

SAN CARLOS EDUCATIONAL FOUNDATION

SAN CARLOS, CALIFORNIA

FINANCIAL STATEMENTS

JUNE 30, 2015

SAN CARLOS EDUCATIONAL FOUNDATION
Financial Statements and Supplemental Information
Year Ended June 30, 2015

INDEPENDENT AUDITOR'S REPORT **1**

FINANCIAL STATEMENTS **3**

Statement of Financial Position..... 3

Statement of Activities 4

Statement of Cash Flows..... 5

Notes to the Financial Statements 6

SUPPLEMENTAL INFORMATION **14**

Board Members 14

Independent Auditor's Report

To the Board of Directors
San Carlos Educational Foundation
San Carlos, California

Report on Financial Statements

We have audited the accompanying financial statements of San Carlos Educational Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation'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 consolidated 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 San Carlos Educational Foundation as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

El Cajon, California
February 12, 2016

FINANCIAL STATEMENTS

SAN CARLOS EDUCATIONAL FOUNDATION
Statement of Financial Position
June 30, 2015

ASSETS

Current Assets

Cash and cash equivalents	\$ 2,598,373
Accounts receivable	153,468
Deposits	475
Prepaid expenditures	16,128
Total Current Assets	<u>2,768,444</u>

Noncurrent Assets

Investments	1,834,211
Total Noncurrent Assets	<u>1,834,211</u>

TOTAL ASSETS \$ 4,602,655

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 24,118
Accrued expenses	25,656
Deferred revenue	2,814
Total Liabilities	<u>52,588</u>

Net Assets

Unrestricted	4,145,045
Temporarily restricted	305,022
Permanently restricted	100,000
Total Net Assets	<u>4,550,067</u>

TOTAL LIABILITIES AND NET ASSETS \$ 4,602,655

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

SAN CARLOS EDUCATIONAL FOUNDATION

Statement of Activities

Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Annual giving	\$ 1,856,125	\$ 130,000	\$ 100,000	\$ 2,086,125
Spring Gala	672,783	125,022	-	797,805
In-kind donations	59,595	-	-	59,595
Events	20,260	-	-	20,260
Investment income	39,237	-	-	39,237
Gain on sale of investments	45,022	-	-	45,022
Other income	1,119	-	-	1,119
Total Revenues	<u>2,694,141</u>	<u>255,022</u>	<u>100,000</u>	<u>3,049,163</u>
Net assets released from restrictions:				
Grant restrictions satisfied	<u>260,459</u>	<u>(260,459)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>2,954,600</u>	<u>(5,437)</u>	<u>100,000</u>	<u>3,049,163</u>
EXPENSES				
Program Services:				
Donations to San Carlos School District	2,030,770	-	-	2,030,770
Donations to San Carlos Charter Learning Center	246,472	-	-	246,472
Total Program Services:	<u>2,277,242</u>	<u>-</u>	<u>-</u>	<u>2,277,242</u>
Supporting Services:				
Spring Gala expenses	240,423	-	-	240,423
Fundraising expenses	80,716	-	-	80,716
In-kind donations	59,595	-	-	59,595
Management and administrative	148,084	-	-	148,084
Event expenses	15,359	-	-	15,359
Total Supporting Services:	<u>544,177</u>	<u>-</u>	<u>-</u>	<u>544,177</u>
Other Expenses:				
Investment fees	11,165	-	-	11,165
Interest expense	107	-	-	107
Unrealized investment losses	18,959	-	-	18,959
Total Other Expenses:	<u>30,231</u>	<u>-</u>	<u>-</u>	<u>30,231</u>
TOTAL EXPENSES	<u>2,851,650</u>	<u>-</u>	<u>-</u>	<u>2,851,650</u>
CHANGE IN NET ASSETS	102,950	(5,437)	100,000	197,513
NET ASSETS, BEGINNING OF YEAR	<u>4,042,095</u>	<u>310,459</u>	<u>-</u>	<u>4,352,554</u>
NET ASSETS, END OF YEAR	<u>\$ 4,145,045</u>	<u>\$ 305,022</u>	<u>\$ 100,000</u>	<u>\$ 4,550,067</u>

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

SAN CARLOS EDUCATIONAL FOUNDATION
Statement of Cash Flows
Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 197,513
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
(Increase) Decrease resulting from changes in assets:	
Accounts receivable	(78,537)
Prepaid expenses	(11,128)
Increase (Decrease) resulting from changes in liabilities:	
Accounts payable	2,928
Accrued expenses	16,772
Deferred revenue	2,814
NET CASH (PROVIDED BY) USED IN OPERATING ACTIVITIES	<u>130,362</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Decrease in investments	<u>27,593</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>27,593</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	157,955
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,440,418</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,598,373</u>

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

A. Organization and Summary of Significant Accounting Policies

Organization

The San Carlos Educational Foundation (the Foundation) is a California non-profit organization. The Foundation was organized with the purpose of providing benefit to the education programs and services of the San Carlos School District (the District) and the San Carlos Charter Learning Center. The Foundation is authorized to operate as an independent organization of the San Carlos School District in accordance with the provisions of Article 6 of Chapter 6 of Part 45 of the Educational Code.

Basis of Accounting

The Foundation utilizes the accrual basis of accounting whereby income is recorded when earned and expenses are recorded when incurred.

Funds restricted by outside resources are so indicated and are distinguished from unrestricted funds for specific purposes by action of the Board of Directors. Externally restricted funds may only be utilized in accordance with the purposes established by the sources of such funds.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) No. 958, Financial Statements of Not-for-Profit Organizations. Under ASC No. 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor or grant restrictions.
- Temporarily restricted net assets consist of contributed funds or grants subject to donor or grant imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Foundation may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

It has been the policy of the Foundation that donations are considered to be available for unrestricted use unless specifically restricted by the donor. The only beneficiaries of contributions to the Foundation are San Carlos School District and the San Carlos Charter Learning Center.

SAN CARLOS EDUCATIONAL FOUNDATION

Notes to the Financial Statements, Continued

Year Ended June 30, 2015

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. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market funds. Other highly liquid investments are defined as investments, due to their nature as a long-term investment.

For the purposes of the statement of cash flows, the Foundation considers all highly liquid debt equity instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

The Foundation's method of accounting for investments, in accordance with generally accepted accounting principles, is the fair value method. Fair value is determined by published quotes. Changes in fair value of investments results in increases or decreases in unrealized fair values of equity investments. Adjustments to fair values are reflected as unrealized gain/loss on investments in the accompanying statement of activities.

Investments acquired by gift are recorded at their fair market value at the date of the gift. The Foundation's policy is to liquidate all gifts of investment as timely as possible taking into consideration the impact on the market price.

Investments consisted of marketable securities, specifically Vanguard mutual funds which are recorded at fair market value based on quoted market prices. Realized gains or losses on the sale of marketable securities are calculated using the average cost method. Unrealized gains and losses represent the change in the fair market value of the individual investments for the year or since the acquisition date if acquired during the year.

Contributions

The Foundation records promises to give and receive cash and other assets at fair value in the period in which the promise is made. Conditional promises to give are recognized when the conditions are substantially met in accordance with ASC No. 958. Unconditional promises to give that are expected to be collected within one year are recorded at their realized value.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a current risk-free interest rate. Accretion of the discount is included in contribution revenue. Conditional promises to give are not included as contributions until such time as the conditions are substantially met.

SAN CARLOS EDUCATIONAL FOUNDATION
Notes to the Financial Statements, Continued
Year Ended June 30, 2015

Expiration of Donor Restrictions

The expiration of a donor restriction on a pledge is recognized in the period which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed or when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributed Goods and Services

Contributed goods are recorded at their fair market value where an objective basis is available to measure their value. Such items are capitalized or charged to operations as appropriate. The Foundation receives services donated by volunteers who assist in fundraising and special projects. The services do not meet the criteria as contributions and are, therefore, not recognized in the financial statements.

Advertising

Advertising costs are expensed when incurred.

Income Taxes

The Foundation is a non-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is also exempt from California franchise or income tax under Section 23701d of the California Revenue and Taxation Code. The Foundation may be subject to tax on income which is not related to its exempt purpose. For the year ended June 30, 2015, no such unrelated business income was reported and, therefore, no provision for income taxes has been made.

The Foundation follows provisions of uncertain tax positions as addressed in ASC 958. The Foundation recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There are no amounts accrued in the financial statements related to uncertain tax positions for the year ended June 30, 2015.

The Foundation files informational and income tax returns in the United States and in the state of California. The federal income tax and informational returns are subject to examination by the Internal Revenue Service for three years after the returns are filed. State and local jurisdictions have statutes of limitation that generally range from three to five years.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through February 12, 2016, the date the financial statements were available to be issued.

SAN CARLOS EDUCATIONAL FOUNDATION
Notes to the Financial Statements, Continued
Year Ended June 30, 2015

B. Cash and Cash Equivalents

Cash in Bank

The Foundation’s cash (\$1,096,823 as of June 30, 2015) is held in financial institutions which are either insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor or certain non-interest bearing accounts that are fully insured by the FDIC.

Cash and cash equivalents at June 30, 2015 consisted of:

<u>Bank</u>	<u>Checking Accounts</u>	<u>Savings Accounts</u>	<u>Total</u>
Wells Fargo	<u>\$ 1,014,951</u>	<u>\$ 81,872</u>	<u>\$ 1,096,823</u>

Cash with Fiscal Agent

The Foundation maintains a portion of its cash with Wells Fargo Advisors, LLC. As of June 30, 2015 \$1,499,527 was held with this financial institution. In addition, the Foundation had at June 30, 2015 \$2,023 held at Vanguard pending transfer.

C. Investments

All of the Foundation’s investments are held in the SCEF Endowment (“the Endowment”). In 2008 the Endowment was established as a result of a \$1.5 million gift from the Palo Alto Medical Foundation to support health and wellness programs in the San Carlos public schools. Vanguard manages the investment portfolio based on the Foundation’s investment policy, which attempts to maximize return while maintaining an appropriate level of risk. Exposure is limited by prudent diversification, guided by a strategic asset allocation model. A distribution from the Endowment is provided annually for program support. Through June 30, 2015, the Endowment distributed approximately \$704,000 including \$93,223 approved by the board and paid in June 2015. The Endowment Charter stipulates an annual distribution rate of 5%, with a range of 3% to 10%, based on the Investment Committee’s recommendation. The actual rate of distribution in 2015, when measured against the ending market value, was 5 percent.

During the year, a \$100,000 permanent restriction donation was made to the Endowment. At June 30, 2015, such donation was included in Cash and Cash Equivalents and is expected to be transferred to Investments subsequent to year end.

SAN CARLOS EDUCATIONAL FOUNDATION
Notes to the Financial Statements, Continued
Year Ended June 30, 2015

The Foundation's investments at June 30, 2015 are held by Vanguard and consist of:

	Category			Fair Value
	1	2	3	
Explorer Fund Admiral	\$ 53,937	\$ -	\$ -	\$ 53,937
Inter-term Investment-Gr Admiral	173,922	-	-	173,922
Short-term investment-Gr Admiral	107,429	-	-	107,429
Strategic Equity Fund	53,988	-	-	53,988
Total International Bond Ix Admiral	140,185	-	-	140,185
Total International Stock Ix Admiral	362,270	-	-	362,270
Total Bond Market Index Admiral	281,279	-	-	281,279
Total Stock Market Idx Admiral	309,327	-	-	309,327
US Growth Fund Admiral	125,981	-	-	125,981
Windsor II Fund Admiral	125,893	-	-	125,893
Cash	100,000	-	-	100,000
	<u>\$ 1,834,211</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,834,211</u>

Category 1: Insured or registered, or securities held by the Foundation or its agent in the Foundation's name.

Category 2: Uninsured and unregistered, with securities held by the counter party's trust department or agent in the Foundation's name.

Category 3: Uninsured and unregistered, with securities held by the counter party, or by its trust department or agent but not in the Foundation's name.

D. Analysis of Specific Deposit and Investment Risk

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. At June 30, 2015 the Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Custodial Credit Risk – Deposits

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the Foundation's name. As of June 30, 2015 \$2,348,373 of deposits were exposed to this risk.

Concentrations of Credit Risk

This risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The investment policy of the Foundation contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer that represent five percent or more of the total investments are either an external investment pool and are therefore exempt. As such the Foundation was not exposed to concentration of credit risk.

The Foundation invests in various types of marketable securities and money market accounts. The Foundation has established guidelines relative to diversification and maturities that target certain safety and liquidity risk levels. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

The Foundation maintains cash balances at banks located in San Carlos. Accounts at these institutions are secured by the Federal Deposit Insurance Corporation. At times, balances may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Management believes that The Foundation is not exposed to any significant credit risk with respect to its cash and cash equivalents.

The Foundation invests in various investment securities and mutual funds. Investment securities, in general, are subject to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term that such changes could materially affect the amounts reported in the consolidated financial statements.

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. As of June 30, 2015 the Foundation has not invested in any foreign investments and as such is not exposed to foreign currency risk.

SAN CARLOS EDUCATIONAL FOUNDATION

Notes to the Financial Statements, Continued

Year Ended June 30, 2015

E. Accounts Receivable

Accounts receivable at June 30, 2015 consists of donations in the amount of \$153,468. As of the date of this report, all of the accounts receivable has been collected.

F. Accounts Payable

Accounts payable consists of amounts due to vendors and payroll liabilities. As of June 30, 2015 account payable consisted of:

Vendors payable	<u>\$ 24,118</u>
-----------------	------------------

G. Restricted Net Assets

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

Fund a Need	\$ 125,022
Counseling	100,000
Nursing	50,000
Oracle	<u>30,000</u>
Total	<u>\$ 305,022</u>

Temporarily restricted net assets as of June 30, 2014 were adjusted to reflect the amount outstanding at year end rather than reflecting just the change in restricted net assets as previously reported. The adjustment was as follows:

June 30, 2014 Temporarily Net Assets, as reported	\$ 68,757
Required adjustment	<u>241,702</u>
June 30, 2014 Temporarily Net Assets, as adjusted	<u>\$ 310,459</u>

Permanently restricted net assets consisted of the following at June 30, 2015:

Endowment	<u>\$ 100,000</u>
-----------	-------------------

SAN CARLOS EDUCATIONAL FOUNDATION
Notes to the Financial Statements, Continued
Year Ended June 30, 2015

H. Grants

During the fiscal year ended June 30, 2015, the Foundation provided grants to the San Carlos School District in the amount of \$2,030,770 and to the San Carlos Charter Learning Center in the amount of \$246,472.

The grants went to provide the following:

Technology including Fund a Need (personnel, devices and infrastructure), Science and Computational Thinking	\$ 521,132
Smaller class sizes (K-3)	261,899
Elementary Music and Middle School Electives	366,336
Counseling and School Nursing	271,123
Librarians, Literacy Specialists, PE and Foreign Language	475,324
Principal Flex Funds, Educator Innovation Grants, Numberacy Support and Professional Development	306,000
Elementary School Field Trips, FAB/Enrichment	<u>75,428</u>
Total	<u>\$ 2,277,242</u>

SUPPLEMENTAL INFORMATION

SAN CARLOS EDUCATIONAL FOUNDATION

Board Members

Year Ended June 30, 2015

<u>Member</u>	<u>Office</u>
Marianne Jett	President
Rachel Cotton	Vice President, Annual Giving
Craig Patterson	Vice President, Marketing
Padmini Raman	Vice President, Communications
Jamie Baxter	Treasurer
Angie Jones	Vice President, Events
Rebecca Taylor	Vice President, Special Projects
Alana Corso	Vice President, Leadership Circle Giving
Lara Peng	Vice President, Business Development
Marianne Jett	Vice President, Leadership Circle Giving
Nandini Gondhalekar	Vice President, Stewardship
Cindy Holloway	Secretary
Angela Kalayjian	Co-School Representative, Arundel Elementary
Roberta Marks	Co-School Representative, Arundel Elementary
Kari Schnapp	Co-School Representative, Tierra Linda Middle
Liz Jolls	Co-School Representative, Tierra Linda Middle
Linda Folan	Co-School Representative, Tierra Linda Middle
Kate Corpus	Co-School Representative, Brittan Acres Elementary
Lucrecia Kim Boswell	Co-School Representative, Brittan Acres Elementary
Amy Blodgett	Co-School Representative, Central Middle School
Andrea Maxwell	Co-School Representative, Central Middle School
Laurie Schoeffler	Co-School Representative, Central Middle School
John McAfee	School Representative, Charter Learning Center
Rachel De Brier	School Representative, Charter Learning Center
Jessika Welcome	School Representative, Charter Learning Center

SAN CARLOS EDUCATIONAL FOUNDATION

Board Members

Year Ended June 30, 2015

<u>Member</u>	<u>Office</u>
Hillary Wiessinger.....	School Representative, Heather Elementary
Joelle Lumish.....	School Representative, Heather Elementary
Todd Guerrieri.....	School Representative, White Oaks Elementary
Sara Burton.....	School Representative, White Oaks Elementary