

**ANN ARBOR PUBLIC SCHOOLS
EDUCATIONAL FOUNDATION**

FINANCIAL STATEMENTS

JUNE 30, 2013

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STEFFORIA, PETIK & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ann Arbor Public Schools Educational Foundation

We have audited the accompanying financial statements of Ann Arbor Public Schools Educational Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, 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.

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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ann Arbor Public Schools Educational Foundation as of June 30, 2013, 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.

Stefforia, Petik & Associates, P.C.

Ann Arbor, MI
January 30, 2014

**ANN ARBOR PUBLIC SCHOOLS EDUCATIONAL FOUNDATION
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2013**

	2013
Assets	
Current assets	
Cash and cash equivalents	\$ 123,341
Pledges receivable	50,150
Marketable securities	738,368
Total Current Assets	911,859
Other assets	
Agency endowment fund	248,495
Total Assets	\$ 1,160,354
Liabilities	
Current Liabilities	
Accounts Payable	164,388
Total Liabilities	\$ 164,388
Net Assets	
Unrestricted	38,667
Temporarily restricted	499,711
Permanently restricted	457,588
Net Assets	\$ 995,966
Total Liabilities & Net Assets	\$ 1,160,354

See Independent Auditors' Report and Notes to Financial Statements

**ANN ARBOR PUBLIC SCHOOLS EDUCATIONAL FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2013**

	2013
Unrestricted net assets	
Support	
Public contributions	\$ 73,494
Donated services and materials	19,500
Total support	92,994
Revenue	
Special events	25,812
Investment income	8,727
Realized gain on investments	16,611
Unrealized gain on investments	4,611
Total revenue	55,761
Other changes in unrestricted net assets	
Net assets released from restrictions	47,743
Total unrestricted support and revenues	196,498
Expenses	
Program services	294,041
Supporting services	
Management and general	36,754
Fundraising	26,193
Total expenses	356,988
Decrease in unrestricted net assets	(160,490)
Temporarily restricted net assets	
Contributions	145,194
Net assets released from restrictions	(47,743)
Net assets transferred to permanently restricted	(3,000)
Investment income	13,305
Realized gain on investments	25,486
Unrealized gain on investments	6,065
Endowment fund activity	21,164
Increase in temporarily restricted net assets	160,471
Permanently restricted net assets	
Contributions	-
Endowment fund activity	3,597
Transfers to restricted net assets	3,000
Increase in permanently restricted net assets	6,597
Increase in net assets	6,578
Net assets at beginning of year	989,388
Net assets at end of year	\$ 995,966

See Independent Auditors' Report and Notes to Financial Statements

**ANN ARBOR PUBLIC SCHOOLS EDUCATIONAL FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Supporting Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Grants awarded	\$ 234,541	-	-	\$ 234,541
Special event expenses	3,231	-	3,231	6,462
Wages and benefits	38,340	19,170	-	57,510
Fundraising	-	-	22,962	22,962
Administrative expenses	4,058	4,059	-	8,117
Outside services	11,621	7,748	-	19,369
Facilities	2,250	2,250	-	4,500
Professional expenses	-	3,527	-	3,527
 Total operating expenses	 <u>\$ 294,041</u>	 <u>\$ 36,754</u>	 <u>\$ 26,193</u>	 <u>\$ 356,988</u>

See Independent Auditors' Report and Notes to Financial Statements

**ANN ARBOR PUBLIC SCHOOLS EDUCATIONAL FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

	2013
Cash flows from operating activities	
Increase in net assets	\$ 6,578
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities	
Endowment fund activity	(24,761)
Unrealized gain on investments	(10,676)
Realized gain on investments	(42,097)
Changes in operating assets and liabilities	
Pledges receivable	5,477
Grants payable	15,593
Net cash provided (used) by operating activities	(49,886)
Cash flows from investing activities	
Proceeds from sale of investments	580,217
Purchase of investments	(591,939)
Net cash provided (used) by investing activities	(11,722)
Net increase (decrease) in cash and cash equivalents	(61,608)
Cash and cash equivalents at beginning of year	184,949
Cash and cash equivalents at end of year	\$ 123,341
Supplemental disclosures	
Cash paid during the year for interest	\$ -
Cash paid during the year for income taxes	\$ -

See Independent Auditors' Report and Notes to Financial Statements

**ANN ARBOR PUBLIC SCHOOLS EDUCATIONAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements of the Ann Arbor Public Schools Educational Foundation (AAPSEF) have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation is in accordance with US GAAP Codification of Accounting Standards, Topic 958, Presentation of Financial Standards (formerly SFAS No. 117.) Under US GAAP Codification Topic 958, the organization is required to report information regarding its revenues and expenses according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Cash and Cash Equivalents

AAPSEF considers all certificates of deposit and financial instruments with an original maturity period of less than three months to be cash equivalents. Cash at June 30, 2013 consists of a general bank checking account.

Marketable Securities

Investments in marketable securities are mutual funds and securities held by independent brokerage firms and are presented at fair market value based on quoted market prices, as described in Note 5. Net realized and unrealized gains and losses are determined on the specific identification method and are included in investment income.

Donated Services and In-Kind Donations

AAPSEF records the fair value of contributed services in the financial statements if the services either (a) create or enhance a non-financial asset or (b) require specialized skills, are provided by persons possessing those skills and would need to be purchased if they were not donated as required by US GAAP Codification Topic 958 (formerly SFAS 116.) During the year ended June 30, 2013 the organization recorded in-kind donations totaling \$15,000 for marketing and fundraising.

In addition, AAPSEF receives the use of office space and related office equipment and supplies from the Ann Arbor Public School District and from a local business. A total of \$4,500 has been recognized in the financial statements as support for this donation as of June 30, 2013. AAPSEF receives other in-kind donations from Board members and local organizations, such as meeting space, professional training and advertising.

**ANN ARBOR PUBLIC SCHOOLS EDUCATIONAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement

The Organization applies generally accepted accounting principles for fair value measurement of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Support and Revenue Recognition

All contributions not specifically restricted by the donor are considered to be available for unrestricted use and are recorded as contributions when received. Donor-restricted contributions are recorded as unrestricted contributions when funds have been expended for the restricted purpose. Donor-restricted contributions not expended by year-end are recorded as temporarily or permanently restricted contributions, depending on the nature of AAPSEF's agreement with the donor at the time of the contribution. When donor restrictions expire in the same reporting period as the contributions are received, the contributions are reported as unrestricted when received.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the program and support services have been reported on a functional basis in the Statement of Activities. Indirect costs have been allocated between program services and supporting services based on estimates determined by management. Although the methods of allocation are considered reasonable, other methods could be used that would produce different allocation amounts.

Special events

Special event revenue and expenses consist primarily of two annual fundraising activities, a golf outing and a dinner party.

Tax status

AAPSEF is a not-for-profit organization that has been determined to be exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Advertising costs

Advertising costs are expensed as incurred. Total advertising expense was \$18,443 for the year ended June 30, 2013.

**ANN ARBOR PUBLIC SCHOOLS EDUCATIONAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including January 30, 2014 which is the date the financial statements were available to be issued.

NOTE 2 – NATURE OF ACTIVITIES

AAPSEF raises private funds through events and contributions from the community in order to enrich public school education through large program support and grants to teachers. AAPSEF serves as a vehicle for private giving to public schools in Ann Arbor, Michigan. AAPSEF's primary sources of revenue are contributions, fundraising events and investment income.

NOTE 3 – ENDOWMENT

During 1998, AAPSEF transferred funds to the Ann Arbor Area Community Foundation (AAACF) for the purpose of establishing an endowment fund to generate investment income for use by AAPSEF in perpetuity. Because AAPSEF named itself beneficiary of the fund, assets transferred to the fund by AAPSEF are net assets of AAPSEF while donations to the fund by others are net assets of the Foundation in accordance with US variance power to the Foundation. Variance power is defined as the unilateral power to GAAP Codification Topic 958 (formerly SFAS 136), even though the gift instrument grants redirect the use of any gifts or assets to another beneficiary. Income distributions are based upon a formula of the market value of the assets under management and are reflected as temporarily restricted endowment fund activity revenue by the beneficiary organization. AAPSEF reported \$248,495 as an investment at June 30, 2013 and \$24,761 as current year income for the year ended June 30, 2013.

NOTE 4 – CONCENTRATIONS

AAPSEF receives a majority of its revenue from contributions from residents of the Ann Arbor Public School District.

**ANN ARBOR PUBLIC SCHOOLS EDUCATIONAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 – FAIR VALUE MEASUREMENTS

AAPSEF applies GAAP for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes 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 measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by marked data

Level 3: Unobservable inputs that are not corroborated by market data

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets measured on Level 1 inputs on a recurring basis at June 30, 2013:

	<u>Cost</u>	<u>Unrealized gain (loss)</u>	<u>Total investments at fair value</u>
Mutual funds	\$692,718	\$ 45,650	\$738,368

NOTE 6 – INVESTMENT INCOME

Investment income for the period ending June 30, 2013 consisted of the following:

Interest and Dividends	\$22,032
Net unrealized gains	\$10,676

NOTE 7 – PLEDGES RECEIVABLE

During the year ended June 30, 2013, IMRA made a \$100,000 gift to the Foundation to be paid over the next two years. The gift will support renovations to Argus Planetarium and a small residual will be kept as endowed funds to support ongoing maintenance and staff.

**ANN ARBOR PUBLIC SCHOOLS EDUCATIONAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 – RELATED PARTY TRANSACTIONS

Management fees paid to a Company under the control of the Executive Director of the Organization in accordance with a management contract amounted to \$16,739 for the year ended June 30, 2013.

NOTE 9 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

Temporarily restricted net assets:			
Donor restricted for scholarship and various programs	\$	487,805	
Ann Arbor Community Foundation Endowment-restricted for programs		11,906	
Total temporarily restricted		<u>499,711</u>	
Permanently restricted net assets:			
Ann Arbor Community Foundation Endowment	\$	236,588	
Donor restricted for scholarship and various programs		221,000	
Total permanently restricted		<u>457,588</u>	

NOTE 10 – SPECIAL EVENTS

The following is a summary of gross revenue and direct fundraising costs for the special events for the year ended June 30, 2013. The net revenue from these events is included in unrestricted revenue in these financial statements:

	June 30, 2013		
	Gross Revenue	Gross Expenses	Net Revenue
Harvest Dinner	\$ 14,750	\$ 5,216	\$ 9,534
Ann Arbor Marathon	16,278	-	16,278
	<u>\$ 31,028</u>	<u>\$ 5,216</u>	<u>\$ 25,812</u>