

LOWELL ALUMNI ASSOCIATION

**FINANCIAL STATEMENTS
(Modified Accrual Basis)**

**For the Year Ended
December 31, 2014**

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Independent Auditors' Report

Board of Directors
Lowell Alumni Association

We have audited the accompanying financial statements of Lowell Alumni Association, which comprise the statements of financial position – modified accrual basis as of December 31, 2014 and 2013, and the related statements of activities, cash flows – modified accrual basis and functional expenses – modified accrual basis for the year ended December 31, 2014, 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 modified accrual basis of accounting as described in Note B; this includes determining that the modified accrual basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 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 of 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 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 Lowell Alumni Association as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the year ended December 31, 2014, in accordance with the modified accrual basis of accounting as described in Note B.

Independent Auditors' Report (continued)

Other Matter

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified accrual basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Bregante + Company LLP

San Francisco, California

July 31, 2015

LOWELL ALUMNI ASSOCIATION
STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

ASSETS

	2014	2013
Cash and cash equivalents	\$ 1,002,151	\$ 345,448
Investments at fair market value	3,662,145	3,513,880
Total assets	\$ 4,664,296	\$ 3,859,328

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 16,334	\$ 23,685
Scholarships payable	66,214	31,535
Total liabilities	82,548	55,220
Net assets:		
Unrestricted:		
Undesignated	283,765	176,682
Designated	745,475	49,742
Total unrestricted	1,029,240	226,424
Temporarily restricted	954,448	1,020,401
Permanently restricted	1,952,433	1,907,400
Net unrealized gains on investments	645,627	649,883
Total net assets	4,581,748	3,804,108
Total liabilities and net assets	\$ 4,664,296	\$ 3,859,328

See accompanying notes to the financial statements.

LOWELL ALUMNI ASSOCIATION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:				
Contributions	\$ 452,445	\$ 152,469	\$ 45,033	\$ 649,947
Low bequest	570,990	-	-	570,990
Special events	67,620	-	-	67,620
Robotics revenue	21,400	-	-	21,400
Investment income, net	54,761	154,980	-	209,741
Realized gains (losses) on investments, net	(97)	15,831	-	15,734
Other revenue	521	-	-	521
Net assets released from restrictions	389,233	(389,233)	-	-
Total revenue, gains and other support	1,556,873	(65,953)	45,033	1,535,953
Expenses:				
Program services	649,533	-	-	649,533
General and administrative	51,623	-	-	51,623
Fundraising	56,879	-	-	56,879
Total expenses	758,035	-	-	758,035
Changes in net assets before unrealized gains (losses) on investments	798,838	(65,953)	45,033	777,918
Net assets, beginning of year	230,402	1,020,401	1,907,400	3,158,203
Net assets, end of year	1,029,240	954,448	1,952,433	3,936,121
Unrealized gains on investments, beginning of year	184,349	465,534	-	649,883
Unrealized gains (losses) on investments	3,075	(7,331)	-	(4,256)
Unrealized gains on investments, end of year	187,424	458,203	-	645,627
Net assets and unrealized gains on investments, end of year	\$ 1,216,664	\$ 1,412,651	\$ 1,952,433	\$ 4,581,748

See accompanying notes to the financial statements

LOWELL ALUMNI ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014

Cash flows from operating activities:	
Changes in net assets before unrealized loss on investments	\$ 777,918
Unrealized losses on investments, net	<u>(4,256)</u>
Change in net assets	773,662
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Donated securities	(23,517)
Net realized gain on investments	(15,734)
Net unrealized losses on investments	4,256
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(7,351)
Scholarships payable	<u>34,679</u>
Total adjustments	<u>(7,667)</u>
Net cash provided by operating activities	<u>765,995</u>
Cash flows from investing activities:	
Proceeds from the sale of investments/securities	98,517
Purchases of investments	<u>(207,809)</u>
Net cash used by investing activities	<u>(109,292)</u>
Net increase in cash and cash equivalents	656,703
Cash and cash equivalents, beginning of year	<u>345,448</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,002,151</u></u>

See accompanying notes to the financial statements

LOWELL ALUMNI ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2014

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Scholarships and awards	\$ 153,885	\$ -	\$ -	\$ 153,885
Program support	154,428	-	-	154,428
Annual Fund projects	151,236	-	-	151,236
Grants	81,604	-	-	81,604
Executive Director compensation	16,422	32,844	16,422	65,688
Reunions and special events	54,212	-	-	54,212
Fundraising expense	-	-	35,694	35,694
Newsletter	27,867	-	3,096	30,963
Office expenses	7,080	9,170	-	16,250
Professional services	1,667	5,297	1,667	8,631
Insurance	-	2,002	-	2,002
Miscellaneous	1,132	2,310	-	3,442
	<u>\$ 649,533</u>	<u>\$ 51,623</u>	<u>\$ 56,879</u>	<u>\$ 758,035</u>
	85%	7%	8%	100%

See accompanying notes to the financial statements

LOWELL ALUMNI ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE A -- Purpose and organization

Purpose

The Lowell Alumni Association (LAA) exists to support and enhance Lowell High School's (the School) continued existence as a public academic magnet school of the highest order of excellence, drawing talented and dedicated students from throughout San Francisco. LAA serves more than 30,000 alumni of the oldest public high school in the west.

Overview of LAA

In addition to keeping thousands of Lowell High School alumni connected and informed through its newsletter, website and class reunions, LAA supports the school financially with funding for department and athletic team grants; specific programs such as science research, robotics, speech and debate, journalism and music; and facilities projects. LAA also provides scholarships and awards for Lowell High School students.

NOTE B -- Summary of significant accounting policies

Basis of presentation

The financial statements of LAA have been prepared on the modified accrual basis of accounting. Under this method, revenue and contributions are recognized when received rather than when earned and operating expenses and scholarship commitments are recognized when the obligation is incurred, and commitments for program and facilities support (grants and awards) are recognized when paid rather than when the obligation is incurred.

Cash equivalents

LAA considers liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Concentration of risk

Cash equivalents and investments are financial instruments which potentially subject LAA to a concentration of risk. Cash in bank accounts may, at times, exceed federally insured limits. LAA believes it is not exposed to any significant risk with respect to cash equivalents.

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term. Management believes LAA's investment strategy and ability to hold investments for the long term minimize this risk.

LOWELL ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2014

NOTE B -- Summary of significant accounting policies (continued)

Investments

Investments are stated at fair value and are considered available for sale. Fair value is determined based on quoted market prices. Realized and unrealized gains or losses on investments are recorded in the Statement of Activities in the period that such gains or losses or fluctuations occur.

Revenue recognition

LAA recognizes all contributions in the year of receipt. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as either temporarily restricted or permanently restricted support, depending upon the type of restriction.

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires. This occurs by increasing unrestricted net assets and decreasing temporarily restricted net assets in the Statement of Activities, and the release from restrictions is reported separately from other transactions.

Net assets

LAA classifies its net assets and activities into one of three categories:

Unrestricted: Those net assets and activities which represent the portion of expendable funds which are available to support school operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

Temporarily restricted: Those net assets and activities which are donor-restricted for: (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets.

Permanently restricted: Those net assets and activities which are permanently donor-restricted for holdings of: (a) assets donated with stipulations that they be preserved and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

Endowment funds

LAA applies the term "endowment" to donor-restricted endowment funds. LAA considers endowment funds to be cash, securities or other assets that are invested to provide income for those donor-restricted purposes. While some of these donor-restricted endowment funds are permanently restricted (i.e., perpetual scholarship endowment funds where the fund corpus can never be spent), others are temporarily restricted (i.e., the track fund, which is invested but is intended to be fully spent at some future time in conjunction with construction of a new track facility).

LOWELL ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2014

NOTE B -- Summary of significant accounting policies (continued)

Income taxes

LAA is a qualified organization exempt from federal and California income taxes under the provisions of Sections 501(c)(3) of the Internal Revenue Code and 23701d of the California Revenue and Taxation Code. Therefore, no provision for federal or California income tax is reflected in the financial statements.

LAA recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. The adoption of this accounting policy did not have any effect on LAA's financial statements.

LAA's income tax returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed. LAA believes that there are no material uncertain tax positions which require adjustment to the financial statements or additional footnote disclosure.

Use of estimates

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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C – Investments at fair market value

Investments consist primarily of mutual funds. Non-endowment investments at December 31, 2014 are as follows:

<u>Investment</u>	<u>Cost</u>	<u>Fair market Value</u>	<u>Cumulative Unrealized Gain (Loss)</u>
Schwab Money Funds	\$ 1,973	\$ 1,973	\$ -
Mutual funds:			
SMALLCAP World Fund-A	81,265	112,841	31,576
The Bond Fund of America	240,874	261,646	20,772
EuroPacific Growth Fund-A	85,086	118,249	33,163
American Mutual Fund-A	74,316	102,821	28,505
Capital World Bond Fund-A	43,425	42,329	(1,096)
Investment Company of America-A	<u>239,921</u>	<u>314,425</u>	<u>74,504</u>
Total mutual funds	<u>764,887</u>	<u>952,311</u>	<u>187,424</u>
Total investments	<u>\$ 766,860</u>	<u>\$ 954,284</u>	<u>\$ 187,424</u>

LOWELL ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2014

NOTE C – Investments at fair market value (continued)

Endowment investments at December 31, 2014 are as follows:

<u>Investment</u>	<u>Cost</u>	<u>Fair market Value</u>	<u>Cumulative Unrealized Gain (Loss)</u>
Schwab Money Funds	\$ -	\$ -	\$ -
Mutual funds:			
SMALLCAP World Fund-A	246,421	337,439	91,018
The Bond Fund of America	677,646	755,939	78,293
EuroPacific Growth Fund-A	300,770	353,607	52,837
American Mutual Fund-A	222,230	307,474	85,244
Capital World Bond Fund-A	129,858	126,578	(3,280)
Investment Company of America-A	<u>672,733</u>	<u>826,824</u>	<u>154,091</u>
Total mutual funds	<u>2,249,658</u>	<u>2,707,861</u>	<u>458,203</u>
Total investments	<u>\$ 2,249,658</u>	<u>\$ 2,707,861</u>	<u>\$ 458,203</u>

Total investments at December 31, 2014 are as follows:

<u>Investment</u>	<u>Cost</u>	<u>Fair market Value</u>	<u>Cumulative Unrealized Gain (Loss)</u>
Schwab Money Funds	\$ 1,973	\$ 1,973	\$ -
Mutual funds:			
SMALLCAP World Fund-A	327,686	450,280	122,594
The Bond Fund of America	918,520	1,017,585	99,065
EuroPacific Growth Fund-A	385,856	471,856	86,000
American Mutual Fund-A	296,546	410,295	113,749
Capital World Bond Fund-A	173,283	168,907	(4,376)
Investment Company of America-A	<u>912,654</u>	<u>1,141,249</u>	<u>228,595</u>
Total mutual funds	<u>3,014,545</u>	<u>3,660,172</u>	<u>645,627</u>
Total investments	<u>\$ 3,016,518</u>	<u>\$ 3,662,145</u>	<u>\$ 645,627</u>

LOWELL ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2014

NOTE D -- Investments and endowment

LAA applies the term “endowment” to donor-restricted endowment funds. LAA considers endowment funds to be cash, securities or other assets that are invested to provide income for those donor-restricted purposes. While some of these donor-restricted endowment funds are permanently restricted (i.e., perpetual scholarship endowment funds where the fund corpus can never be spent), others are temporarily restricted (i.e., the track fund, which is invested but is intended to be fully spent at some future date in conjunction with construction of a new track facility).

The Board of Directors of LAA has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted permanent endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, LAA classifies gifts donated to the permanent endowment at their original value as permanently restricted net assets.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets consists of: (i) unappropriated earnings on permanently restricted endowment funds (i.e., perpetual scholarship endowment funds) and (ii) both the corpus and earnings on temporarily restricted endowment funds (i.e., the track fund). These funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by LAA in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, LAA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purposes of the donor-restricted endowment funds, general economic conditions, the possible effect of inflation or deflation, the expected total return from income and the appreciation of investments, other resources and the investment policies of LAA.

LAA’s spending policy calculation is based on 4% of the prior year market value of the endowment investments.

Endowment activity for the year ended December 31, 2014 is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, at January 1, 2014	\$ 505,170	\$ 1,907,400	\$ 2,412,570
Contributions	-	45,033	45,033
Investment income, net	154,980	-	154,980
Net appreciation (realized)	15,831	-	15,831
Net depreciation (unrealized)	(7,331)	-	(7,331)
Appropriations for expenditure	<u>(122,709)</u>	<u>-</u>	<u>(122,709)</u>
 Endowment net assets, at December 31, 2014	 <u>\$ 545,941</u>	 <u>\$ 1,952,433</u>	 <u>\$ 2,498,374</u>

LOWELL ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2014

NOTE E -- Fair value measurements

LAA follows *Fair Value Measurements and disclosures of the FASB Accounting Standards Codification*, which defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. Fair value is the amount 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 (i.e., the exit price).

LAA has categorized all investments on an individual security basis according to the fair value hierarchy as either: Level 1, observable inputs that are derived from quoted prices (unadjusted) for identical assets or liabilities in an active market; Level 2, quoted prices on non-active markets or in active markets for similar assets or liabilities, inputs other than quoted prices that are observable, and inputs that are not directly observable, but are corroborated by observable market data; or Level 3, unobservable inputs, which cannot be corroborated by external market data. At December 31, 2014, all investments are classified as Level 1.

NOTE F -- Commitments and contingencies

LAA supports the school financially with funding for departmental and athletic team grants; specific programs such as science research, robotics, speech and debate, journalism and music; and facilities projects. LAA also provides scholarships and awards for Lowell High School students. Scholarships are recorded as an expense in the year the scholarships are awarded. Awards, departmental grants and specific program support and facility project funding are recorded in the year expenses are submitted for payment. At December 31, 2014, LAA had unrecorded commitments totaling \$22,256.

NOTE G – Unrestricted net assets

Unrestricted net assets at December 31, 2014 consist of:

Board designated net assets:	
Athletics	\$ 30,000
Academics	31,806
Special programs	112,679
Low bequest	<u>570,990</u>
Total Board designated net assets	745,475
Other unrestricted net assets	<u>283,765</u>
Total unrestricted net assets	1,029,240
Unrealized gains on investments	<u>187,424</u>
Unrestricted net assets and unrealized gain on investments	<u>\$ 1,216,664</u>

LOWELL ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2014

NOTE G – Unrestricted net assets (continued)

The Board of Directors initially voted to allocate the unrestricted gifts from Dr. Serene Low and Dr. Ronald Low as follows: \$200,000 for college scholarships; \$185,000 for AP exam fee subsidies for students with financial need; and \$185,000 for special projects, with an emphasis on math and science projects (see Note L).

NOTE H -- Temporarily restricted net assets

Temporarily restricted net assets at December 31, 2014 are as follows:

Class reunions	\$ 66,588
Athletics	9,025
Academics	59,573
Special programs	31,705
PAUL Fund	565,333
Awards	6,098
Scholarships	111,376
Non-scholarship Endowment Funds	59,730
Other designated gifts	<u>45,020</u>
Total temporarily restricted net assets	954,448
Unrealized gains on investments	<u>458,203</u>
Temporarily restricted net assets and unrealized gains on investments.	<u>\$ 1,412,651</u>

NOTE I -- Permanently restricted net assets

Permanently restricted net assets include both named and unnamed endowment funds. Some of the named funds were established in honor of, or in memory of, members of the LAA community and support special purposes.

LOWELL ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2014

NOTE I -- Permanently restricted net assets (continued)

Permanently restricted net assets at December 31, 2014 are as follows:

Awards	\$ 52,374
Scholarships	1,462,160
Anino Music Endowment Fund	137,531
Fung Chinese Endowment Fund	100,000
Lieu Science Endowment Fund	147,496
Advanced Placement Endowment Fund	20,372
Hoppe Journalism Endowment Fund	20,000
Tennis Endowment Fund	<u>12,500</u>
 Total	 <u>\$ 1,952,433</u>

NOTE J -- Volunteer services and donated facilities

Volunteers make significant contributions of their time to support LAA. The value of this contributed time is not reflected in these statements since it does not meet the criteria for recognition in the financial statements. Lowell High School provides LAA with a small office space on the campus. The annual lease value of this is immaterial and as such, no in-kind donation for facilities is included in these financial statements.

NOTE K -- Functional allocation of expenses

The costs of providing the program services and supporting activities are summarized in the Statement of Functional Expenses. Expenses that can be directly identified with a specific function are allocated directly to that function. Staff time and professional services expense allocation is based on the time spent on each function. The Newsletter includes requests for contributions so management has allocated a portion of the cost to produce the Newsletter to fundraising expense. Other expenses that cannot be directly identified with a specific function are allocated by management.

LOWELL ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2014

NOTE L -- Subsequent events

In January 2015, the \$570,990 received from the Low bequest was invested in the mutual fund accounts.

At a special board meeting held on April 21, 2015, the Board of Directors decided to rescind their initial action regarding use of the unrestricted gifts from Dr. Serene Low and Dr. Ronald Low (Note G) and agreed to allocate the expected earnings on these gifts through September 1, 2019, for two four-year college scholarships to be awarded in May 2015, with the corpus and all subsequent earnings (if any) from these gifts to be used as proposed by a special ad hoc committee comprised of three LAA board member and two Low family representatives and subsequently ratified by the LAA Board of Directors.

The date to which events occurring after December 31, 2014 have been evaluated for possible adjustments to the financial statements or disclosure is July 31, 2015, which is the date on which the financial statements were available to be issued.