

WESTED
(A JOINT POWERS AGENCY)

AUDITED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY
COMPLIANCE INFORMATION

November 30, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
WestEd
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of WestEd, as of and for the years ended November 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise WestEd's basic financial statements as listed in the table of contents.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *State Controller's Minimum Audit Requirements for California Special Districts*. 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WestEd, as of November 30, 2019 and 2018, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise WestEd's financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2020 on our consideration of WestEd'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 WestEd's internal control over financial reporting and compliance.



Crowe LLP

Costa Mesa, California
March 18, 2020

WESTED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018
(UNAUDITED)

The following discussion and analysis provides an overview of the financial position and activities of WestEd for the year ended November 30, 2019, with selected comparative information for the years ended November 30, 2018 and 2017. It also includes historical data and highlights various financial measures that can be used to assess WestEd's financial condition. This discussion has been prepared by management and should be read in conjunction with the financial statements contained in the following section.

BACKGROUND

WestEd was established as a California Joint Powers Agency (JPA) by Far West Laboratory for Educational Research and Development (FWL) and Southwest Regional Laboratory for Educational Research and Development (SWRL) in 1995. JPAs are public entities formed pursuant to the California Government Code (and consistent with similar statutes in Arizona, Nevada, and Utah), by two or more other public entities.

Both FWL and SWRL were among the original regional educational laboratories established by Congress in 1966. WestEd, like its founding agencies, continues to serve the states of Arizona, California, Nevada, and Utah as the U.S. Department of Education's designated Regional Educational Laboratory - West. The agency's work, administered within 10 program areas, now extends throughout the United States and abroad. WestEd currently employs 713 regular staff in sixteen offices nationwide.

Sources of Operating Revenue

The agency's contract and grant funding is currently derived from the funding sources listed below.

SOURCES OF OPERATING REVENUE

(\$ in thousands)

	FY 2019	Percent	FY 2018	Percent	FY 2017	Percent
Federal Agencies	\$56,513	33%	\$51,429	31%	\$52,442	32%
State Agencies	38,203	22%	36,465	22%	33,922	21%
Local Educational Agencies	33,775	19%	28,421	17%	28,601	18%
Foundations	16,860	10%	18,175	11%	18,851	12%
Other Agencies	27,248	16%	30,435	19%	26,913	17%
Total	\$172,599	100%	\$164,925	100%	\$160,729	100%

WESTED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018
(UNAUDITED)

BACKGROUND (continued)

Sources of Operating Revenue (continued)

WestEd's funding is obtained primarily through competitive contracts and grants, sole source contracts and grants, and the provision of products and services to clients. WestEd receives contract and grant funding from a variety of organizations and entities, including governmental agencies (federal, state, and local), private foundations, for-profit companies and other educational organizations (primarily through subcontracts). WestEd does not have an endowment or guaranteed source of financial support. Since its grants and contracts are both short term and multiyear, a certain percentage of the agency's revenue must be replaced each year.

Grants vs. Fee Contracts

The mix between contracts and grants received at WestEd is an important factor in the agency's ability to raise working capital to support operations. Grants permit the recovery of actual costs incurred only up to the amount of the award. The best financial outcome from income received by grants is break-even (unlike contracts, which may be fee bearing or fixed price and include a target fee). Contracts that are fee bearing have fees budgeted in a range of three to five percent in most cases.

Nonoperating Revenue

WestEd also generates nonoperating revenue from leasing excess building space, sale of publications, investments, and royalties. Because the FWL and SWRL buildings were originally built using federal monies, the government requires that net income from leasing of excess building space be used to support educational research activities or be invested back into the San Francisco or Los Alamitos buildings. Revenue generated from the remaining nonoperating income sources does not have any restriction.

Principal Cost Areas

Agency expenditures include direct costs and indirect costs.

Direct costs, representing 87% of revenue for the year ended November 30, 2019, are those directly associated with project work. Direct costs include standard direct costs, and service center costs. Standard direct costs include salaries, benefits, travel, consultants, subcontracts, and facilities. Service center costs, related to activities directly supporting project work, include information services, human resources, general administration, and program services. These costs are considered "direct" for cost accounting purposes and are part of the base used for allocating indirect costs.

WESTED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018
(UNAUDITED)

BACKGROUND (continued)

Principal Cost Areas (continued)

Indirect costs include those related to supporting the Board of Directors, the CEO's office, communications, resource development, contracts, legal, accounting, and finance activities. WestEd's approved provisional indirect rate for fiscal year 2019 was 14.3%. This rate is negotiated every year with the US. Department of Education and accepted by all other Federal Agencies. Actual indirect rate at year-end was 14.2%. The indirect rate is applied to modified direct costs. Modified direct costs are total direct costs less items of equipment, alterations and renovations, stipends and the portion of each competitive bid sub-award in excess of \$25,000 per year.

The information presented in the following section should be read in the context of WestEd's cost structure, as described above.

FINANCIAL HIGHLIGHTS

- Revenue from contracts and grants increased to \$172.6 million for the year ended November 30, 2019, compared with revenue of \$164.9 million for the corresponding period in 2018, an increase of \$7.7 million (4.7%), and \$160.7 million for the corresponding period in 2017, an increase of \$4.2 million (2.6%).
- Change in net position for the fiscal year ended November 30, 2019 was \$8.1 million compared with \$2.5 million in FY 2018, an increase of \$5.6 million (224%). Change in net position for FY 2017 was \$5.9 million.
- WestEd's financial position at November 30, 2019 included assets of \$121.2 million and liabilities of \$31.6 million. Net position, which represents the residual interest in WestEd's assets after liabilities are deducted, totaled \$89.6 million. WestEd's net position on November 30, 2018 and 2017 were \$81.5 million and \$79 million, respectively. The difference between fiscal years 2019 and 2018 of \$8.1 million was due to higher operating and nonoperating incomes. The capital assets component of the net position total was \$4.6 million, restricted net position was \$0.2 million and the unrestricted net position component was \$84.8 million as of November 30, 2019.

STATEMENTS OF NET POSITION

The statements of net position present the financial position of the organization at the end of an accounting period and include all assets and liabilities of WestEd. The difference between total assets and total liabilities - net position - is one indicator of the current financial condition of WestEd. While the change in net position is an indicator of whether the overall financial condition has improved or worsened during the reporting period, it is not the only indicator. This should be looked at within the context of other financial measures.

Assets and liabilities are generally measured using current values. This does not include capitalized items that are measured by their historical cost, less accumulated depreciation.

WESTED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018
(UNAUDITED)

STATEMENTS OF NET POSITION (continued)

A comparison of WestEd's assets, liabilities, and net position at November 30, 2019, 2018 and 2017 is as follows:

STATEMENTS OF NET POSITION

(\$ in thousands)

	FY 2019	FY 2018	FY 2017
Current Assets	\$59,587	\$58,402	\$57,604
Long Term Investments	57,058	51,687	52,081
Property and Equipment, Net	4,595	5,367	2,621
Total Assets	121,240	115,456	112,306
Current Liabilities	31,619	33,978	33,309
Net Position	\$89,621	\$81,478	\$78,997

Current Assets

Current assets consist primarily of cash, trade accounts receivable, short-term investments, publications inventory, prepaid expenses and other assets. These accounts totaled \$59.6 million at November 30, 2019, \$58.4 million at November 30, 2018 and \$57.6 million at November 30, 2017. The increase was primarily due to the impact of positive net income from fiscal years 2019 and 2018 flowing into current assets.

Long Term Investments

Long-term investments are securities that have a maturity date of more than one year that totaled \$57.1 million at November 30, 2019, \$51.7 million at November 30, 2018 and \$52.1 million at November 30, 2017. The increase in fiscal years 2019 was due to excess operating cash transferred to long term investments, interest earnings reinvested and a material unrealized gain at year end. Only a slight change was noted between fiscal years 2018 and 2017.

Property and Equipment

Property and equipment consists of building and leasehold improvements, equipment and furniture. Property and equipment totaled \$4.6 million at November 30, 2019, \$5.4 million at November 30, 2018 and \$2.6 million at November 30, 2017. The decrease in fiscal year 2019 was primarily due to routine depreciation. The increase in fiscal year 2018 was primarily due to leasehold improvements.

WESTED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018
(UNAUDITED)

STATEMENTS OF NET POSITION (continued)

Current Liabilities

Current liabilities consist of accounts payable and accrued liabilities, accrued compensation/benefits and contract advances. These accounts totaled \$31.6 million at November 30, 2019, \$34 million at November 30, 2018 and \$33.3 million at November 30, 2017. The year-over-year decrease of \$2.4 million (6.9%) was primarily due to a lower year end balance of contracts and grants providing payment upfront. The moderate increase in FY 2018 was primarily due to increases in accrued compensation/benefits and contract advances.

Net Position

The net position balance represents the residual interest in WestEd's assets after liabilities are deducted. WestEd's net position at November 30, 2019, 2018 and 2017 is summarized below.

NET POSITION
(\$ in thousands)

	FY 2019	FY 2018	FY 2017
Net investment in capital assets	\$4,595	\$5,367	\$2,621
Restricted	177	1,062	1,054
Unrestricted	<u>84,849</u>	<u>75,049</u>	<u>75,322</u>
Total Net Position	<u>\$89,621</u>	<u>\$81,478</u>	<u>\$78,997</u>

Net investment in capital assets consists of capital assets net of accumulated depreciation.

Restricted net position represents royalties from the California Department of Education that are restricted in their use. Restricted net position decreased in fiscal year 2019 after netting against expenses associated with royalties that were previously charged against unrestricted net position. The amounts of restricted net position in fiscal year 2018 and 2017 represent the cumulative amounts of royalties before expenses.

Unrestricted net position represents funds that have no restrictions concerning their use. They can be used to fund any WestEd activity.

WESTED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018
(UNAUDITED)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statements of revenues, expenses, and changes in net position present WestEd's results of operations during the current year ended November 30, 2019, 2018 and 2017.

CHANGES IN NET POSITION
(\$ in thousands)

	FY 2019	FY 2018	FY 2017
Operating revenues			
Federal Agencies	\$56,513	\$51,429	\$52,442
State Agencies	38,203	36,465	33,922
Local Educational Agencies	33,775	28,421	28,601
Foundations	16,860	18,175	18,851
Other	27,248	30,435	26,913
Total operating revenues	172,599	164,925	160,729
Operating expenses	167,412	162,350	155,133
Total operating income	5,187	2,575	5,596
Nonoperating revenues (net of Nonoperating expenses)	2,957	(94)	313
Changes in net position	\$8,144	\$2,481	\$5,909

WestEd's operating revenues increased by 4.7% in fiscal year 2019 compared to fiscal year 2018. The increase was due to the year-over-year increase in Federal, State, and Local Educational Agencies funding source categories.

Operating income in the fiscal year ended November 30, 2019 was \$5.2 million, an increase of \$2.6 million compared to 2018. Operating income in fiscal year 2018 was \$3.0 million less than the corresponding period in fiscal year 2017.

Nonoperating revenues (net of non-operating expenses) increased by \$3.1 million in fiscal year 2019 primarily due to an increase in investment income.

Request for Information

We hope that the preceding information has provided you with a general overview of WestEd's overall financial status. For questions or comments concerning information contained in this report, please contact the Office of the Controller, 4665 Lampson Avenue, Los Alamitos, California 90720.

FINANCIAL STATEMENTS

WESTED
STATEMENTS OF NET POSITION
November 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,780,641	\$ 9,241,318
Short-term investments	9,076,078	7,538,628
Receivables	37,698,710	38,374,403
Inventory	206,217	246,401
Prepaid expenses and other assets	<u>2,825,461</u>	<u>3,001,424</u>
Total current assets	59,587,107	58,402,174
Long-term investments, less current portion	57,058,704	51,686,694
Property and equipment, net	<u>4,594,956</u>	<u>5,366,756</u>
Total assets	<u>\$ 121,240,767</u>	<u>\$ 115,455,624</u>
 LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued liabilities	\$ 7,390,271	\$ 7,457,615
Accrued compensation and benefits	13,772,575	12,107,389
Advances	<u>10,456,460</u>	<u>14,412,845</u>
Total current liabilities	31,619,306	33,977,849
Net position		
Net investment in capital assets	4,594,956	5,366,756
Restricted	177,316	1,061,860
Unrestricted	<u>84,849,189</u>	<u>75,049,159</u>
Total net position	<u>89,621,461</u>	<u>81,477,775</u>
Total liabilities and net position	<u>\$ 121,240,767</u>	<u>\$ 115,455,624</u>

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

WESTED
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the years ended November 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Federal Agencies	\$ 56,513,389	\$ 51,428,982
State Agencies	38,202,686	36,464,440
Local Education Agencies	33,775,470	28,421,349
Foundations	16,859,841	18,174,609
Other	<u>27,247,686</u>	<u>30,435,187</u>
Total operating revenues	<u>172,599,072</u>	<u>164,924,567</u>
Operating expenses:		
Direct expenses	149,345,834	144,594,294
Indirect expenses	<u>18,066,161</u>	<u>17,755,477</u>
Total operating expenses	<u>167,411,995</u>	<u>162,349,771</u>
Operating income	5,187,077	2,574,796
Non-operating revenues (expenses)		
Rental and parking, net	278,335	181,589
Publication sales, net	217,230	157,855
Investment income, net	3,182,317	315,036
Other revenues	5,152	7,328
Other expenses	<u>(726,425)</u>	<u>(755,840)</u>
Total non-operating revenues (expenses)	<u>2,956,609</u>	<u>(94,032)</u>
Changes in net position	8,143,686	2,480,764
Net Position, beginning of year	<u>81,477,775</u>	<u>78,997,011</u>
Net Position, end of year	<u>\$ 89,621,461</u>	<u>\$ 81,477,775</u>

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

WESTED
STATEMENTS OF CASH FLOWS
For the years ended November 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Federal Agencies	\$ 57,837,560	\$ 51,548,543
State Agencies	35,930,114	33,938,269
Local Education Agencies	34,309,027	27,641,720
Foundations	16,514,648	17,893,685
Other	24,727,030	30,092,923
Other (payments) receipts	(222,045)	(390,777)
Cash payments for direct costs	(146,714,921)	(143,035,444)
Cash payments for indirect costs	<u>(17,846,580)</u>	<u>(18,715,421)</u>
Net cash provided by (used in) operating activities	4,534,833	(1,026,502)
Cash flows from capital and related financing activities		
Purchases of fixed assets	(540,538)	(4,939,073)
Proceeds from tenant improvement allowance	<u>272,169</u>	<u>1,086,162</u>
Net cash used in financing activities	(268,369)	(3,852,911)
Cash flows from investing activities		
Purchase of investments	(19,297,453)	(15,369,500)
Proceeds from sales and maturities of investments	14,306,829	19,033,404
Interest received	<u>1,263,483</u>	<u>1,063,977</u>
Net cash (used in) provided by investing activities	(3,727,141)	4,727,881
Net increase (decrease) in cash and cash equivalents	539,323	(151,532)
Cash and cash equivalents at beginning of year	<u>9,241,318</u>	<u>9,392,850</u>
Cash and cash equivalents at end of year	<u>\$ 9,780,641</u>	<u>\$ 9,241,318</u>
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating Income	\$ 5,187,077	\$ 2,574,796
Depreciation	1,036,398	1,106,689
Loss on disposal of fixed assets	336	-
Other revenue	(225,708)	(409,068)
Decrease (Increase) in receivables	675,693	(4,007,427)
Decrease (Increase) in inventory	40,183	(12,297)
Decrease (Increase) in prepaid expenses and other assets	179,397	(947,647)
Decrease in accounts payable and accrued liabilities	(67,344)	(656,977)
Increase in accrued compensation and benefits	1,665,186	1,127,429
(Decrease) Increase in advances	<u>(3,956,385)</u>	<u>198,000</u>
Net cash provided by (used in) operating activities	<u>\$ 4,534,833</u>	<u>\$ (1,026,502)</u>

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

WESTED
NOTES TO FINANCIAL STATEMENTS
November 30, 2019 and 2018

NOTE 1 – ORGANIZATION

WestEd is a Joint Powers Agency and was established on December 1, 1995 pursuant to the provisions of Title 1, Division 7, Chapter 5, Article I of the California Government Code. WestEd was established as a public agency for the joint exercise of powers between Far West Regional Laboratory for Educational Research and Development (“FWL”) and Southwest Regional Laboratory for Educational Research and Development (“SWRL”). WestEd operations are involved in education research, development and service dedicated to improving education and other opportunities for children, youth and adults. In addition to its work across the nation, WestEd serves as the regional education laboratory for Arizona, California, Nevada and Utah.

WestEd is governed by a Board of Directors (the “Board”), the members of which includes designated board members of FWL and SWRL, and additional members as appointed by the Board.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of WestEd conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The significant accounting policies are herein described to enhance the usefulness of the accompanying financial statements to the reader.

Fund Accounting: The accounts of WestEd are organized on the basis of an enterprise fund, the operations of which are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses.

Basis of Accounting: The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles. Under the accrual basis, revenue is recorded when earned and expenses are recorded when incurred, without regard to the timing of cash receipt or payment.

Use of Estimates: The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

Funding Sources: WestEd’s operations are principally funded through contracts and grants awarded by the federal government, State Agencies, local governments, and other private entities.

Revenue Recognition for Grants and Contracts: Revenue is deemed to be earned and reported when all eligibility requirements imposed by the provider have been met. In addition, for income derived from royalty and tuition type contracts, WestEd will recognize revenues when earned as defined per contract agreement. Losses on contracts are recognized when identified.

Cost Allocation: Expenses identified with specific projects are charged directly to the appropriate grant or contract. Occupancy costs are allocated on the basis of labor hours. Fringe benefits are allocated at a rate of 63.0% (43.5% for fringe and 19.5% for leave) of employees’ direct labor costs for 2019 and 2018. Indirect expenses are allocated to all grants, contracts and other non-operating expenses based on direct costs. The actual indirect rate was 14.2% and 14.3% for 2019 and 2018, respectively. Indirect costs on sub-award costs are only charged to the first \$25,000 of costs of each sub-award per year.

In accordance with policies adopted by the U.S. Department of Education, WestEd uses cost principles set forth in OMB Uniform Grant Guidance.

(Continued)

WESTED
NOTES TO FINANCIAL STATEMENTS
November 30, 2019 and 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents: WestEd considers all short-term investments purchased with a maturity of three months or less to be cash equivalents. Investments that have characteristics of demand deposits allowing WestEd to deposit or withdraw funds at any time without prior notice or penalty are included in cash equivalents.

Receivables: Receivables include amounts owed to WestEd from private individuals or organizations for services rendered. Included in receivables are unbilled amounts for which the services have been rendered but not yet billed.

Allowance for Uncollectible Receivables: A portion of receivables are estimated not to be collectible. The balance in this account is reported as a deduction from receivables to indicate a net receivables amount.

Investments: WestEd records investments at fair value on the Statement of Net Position. The fair value of investments, primarily debt securities, is based on quoted market values. Unrealized gains and losses on investments are included in nonoperating revenues as net investment income. Short-term investments are securities that have a maturity date of one year or less, net of cash equivalents. Long-term investments are securities that have a maturity date of more than one year.

Inventory: Inventory consists of publications and supplies and are stated at the lower of cost or market value using the first in, first out cost allocation method.

Property and Equipment: Acquisitions of property and equipment costing \$5,000 or more are capitalized. Property and equipment are carried at historical cost. Maintenance, repairs and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in other non-operating revenues.

Depreciation and amortization of property and equipment are provided on the straight-line method over the following useful lives:

Building/Leasehold improvements	3 - 10 years
Office Furniture and Equipment	5 years
Computer Equipment and Software	3 years

Leasehold improvements are amortized over the lesser of the useful life of the asset or term of the lease.

Advances: Advances on contracts, grants and agreements consist of amounts received in excess of costs incurred. The amounts received in excess of costs will be recognized in the future as services are rendered and costs are incurred.

Operating and Non-Operating Transactions: WestEd classifies its revenues and expenses as either operating or non-operating. Revenues and expenses are classified according to the following criteria:

Operating - These revenues are earned from the Federal Agencies, State Agencies, Local Education Agencies, foundations and others, through grants and contracts. Other revenue includes non-profit organizations and other for-profit entities. Operating expenses include employee compensation and benefits, subcontracts, travel, other direct expenses and related indirect expenses.

Non-operating - These revenues and expenses include activities that are not the primary business of WestEd, such as building and parking rental income, publication sales and investment income. Non-operating expenses include building, parking, publications, investment and other related indirect expenses.

(Continued)

WESTED
NOTES TO FINANCIAL STATEMENTS
November 30, 2019 and 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position: WestEd's net position is classified in three major components:

Net investment in capital assets - Capital assets, net of accumulated depreciation less outstanding capital lease obligations.

Restricted - This category represents net position that has external restrictions imposed by grantors. At November 30, 2019 and 2018, all restricted net position includes royalties received from the California Department of Education. It is WestEd's policy to first use restricted net position when allowable expenditures are incurred.

Unrestricted - Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of WestEd's Board.

Exempt Status: WestEd is exempt from Federal income taxes per Internal Revenue Code Section 115(1). WestEd is also exempt from State of California franchise tax. Accordingly, no provision for Federal or State income taxes has been made in the accompanying financial statements.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. These reclassifications had no effect on prior year changes in net position or ending net position.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at November 30, 2019 and 2018 consist of:

	<u>2019</u>	<u>2018</u>
Checking accounts	\$ 8,870,616	\$ 7,489,288
Money market funds	<u>910,025</u>	<u>1,752,030</u>
Total	<u>\$ 9,780,641</u>	<u>\$ 9,241,318</u>

The *California Government Code* requires California banks and savings and loan associations to secure WestEd's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150% of an agency's total deposits and collateral is considered to be held in the name of WestEd. As of November 30, 2019 and 2018, WestEd had no bank balances exposed to custodial credit risk.

NOTE 4 – INVESTMENTS

WestEd's investment policies comply with California Government Code, which authorizes public agencies to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan associations; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation; obligations with first priority security; and collateralized mortgage obligations.

(Continued)

WESTED
NOTES TO FINANCIAL STATEMENTS
November 30, 2019 and 2018

NOTE 4 – INVESTMENTS (Continued)

Investments include both short-term and long-term investments. WestEd held the following investments at November 30, 2019 and 2018, respectively.

<u>Description</u>	<u>Moody's Rating</u>	<u>Fair Value</u>	<u>Weighted Average Yield</u>	<u>Weighted Average Maturity</u>	<u>Percentage of Portfolio</u>
<u>November 30, 2019</u>					
U.S. Treasury notes	AAA	\$ 20,542,380	1.89%	2.66 years	31.06%
Federal Agencies	AAA	22,206,865	1.91%	2.63 years	33.58%
Foreign corporate	A2	1,919,714	2.74%	4.03 years	2.90%
U.S. corporate	A1	15,889,830	2.55%	2.58 years	24.03%
Asset-backed securities	AAA	<u>5,575,993</u>	2.58%	2.85 years	<u>8.43%</u>
Total investments		<u>\$ 66,134,782</u>			<u>100.00%</u>

<u>Description</u>	<u>Moody's Rating</u>	<u>Fair Value</u>	<u>Weighted Average Yield</u>	<u>Weighted Average Maturity</u>	<u>Percentage of Portfolio</u>
<u>November 30, 2018</u>					
U.S. Treasury notes	AAA	\$ 19,563,079	1.80%	2.79 years	33.03%
Federal Agencies	AAA	19,789,455	1.84%	2.60 years	33.41%
Foreign corporate	A2	336,867	3.46%	3.10 years	0.57%
U.S. corporate	A1	15,381,168	2.39%	2.42 years	25.97%
Asset-backed securities	AAA	<u>4,154,753</u>	2.59%	3.11 years	<u>7.02%</u>
Total investments		<u>\$ 59,225,322</u>			<u>100.00%</u>

Interest Rate Risk: Interest rate risk refers to the risk that changes in interest rates will affect the fair value of an investment. WestEd's investment policy does not specifically address interest rate risk.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, WestEd will not be able to recover the value of its investments that are in the possession of an outside party. At year-end, WestEd's total investment balance is not exposed to custodial credit risk and there was no securities lending.

Credit Risk: WestEd's investment policy is controlled by Section 53601 of the California Government Code. Per Section 53601.7, investments in long-term debt shall be rated at least "A" without regard to modifiers by Standard & Poor's Corporation, Moody's Investors Service, or Fitch Ratings. As of November 30, 2019 and 2018, WestEd is in compliance with its investment policies regarding credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The table below indicates the investments held with any one issuer representing more than 5% of total investments.

(Continued)

WESTED
NOTES TO FINANCIAL STATEMENTS
November 30, 2019 and 2018

NOTE 4 – INVESTMENTS (Continued)

At November 30, 2019, the credit ratings of investments by investment type were as follows:

	<u>Moody's Rating</u>	<u>% of Portfolio</u>
Investments		
Fed Home Loan Bank	AAA	15%
Fed National Mortgage Association	AAA	12%
U. S. Treasury notes	AAA	<u>31%</u>
		58%
 Other issuers (in aggregate)	 A3 - AAA	 <u>42%</u>
		<u>100%</u>

At November 30, 2018, the credit ratings of investments by investment type were as follows:

	<u>Moody's Rating</u>	<u>% of Portfolio</u>
Investments		
Fed Home Loan Mortgage	AAA	7%
Fed Home Loan Bank	AAA	12%
Fed National Mortgage Association	AAA	14%
U. S. Treasury notes	AAA	<u>32%</u>
		65%
 Other issuers (in aggregate)	 A3 - AAA	 <u>35%</u>
		<u>100%</u>

Investment and management fees aggregating \$62,983 and \$62,434 were paid for the years ended November 30, 2019 and 2018, respectively. WestEd had a net unrealized gain totaling \$1,987,956 in 2019 and net unrealized loss totaling \$754,188 in 2018, respectively. For the years ended November 30, 2019 and 2018, WestEd recognized a net realized loss of \$69,122 and net realized gain of \$5,247, respectively. Net realized gains and losses were recorded net of related investment and management fees. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

Fair Value of Investments: WestEd measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. The fair value hierarchy is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value on a recurring basis as of November 30, 2019 and 2018:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Significant other observable inputs such as quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

(Continued)

WESTED
NOTES TO FINANCIAL STATEMENTS
November 30, 2019 and 2018

NOTE 4 – INVESTMENTS (Continued)

Level 3 – Unobservable inputs should be developed using the best information available under the circumstances, which might include WestEd's own data. WestEd should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to WestEd are not available to other market participants.

WestEd's investments as of November 30, 2019 and 2018 were all calculated using Level 2 inputs.

NOTE 5 – RECEIVABLES

Receivables at November 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Due from Federal Agencies	\$ 5,884,729	\$ 7,208,901
Due from State Agencies	18,933,701	16,661,129
Due from Local Education Agencies	6,071,988	6,605,545
Due from Foundations	823,156	477,963
Due from Other	<u>6,187,710</u>	<u>7,623,439</u>
	37,901,284	38,576,977
Less allowance for doubtful accounts	<u>(202,574)</u>	<u>(202,574)</u>
Total	<u>\$ 37,698,710</u>	<u>\$ 38,374,403</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Changes in property and equipment for the years ended November 30, 2019 and 2018 are shown below.

The activity for the year ended November 30, 2019 is:

	Balance December 1, <u>2018</u>	<u>Additions</u>	<u>Deductions</u>	Balance November 30, <u>2019</u>
Building improvements and leasehold improvements	\$ 15,917,294	\$ 238,985	\$ 382,309	\$ 15,773,970
Furniture	5,557,518	79,815	2,795,602	2,841,731
Equipment	<u>4,410,421</u>	<u>221,738</u>	<u>2,412,345</u>	<u>2,219,814</u>
Total property and equipment	<u>25,885,233</u>	<u>540,538</u>	<u>5,590,256</u>	<u>20,835,515</u>
Less accumulated depreciation:				
Building improvements and leasehold improvements	11,447,882	770,450	110,140	12,108,192
Furniture	4,988,936	139,608	2,795,505	2,333,039
Equipment	<u>4,081,659</u>	<u>126,340</u>	<u>2,408,671</u>	<u>1,799,328</u>
Accumulated depreciation	<u>20,518,477</u>	<u>1,036,398</u>	<u>5,314,316</u>	<u>16,240,559</u>
Property and equipment, net	<u>\$ 5,366,756</u>	<u>\$ (495,860)</u>	<u>\$ 275,940</u>	<u>\$ 4,594,956</u>

(Continued)

WESTED
NOTES TO FINANCIAL STATEMENTS
November 30, 2019 and 2018

NOTE 6 – PROPERTY AND EQUIPMENT (Continued)

The activity for the year ended November 30, 2018 is:

	<u>Balance</u> <u>December 1,</u> <u>2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>November 30,</u> <u>2018</u>
Building improvements and leasehold improvements	\$ 12,919,951	\$ 4,208,612	\$ 1,211,269	\$ 15,917,294
Furniture	5,058,476	530,570	31,528	5,557,518
Equipment	<u>5,157,208</u>	<u>199,890</u>	<u>946,677</u>	<u>4,410,421</u>
Total property and equipment	<u>23,135,635</u>	<u>4,939,072</u>	<u>2,189,474</u>	<u>25,885,233</u>
Less accumulated depreciation:				
Building improvements and leasehold improvements	10,791,647	781,343	125,108	11,447,882
Furniture	4,859,230	161,234	31,528	4,988,936
Equipment	<u>4,864,224</u>	<u>164,112</u>	<u>946,677</u>	<u>4,081,659</u>
Accumulated depreciation	<u>20,515,101</u>	<u>1,106,689</u>	<u>1,103,313</u>	<u>20,518,477</u>
Property and equipment, net	<u>\$ 2,620,534</u>	<u>\$ 3,832,383</u>	<u>\$ 1,086,161</u>	<u>\$ 5,366,756</u>

The depreciation expense for the years ended November 30, 2019 and 2018 was \$1,036,398 and \$1,106,689, respectively. The Los Alamitos building and San Francisco land and building in which WestEd maintains operations, are recorded in the accounting records of SWRL and FWL, respectively.

NOTE 7 – ADVANCES

Advances at November 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Contract advances	\$ 10,425,615	\$ 14,382,000
Tenant advances	<u>30,845</u>	<u>30,845</u>
Total	<u>\$ 10,456,460</u>	<u>\$ 14,412,845</u>

These advances will be realized in the future as services are rendered and costs are incurred.

NOTE 8 – RENTAL REVENUES

WestEd leases portions of FWL and SWRL facilities' excess space under operating leases to unrelated third parties. For the years ended November 30, 2019 and 2018, these rental operations generated net rental revenue of \$278,335 and \$181,589, respectively. In addition, WestEd collected rental revenue in the amount of \$12,816 and \$10,800 for the tenant's share of operating costs and amortization of deferred tenant improvements during the years ended November 30, 2019 and 2018, respectively.

(Continued)

WESTED
 NOTES TO FINANCIAL STATEMENTS
 November 30, 2019 and 2018

NOTE 8 – RENTAL REVENUES (Continued)

Gross base and contingent rentals earned in the years ended November 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Base rentals	\$ 1,229,389	\$ 1,139,873
Parking revenues	44,038	50,395
Contingent rentals	<u>12,816</u>	<u>10,800</u>
Total	<u>\$ 1,286,243</u>	<u>\$ 1,201,068</u>

NOTE 9 – OPERATING LEASES

WestEd also leases certain equipment and facilities under non-cancelable operating leases. Operating lease expense for the years ended November 30, 2019 and 2018 was \$2,810,327 and \$2,767,860, respectively. Future minimum payments under operating leases as of November 30, 2019 are as follows:

2020	\$ 3,368,076
2021	2,646,711
2022	2,087,377
2023	1,740,387
2024	1,654,915
2025 and thereafter	<u>3,322,289</u>
	<u>\$ 14,819,755</u>

NOTE 10 – RETIREMENT AND FLEXIBLE BENEFIT PLANS

WestEd provides a defined contribution annuity purchase retirement plan for all regular and fixed-term, full-time and eligible part-time employees. Contributions are equal to 15% of the participants' salary subject to Internal Revenue Service (IRS) limits, are funded as incurred, and were \$11,223,934 and \$10,810,557 for the years ended November 30, 2019 and 2018, respectively.

In addition, eligible employees may make additional contributions to a Supplemental Retirement/Tax Deferred Annuity (SRA). The amount the employee may contribute pre-tax is based on an Internal Revenue Service (IRS) formula.

Employees also have the option of participating in a contributory Flexible Benefit Plan. Employees make voluntary contributions of pre-tax wages. Based on the contributions, the plan reimburses employees for qualified expenses which amounted to \$881,905 and \$738,179 for the years ended November 30, 2019 and 2018, respectively.

(Continued)

WESTED
NOTES TO FINANCIAL STATEMENTS
November 30, 2019 and 2018

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Federal Contracts: Federal contracts and grants are subject to government review within three to five years of the contract's expiration. In the opinion of management, any disallowed expenditures resulting from government review would not have a material adverse effect on the overall financial statements at November 30, 2019.

NOTE 12 – RELATED PARTIES

WestEd is provided office space to conduct its operations in Los Alamitos, California and San Francisco, California. These office spaces are owned by FWL and SWRL and are provided to WestEd free of charge.

SUPPLEMENTARY INFORMATION

WESTED
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended November 30, 2019

Federal Granting Agency/Program Name	Pass-Thru ID Number	CFDA Number	Provided to Sub-recipients	Program Expenditures
RESEARCH AND DEVELOPMENT CLUSTER:				
U.S. Department of Education – Direct:				
Comprehensive Regional Assistance Centers	N/A	84.283B	-	\$ 3,997,161
Comprehensive Regional Assistance Centers	N/A	84.283B	-	1,089,244
Comprehensive Regional Assistance Centers	N/A	84.283B	-	2,439,076
Comprehensive Regional Assistance Centers	N/A	84.283B	-	1,306,814
Comprehensive Regional Assistance Centers	N/A	84.283B	-	1,784,194
Comprehensive Regional Assistance Centers	N/A	84.283B	-	639,778
Comprehensive Regional Assistance Centers	N/A	84.283B	-	235,488
Comprehensive Regional Assistance Centers	N/A	84.283B	-	150,435
Comprehensive Centers		84.283B	-	11,642,190
Efficacy of ASSISTment Online Homework Support for Middle School Mathematics Learning: A Replication Study	N/A	84.305A	-	880,211
Efficacy Study of an Integrated Science and Literacy Curriculum for Young Learners	N/A	84.305A	-	855,494
Exploring the Spatial Alignment Hypothesis in STEM Learning Environments	N/A	84.305A	-	320,294
Investigating the Use of Virtual Labs to Promote Chemical Reasoning and Practice Skills	N/A	84.305A	-	320,622
Efficacy Study of Adventures Aboard the S. S. GRIN: Social, Emotional, and Academic Skills	N/A	84.305A	200,687	517,488
An Efficacy Study of the MathSpring Personalized Learning System That Responds to Student Affect	N/A	84.305A	-	65,467
Khan Academy Resources for Maximizing Mathematics Achievement: A Postsecondary Mathematics Efficacy Study	N/A	84.305A	-	359,048
Improving Children's Understanding of Mathematical Equivalence: An Efficacy Study	N/A	84.305A	-	726,465
Word Learning Strategies: A Program for Upper-Elementary Readers	N/A	84.305A	-	927,037
Continuous Improvement of a What Works Clearinghouse Rated Early Mathematics Intervention	N/A	84.305H	-	205,671
Education Research, Development and Dissemination		84.305	200,687	5,117,797
Special Education: Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	N/A	84.326R	-	105,950
National Center for Systemic Improvement at WestEd: Transforming State Systems to Increase Outcomes for Children with Disabilities	N/A	84.326R	-	8,585,126
Special Education, Technical Assistance and Dissemination		84.326R	-	8,691,076

See accompanying notes to the Schedule of Expenditures of Federal Awards.

WESTED
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended November 30, 2019

<u>Federal Granting Agency/Program Name</u>	<u>Pass-Thru ID Number</u>	<u>CFDA Number</u>	<u>Provided to Sub-recipients</u>	<u>Program Expenditures</u>
U.S. Department of Education – Direct: (Continued)				
The Early Math Initiative: Scaling an Innovative Intervention to Prepare Children from Elementary School Mathematics	N/A	84.411A	-	\$ 3,406,567
Making Sense of Science and Literacy: Improving Teacher Effectiveness and Building Capacity	N/A	84.411B	-	<u>2,867,753</u>
i3 Investing in Innovation Fund		84.411	-	6,274,320
Supporting Effective Teaching with Disciplinary Inquiry	N/A	84.423A	160,000	944,157
The Center to Improve Social and Emotional Learning and School Safety	N/A	84.424B	299,269	997,353
Reading Apprenticeship Across the Disciplines: Effective Secondary Teaching and Learning through Literacy Leadership	N/A	84.367D	-	2,085,657
Special Education: Technical Assistance on State Data Collection – IDEA Fiscal Data Center	N/A	84.373F	-	2,409,779
U.S. Department of Education – Passed-Through Others:				
Passed through Cal State L.A. University Auxiliary Services, Inc.:				
Teacher Quality Partnership (TQP) Evaluation	WESTED231154	84.336S	-	200,520
Passed through Temple University:				
Teacher Quality Partnership Grant Program	300163-WED	84.336S	-	<u>89,010</u>
TQP Programs		84.336S	-	289,530
Passed through RMC Research Corporation:				
Northwest Regional Comprehensive Center	N/A	84.283B	-	440,555
Passed through the Regents of the University of California, Santa Barbara:				
Validation of the Social and Emotional Health Survey	KK1704	84.305A	-	36,248
Passed through University of Delaware:				
Refining and Validating a Number Sense Screening	40951	84.305A	-	<u>197,228</u>
U.S. Department of Education:				
State Personnel Development Grant	16-06-EDSG	84.305A	-	233,476
Passed through Arizona Department of Education:				
State Personnel Development Grant	16-06-EDSG	84.323A	-	160,384

See accompanying notes to the Schedule of Expenditures of Federal Awards.

WESTED
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended November 30, 2019

Federal Granting Agency/Program Name	Pass-Thru ID Number	CFDA Number	Provided to Sub-recipients	Program Expenditures
U.S. Department of Education – Passed-Through Others: (Continued)				
Passed through Regents of the University of Minnesota: National Technical Assistance Center	63235	84.326G	\$ -	\$ 214,010
Passed through Superintendent of Public Instruction, State of Washington: Next Generation Science Standards	20170414	84.369A	-	1,065,694
Passed through Sonoma State University: Education Innovation and Research Program Early Phase	118065	84.411C	-	73,383
Passed through American Institute for Research: Evaluating the Effectiveness of ASSISTments for Improving Math Achievement	N/A	84.305A	-	59,776
Total U.S. Department of Education			659,956	40,759,137
U.S. Department of Health and Human Services – Direct:				
RCT Virtual Health Center	N/A	93.297	49,425	687,555
U.S. Department of Health and Human Services – Passed-Through Others:				
Passed through ZERO TO THREE: National Center for Infants, Toddlers and Families: National Center-Early Childhood Development Teaching & Learning	2015100227	93.600	-	961,611
Passed through Lighthaus, Inc.: Interactive Digital Media STEM Resources for Pre-College and Informal Science Education Audiences (SBIR) (R43/44 Clinical Trial Not Allowed)	C-00016772	93.859	-	27,660
Total U.S. Department of Health and Human Services			49,425	1,676,826
National Science Foundation – Direct:				
Scaling Up through Networked Improvement (SUNI): Testing a practical theory about improving math outcomes for developmental students at scale	N/A	47.076	53,158	345,342

See accompanying notes to the Schedule of Expenditures of Federal Awards.

WESTED
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended November 30, 2019

<u>Federal Granting Agency/Program Name</u>	<u>Pass-Thru ID Number</u>	<u>CFDA Number</u>	<u>Provided to Sub-recipients</u>	<u>Program Expenditures</u>
National Science Foundation – Direct: (Continued)				
An Efficacy Study of a Comprehensive, Middle School Science Curriculum that Integrates Disciplinary Core Ideas, Science and Engineering Practices, and Crosscutting Concepts	N/A	47.076	\$ 239,074	\$ 820,342
Teacher Professional Learning to Support Student Motivational Competencies During Science Instruction	N/A	47.076	37,394	193,781
Collaborative Research: Developing Assessments in Physical Science Across Three Dimensions	N/A	47.076	18,000	54,639
Collaborative Research: Articulating a Transformative Approach for Designing Tasks that Measure Young Learner's Developing Proficiencies in Integrated Science and Literacy	N/A	47.076	-	44,937
Using Math Pathways & Pitfalls to Promote Algebra Readiness	N/A	47.076	-	444,399
Developing Computer Science Pedagogical Content Knowledge through On-the-Job Learning	N/A	47.076	-	6,440
Collaborative Research: Building a Computational Thinking Foundation in Upper Elementary Science with Narrative Centered Maker Environments	N/A	47.076	-	23,574
NSF INCLUDES: Supporting Emerging Aquatic Scientists (SEAS) Islands Alliance	N/A	47.076	-	7,865
Sim Scientists Games: Development of Simulation-Based Game Designs to Enhance Formative Assessment and Deep Science Learning in Middle School	N/A	47.076	78,211	528,509
Understanding Teacher Enactment of New Science Standards and Needs for Implementation Support	N/A	47.076	-	507,422
Modest Supports for Sustaining Professional Development Outcomes over the Long-Term	N/A	47.076	-	299,767
Closing Gaps: Connecting Assessment and Culture to Increase Achievement	N/A	47.076	-	335,845
Professional Resources & Inquiry in Mathematics Education for K-8 Teacher Education	N/A	47.076	21,292	32,801
Video in the Middle: Flexible Digital Experiences for Mathematics Teacher Education	N/A	47.076	-	376,040
Education and Human Resources - Direct		47.076	447,129	4,021,703
National Science Foundation - Passed-Through Others:				
<u>Passed through Filament Games:</u>				
Pilot Study to Test the Effectiveness of the RoboCo Platform	C-00016593	47.041	-	6,552

See accompanying notes to the Schedule of Expenditures of Federal Awards.

WESTED
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended November 30, 2019

<u>Federal Granting Agency/Program Name</u>	<u>Pass-Thru ID Number</u>	<u>CFDA Number</u>	<u>Provided to Sub-recipients</u>	<u>Program Expenditures</u>
National Science Foundation - Passed-Through Others: (Continued)				
<u>Passed through the University of San Diego: Collaborative Research: Fostering Elementary School Students' Visuospatial Skills and mathematical Competencies through an Origami-based Program</u>	N/A	47.076	\$ -	\$ 312
<u>Passed through Phillip and Patricia Frost Museum of Science: Science Learning+ : Embodied Learning for Preschool Scientists (Move2Learn)</u>	388	47.076	-	26,533
<u>Passed through American Association for the Advancement of Science: Identifying Linguistic Factors Associated with Differential Student Performance on Middle School Science Assessments</u>	N/A	47.076	-	41,560
<u>Passed through Mathematical Association of America: Improving the Preparation of Graduate Students to Teach Undergraduate Mathematics</u>	3-8-710-953	47.076	-	3,795
<u>Passed through Regents of the University of Colorado: An Efficacy Study of the Learning and Teaching Geometry PD Materials: Examining Impact and Context Based Adaptations</u>	1553021	47.076	-	127,256
<u>Collaborative Research: What Difference Does Early-Career Faculty Development Make? A Research Study of Multiple Models</u>	1556961	47.076	-	1,384
<u>Building Capacity: Catalyzing Change in Calculus (C3)</u>	2015-03	47.076	-	11,108
<u>Passed through St. Petersburg College: Third Party Evaluation Services, SPC# 02-16-17</u>	N/A	47.076	-	59,826
<u>Passed through San Jose State University Research Foundation: Collaborative Research: A Technology Pathway Program in Data Technology and Applications</u>	21-1300-5675-WESTED	47.076	-	17,768
<u>Passed through The Board of Regents of the University of Illinois: Development of the Electronic Test of Early Numeracy (e-TEEN)</u>	084079-16190	47.076	-	54,025

See accompanying notes to the Schedule of Expenditures of Federal Awards.

WESTED
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended November 30, 2019

<u>Federal Granting Agency/Program Name</u>	<u>Pass-Thru ID Number</u>	<u>CFDA Number</u>	<u>Provided to Sub-recipients</u>	<u>Program Expenditures</u>
National Science Foundation - Passed-Through Others: (Continued)				
Passed through San Francisco State University: <u>RIP-TIDES: Research Intensive Pedagogical Training of Interdisciplinary Estuarine Scientists</u>	S16-0019	47.076	\$ -	\$ 33,214
Passed through North Carolina State University: <u>Multimodal Visitor Analytics: Investigating Naturalistic Engagement with Interactive Tabletop Science Exhibits Collaborative Research: Primary AI: Integrating Artificial Intelligence Into Upper Elementary Science with Immersive Problem-Based Learning</u>	2017-1405-01 2019-2717-01	47.076 47.076	- -	7,705 607
Passed through EarthTeam: <u>Earth Team Meets GLOBE: Building Internships through GLOBE that Support the Career Development of Underrepresented Youth in STEM</u>	C-00015371	47.076	-	120,942
Passed through Arizona State University: <u>EAGER: Developing a Culturally Responsive Computing Instrument For Underrepresented Students</u>	18-458	47.076	-	39,670
Passed through Jobs for the Future: <u>Impact of Work-Based-Learning on Community College STEM Education and Careers</u>	18-094	47.076	-	99,602
Passed through SRI International: <u>Collaborative Research: The Downside of Perseverance-Investigating & Moving Students Beyond Unproductive Persistence</u>	31003	47.076	-	37,925
Passed through American Physical Society: <u>A National Network for Access and Inclusion in Physics Graduate Education</u>	INCA-002-2018	47.076	-	101,380
<u>A National Network for Access and Inclusion in Physics Graduate Education</u>	INCA-002-2019	47.076	-	19,703

See accompanying notes to the Schedule of Expenditures of Federal Awards.

WESTED
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended November 30, 2019

<u>Federal Granting Agency/Program Name</u>	<u>Pass-Thru ID Number</u>	<u>CFDA Number</u>	<u>Provided to Sub-recipients</u>	<u>Program Expenditures</u>
National Science Foundation - Passed-Through Others: (Continued)				
Passed through Research Foundation of CUNY: Investigating Impact of Different Types of Professional Development on What Aspects Mathematics Teachers Take Up and Use in Their Classrooms	CM00001664-00	47.076	\$ -	\$ 92,840
Passed through University of California Riverside: Louis Stokes STEM Pathways and Research Alliance: California Louis Stokes Alliance for Minority Participation	1826900	47.076	-	1,595
Total National Science Foundation				905,302
National Aeronautics and Space Administration – Passed-Through Others:				
Passed through University of Toledo: Mission Earth. Fusing GLOBE with NASA Assets to Build Systemic Innovation in STEM Education	N-125107-01 (F-2016-23)	43.001	-	397,522
Total National Aeronautics and Space Administration				397,522
U.S. Department of Justice – Passed-Through Others:				
Passed through National Institute of Justice: Comprehensive School Safety in Atlanta Public Schools A Randomized Impact Evaluation of Capturing Kids Hearts A Developmental Study of the Keeping Kids in School Initiative	2015-CK-BX-K001 2015-CK-BX-0014 2017-CK-BX-0018	16.560 16.560 16.560	691,476 306,828 -	1,681,053 806,885 542,221
Passed through Texas State University: A Randomized Controlled Trial of a Comprehensive, Research-Based Framework for Implementing School-Based Law Enforcement A Randomized Controlled Trial of a Comprehensive, Research-Based Framework for Implementing School-Based Law Enforcement	TXST-PSA-2017-1049-TSSC 19017-82739-1	16.560 16.560	- -	3,033 211,688
		16.560	998,304	3,244,880

See accompanying notes to the Schedule of Expenditures of Federal Awards.

WESTED
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended November 30, 2019

Pass-Thru ID Federal Granting Agency/Program Name	CFDA Number	Provided to Number	Program Sub-recipients	Expenditures
Passed through National Institute of Justice: A National Evaluation of Internet Crimes Against Children Task Force Training	2018-MC-FX-K007	16,543	\$ -	\$ 137,258
Total U.S. Department of Justice			998,304	3,382,138
Total Expenditures of Federal Awards (Research and Development Cluster)			\$ 2,154,814	\$ 51,142,628

See accompanying notes to the Schedule of Expenditures of Federal Awards.

WESTED
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
November 30, 2019

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of WestEd under programs of the federal government for the year ended November 30, 2019. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of WestEd, it is not intended to and does not present the financial position, change in net position or cash flows of WestEd.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Under the accrual basis, revenue is recorded when earned and expenses are recorded when incurred, without regard to the time of cash receipt or payment. Revenues for Federal programs are received as reimbursement for specific projects and are recognized based on eligible expenses incurred. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. WestEd has not elected to use the 10% de minimis indirect cost rate.

Program income: There was no program income earned by the Federal Programs included in the SEFA during the current fiscal year.

Use of Rental Revenue: Far West Laboratory for Educational Research and Development (FWL) and Southwest Regional Laboratory for Educational Research and Development (SWRL) allow WestEd to occupy their facilities and manage the properties. The U.S. Government allows FWL and SWRL to lease excess space in their buildings. However, FWL and SWRL require that the rental income received be used for costs of educational research or educational research and related purposes, including costs of maintenance and operation of the facilities in accordance with the objectives of the statute under which the grants were made consistent with the principles in 34 CFR §74.42(e) and the provisions of the "Cooperative Research Act" (20 USC 332 (a)).

In accordance with an agreement with the U.S. Department of Education dated January 18, 2001, rental income and related interest available for future expenditures were as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	\$ (22,571,112)	\$ (19,752,661)
Additions:		
Net rental income	<u>278,335</u>	<u>181,589</u>
Subtotal	<u>(22,292,777)</u>	<u>(19,571,072)</u>
Less allowable expenses in accordance with the Cooperative Research Act	<u>(2,896,074)</u>	<u>(3,000,040)</u>
Reserve as of November 30	<u>\$ (25,188,851)</u>	<u>\$ (22,571,112)</u>

WESTED
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 November 30, 2019

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified not considered to be material weaknesses? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified not considered to be material weaknesses? _____ Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Numbers</u>	<u>Expenditures</u>
Research and Development Cluster	Various*	\$ 51,142,628

* All programs reported in the Schedule of Expenditure of Federal Awards are included within the Research and Development Cluster.

Dollar threshold used to distinguish between Type A and Type B programs: \$ 1,534,279

Auditee qualified as low-risk auditee? X Yes _____ No

(Continued)

WESTED
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
November 30, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

(Continued)

WESTED
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
November 30, 2019

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
WestEd
San Francisco, California

We have audited, in accordance with the 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, the financial statements of WestEd as of and for the year ended November 30, 2019, and the related notes to the financial statements, which collectively comprise WestEd's basic financial statements, and have issued our report thereon dated March 18, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered WestEd's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WestEd's internal control. Accordingly, we do not express an opinion on the effectiveness of WestEd's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether WestEd's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Crowe LLP

Costa Mesa, California
March 18, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
WestEd
San Francisco, California

Report on Compliance for Each Major Federal Program

We have audited WestEd's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of WestEd's major federal programs for the year ended November 30, 2019. WestEd's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of WestEd's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about WestEd's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of WestEd's compliance.

Opinion on Each Major Federal Program

In our opinion, WestEd complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended November 30, 2019.

(Continued)

Report on Internal Control Over Compliance

Management of WestEd is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered WestEd's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of WestEd's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Crowe LLP

Costa Mesa, California
March 18, 2020