969	327,116	339,765
Equity index mutual fund	431,130	348,562	349,328	339,282
Total	\$ 3,399,633	\$ 3,106,427	\$ 3,012,621	\$ 2,893,184

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

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

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NOTE 3 – FAIR VALUE MEASUREMENTS – (CONTINUED)

As of June 30, 2013, the Fulfillment Fund's investments were classified by level within the valuation hierarchy as follows:

	Fair Value Designation			
	Total	Level 1	Level 2	Level 3
Pooled endowment assets	\$ 2,170,775	\$ -	\$ -	\$ 2,170,775
Mutual funds	841,846	841,846	-	-
Cash surrender value of life insurance policies	292,598	-	-	292,598
Total	\$ 3,305,219	\$ 841,846	\$ -	\$ 2,463,373

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

	June 30,	
	2014	2013
Balance, beginning of year	\$ 2,463,373	\$ 1,286,201
Net purchases, sales and other settlements	81,796	1,042,598
Total net gains included in changes in assets		
Net gains	232,598	134,574
Balance, end of year	\$ 2,777,767	\$ 2,463,373

NOTE 4 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

	June 30,	
	2014	2013
Unrestricted promises to give	\$ 866,797	\$ 1,128,375
Restricted to Post-Secondary Program	251,500	414,251
Restricted to High School Program	-	74,750
Restricted to Mentoring Services	4,500	77,999
Gross unconditional promises to give	\$ 1,122,797	\$ 1,695,375

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NOTE 4 – UNCONDITIONAL PROMISES TO GIVE – (CONTINUED)

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

	June 30,	
	2014	2013
Within one year	\$ 457,875	\$ 863,500
One to five years	<u>664,922</u>	<u>831,875</u>
Gross unconditional promises to give	1,122,797	1,695,375
Less discount to reflect at present value	(22,073)	(27,078)
Less allowance for uncollectible pledges	<u>(42,603)</u>	<u>(51,654)</u>
Net unconditional promises to give	<u>\$ 1,058,121</u>	<u>\$ 1,616,643</u>

Management applied a 2.0% discount rate for the years ended June 30, 2014 and 2013 to compute the present value of the pledge obligation. Approximately \$49,025 (4.3%) and \$246,250 (14.5%) of gross unconditional promises to give were past due at June 30, 2014 and 2013, respectively.

The reserve for unconditional promises to give had the following activity in 2014 and 2013:

	June 30,	
	2014	2013
Balance, beginning of year	\$ (51,654)	\$ (50,081)
Amounts written-off	25,500	18,500
Increase in allowance for uncollectible pledges	<u>(16,449)</u>	<u>(20,073)</u>
Balance, end of year	<u>\$ (42,603)</u>	<u>\$ (51,654)</u>

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NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	2014	2013
Computers and software	\$ 470,311	\$ 444,796
Furniture and equipment	182,701	182,701
Leasehold improvements	144,788	-
	797,800	627,497
Less accumulated depreciation	(487,565)	(392,924)
Total	\$ 310,235	\$ 234,573

The Fulfillment Fund incurred depreciation expenses of \$94,641 and \$80,628 for the years ended June 30, 2014 and 2013, respectively.

NOTE 6 – SCHOLARSHIPS PAYABLE

The Fulfillment Fund provides scholarships to students to help support the costs of continuing the students' education. Scholarships payable consist of the following at June 30, 2014:

<u>Years ending June 30.</u>	
2014	\$ 290,000
2015	30,750
2016	1,750
	322,500
Gross scholarships payable	322,500
Less discount	(542)
Less allowance for scholarships payable	(48,150)
Net scholarships payable	\$ 273,808

Management applied a 2.0% discount rate for the years ended June 30, 2014 and 2013, respectively to compute the present value of the scholarship obligations.

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NOTE 6 – SCHOLARSHIPS PAYABLE – (CONTINUED)

Gross scholarships payable had the following activity in 2014 and 2013:

	June 30,	
	2014	2013
Balance, beginning of year	\$ 315,400	\$ 401,500
New scholarships awarded	401,750	326,650
Payment made to scholarship students	(381,650)	(391,750)
Write - offs / forfeitures	(13,000)	(21,000)
	<u>322,500</u>	<u>315,400</u>
Balance, end of year	<u>\$ 322,500</u>	<u>\$ 315,400</u>

The reserve for scholarships payable had the following activity in 2014 and 2013:

	June 30,	
	2014	2013
Balance, beginning of year	\$ (54,731)	\$ (70,262)
Write - offs / forfeitures	13,000	21,000
Addition to allowance for scholarships payable	(6,419)	(5,469)
	<u>(48,150)</u>	<u>(54,731)</u>
Balance, end of year	<u>\$ (48,150)</u>	<u>\$ (54,731)</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2014 and 2013 consist of the following:

	June 30,	
	2014	2013
Promises to give restricted due to time	\$ 866,797	\$ 1,128,375
Restricted to Post-Secondary Program	251,500	414,251
Restricted to High School Program	-	74,750
Restricted to Mentoring Services	4,500	77,999
	<u>1,122,797</u>	<u>1,695,375</u>
Gross unconditional promises to give	1,122,797	1,695,375
Less discount	(22,073)	(30,578)
Less allowance unconditional promises to give	(42,603)	(51,654)
	<u>(64,676)</u>	<u>(82,232)</u>
Net unconditional promises to give	<u>\$ 1,058,121</u>	<u>\$ 1,613,143</u>

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NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS

The Fulfillment Fund had one donor-restricted endowment fund which is held in a money market account and is classified in net assets as permanently restricted. During 2013, the funds of the endowment were reinvested in mutual funds along with unrestricted net assets. The investments were classified as restricted cash on the accompanying statement of financial position as of June 30, 2013 and are reflected in investments in mutual funds. Any interest and dividend income that is generated by the funds are available to be appropriated for general operational use. There were no new endowments received in the current year. Interest earned on the endowment assets was \$17 and has been reclassified to unrestricted net assets.

At June 30, 2014, endowment net assets consisted of the following:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 292,008	\$ 292,008
Board-designated endowment funds	3,274,350	-	3,274,350
Endowment net assets, end of year	<u>\$ 3,274,350</u>	<u>\$ 292,008</u>	<u>\$ 3,566,358</u>

At June 30, 2013, endowment net assets consisted of the following:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 292,008	\$ 292,008
Board-designated endowment funds	2,887,306	-	2,887,306
Endowment net assets, end of year	<u>\$ 2,887,306</u>	<u>\$ 292,008</u>	<u>\$ 3,179,314</u>

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

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

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NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS – (CONTINUED)

For the year ended June 30, 2013, Fulfillment Fund's endowment net assets changed as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 1,015,510	\$ 292,008	\$ 1,307,518
Contribution received	1,833,333	-	1,833,333
Net investment return			-
Interest income	38,456	7	38,463
Appropriate of endowment Assets for expenditure	<u>7</u>	<u>(7)</u>	<u>-</u>
Net assets, end of year	<u>\$ 2,887,306</u>	<u>\$ 292,008</u>	<u>\$ 3,179,314</u>

NOTE 9 – COMMITMENTS

Lease Obligations

The Fulfillment Fund leases office space and certain equipment under operating leases that expire in August 31, 2023 and June 30, 2015, respectively. The office lease has an early termination option on August 31, 2020. Future minimum lease payments under non-cancelable operating leases at June 30, 2014 were as follows:

<u>Years ending June 30,</u>	<u>Premises</u>	<u>Equipment</u>	<u>Total</u>
2015	\$ 168,400	\$ 25,860	\$ 194,260
2016	266,864	-	266,864
2017	357,544	-	357,544
2018	367,567	-	367,567
2019	378,522	-	378,522
Thereafter	<u>547,387</u>	<u>-</u>	<u>547,387</u>
Total	<u>\$ 2,086,284</u>	<u>\$ 25,860</u>	<u>\$ 2,112,144</u>

Rent expenses under the operating leases, including month to month, amounted to \$386,721 and \$361,021 for the years ended June 30, 2014 and 2013, 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 10 – RELATED PARTY TRANSACTIONS

Fulfillment Fund Las Vegas

During the year ended June 30, 2013, Fulfillment Fund spent \$371,015 to initiate the start-up operations of FFLV. Additionally, Fulfillment Fund awarded a grant of \$678,985 to fund operations. There are no such disbursement and awards for the year-ended June 30, 2014.

Fulfillment Fund provides managerial support services to FFLV. Revenues for these services for the years ended June 30, 2014 and 2013 amounted to \$135,697 and \$15,029, respectively.

Amounts due from FFLV as of June 30, 2014 amounted to \$21,632, which is included in deposits and other assets on the statement of financial position. No such receivable was outstanding as of June 30, 2013.

Two directors of Fulfillment are also directors of FFLV.

Board members

A member of the Fulfillment Fund's board of directors serves as an officer of Wells Fargo Bank. Wells Fargo Bank is one of Fulfillment Fund's primary financial institutions.

At June 30, 2014 and 2013, Fulfillment Fund has pledges receivable from members of the board of directors, totaling \$430,005 and \$170,750, respectively. Management believes these pledges are fully collectible.