

LA's PROMISE
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
LA's Promise

Report on the Financial Statements

We have audited the accompanying financial statements of LA's Promise (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, 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 LA's Promise as of June 30, 2015, 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.

Report on Summarized Comparative Information

We have previously audited LA's Promise 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 21, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Green Hasson & Janks LLP

December 11, 2015
Los Angeles, California

LA's PROMISE**STATEMENT OF FINANCIAL POSITION**
June 30, 2015
With Summarized Totals at June 30, 2014

	2015			2014
	Unrestricted	Temporarily Restricted	Total	
ASSETS				
Cash and Cash Equivalents	\$ 859,073	\$ -	\$ 859,073	\$ 732,083
Pledges Receivable	976	814,500	815,476	31,614
Prepaid Expenses and Other Assets	49,189	-	49,189	48,849
Property and Equipment (Net)	31,603	-	31,603	14,071
TOTAL ASSETS	\$ 940,841	\$ 814,500	\$ 1,755,341	\$ 826,617
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable and Accrued Liabilities	\$ 304,092	\$ -	\$ 304,092	\$ 219,056
NET ASSETS:				
Unrestricted	636,749	-	636,749	423,017
Temporarily Restricted	-	814,500	814,500	184,544
TOTAL NET ASSETS	636,749	814,500	1,451,249	607,561
TOTAL LIABILITIES AND NET ASSETS	\$ 940,841	\$ 814,500	\$ 1,755,341	\$ 826,617

The Accompanying Notes are an Integral Part of These Financial Statements

LA's PROMISE**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2015

With Summarized Totals for the Year Ended June 30, 2014

	2015			2014 Total
	Unrestricted	Temporarily Restricted	Total	
REVENUE AND PUBLIC SUPPORT:				
Contributions	\$ 1,229,519	\$ 1,427,205	\$ 2,656,724	\$ 2,436,438
Special Events (Net of Direct Donor Benefits of \$356,565)	1,298,208	-	1,298,208	469,878
Other Income (Loss)	5,168	-	5,168	(2,788)
Net Assets Released from: Purpose Restrictions	797,249	(797,249)	-	-
TOTAL REVENUE AND PUBLIC SUPPORT	3,330,144	629,956	3,960,100	2,903,528
EXPENSES:				
Program Services	2,478,014	-	2,478,014	2,101,253
Management and General	343,530	-	343,530	298,590
Fundraising	294,868	-	294,868	286,480
TOTAL EXPENSES	3,116,412	-	3,116,412	2,686,323
CHANGE IN NET ASSETS	213,732	629,956	843,688	217,205
Net Assets - Beginning of Year	423,017	184,544	607,561	390,356
NET ASSETS - END OF YEAR	\$ 636,749	\$ 814,500	\$ 1,451,249	\$ 607,561

The Accompanying Notes are an Integral Part of These Financial Statements

LA's PROMISE

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2015

With Summarized Totals for the Year Ended June 30, 2014

	2015					2014 Total Expenses
	Program Services	Support Services		Total Support Services	Total Expenses	
		Management and General	Fundraising			
Salaries	\$ 1,269,361	\$ 137,536	\$ 131,632	\$ 269,168	\$ 1,538,529	\$ 1,255,031
Payroll Taxes	104,515	11,181	10,868	22,049	126,564	107,779
Employee Benefits	118,580	9,211	11,892	21,103	139,683	112,342
TOTAL PERSONNEL COSTS	1,492,456	157,928	154,392	312,320	1,804,776	1,475,152
Professional Services	450,922	121,674	21,927	143,601	594,523	533,666
Outside Services	56,233	1,426	31,774	33,200	89,433	177,720
Development and Training	115,832	6,835	48,042	54,877	170,709	41,691
Occupancy	93,353	9,753	9,269	19,022	112,375	157,986
Travel	97,288	4,638	7,858	12,496	109,784	89,730
Computer	10,859	1,051	1,334	2,385	13,244	15,103
Insurance	-	28,378	-	28,378	28,378	28,358
Depreciation and Amortization	15,985	1,732	1,658	3,390	19,375	15,836
Supplies	55,022	1,001	5,548	6,549	61,571	41,307
Telephone	32,780	2,392	2,880	5,272	38,052	23,856
Equipment	26,333	1,325	1,268	2,593	28,926	28,464
Printing	3,793	752	396	1,148	4,941	10,776
Miscellaneous	697	206	99	305	1,002	5,483
Web Design	9,411	27	7,705	7,732	17,143	12,534
Conferences	7,776	-	-	-	7,776	14,441
Subscriptions and Dues	7,577	3,433	15	3,448	11,025	7,771
Bank Charges	-	553	-	553	553	2,253
Postage and Delivery	1,697	426	703	1,129	2,826	4,196
TOTAL 2015 FUNCTIONAL EXPENSES	\$ 2,478,014	\$ 343,530	\$ 294,868	\$ 638,398	\$ 3,116,412	
TOTAL 2014 FUNCTIONAL EXPENSES	\$ 2,101,253	\$ 298,590	\$ 286,480	\$ 585,070		\$ 2,686,323

The Accompanying Notes are an Integral Part of These Financial Statements

LA's PROMISE

STATEMENT OF CASH FLOWS

Year Ended June 30, 2015

With Summarized Totals for the Year Ended June 30, 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 843,688	\$ 217,205
Adjustment to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation and Amortization	19,375	15,836
(Gain) Loss on Sale of Property and Equipment	(3,924)	3,498
(Increase) Decrease in:		
Pledges Receivable	(783,862)	133,993
Prepaid Expenses and Other Assets	(340)	8,892
Increase in Accounts Payable and Accrued Liabilities	<u>85,036</u>	<u>34,110</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 159,973	 413,534
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(37,983)	(2,460)
Proceeds from Sale of Property and Equipment	<u>5,000</u>	<u>700</u>
 NET CASH USED IN INVESTING ACTIVITIES	 <u>(32,983)</u>	 <u>(1,760)</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 126,990	 411,774
Cash and Cash Equivalents - Beginning of Year	<u>732,083</u>	<u>320,309</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 859,073</u>	 <u>\$ 732,083</u>

The Accompanying Notes are an Integral Part of These Financial Statements

LA's PROMISE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - ORGANIZATION

Mission - LA's Promise, is a nonprofit organization whose mission is to graduate every student attending an LA's Promise neighborhood school college and career ready. Through a robust school turnaround model, LA's Promise partners with a cadre of schools committed to ensuring that students growing up in poverty receive an excellent education.

LA's Promise Neighborhood is an enrollment zone that includes two large South LA high schools (Manual Arts and West Adams Prep) and one middle school (John Muir) operated by LA's Promise in a first-of-its-kind performance contract with the Los Angeles Unified School District. Within this zone, LA's Promise transforms chronically failing public schools, opens new schools and remakes schools into community hubs that offer comprehensive support services for students and families. By doing this, LA's Promise will prepare every child in LA's Promise Neighborhood to be college and career-ready, healthy and successful in life.

Vision - LA's Promise vision is to transform underperforming schools into vibrant community hubs that graduate all students prepared for successful and healthy lives, thereby radically improving the future of an entire community.

Over the coming years, LA's Promise goal is to adopt feeder schools to build a K-12 educational pipeline serving over 10,000 children. Part of this goal is for LA's Promise to also open charter schools to further advance its mission and vision and ensure it serves the most academically and socially disadvantaged students of LA's Promise Neighborhood.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of LA's Promise are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted Net Assets.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Temporarily Restricted Net Assets.** LA's Promise reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from purpose or time restrictions. LA's Promise has \$814,500 of temporarily purpose restricted net assets at June 30, 2015.

LA's PROMISE

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) ACCOUNTING (continued)

- **Permanently Restricted Net Assets.** These net assets are from donors who stipulate that resources are to be maintained permanently, but permit LA's Promise to expend part of the income (or other economic benefits) derived from the donated assets. LA's Promise has no permanently restricted net assets at June 30, 2015.

(c) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short-term, highly liquid investments with maturities of three months or less at the time of purchase. The carrying value of cash and cash equivalents at June 30, 2015 approximates its fair value.

LA's Promise maintains its cash and cash equivalents in bank deposit accounts and other investment accounts, which, at times, may exceed federally insured limits. LA's Promise has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

(d) CONTRIBUTIONS AND PLEDGES RECEIVABLE

Unconditional contributions, including pledges recorded at estimated fair value, are recognized as revenues in the period received. LA's Promise reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets.

Discounts for pledges (pledges due over one year) are recorded as reductions to contribution revenue and pledges receivable. Discounts increase contribution revenue when the pledge is received.

At June 30, 2015, LA's Promise evaluated the collectibility of pledges receivable and no allowance for uncollectible pledges was considered necessary.

Pledges receivable at June 30, 2015 are expected to be collected as follows:

Years Ending June 30

Due in Less Than One Year	\$ 557,476
Due in One to Five Years	<u>258,000</u>
TOTAL PLEDGES RECEIVABLE	<u>\$ 815,476</u>

(e) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$1,000 and the useful life is greater than two years. The estimated useful lives are as follows:

Furniture and Equipment	3 - 7 Years
Leasehold Improvements	3 Years

LA's PROMISE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) LONG-LIVED ASSETS

LA's Promise evaluates long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No such impairment losses were recognized on long-lived assets during the year ended June 30, 2015.

(g) CONTRIBUTED GOODS AND SERVICES

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. There were no contributed services recognized by LA's Promise during the year ended June 30, 2015.

(h) INCOME TAXES

LA's Promise is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d(c)(1) of the California Revenue and Taxation Code.

LA's Promise is required to evaluate its tax positions and recognize a liability for any positions that would not be considered "more likely than not" to be upheld under a tax authority examination. If such issues exist, LA's Promise policy will be to recognize any tax liability so recorded, including applicable interest and penalties, as a component of income tax expense. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at June 30, 2015.

LA's Promise federal income tax and informational returns for tax years ending June 30, 2012 and subsequent remain subject to examination by the Internal Revenue Service. The returns for California remain subject to examination by the California Franchise Tax Board for years June 30, 2011 and subsequent.

(i) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing LA's Promise programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. LA's Promise uses salary dollars to allocate indirect costs.

(j) USE OF ESTIMATES

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

LA's PROMISE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) COMPARATIVE TOTALS

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with LA's Promise financial statements for the year ended June 30, 2014 from which the summarized information was derived.

(l) SUBSEQUENT EVENTS

LA's Promise has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2015 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through December 11, 2015, the date these financial statements were available to be issued. No material events or transactions were noted to have occurred.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2015 consist of the following:

Furniture and Equipment	\$	198,343
Leasehold Improvements		<u>45,568</u>
TOTAL		243,911
Less: Accumulated Depreciation and Amortization		<u>(212,308)</u>
PROPERTY AND EQUIPMENT (NET)	\$	<u>31,603</u>

Depreciation and amortization expense for the year ended June 30, 2015 was \$19,375.

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2015 consist of the following:

Go For College Program	\$	156,000
Fitness Program		120,000
Other Programs		13,500
Time Restrictions		<u>525,000</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$	<u>814,500</u>

LA's PROMISE

NOTES TO FINANCIAL STATEMENTS June 30, 2015

NOTE 5 - COMMITMENTS

LA's Promise rents office space under a lease agreement, which expires in September 2019. Future minimum payments under this lease are as follows:

Years Ending June 30

2016	\$	94,851
2017		97,702
2018		100,619
2019		103,637
2020		<u>43,718</u>
TOTAL	\$	<u>440,527</u>

Rent expense under facility operating leases for the year ended June 30, 2015 was \$80,312, which is included in occupancy in the statement of functional expenses.

NOTE 6 - EMPLOYEE BENEFIT PLAN

Employees participate in a 403(b) defined contribution plan whereby they contribute a portion of their salaries, tax deferred, into the plan. LA's Promise makes discretionary matching contributions to the plan each calendar quarter. Payments to the plan totaled \$6,424 for the year ended June 30, 2015.

NOTE 7 - COLLABORATIVE AGREEMENT WITH LAUSD

In October of 2008, LA's Promise and the LAUSD entered into a comprehensive collaborative educational services and performance agreement whereby LA's Promise and the LAUSD agreed to create a new model for delivery of LAUSD educational services in the City of Los Angeles, to improve schools and school communities, develop best practices and share them throughout the LAUSD. The LAUSD will utilize the educational services provided by LA's Promise. The original agreements expired on June 30, 2013. However, on October 9, 2012, LAUSD approved the five year extension covering the period July 1, 2013, through June 30, 2018.