

ALDINE EDUCATION FOUNDATION
(A Texas Nonprofit Organization)

Financial Statements and
Independent Auditor's Report
Year Ended June 30, 2018

ALDINE EDUCATION FOUNDATION
(A Texas Nonprofit Organization)

YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Aldine Education Foundation

We have audited the accompanying financial statements of Aldine Education Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2018, and the related statements 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.

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 the Foundation as of June 30, 2018, 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.



Houston, Texas
December 4, 2018

ALDINE EDUCATION FOUNDATION
(A Texas Nonprofit Corporation)

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

ASSETS

Current assets:

Unrestricted cash	\$ 1,087,098
Other assets	8,450
Total noncurrent assets	<u>1,095,548</u>

Noncurrent assets:

Long-term investments subject to donor restrictions	<u>856,532</u>
Total noncurrent assets	<u>856,532</u>

TOTAL ASSETS \$ 1,952,080

LIABILITIES AND NET ASSETS

LIABILITIES

Current liabilities:

Scholarships payable	<u>\$ 583,375</u>
Total current liabilities	<u>583,375</u>

TOTAL LIABILITIES 583,375

NET ASSETS

Unrestricted	675,986
Permanently restricted	<u>692,719</u>

TOTAL NET ASSETS 1,368,705

TOTAL LIABILITIES AND NET ASSETS \$ 1,952,080

The accompanying notes are an integral part of the these financial statements.

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STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contribution	\$ 637,289	\$ 654,834	\$ 211,869	\$ 1,503,992
In-kind contributions	151,159	-	-	151,159
Other revenues	26,892	-	-	26,892
Investment income, net	41,742	-	-	41,742
Net assets released from restrictions	654,834	(654,834)	-	-
TOTAL SUPPORT AND REVENUE	1,511,916	-	211,869	1,723,785
EXPENSES				
Program service expenditures	1,175,987	-	-	1,175,987
Management and general expenditures	225,463	-	-	225,463
Fundraising expenditures	18,190	-	-	18,190
TOTAL EXPENSES	1,419,640	-	-	1,419,640
CHANGE IN NET ASSETS	92,276	-	211,869	304,145
NET ASSETS, BEGINNING OF YEAR	583,710	-	480,850	1,064,560
NET ASSETS, END OF YEAR	\$ 675,986	\$ -	\$ 692,719	\$ 1,368,705

The accompanying notes are an integral part of the these financial statements.

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STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 304,145
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:	
Other assets	(8,450)
Contributions restricted for endowment	(211,869)
Decrease in scholarships payable	<u>186,375</u>
Total adjustments	<u>(33,944)</u>
Net cash provided by operating activities	<u>270,201</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	<u>(293,805)</u>
Net cash used in investing activities	<u>(293,805)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Release of restricted cash and cash equivalents	50,844
Contributions restricted for endowment	<u>211,869</u>
Net cash provided by financing activities	<u>262,713</u>
NET INCREASE IN CASH	239,109
CASH, BEGINNING OF YEAR	<u>847,989</u>
CASH, END OF YEAR	<u><u>\$ 1,087,098</u></u>

The accompanying notes are an integral part of these financial statements.

ALDINE EDUCATION FOUNDATION

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

1. Nature of Activities and Summary of Significant Accounting Policies

Organization and Business

Aldine Education Foundation (the "Foundation"), since its establishment in 2012, has provided community-based support to the Aldine Independent School District in pursuit of excellence in teaching, innovation in the classroom, and superior learning opportunities for all students. The Foundation is supported by contributions from Aldine ISD as well as other foundations, corporate entities, and individual donors.

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Financial Statement Presentation

The Foundation's financial statements are presented in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. Under FASB ASC Topic 958, the Foundation is required 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. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- Unrestricted net assets – These are net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.
- Temporarily restricted net assets – These are net assets that are subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or passage of time.
- Permanently restricted net assets – These are net assets that are 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 the related investments for specific or general purposes.

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YEAR ENDED JUNE 30, 2018

Additionally, the Foundation is required by FASB ASC Topic 958 to present statements of activities and cash flows.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounting for Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a restriction is released by the donor, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. When both temporarily restricted and unrestricted resources are available for a specific purpose, it is the Foundation's policy to use those temporarily restricted resources first, then unrestricted resources as needed.

In-Kind Contributions and Contributed Services

Contributed professional services are recorded in the accompanying financial statements as noncash contributions and noncash donations at their estimated fair values at the date of performance. The value of contributed services and gifts included in the financial statements and the corresponding expenses for the years ended June 30, 2018 was \$151,159.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Foundation had no restricted cash and no cash equivalents for year ended June 30, 2018.

The Foundation had a total unrestricted cash balance of \$1,087,098 for the year ended June 30, 2018.

Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

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The Foundation applies the provisions of FASB ASC Topic 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC Topic 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Federal income tax returns of the Foundation for years 2015 through 2017 are still subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Scholarships Activity & Scholarships Payable

In accordance with FASB ASC Topic 720, *Other Expenses*, the Foundation recognizes unconditional scholarship awards as liabilities and scholarships expense at fair value at the time the scholarship is approved. Scholarships payable represent unconditional scholarship awards that have been approved prior to year end, but remain unpaid as of the statement of financial position date. The Foundation had scholarships payable of \$583,375 for the year ended June 30, 2018.

New Accounting Standards

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 – *Leases* (Topic 842), which supersedes existing guidance on leases and amends and supersedes a number of other paragraphs throughout the FASB ASC. This update will be effective for the Foundation's 2020 financial statements. Management is currently evaluating the impact this update will have on the Foundation's financial statements.

In August 2016, the FASB issued ASU 2016-14 – *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, which will eliminate the distinction between resources with permanent restrictions and those with temporary restrictions from the face of financial statements as well as improve the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. This update will be effective for the Foundation's 2019 financial statements. Management is currently evaluating the impact this update will have on the Foundation's financial statements.

In August 2016, the FASB issued ASU 2016-15 – *Statement of Cash Flows* (Topic 230): *Classification of Certain Cash Receipts and Cash Payments*, which clarified guidance on certain cash flow classification issues. This update will be effective for the Foundation's 2020 financial statements. Management is currently evaluating the impact, if any, this

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update will have on the Foundation's financial statements.

In November 2016, the FASB issued ASU 2016-18 – Statement of Cash Flows (Topic 230): *Restricted Cash*, which requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This update will be effective for the Foundation's 2020 financial statements. Management is currently evaluating the impact this update will have on the Foundation's financial statements.

2. Concentration of Credit Risks

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Foundation will not be able to recover its deposits. Although the Foundation does not have a formal deposit policy, it maintains deposits at federally insured banks and strives to minimize its exposure to custodial credit risk by maintaining deposits at institutions with demonstrated financial strength. Bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. The total cash maintained by the Foundation in those banks as of June 30, 2018 was \$568,471, of which \$127,838 exceeded the FDIC insured limit and was otherwise uninsured. Management believes that this credit risk exposure was mitigated by the financial strength of the banking institutions in which the deposits were held. Cash reported in the statements of financial position is different from the cash at banks due to outstanding checks and similar reconciling items.

For the year ended June 30, 2018, contributions received from two separate donors represented 43% and 12% of the the Foundation's revenues and support.

3. Other assets

Other assets consist of gift cards received as donations from various sources for the purpose of awarding as general development.

4. Investments

Endowment contributions that began or or before December 31, 2017 must have a full contributed value of at least \$15,000. Endowment contributions that began on or after January 1, 2018 must have a full contributed value of at least \$20,000. The contributed amount is deposited to the Trust account for investment in publicly traded securities. All investments are valued at fair market values.

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YEAR ENDED JUNE 30, 2018

As of June 30, 2018, the Foundation had the following investments:

<u>Description</u>	<u>Market value</u>
Cash equivalents	\$ 49,081
Mutual funds:	
Equities	510,556
Fixed income	296,895
Total	<u>\$ 856,532</u>

Investment income during the fiscal year ended June 30, 2018 was as follows:

Interest and dividends	16,791
Investment expenses	(5,645)
Realized gain/loss	9,358
Unrealized gain/loss	21,238
Total investment income, net	<u>\$ 41,742</u>

5. Fair Value Measurements

U.S. GAAP establishes a fair value hierarchy which classifies fair value measurements from level 1 through level 3 based upon the inputs used to measure fair value, as follows:

Level 1 — Quoted prices (unadjusted) are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 — Pricing inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 — Pricing inputs include significant inputs that are generally less observable or from unobservable sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

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The following tables present the Foundation's investments that were accounted for at fair value on a recurring basis as of June 30, 2018, by level within the fair value hierarchy. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of significance for a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities within the fair value hierarchy levels.

	Fair Value at June 30, 2018			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 49,081	\$ -	\$ -	\$ 49,081
Mutual funds:				
Equities	510,556	-	-	510,556
Fixed income	296,895	-	-	296,895
	<u>\$ 856,532</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 856,532</u>

6. Net Assets

Unrestricted net assets in the amount of \$675,986 as of June 30, 2018 are available for any purpose and activity of the Foundation.

Permanently restricted net assets are restricted in perpetuity. The total amount of permanently restricted net assets is composed of donor-restricted endowment funds of \$692,719 maintained for the benefit of scholarships for students.

7. Endowment Funds

The Foundation's endowment consists of individual endowment funds established for the exclusive purpose of funding scholarships awarded by the Foundation. These individual funds consist of both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

On September 1, 2007, the State of Texas promulgated the Uniform Prudent Management of Investment Funds Act ("UPMIFA"). UPMIFA provides standards and guidelines for the management, investment, and expenditure of charitable funds and for endowment spending by institutions organized and operated exclusively for a charitable purpose. The purposes of UPMIFA are to modernize rules, to articulate prudence standards, and to provide guidance and authority for the management and investment of charitable funds and for endowment

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spending. The act provides greater direction with respect to making prudent determinations and requires charities to focus on donor intent and the purpose of endowment funds when managing institutional funds.

FASB ASC Topics 958-205-50-1A through 50-2, *Reporting Endowment Funds*, provide guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to UPMIFA; and improve disclosures about an organization's endowment funds (both donor restricted funds and funds functioning as an endowment), regardless of whether it is subject to UPMIFA. FASB ASC Topics 958-205-50-1A through 50-2 require an organization to classify a portion of a donor-restricted endowment fund (other than a term endowment) as permanently restricted net assets. That portion is equal to the amount of the fund that: (1) must be retained permanently, in accordance with explicit donor stipulations, or (2) that, in the absence of such stipulations, the not-for-profit's governing board determines must be retained permanently under the relevant law.

As permitted by accounting standards generally accepted in the United States of America, income earned on endowment funds is classified and reported based on the existence or absence of donor imposed restrictions as well as based on management's prudent determinations.

Interpretation of Relevant Law

The Foundation interprets UPMIFA 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. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purpose(s) of 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; and (7) the investment policies of the Foundation.

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Balances of the funds included in permanently restricted net assets were as follows:

	2018
Endowment funds:	
Use of income is unrestricted	\$ 132,214
Contributions	46,000
Investment income	37,370
Less:	
Disbursed investment income	(1,000)
	\$ 214,584
Use of income is restricted	\$ 480,850
Contributions	211,869
	692,719
Total endowment funds	\$ 907,303

The following table details the net asset composition of the endowment fund by type of fund as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ -	\$ -	\$ 692,719	\$ 692,719
Board-designated endowments	214,584	-	-	214,584
Total	214,584	-	692,719	\$ 907,303
Endowment net assets, beginning of year	132,214	-	480,850	613,064
Contributions	46,000	-	211,869	257,869
Net investment income	37,370	-	-	37,370
Disbursed investment income	(1,000)	-	-	(1,000)
Endowment net assets, end of year	\$ 214,584	\$ -	\$ 692,719	\$ 907,303

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8. Related Party Transactions

Aldine ISD pays payroll, benefits, and administrative costs of Aldine ISD employees who perform work on behalf of the Foundation and subsequently notifies the Foundation that such expenses are to be treated as an in-kind contribution. The total of in-kind contributions received from Aldine ISD during the year ended June 30, 2018 amounted to \$151,159.

In addition, Aldine ISD provides approximately 200 square feet of office space and other facilities to the Foundation at no cost.

9. Subsequent Events

Management has evaluated subsequent events through December 4, 2018; the date financial statements were available to be issued. No changes were made, or are necessary to be made, to the financial statements, as a result of that evaluation.