

MCPS EDUCATIONAL FOUNDATION, INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

**MCPS EDUCATIONAL FOUNDATION, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
of 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 statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, 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.

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.

Board of Directors
of MCPS Educational Foundation, Inc.

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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018, 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 result 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
September 26, 2018

MCPS EDUCATIONAL FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
ASSETS		
Cash	\$ 244,752	\$ 180,332
Investments	5,890,415	5,593,218
Accounts Receivable	4,253	6,660
Total Assets	\$ 6,139,420	\$ 5,780,210
LIABILITIES AND NET ASSETS		
LIABILITIES		
Due to Montgomery County Public Schools	\$ 461,523	\$ 380,614
Grants Payable	1,156,871	974,664
Total Liabilities	1,618,394	1,355,278
NET ASSETS		
Unrestricted	2,760,543	2,851,365
Temporarily Restricted	938,621	751,705
Permanently Restricted	821,862	821,862
Total Net Assets	4,521,026	4,424,932
Total Liabilities and Net Assets	\$ 6,139,420	\$ 5,780,210

See accompanying Notes to Financial Statements.

MCPS EDUCATIONAL FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Contributions	\$ 1,205,641	\$ 106,334	\$ -	\$ 1,311,975	\$ 1,162,205	\$ 64,736	\$ -	\$ 1,226,941
Investment Income	75,812	24,040	-	99,852	44,792	13,200	-	57,992
Net Unrealized Gain on Investments	229,149	78,002	-	307,151	376,899	118,357	-	495,256
Net Assets Released from Restrictions	21,460	(21,460)	-	-	37,052	(37,052)	-	-
Total Revenues	<u>1,532,062</u>	<u>186,916</u>	<u>-</u>	<u>1,718,978</u>	<u>1,620,948</u>	<u>159,241</u>	<u>-</u>	<u>1,780,189</u>
EXPENSES								
Program Services:								
Science and General Education	1,201,581	-	-	1,201,581	1,071,713	-	-	1,071,713
Scholarships	208,333	-	-	208,333	128,267	-	-	128,267
Total Program Services	<u>1,409,914</u>	<u>-</u>	<u>-</u>	<u>1,409,914</u>	<u>1,199,980</u>	<u>-</u>	<u>-</u>	<u>1,199,980</u>
General	212,970	-	-	212,970	208,257	-	-	208,257
Depreciation	-	-	-	-	13,271	-	-	13,271
Total Expenses	<u>1,622,884</u>	<u>-</u>	<u>-</u>	<u>1,622,884</u>	<u>1,421,508</u>	<u>-</u>	<u>-</u>	<u>1,421,508</u>
CHANGE IN NET ASSETS	(90,822)	186,916	-	96,094	199,440	159,241	-	358,681
Net Assets - Beginning of Year	<u>2,851,365</u>	<u>751,705</u>	<u>821,862</u>	<u>4,424,932</u>	<u>2,651,925</u>	<u>592,464</u>	<u>821,862</u>	<u>4,066,251</u>
NET ASSETS - END OF YEAR	<u>\$ 2,760,543</u>	<u>\$ 938,621</u>	<u>\$ 821,862</u>	<u>\$ 4,521,026</u>	<u>\$ 2,851,365</u>	<u>\$ 751,705</u>	<u>\$ 821,862</u>	<u>\$ 4,424,932</u>

See accompanying Notes to Financial Statements.

**MCPS EDUCATIONAL FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 96,094	\$ 358,681
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Unrealized Gain on Investments	(307,151)	(495,252)
Receipts from Customers	2,407	-
Depreciation	-	13,271
Effects of Changes in Operating Assets and Liabilities:		
Accounts Receivable	-	(6,045)
Due to Montgomery County Public Schools	80,909	69,897
Grants Payable	182,205	(47,575)
Net Cash Provided (Used) by Operating Activities	54,464	(107,023)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(99,840)	(57,994)
Proceeds from Investments	109,796	-
Net Cash Provided (Used) by Investing Activities	9,956	(57,994)
NET INCREASE (DECREASE) IN CASH	64,420	(165,017)
Cash - Beginning of Year	180,332	345,349
CASH - END OF YEAR	\$ 244,752	\$ 180,332

See accompanying Notes to Financial Statements.

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. Temporarily restricted net assets at June 30, 2018 and 2017 were available for science and general educational purposes.

Unrestricted Net Assets

Net assets that are not subjected to donor-imposed stipulations.

Contributions

Contributions to the Foundation are received from private foundations, business organizations, individuals, and escheated funds from the unclaimed proceeds of the estates of deceased individuals as provided for by the Annotated Code of Maryland. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of the donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or incurrence of donor specified expenses, temporarily restricted net assets are reclassified to unrestricted net assets. Investment income is reported as increases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or law.

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 unrestricted net assets.

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 unrestricted net assets, 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 permanently restricted net assets 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 in temporarily restricted net assets if the terms of the gift or relevant state law impose restrictions on the current use of the income or net gains; or
- As increases in unrestricted net assets in all other cases.

Income Tax Exemption

The Foundation is exempt from taxation under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income tax expense has been provided in the accompanying financial statements. However, the Foundation is subject to income taxes to the extent that the Foundation has "Unrelated Business Income" as defined by the Internal Revenue Service. As of June 30, 2018, the Foundation did not have Unrelated Business Income.

In-Kind Contributions

MCPS employees perform services for the Foundation in addition to their full-time positions with the school system. These services are not included as in-kind contributions as such services are not significant.

Grants Payable

The Foundation provides grants for scholarships and programs that benefit a school or student within MCPS and are expected to be disbursed within a one year period. As of June 30, 2018 and 2017, grants payable totaled \$1,156,871 and \$974,664, respectively.

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 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 years ended June 30, 2018 and 2017, the Foundation made pledges to MCPS of \$545,000 and \$545,000, respectively, and made other contributions indirectly benefiting the MCPS educational program of \$864,912 and \$661,268, respectively. At June 30, 2018 and 2017, the Foundation owed MCPS \$461,523 and \$380,614, respectively, for unpaid contributions.

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

NOTE 3 INVESTMENTS

Investments as of June 30 are summarized as follows:

	2018		2017	
	Cost	Market	Cost	Market
Montgomery County Investment Pool	\$ 291,790	\$ 291,790	\$ 386,612	\$ 386,612
Common Fund	-	-	4	4
Northern Trust Securities	5,373,713	5,598,624	5,141,433	5,196,810
M&T Securities	1	1	9,792	9,792
Total Investments	<u>\$ 5,665,504</u>	<u>\$ 5,890,415</u>	<u>\$ 5,537,841</u>	<u>\$ 5,593,218</u>

NOTE 4 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.

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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, 2018 and 2017, 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, the Common Fund, Northern Trust, and M&T Securities. 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 also invests in the Common Fund Institutional Multi-Strategy Equity and Bond Fund, Northern Trust and M&T money market funds. Such securities are classified as either Level 1 or Level 2 of the valuation hierarchy.

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.

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

	2018		
	Level 1	Level 2	Total
Montgomery County Investment Pool	\$ -	\$ 291,790	\$ 291,790
Northern Trust	-	5,598,624	5,598,624
M&T Securities	1	-	1
Total	<u>\$ 1</u>	<u>\$ 5,890,414</u>	<u>\$ 5,890,415</u>
	2017		
	Level 1	Level 2	Total
Montgomery County Investment Pool	\$ -	\$ 386,612	\$ 386,612
Common Fund	-	4	4
Northern Trust	-	5,196,810	5,196,810
M&T Securities	9,792	-	9,792
Total	<u>\$ 9,792</u>	<u>\$ 5,583,426</u>	<u>\$ 5,593,218</u>

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 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 and 2017.

NOTE 6 ENDOWMENTS

The Foundation includes two donor-restricted endowments established to provide scholarships 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 permanently restricted net assets 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 not classified as permanently restricted is classified as temporarily restricted net assets 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.

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 ENDOWMENTS (CONTINUED)

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.

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, 2018

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted Endowment Funds	<u>\$ 326,390</u>	<u>\$ 821,862</u>	<u>\$ 1,148,252</u>

Changes in Endowment Assets for the Fiscal Year Ended June 30, 2018

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets - Beginning of Year	\$ 242,532	\$ 821,862	\$ 1,064,394
Investment Income	86,858	-	86,858
Expenditures	(3,000)	-	(3,000)
Endowment Net Assets - End of Year	<u>\$ 326,390</u>	<u>\$ 821,862</u>	<u>\$ 1,148,252</u>

Endowment Net Assets Composition as of June 30, 2017

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted Endowment Funds	<u>\$ 242,532</u>	<u>\$ 821,862</u>	<u>\$ 1,064,394</u>

Changes in Endowment Assets for the Fiscal Year Ended June 30, 2017

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets - Beginning of Year	\$ 149,038	\$ 821,862	\$ 970,900
Investment Income	117,512	-	117,512
Expenditures	(24,018)	-	(24,018)
Endowment Net Assets - End of Year	<u>\$ 242,532</u>	<u>\$ 821,862</u>	<u>\$ 1,064,394</u>

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 NET ASSETS

Temporarily restricted net assets at June 30 are restricted for the following programs:

	<u>2018</u>	<u>2017</u>
Science and General Education	<u>\$ 938,621</u>	<u>\$ 751,705</u>

Net assets released from restrictions were as follows:

	<u>2018</u>	<u>2017</u>
Science and General Education	<u>\$ 21,460</u>	<u>\$ 37,052</u>

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.

Permanently restricted net assets at June 30 are restricted for the following purposes:

	<u>2018</u>	<u>2017</u>
Scholarships	<u>\$ 821,862</u>	<u>\$ 821,862</u>

NOTE 8 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 9 CONCENTRATION OF CREDIT RISK

Financial instruments which subject the Association to concentrations of credit risk consist of cash accounts with a financial institution. Funds in these accounts sometimes exceed the Federal deposit insurance limits.

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.

MCPS EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 11 SUBSEQUENT EVENTS

Management evaluated subsequent events through September 26, 2018, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2018, but prior to September 26, 2018, that provided additional evidence about conditions that existed at June 30, 2018, have been recognized in the financial statements for the year ended June 30, 2018. Events and transactions that provided evidence about conditions that did not exist at June 30, 2018, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2018.