

MCPS EDUCATIONAL FOUNDATION, INC.
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021



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**MCPS EDUCATIONAL FOUNDATION, INC.
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YEAR ENDED JUNE 30, 2021**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
MCPS Educational Foundation, Inc.
Rockville, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of MCPS Educational Foundation, Inc. (the Foundation), which comprise the statement of financial position as of June 30, 2021, and the related statement of activities, and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 auditors' 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 Foundation'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 Foundation'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 the Foundation as of June 30, 2021 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

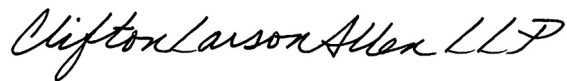
Emphasis-of-Matter

Correction of Error

To conform with U.S. generally accepted accounting principles (GAAP), the Foundation restated their statement of financial position and statement of activities as of and for the year ending June 30, 2020 for the correction of errors in previously issued financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2021, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
November 15, 2021

MCPS EDUCATIONAL FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021

ASSETS

ASSETS

Cash	\$ 499,387
Investments	8,086,167
Prepaid Expenses	<u>17,999</u>
Total Assets	<u><u>\$ 8,603,553</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Northern Trust Line of Credit	\$ 250,000
Accounts Payable	376,427
Due to Montgomery County Public Schools	<u>559,041</u>
Total Liabilities	1,185,468

NET ASSETS

Without Donor Restrictions	2,760,968
With Donor Restrictions:	
Purpose Restrictions	2,667,398
Perpetual in Nature	<u>1,989,719</u>
Total With Donor Restrictions	<u>4,657,117</u>
Total Net Assets	<u><u>7,418,085</u></u>
Total Liabilities and Net Assets	<u><u>\$ 8,603,553</u></u>

See accompanying Notes to Financial Statements.

MCPS EDUCATIONAL FOUNDATION, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Contributions	\$ 1,099,508	\$ 114,563	\$ 1,214,071
Investment Income	517,670	620,464	1,138,134
Net Unrealized Gain (Loss) on Investments	153,149	184,152	337,301
Net Assets Released from Restrictions	302,032	(302,032)	-
Total Revenues	2,072,359	617,147	2,689,506
EXPENSES			
Program Services:			
Grants Paid to MCPS	995,613	-	995,613
Scholarships	33,500	-	33,500
Total Program Services	1,029,113	-	1,029,113
Supporting Services:			
Salaries	200,162	-	200,162
Office Expenses	74,546	-	74,546
Refurnd of Escheated Funds	-	350,622	350,622
Credit Card and Bank Fees	4,136	-	4,136
Total Supporting Services	278,844	350,622	629,466
Total Expenses	1,307,957	350,622	1,658,579
CHANGE IN NET ASSETS	764,402	266,525	1,030,927
Net Assets - Beginning of Year as Restated	1,996,566	4,390,592	6,387,158
NET ASSETS - END OF YEAR	\$ 2,760,968	\$ 4,657,117	\$ 7,418,085

See accompanying Notes to Financial Statements.

**MCPS EDUCATIONAL FOUNDATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 1,030,927
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Unrealized Loss (Gain) on Investments	(337,301)
Effects of Changes in Operating Assets and Liabilities:	
Due to Montgomery County Public Schools	559,041
Prepaid Expenses	(17,999)
Accounts Payable	376,427
Grants Payable	(1,281,243)
Net Cash Provided by Operating Activities	<u>329,852</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(1,288,116)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from Line of Credit	250,000
NET INCREASE (DECREASE) IN CASH	(708,264)
Cash - Beginning of Year	<u>1,207,651</u>
CASH - END OF YEAR	<u><u>\$ 499,387</u></u>

See accompanying Notes to Financial Statements.

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The MCPS Educational Foundation, Inc. (the Foundation), a Maryland nonprofit corporation, is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation's general purpose is to support and enhance the educational goals established by the Board of Education of Montgomery County.

Use of Estimates in Preparing Financial Statements

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during their reporting period. Actual results could differ from those estimates.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting which requires the Foundation to report information regarding its financial position and activities according to two classes of net assets: with and without donor restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as Net Assets Released from Restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions to the Foundation are received from foundations, nonprofits, businesses, and individuals. In addition to planned gifts of bequests and securities, the foundation also receives escheated funds from the unclaimed proceeds of the estates of deceased individuals as provisioned by the Annotated Code of Maryland. Investment income is reported as increases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law.

Distributions

Distributions made to Montgomery County Public Schools (MCPS) and to others are recorded as expenses at the time the commitments to give are made and all conditions have been met. All other expenses are recognized when incurred. Expenses are reported as decreases in net assets without donor restrictions.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Investments

Investments are reported at fair value, or at cost when cost approximates fair value, and any unrealized gains, losses, and investment income are reflected in the Statements of Activities as a change in net assets without donor restrictions, unless their use is restricted by explicit donor-imposed stipulations or by law. Dividends, interest, and net gains on investments of endowments and similar funds are reported as follows:

- As increases in net assets with donor restrictions if the terms of the gift or relevant state law impose restrictions that require the income or net gains to be retained permanently;
- As increases net assets without donor restrictions in all other cases.

Income Tax Exemption

The Foundation is organized as a Maryland nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in Internal Revenue Code (IRC) Section 501(c)(3), qualifies for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be a private foundation under IRC Sections 509(a)(1) and (3), respectively. The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation may be subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. We have determined that the Foundation is not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Contributions

MCPS employees perform services for the Foundation in addition to their full-time positions with the school system. Additionally, MCPS has donated the use of certain facilities. These donated services and facilities have not been reflected in the financial statements since the services are clerical in nature and do not require specialized skills and since the value of the facilities used is not material to the financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Financial Instruments and Credit Risk

We manage deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, we have not experienced losses in any of these accounts. Investments performance is monitored by us and the board of directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, we believe that the investment policies and guidelines are prudent for the long-term welfare of the organization.

Subsequent Events

We have evaluated subsequent events through November 15, 2021, the date the financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and Cash Equivalents	\$ 499,387
Investments	<u>3,429,050</u>
Total	<u><u>\$ 3,928,437</u></u>

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 LIQUIDITY AND AVAILABILITY (CONTINUED)

Our endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditures. As of June 30, 2021, \$1,989,719 was not available for general expenditures.

NOTE 3 RELATED PARTY TRANSACTIONS

The Foundation is a legally separate entity from MCPS, but is considered to be a component unit of MCPS because of the significance of their financial relationship.

During the year ended June 30, 2021, the Foundation made pledges to MCPS of \$500,000, and made other contributions indirectly benefiting the MCPS educational program of \$619,717. At June 30, 2021, the Foundation owed MCPS \$559,041 for unpaid contributions.

In addition, MCPS provides various administrative services and space to the Foundation.

NOTE 4 INVESTMENTS

Investments as of June 30 are summarized as follows:

	<u>Cost</u>	<u>Market</u>
Montgomery County Investment Pool	\$ 281,860	\$ 281,860
Northern Trust Securities	7,279,692	7,795,025
M&T Financial Services	1,357	1,357
Other	<u>7,925</u>	<u>7,925</u>
Total Investments	<u>\$ 7,570,834</u>	<u>\$ 8,086,167</u>

Interest rate risk: The Foundation manages its exposure to fair value losses arising from increasing interest rate risk by limiting the duration of fixed income investments portfolios. Internal pooled investments duration is limited to less than six months. The investment policy of the Centralized Investment Funds limits maturities to three years or less. During FY 2021, the investment portfolios were managed within the duration guidelines specified in each of the respective investment policies.

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, the Foundation uses various valuation approaches within the accounting codification guidance for the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

The accounting codification guidance, *Fair Value Measurements*, establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The accounting codification guidance defines levels within the hierarchy based on the reliability of inputs 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 include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair market value measurement.

As of June 30, 2021, the only assets or liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition are investments in the Montgomery County Investment Pool, Northern Trust, and M&T Financial Services.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents investments measured at fair value by classification within the fair value hierarchy as of June 30:

	Fair Value Measurements at Report Date 2021			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	(Level 3)
Assets:				
Operating Investments:				
Equity in Investment Pool				
Montgomery County	\$ 281,860	\$ -	\$ 281,860	\$ -
Mutual Fund by Type:				
Equities	5,613,011	5,613,011	-	-
Fixed Income	1,970,516	1,970,516	-	-
Real Estate	193,616	193,616	-	-
Commodities	-	-	-	-
Total	<u>8,059,003</u>	<u>\$ 7,777,143</u>	<u>\$ -</u>	<u>\$ -</u>
Cash and Cash Equivalents	<u>27,164</u>			
Total Investments	<u>\$ 8,086,167</u>			

The Montgomery County Investment Pool invests in short-term U.S. Treasury obligations, bankers' acceptances, commercial paper, repurchase agreements and money market funds. Such securities are classified as Level 2 of the valuation hierarchy.

The Foundation invests in open ended publicly traded mutual funds held at Northern Trust. Such securities are classified as Level 1 in the valuation hierarchy.

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. All acquisitions greater than \$5,000 with an expected life greater than one year are capitalized. Property and Equipment consisted of software of \$44,237. The asset was fully depreciated as of June 30, 2018.

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 7 ENDOWMENTS

The Foundation includes 14 donor-restricted endowments established to provide scholarships (10 funds), grants (three funds), and awards (one fund) for MCPS students. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The corpus must be used as an investment in perpetuity. The investment income can be used to fulfill the endowments' purpose.

Interpretation of Relevant Law

The Foundation has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA), enacted April 14, 2009, 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. Consequently, the Foundation classifies net assets with restrictions as:

- The original value of gifts donated to the permanent endowment, and
- The original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund is classified as net assets with restrictions until those amounts are committed for expenditure by the Foundation. In accordance with MUPMIFA, the Foundation considers the following factors in making a determination to expend or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by the endowments. The endowment assets are invested in a manner that is intended to produce a market rate of return while maintaining a low level of investment risk.

Spending Policy

Annually, the Foundation reviews the available appreciation in the value of endowment funds and the expected future returns on endowment investments to determine the amounts of new scholarships that it may award in the current year. The Foundation expects that the current spending policy will allow its endowments to retain the original fair value of the gifts.

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 7 ENDOWMENTS (CONTINUED)

Strategies Employed for Achieving Objectives

The Foundation relies on an investment strategy in which investment returns are achieved principally through current interest income. Asset allocation emphasizes fixed income investments.

Endowment Net Assets Composition as of June 30, 2021	
	With Donor Restriction
Donor Restricted Endowment Funds:	
Original Donor-Restricted Gift Amount and Amounts Required to be Maintained in Perpetuity by Donor	\$ 1,525,819
Contributions held in perpetuity	463,900
Total Original Donor-Restricted Gift Amount and Amounts Required to be Maintained in Perpetuity by Donor	1,989,719
Accumulated Investment Gains	1,083,120
	\$ 3,072,839

Changes in Endowment Assets for the Fiscal Year Ended June 30, 2021	
	With Donor Restriction
Endowment Net Assets - Beginning of Year	\$ 1,997,772
Investment Return, Net	802,122
Contributions	272,945
Endowment Net Assets - End of Year	\$ 3,072,839

NOTE 8 NET ASSETS

	2021
Subject to Expenditure for Specified Purpose: Science and General Education	\$ 2,667,398
Endowments:	
Subject to Appropriation and Expenditure When an Original Donor-Restricted Gift Amount and Amounts Required to be Maintained in Perpetuity by Donor:	
Scholarships and Special Needs	1,989,719
Total Net Assets With Donor Restrictions	\$ 4,657,117

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 8 NET ASSETS (CONTINUED)

Net assets with donor restrictions are restricted for the following purposes or periods:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors. Certain Net Assets were released from restrictions by meeting time restrictions set forth in the Annotated Code of Maryland as to refund of escheated funds to located heirs. The net assets were released as follows for the year ended June 30:

	2021
Grants Paid to MCPS	\$ (302,032)

NOTE 9 UNCERTAINTY IN INCOME TAXES

The Foundation has adopted the FASB requirements for accounting for uncertain tax positions and has determined that it is not required to record a liability related to uncertain tax positions.

NOTE 10 FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various programs and other activities are summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 11 RESTATEMENTS

To conform with U.S generally accepted accounting principles (GAAP), net assets as of the beginning of the year were restated to account for errors made in accumulation and recording of contributions with donor imposed restrictions and the related net asset classifications.

Statement of Activities

	Without Donor Restrictions	With Donor Restrictions	Total
Net Assets - beginning of year, as previously reported	\$ (2,282,829)	\$ (3,073,860)	\$ (5,356,689)
Correction of error	286,263	(1,316,732)	(1,030,469)
Net Assets - beginning of year, as restated	\$ (1,996,566)	\$ (4,390,592)	\$ (6,387,158)

Statement of Net Assets

Grants Payable as previously reported	\$ (1,030,469)
Correction of error	1,030,469
Grants Payable as restated	\$ -