

SAN CARLOS, CALIFORNIA FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

Financial Statements Year Ended June 30, 2016

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Independent Auditor's Report

To the Board of Trustees of San Carlos Education Foundation San Carlos, California

Report on the Financial Statements

We have audited the accompanying financial statements of San Carlos Education Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Carlos Education Foundation as of June 30, 2016, 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.

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2017, on our consideration of San Carlos Education Foundation'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 San Carlos Education Foundation's internal control over financial reporting and compliance.

Wilkinson Hadley King & Co., LLP El Cajon, California

March 25, 2017



Statement of Financial Position June 30, 2016

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 2,379,068
Accounts receivable	398,664
Prepaid expenditures	7,019
Deposits	 5,835
Total Current Assets	 2,790,586
Noncurrent Assets	
Investments	 1,849,765
Total Noncurrent Assets	 1,849,765
TOTAL ASSETS	\$ 4,640,351
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable and accrued expenses	\$ 61,680
Total Current Liabilities	 61,680
Total Liabilities	 61,680
Net Assets	
Unrestricted	2,636,376
Temporarily restricted	292,295
Permanently restricted	 1,650,000
Total Net Assets	 4,578,671
TOTAL LIABILITIES AND NET ASSETS	\$ 4,640,351

Statement of Activities Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Revenue				
Contributions	\$ 1,843,531	\$ 188,100	\$ 50,000	\$ 2,081,631
Fund-raising events:				
Spring Gala	685,468	92,405	-	777,873
Town Event	120,385	11,200	-	131,585
Giants Game	26,615	-	-	26,615
Less direct operating costs (Note I)	(293,421)			(293,421)
Fund-raising events, net	539,047	103,605		642,652
In-kind donations	70,909	-	-	70,909
Investment income	61,507	-	-	61,507
Net realized and unrealized (losses) gains on investments	(36,207)	-	-	(36,207)
Other local revenue	2,495			2,495
Total Revenues	2,481,282	291,705	50,000	2,822,987
Net assets released from restrictions:				
Grant restrictions satisfied	304,432	(304,432)		
TOTAL REVENUE AND SUPPORT	2,785,714	(12,727)	50,000	2,822,987
EXPENSES				
Program services:				
Donations to San Carlos School District	2,219,687	-	-	2,219,687
Donations to San Carlos Charter Learning Center	241,062	-	-	241,062
In-kind donations	70,909	-	-	70,909
Total Program Services:	2,531,658			2,531,658
Supporting services:				
Management and general	157,896	-	-	157,896
Fund-raising	104,829	-	-	104,829
Total Supporting Services:	262,725			262,725
TOTAL EXPENSES	2,794,383			2,794,383
CHANGE IN NET ASSETS	(8,669)	(12,727)	50,000	28,604
NET ASSETS, BEGINNING OF YEAR	2,645,045	305,022	1,600,000	4,550,067
NET ASSETS, END OF YEAR	\$ 2,636,376	\$ 292,295	\$ 1,650,000	\$ 4,578,671

Statement of Cash Flows Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 28,604
Adjustments to reconcile change in net assets	
to net cash provided by operating activities:	
(Increase) Decrease resulting from changes in assets:	
Accounts receivable	(245,196)
Prepaid expenses	9,109
Deposits	(5,360)
Increase (Decrease) resulting from changes in liabilities:	
Accounts payable and accrued expenses	11,906
Deferred revenue	(2,814)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(203,751)
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in investments	 (15,554)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	 (15,554)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(219,305)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 2,598,373
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,379,068

Notes to the Financial Statements Year Ended June 30, 2016

A. Organization and Summary of Significant Accounting Policies

Organization

The San Carlos Education Foundation (the Foundation) is a California non-profit organization. The Foundation was organized with the purpose of providing benefits 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 provision of Article 6 of Chapter 6 of Part 45 of the Educational Code.

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 available for unrestricted use unless specifically restricted by the donor. The only beneficiaries of contributions to the Foundation are the San Carlos School District and the San Carlos Charter Learning Center.

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.

Notes to the Financial Statements (Continued) Year Ended June 30, 2016

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.

Accounts Receivable

Accounts receivable arise in the normal course of operations. It is the policy of management to review the outstanding accounts receivable at year end, as well as bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. No allowance was considered necessary as management believes that all amounts are collectible.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any restrictions.

All donor or grant restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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 values.

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.

Notes to the Financial Statements (Continued) Year Ended June 30, 2016

Expiration of Donor Restrictions

The expiration of a donor restriction on a pledge is recognized in the period 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 resources were restricted have been fulfilled, or both.

Contributed Materials and Services

Contributed materials 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 in carrying out the Foundation's operations. 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 under Sections 501(a) and 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, 2016, 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, 2016.

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 March 25, 2017, the date the financial statements were available to be issued.

Notes to the Financial Statements (Continued) Year Ended June 30, 2016

B. Cash and Cash Equivalents

Cash with Fiscal Agent

The Foundation maintains a portion of its cash in a brokerage account with Wells Fargo Advisors, LLC.

As of June 30, 2016, cash with fiscal agent consisted of:

	Cash and	Fixed	
	Sweep	Income	
Fiscal Agent	Balances	Securities	Total
Wells Fargo Advisors, LLC	\$ 1,558	\$1,999,153	\$2,000,711

Cash in Bank

The remainder of the Foundation's cash (\$378,357 as of June 30, 2016) 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. As of June 30, 2016, the Foundation did not have any cash in bank that was exposed to uninsured deposit risk.

Cash in bank at June 30, 2016 consisted of:

	Checking	Savings	
Bank	Accounts	Accounts	Total
Wells Fargo	\$ 366,464	\$ 11,893	\$ 378,357

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, 2016, the Endowment distributed approximately \$699,300 with an additional \$53,768 approved by the board to be distributed subsequent to year-end. The Endowment Charter stipulates an annual distribution range of 3% to 10% based on the Investment Committee's recommendation. The actual rate of distribution in 2016, when measured against the ending market value was 3%.

Notes to the Financial Statements (Continued) Year Ended June 30, 2016

Investments, carried at fair value at June 30, 2016 and held on behalf of the Foundation, are presented below, categorized separately to give an indication of the level of risk associated with each investment:

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 county party, or by its trust department or agent but not in the Foundation's name.

	Category			
	1	2	3	Fair Value
Explorer Fund Admiral	\$ 52,470	\$ -	\$ -	52,470
Inter-Term Investment - Gr Admiral	150,814	-	-	150,814
Short-Term Investment - Gr Admiral	93,195	-	-	93,195
Strategic Equity Fund	51,745	-	-	51,745
Total International Bond Ix Admiral	215,377	-	-	215,377
Total International Stock Ix Admiral	453,227	-	-	453,227
Total Bond Market Index Admiral	249,667	-	-	249,667
Total Stock Market Index Fund Admiral	347,767	-	-	347,767
US Growth Fund Admiral	114,314	-	-	114,314
Windsor II Fund Admiral	121,189			121,189
	\$1,849,765	\$ -	\$ -	\$1,849,765

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, 2016 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, 2016, the Foundation had \$1,749,153 of deposits at financial institutions that were subject to custodial credit risk.

Notes to the Financial Statements (Continued) Year Ended June 30, 2016

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. The guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

The Foundation maintains cash balances located in San Carlos, California. Accounts at these institutions are secured by the Federal Deposit Insurance Corporation. At times, balances may exceed federally insured limits. The Foundation had 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 vitality. 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. The Foundation manages its exposure to interest rate risk by investing in the county pool.

Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. As of June 30, 2016 the Foundation has not invested in any foreign investments and as such is not exposed to foreign currency risk.

Notes to the Financial Statements (Continued) Year Ended June 30, 2016

E. Accounts Receivable

As of June 30, 2016 accounts receivable consisted of donations in the amount of \$398,664. As of the date of this report, all of the accounts receivable has been collected.

F. Accounts Payable and Accrued Expenses

As of June 30, 2016 accounts payable and accrued expenses consisted of:

Vendors payable	\$ 48,388
Accrued payroll liabilities	 13,292
Total Accounts Payable and Accrued Expenses	\$ 61,680

G. Restricted Ending Net Assets

Temporarily restricted net assets consisted of the following at June 30, 2016:

Fund a Need	\$ 100,495
Music Fund a Need	11,800
Oracle Stem Grant	30,000
Counseling	 150,000
Total Temporarily Restricted Net Assets	\$ 292,295

Permanently restricted net assets consisted of the following at June 30, 2016:

Endowment	\$	1,650,000
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H. Board Designated Unrestricted Net Assets

As of June 30, 2016, the Foundation has designated \$75,555 of unrestricted net assets for the Foundation's innovation fund. The innovation fund is used to grant funds to support educator initiatives, including literacy, science, mathematics and other educational projects.

Notes to the Financial Statements (Continued) Year Ended June 30, 2016

I. Fund-Raising Event Direct Operating Costs

The Foundation holds periodic fund-raising events and reports the revenues generated, net of any direct operating costs, as revenue, gains, and other support in the accompanying statement of activities. These direct operating costs during the fiscal year ended June 30, 2016 are as follows:

Supplies	\$ 3,027
Printing and postage	4,020
Technology	10,131
Facility expenses	8,405
Food and beverage	96,635
Entertainment	7,798
Giants Game event expenses	25,837
Event management and auction expense	 137,568
Total Fund-Raising Event Direct Operating Costs	\$ 293,421

J. Grants

During the fiscal year ended June 30, 2016, the Foundation provided grants to the San Carlos School District in the amount of \$2,219,687 and to the San Carlos Charter Learning Center in the amount of \$241,062.

The grants went to provide the following:

Technology (Devices, personnel, infrastructure)	\$ 457,600
Smaller Class Sizes (K-3)	357,000
Elementary Music, Language and Middle School Electives	562,200
Counseling/School Nurse	246,000
Library, Literacy, PE	375,400
Principal Funds/Innovation Grants/Numeracy	277,549
Field Trips and Personalized Learning (Fund a Need)	185,000
Total Grants	\$ 2,460,749

Notes to the Financial Statements (Continued) Year Ended June 30, 2016

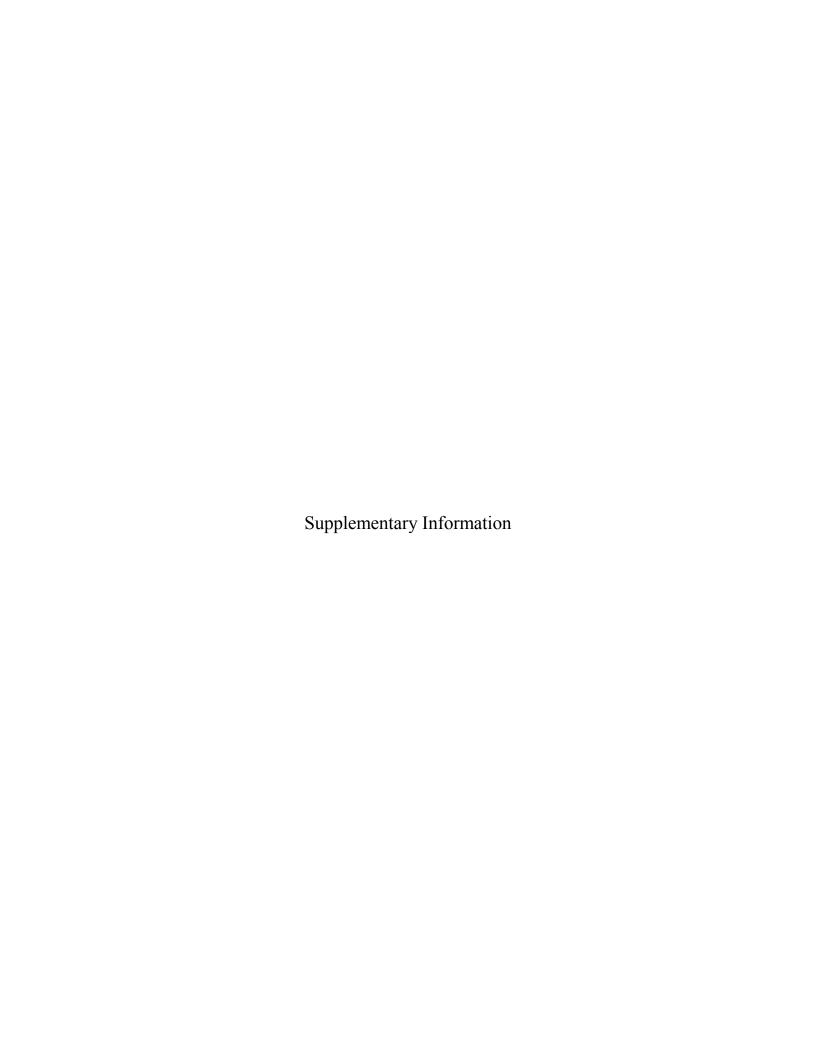
K. Functional Expenses

As of June 30, 2016, functional expenses consisted of:

	Program Services		Management and General		Fundraising		Total	
Salaries and wages	\$	-	\$	116,881	\$	34,676	\$	151,557
Other employee benefits		-		3,648		1,082		4,730
Payroll taxes		-		8,396		2,491		10,887
Fees for services (non-employees):								
Accounting		-		7,800		-		7,800
Investment management		-		7,851		-		7,851
Other		-		637		3,453		4,090
Advertising and promotion		-		79		9,482		9,561
Supplies		-		760		385		1,145
Information technology		-		2,743		7,038		9,781
Postage and shipping		-		-		5,129		5,129
Printing and graphics		-		275		11,661		11,936
Occupancy		-		1,275		-		1,275
Conferences, conventions and meetings		-		2,484		-		2,484
Membership dues		-		125		-		125
Insurance		-		4,942		-		4,942
Awards and grants	2,46	0,749		-		-		2,460,749
In-kind donations	7	0,909		-		-		70,909
Miscellaneous		-		-		3,641		3,641
Credit card fees				-		25,791		25,791
Total expenses	\$ 2,53	1,658	\$	157,896	\$	104,829	\$	2,794,383

L. Adjustment to Beginning Net Assets

During the fiscal year ended, June 30, 2016, the Foundation's board of directors approved an amendment to the Endowment to permanently restrict the original \$1.5 million donation from Palo Alto Medical Foundation, along with any new donations to the Endowment. An adjustment to beginning net assets was made to move the original endowment donation of \$1.5 million from unrestricted to permanently restricted net assets.



Organization Structure Year Ended June 30, 2016

GOVERNING BOARD

Name	Office
Marianne Jett	President
Susan Raymond	Vice President, Finance/Treasurer
Joy Sykes	Secretary
Iara Peng	Vice President, Business Development
Padmini Raman	Vice President, Communication
Jennifer Berry/ Jayne Smith	Co-Vice Presidents, Events
Roberta Marks	Vice-President, Gala Co-School Representative, Arundel Elementary
Alana Corso	Vice President, Leadership Circle Giving
Rachel Cotton & Nandini Gondhalekar	Vice President, Parent Giving
Rebecca Taylor	Vice President, Special Projects
Jamie Baxter	Vice President, Stewardship
Shelley Black	Co-School Representative, Arundel Elementary
Kari Schnapp Hillary Wiessenger	Co-School Representative, Tierra Linda Middle Co-School Representative, Tierra Linda Middle
Tanya Lehman	School Representative, Brittan Acres Elementary
Maggie Larsson	School Representative, Central Middle School
Cindy Hunter Liz Sloan	Co-School Representative, Charter Learning Center Co-School Representative, Charter Learning Center
Joelle Lumish Cindy Holloway	Co-School Representative, Heather Elementary Co-School Representative, Heather Elementary
Todd Guerrieri Christopher Kashap	Co-School Representative, White Oaks Elementary Co-School Representative, White Oaks Elementary