

# SAN FRANCISCO EDUCATION FUND

JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# San Francisco Education Fund

## Independent Auditors' Report and Financial Statements

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**Independent Auditors' Report**

THE BOARD OF DIRECTORS  
SAN FRANCISCO EDUCATION FUND  
San Francisco, California

We have audited the accompanying statement of financial position of **SAN FRANCISCO EDUCATION FUND (the Education Fund)** as of June 30, 2011, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Education Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Education Fund's fiscal year ended June 30, 2010 financial statements and, in our report dated May 20, 2011, we expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Education Fund as of June 30, 2011, and the results of its activities and changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Hood & Strong LLP*

San Francisco, California  
November 30, 2011

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# San Francisco Education Fund

## Statement of Financial Position

| <i>June 30, 2011 (with comparative totals for 2010)</i>  | 2011                | 2010                |
|--|---------------------|---------------------|
| <b>Assets</b>  |                     |                     |
| Cash and cash equivalents  | \$ 91,908           | \$ 103,365          |
| Grants receivable  | 315,000             | 205,000             |
| Contracts receivable   | 202,885             | 104,492             |
| Pledges receivable, net of allowance for doubtful<br>accounts of \$64,000 & \$44,000, respectively | 77,551              | 58,640              |
| Prepaid expenses and other assets  | 42,530              | 114,879             |
| Investments  | 5,438,691           | 4,937,665           |
| Property and equipment, net  | 42,292              | 40,633              |
| <b>Total assets</b>  | <b>\$ 6,210,857</b> | <b>\$ 5,564,674</b> |
| <b>Liabilities and Net Assets</b>  |                     |                     |
| <b>Liabilities:</b>  |                     |                     |
| Accounts payable and accrued expenses  | \$ 234,904          | \$ 325,100          |
| Leases payable   | 31,151              | 41,225              |
| Payable to fiduciary groups  | 144,897             | 15,354              |
| <b>Total liabilities</b>   | <b>410,952</b>      | <b>381,679</b>      |
| <b>Net Assets:</b>   |                     |                     |
| Unrestricted   | 1,354,037           | 1,805,771           |
| Temporarily restricted   | 1,278,864           | 210,220             |
| Permanently restricted   | 3,167,004           | 3,167,004           |
| <b>Total net assets</b>  | <b>5,799,905</b>    | <b>5,182,995</b>    |
| <b>Total liabilities and net assets</b>  | <b>\$ 6,210,857</b> | <b>\$ 5,564,674</b> |

The accompanying notes are an integral part of this statement.

# San Francisco Education Fund

## Statement of Activities and Changes in Net Assets

*Year Ended June 30, 2011 (with comparative totals for 2010)*

|  | 2011         |                           |                           |              | 2010<br>Total |
|--|--------------|---------------------------|---------------------------|--------------|---------------|
|  | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted | Total        |               |
| <b>Support and Revenue:</b>                  |              |                           |                           |              |               |
| Contributions and contracts:                 |              |                           |                           |              |               |
| Foundation                                   | \$ 265,708   | \$ 866,437                |                           | \$ 1,132,145 | \$ 735,900    |
| Individual                                   | 394,064      | 102,651                   |                           | 496,715      | 639,972       |
| Corporate                                    | 177,878      | 236,839                   |                           | 414,717      | 191,473       |
| In-kind                                      | 13,000       |                           |                           | 13,000       | 97,517        |
| Government contracts                         | 54,046       |                           |                           | 54,046       | 189,958       |
| Other:                                       |              |                           |                           |              |               |
| Interest and dividends                       | 40,640       | 73,401                    |                           | 114,041      | 124,598       |
| Net gain from investments                    | 389,725      | 711,698                   |                           | 1,101,423    | 663,749       |
| Other income                                 | 29,953       |                           |                           | 29,953       | 26,804        |
| Net assets released<br>from restrictions     | 1,144,778    | (1,144,778)               |                           |              |               |
| Total support and revenue                    | 2,509,792    | 846,248                   |                           | 3,356,040    | 2,669,971     |
| <b>Expenses:</b>                             |              |                           |                           |              |               |
| Program services                             | 1,902,794    |                           |                           | 1,902,794    | 1,795,826     |
| Management and general                       | 195,498      |                           |                           | 195,498      | 316,557       |
| Fundraising                                  | 640,838      |                           |                           | 640,838      | 651,840       |
| Merger costs                                 |              |                           |                           |              | 92,692        |
| Total expenses                               | 2,739,130    |                           |                           | 2,739,130    | 2,856,915     |
| <b>Change in Net Assets</b>                  | (229,338)    | 846,248                   |                           | 616,910      | (186,944)     |
| <b>Net Assets, beginning of year</b>         | 1,805,771    | 210,220                   | \$ 3,167,004              | 5,182,995    | 5,369,939     |
| Reclassification of<br>restrictions (Note 9) | (222,396)    | 222,396                   |                           |              |               |
| <b>Net Assets, end of year</b>               | \$ 1,354,037 | \$ 1,278,864              | \$ 3,167,004              | \$ 5,799,905 | \$ 5,182,995  |

The accompanying notes are an integral part of this statement.

# San Francisco Education Fund

## Statement of Cash Flows

| <i>Year Ended June 30, 2011 (with comparative totals for 2010)</i>                         | 2011             | 2010               |
|--|------------------|--------------------|
| <b>Cash Flows from Operating Activities:</b>   |                  |                    |
| Change in net assets   | \$ 616,910       | \$ (186,944)       |
| Adjustments to reconcile change in net assets to<br>net cash used by operating activities: |                  |                    |
| Depreciation   | 12,405           | 16,696             |
| Net gain from investments  | (1,101,423)      | (663,749)          |
| Loss on disposal of equipment  |                  | 6,545              |
| Changes in assets and liabilities:   |                  |                    |
| Grants receivable  | (110,000)        | (87,000)           |
| Contracts receivable   | (98,393)         | (57,535)           |
| Pledges receivable   | (18,911)         | 24,751             |
| Prepaid expenses and other assets  | 72,349           | (63,420)           |
| Accounts payable and accrued expenses  | (90,196)         | (29,946)           |
| Payable to fiduciary groups  | 129,543          | (288)              |
| <b>Net cash used by operating activities</b>   | <b>(587,716)</b> | <b>(1,040,890)</b> |
| <b>Cash Flows from Investing Activities:</b>   |                  |                    |
| Purchases of property  | (14,064)         |                    |
| Purchases of investment securities   | (114,041)        | (131,770)          |
| Proceeds from sales and maturities of investment securities                                | 714,438          | 1,092,096          |
| <b>Net cash provided by investing activities</b>   | <b>586,333</b>   | <b>960,326</b>     |
| <b>Cash Flows from Financing Activities:</b>   |                  |                    |
| Payments on obligations under capital lease  | (10,074)         | (18,611)           |
| <b>Net cash used by financing activities</b>   | <b>(10,074)</b>  | <b>(18,611)</b>    |
| <b>Net Decrease in Cash and Equivalents</b>  | <b>(11,457)</b>  | <b>(99,175)</b>    |
| <b>Cash and Equivalents, beginning of year</b>   | <b>103,365</b>   | <b>202,540</b>     |
| <b>Cash and Equivalents, end of year</b>   | <b>\$ 91,908</b> | <b>\$ 103,365</b>  |
| <b>Supplemental Data:</b>  |                  |                    |
| Interest paid  | \$ 3,051         | \$ 3,175           |
| Non-cash investing and financing transactions,<br>lease of equipment:                      |                  |                    |
| Equipment purchase   | 1,474            | 39,102             |
| Capital lease obligation   | (1,474)          | (39,102)           |

The accompanying notes are an integral part of this statement.

# San Francisco Education Fund

## Statement of Functional Expenses

*Year Ended June 30, 2011 (with comparative totals for 2010)*

|  | Program Services                            |                   |   |                          | Supporting Services     |                   | Total               | 2010<br>Total       |
|--|---|-------------------|---|--------------------------|-------------------------|-------------------|---------------------|---------------------|
|  | Leadership &<br>Professional<br>Development | Peer<br>Resources | Public<br>Engagement<br>(includes School<br>Volunteers) | Postsecondary<br>Success | Management<br>& General | Fundraising       |                     |                     |
| Salaries                                 | \$ 138,001                                  | \$ 114,528        | \$ 491,965  | \$ 162,772               | \$ 114,435              | \$ 361,281        | \$ 1,382,982        | \$ 1,455,466        |
| Consultants                              | 262,643                                     | 15,909            | 55,405  | 26,223                   | 20,953                  | 73,144            | 454,277             | 448,641             |
| Grants and awards                        | 54,600                                      | 23,970            | 37,775  | 16,333                   |                         | 2,471             | 135,149             | 85,791              |
| Unemployment compensation                | 18,725                                      | 7,180             | 42,119  | 12,840                   | 7,452                   | 26,823            | 115,139             |                     |
| Health insurance                         | 16,779                                      | 6,482             | 37,644  | 11,530                   | 6,725                   | 25,094            | 104,254             | 118,185             |
| Payroll taxes                            | 9,850                                       | 7,840             | 34,665  | 10,866                   | 7,477                   | 23,637            | 94,335              | 111,838             |
| Special event                            |   |                   |   |                          |                         | 64,286            | 64,286              | 194,511             |
| Other expenses                           | 6,882                                       | 17,537            | 21,628  | 3,689                    | 1,809                   | 5,401             | 56,946              | 23,037              |
| Professional development and recruitment | 4,866                                       | 604               | 41,219  | 205                      | 119                     | 649               | 47,662              | 63,283              |
| Rent                                     | 7,175                                       | 2,751             | 16,140  | 4,920                    | 2,856                   | 10,278            | 44,120              | 42,000              |
| Audit fees                               | 5,285                                       | 2,027             | 11,889  | 3,624                    | 2,104                   | 7,571             | 32,500              | 34,736              |
| Travel                                   | 2,842                                       | 2,480             | 10,596  | 10,357                   | 1,395                   | 2,733             | 30,403              | 23,976              |
| Insurance                                | 12,378                                      | 1,325             | 7,771   | 2,369                    | 1,375                   | 4,949             | 30,167              | 10,939              |
| Equipment rent                           | 2,900                                       | 1,193             | 8,851   | 1,989                    | 1,154                   | 4,388             | 20,475              | 15,226              |
| Hospitality                              | 2,894                                       | 7,421             | 2,471   | 1,888                    | 530                     | 4,877             | 20,081              | 17,049              |
| Supplies                                 | 2,215                                       | 4,119             | 7,034   | 2,358                    | 658                     | 2,673             | 19,057              | 21,916              |
| Workers compensation                     | 2,225                                       | 853               | 5,005   | 1,526                    | 886                     | 3,188             | 13,683              | 7,266               |
| Depreciation                             | 2,017                                       | 774               | 4,538   | 1,383                    | 803                     | 2,890             | 12,405              | 16,696              |
| Printing & reproduction                  | 1,487                                       | 43                | 1,075   | 76                       | 379                     | 6,367             | 9,427               | 707                 |
| Stipends                                 | 3,025                                       | 6,049             |   |                          |                         |                   | 9,074               | 5,069               |
| Dues, subscriptions and publications     | 992   | 380               | 2,542   | 680                      | 702                     | 2,140             | 7,436               | 13,098              |
| Finance charges                          | 357   | 137               | 804   | 245                      | 3,406                   | 1,085             | 6,034               | 4,624               |
| Postage & delivery                       | 276   | 88                | 598   | 157                      | 91                      | 4,232             | 5,442               | 5,692               |
| Telephone & internet service             | 475   | 1,050             | 1,075   | 326                      | 189                     | 681               | 3,796               | 6,477               |
| Bad debt expense                         |   |                   |   |                          | 20,000                  |                   | 20,000              | 38,000              |
| <b>Total</b>                             | <b>\$ 558,889</b>                           | <b>\$ 224,740</b> | <b>\$ 842,809</b>                                       | <b>\$ 276,356</b>        | <b>\$ 195,498</b>       | <b>\$ 640,838</b> | <b>\$ 2,739,130</b> | <b>\$ 2,764,223</b> |

The accompanying notes are an integral part of this statement.

# San Francisco Education Fund

## Notes to Financial Statements

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### Note 1 - Organization:

The San Francisco Education Fund (the Education Fund) believes that strong public schools are critical to San Francisco's viability and that the community must take action to ensure their success. By acting as a bridge between the community and the classroom, the Education Fund increases the availability and impact of resources for students and teachers throughout San Francisco public schools and in partnership with the San Francisco Unified School District (SFUSD).

The Education Fund leverages financial and human capital to strengthen schools so that every San Francisco student - especially those from underserved communities - graduates from high school ready for college, career and civic responsibility. We accomplish our mission by:

- enhancing teacher quality,
- fostering youth engagement,
- mobilizing volunteers, and
- implementing strategic partnerships.

In July 2009, the Education Fund combined with San Francisco School Volunteers. By joining two longstanding organizations dedicated to improving public schools, the Education Fund has integrated programs to address pressing education challenges in new and more powerful ways. Currently, the Education Fund strategically employs programs that address current challenges in classrooms while we also design, incubate and implement long term reform strategies. The following are programs of the Education Fund:

#### **Public Engagement (includes School Volunteers)**

The Education Fund recruits, trains, places and supports more than 800 community and corporate volunteers annually who serve as tutors, mentors and interpreters. The School Volunteers program directs resources where they will have the greatest impact for those who need them most. SFUSD teachers and administrators enter requests and volunteers are matched to them based on the volunteers' skills and the school staff person's needs. The Education Fund also works with the schools to provide resources and lead activities designed to build the infrastructure of schools to effectively manage their schools' volunteers. In FY10-11, volunteers placed through the Education Fund provided more than 100,000 hours of service in San Francisco public schools, which delivered a value of over \$2 million in staffing support to schools. The value of this contributed time is not reflected in the financial statements because there is no current means of measurement or valuation accepted by accounting regulatory bodies.

In addition to engaging community members and corporate employees as volunteers, the Education Fund also leads city-wide campaigns such as the Thank a Teacher campaign, a public call to action that seeks to thank San Francisco public school teachers for their professionalism, dedication, and work on behalf of our City's young people.



# San Francisco Education Fund

## Notes to Financial Statements

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In fiscal year 2010-2011, the School Volunteers program staff included four full-time AmeriCorps VISTA members acting as recruitment coordinators that are funded directly by a \$90,000 grant award from the Corporation for National and Community Service. This grant award is not included in the foregoing financial statements, as salaries and benefits for the VISTA members were funded directly by AmeriCorps.

### **Peer Resources**

For more than 30 years, the Education Fund and the San Francisco Unified School District have collaborated to operate San Francisco Peer Resources, the largest school-based peer support group in the country.

Peer Resources fosters middle and high school students' leadership skills so they take more ownership of their education and take an active role in creating safe, engaging, supportive, and rigorous learning environments in their schools. The nationally recognized program develops Peer Educators who make presentations on important issues like cyber bullying, combating homophobia and managing peer pressure that reach more than 13,000 fellow students. Peer Leaders also work with students to negotiate their disputes non-violently. Additionally, every year approximately 450 Peer Resources students participate in the Youth Are Resources (YAR) conference where students make presentations and learn from one another.

In fiscal year 2010-2011, Peer Resources teacher salaries and benefits were funded directly by approximately \$880,000 in contributed support from the Public Education Enrichment Fund (Proposition H, administered by SFUSD). The funds from Prop H supporting Peer Resources are not included in the foregoing financial statements as teacher salaries and benefits were funded directly by SFUSD.

### **Postsecondary Success**

The Postsecondary Success Program (PSP) transforms how schools utilize student data and leverage partnerships to increase the number of students graduating high school who are eligible and prepared for college. PSP helps school staff understand the larger student achievement trends (including which students graduate with college requirements complete, which students enroll in college but never attend, which students start college but later drop-out) and accordingly use that data to inform their individual and school-wide strategies. Furthermore, PSP works with community based organizations that provide direct service to students and families to understand the student trends and evaluate how their programs serve the school priorities. By understanding which students drop-out, when and why, the schools can implement an intervention with teachers, counselors and direct service organizations that span several years until the student is back on track.

# San Francisco Education Fund

## Notes to Financial Statements

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### Leadership & Professional Development

Since 1979, the Leadership and Professional Development Grants program has awarded money to pre-K through 12<sup>th</sup> grade educators in the San Francisco Unified School District to support innovative teaching in an effort to close the achievement gap. In fiscal year 2010-2011, the Teacher Leadership and Professional Development Grants Program provided professional development and support to teachers to participate in Equity-Centered Professional Learning Communities where they could safely and honestly look at issues of race, class and privilege in relation to their own teaching and overall achievement at their school. For the 2010-2011 school year, the Education Fund awarded \$54,000 in direct grants to schools while also supporting significant training and professional development opportunities for participating teachers and school staff.

Additionally, in 2010-2011 the San Francisco Education Fund in collaboration with San Francisco Unified School District, University of San Francisco, Stanford University, United Educators of San Francisco and AmeriCorps, founded the San Francisco Teacher Residency which uses a medical school model to address issues of recruitment, preparation and retention for hard-to-staff schools. The Teacher Residency combines master's level coursework at Stanford University or University of San Francisco and hands-on experience with a master San Francisco Unified School District teacher. In their second year, these residents become teachers of record while continuing to receive intensive mentoring. In addition to the Education Fund's fiscal year 2010-2011 expenses related to the San Francisco Teacher Residency, other program partners provided an additional \$680,000 of in-kind and cash contributions towards total program costs for the San Francisco Teacher Residency.

The Education Fund is transferring the San Francisco Teacher Residency program into the school district effective July 1, 2012. The Education Fund has determined that there will be no impact to its change in net assets.

### Note 2 - Summary of Significant Accounting Policies:

#### a. Basis of Presentation and Description of Net Assets

The Education Fund reports information regarding its financial position and activities according to their classes of net assets: unrestricted, temporarily restricted and permanently restricted.

##### *Unrestricted Net Assets*

The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations. The Education Fund has established a quasi-endowment fund for long-term investment and future needs. This fund was established to ensure that the Education Fund will have sufficient financial means to provide to its constituents.

# San Francisco Education Fund

## Notes to Financial Statements

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### *Temporarily Restricted Net Assets*

The portion of net assets which use by the Education Fund is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Education Fund.

### *Permanently Restricted Net Assets*

The portion of net assets whose use by the Education Fund is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Education Fund.

#### b. Recognition of Revenue

Contributions and grants are made by individuals, foundations, and various organizations to be used for the Education Fund's programs and administration of those programs. Contributions and grants are recorded as revenue at their fair value when the promise to give to the Education Fund is made. Restricted contributions and grants are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. 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 and Changes in Net Assets as net assets released from restrictions.

#### c. Contributed Services and In-kind Donations

Approximately 1,800 hours of unpaid office volunteers' time have been contributed to the Education Fund's office management and administrative function during the year ending June 30, 2011. Additionally, approximately 100,000 hours of service were provided directly to students, teachers and schools in fiscal year 2010-2011 by corporate and community volunteers who were recruited, cleared, trained and placed by the Education Fund. The value of this contributed time is not reflected in the financial statements because there is no objective means of measurement or valuation.

The Education Fund also receives in-kind and professional service donations, which it records at estimated fair value at the time of contribution as miscellaneous income and expense.

#### d. Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash and money market funds. The Education Fund considers investments with a maturity of three months or less at the time of purchase to be cash equivalents.

# San Francisco Education Fund

## Notes to Financial Statements

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e. Grants, Contracts and Pledges Receivable

Grants, contracts and pledges receivable represent unconditional commitments from various foundations, organizations and individuals that are recorded at their net realizable value. The Education Fund expects to collect substantially all of the outstanding balance by June 30, 2012.

f. Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the Statement of Financial Position. Investments received as contributions are recorded at fair market value on the date of receipt. Realized and unrealized gains and losses are reflected as increases or decreases in the unrestricted class of net assets, unless donors place restrictions on the manner of use of such gains and losses.

g. Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets which range from three to five years. Amortization of leasehold improvements is computed over the life of the related lease. The Education Fund's policy is to capitalize property and equipment greater than \$1,000.

h. Functional Expenses

Expenses have been charged to program or supporting service classifications based on direct expenditures incurred. Any expenditure not directly chargeable is allocated among program or support service classifications based on relative usage.

i. Income Taxes

The Education Fund is a tax-exempt organization under the Internal Revenue Code, Section 501(c)(3) and related California code sections. Accordingly, no provision for income taxes has been reflected in these financial statements.

The Education follows the guidance on accounting for uncertainty in income taxes issued by FASB ASC Topic 740. As of June 30, 2011, management evaluated the Education Fund's tax positions and concluded that the Education Fund had maintained its tax exempt status and had taken no uncertain tax positions that required adjustment to the financial statements. The Education Fund is no longer subject to income tax examinations by federal or state authorities for years before 2007.

j. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates based on assumptions. Those estimates affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

# San Francisco Education Fund

## Notes to Financial Statements

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### k. Summarized Comparative Information and Reclassifications

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Education Fund's financial statements for the year ended June 30, 2010 from which the summarized information was derived. Certain 2010 amounts have been reclassified to conform to the 2011 financial statement preparation. These reclassifications have no effect on previously reported changes in net assets.

### l. Fair Value Measurements

Investments are stated at fair value. The carrying amount of cash and cash equivalents, receivables, prepaid expenses, other assets, accounts payable, accrued expenses and other payables approximates fair value because of the short maturities of these financial instruments.

The Education Fund classifies its investments measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Education Fund's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

### m. Recent Accounting Pronouncements

*Adopted:*

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This update provided amendments that require new disclosures of (a) transfers in and out of Levels 1 and 2 to include reasons for the transfers as well and (b) reconciling fair value measurements using significant unobservable inputs (Level 3) and presented separately on a gross basis, rather than as one net number. This update also provided amendments that clarify existing disclosures such as the level of disaggregation for each class of assets and liabilities as well as disclosures about inputs and valuation techniques. The Education Fund adopted ASU 2010-06 as of June 30, 2011.

# San Francisco Education Fund

## Notes to Financial Statements

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### *Pronouncements effective in the future:*

In May 2011, FASB issued an update with amendments that change the wording used to describe the requirements in U. S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include clarification of FASB's intent about the application of existing fair value measurement and disclosure requirements and some changes of a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. Some of the disclosures required by the amendments in this update are not required for nonpublic entities. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011 for nonpublic entities. The Education Fund is assessing the impact of the adoption of this update on its financial statements.

### n. Subsequent Event

The Education Fund evaluated subsequent events through November 30, 2011, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements, except as discussed in Note 1.

### **Note 3 - Investments:**

Investments consist of the following at June 30, 2011:

|                   | Cost         | Fair Value   |
|-------------------|--------------|--------------|
| Mutual Funds      | \$ 3,896,914 | \$ 5,429,745 |
| Equity Securities | 3,131        | 8,946        |
| <hr/>             |              |              |
| Total             | \$ 3,900,045 | \$ 5,438,691 |

Investment fees of \$2,984 were netted against net gain from investments on the Statement of Activities and Changes in Net Assets for the year ended June 30, 2011.

# San Francisco Education Fund

## Notes to Financial Statements

The table below summarizes the valuation of the Education Fund's investments by the above ASC 820 fair value hierarchy levels at June 30, 2011 measured at fair value on a recurring basis:

|   | <u>Total</u>        | <u>Level 1</u>  | <u>Level 2</u>      |
|---|---------------------|-----------------|---------------------|
| <b>Mutual Funds:</b>                            |                     |                 |                     |
| Equity securities held in mutual funds:         |                     |                 |                     |
| Energy  | \$ 386,861          |                 | \$ 386,861          |
| Materials                                       | 138,259             |                 | 138,259             |
| Industrials                                     | 293,699             |                 | 293,699             |
| Consumer discretionary                          | 637,865             |                 | 637,865             |
| Consumer staples                                | 112,640             |                 | 112,640             |
| Health care                                     | 836,855             |                 | 836,855             |
| Financials                                      | 721,117             |                 | 721,117             |
| Information technology                          | 847,186             |                 | 847,186             |
| Telecommunication service                       | 170,690             |                 | 170,690             |
| Utilities                                       | 2,022               |                 | 2,022               |
| Fixed income held in mutual funds:              |                     |                 |                     |
| US Treasury bills                               | 114,134             |                 | 114,134             |
| Mortgage-related securities                     | 466,048             |                 | 466,048             |
| Corporate                                       | 527,870             |                 | 527,870             |
| Money market                                    | 174,499             |                 | 174,499             |
| Equity securities:                              |                     |                 |                     |
| Technology                                      | 8,946               | \$ 8,946        |                     |
| <hr/>   |                     |                 |                     |
| <b>Total investments measured at fair value</b> | <b>\$ 5,438,691</b> | <b>\$ 8,946</b> | <b>\$ 5,429,745</b> |

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the Education Fund's investments have likely incurred a significant decline in fair value since June 30, 2011.

**Note 4 - Property and Equipment:**

Property and equipment at June 30, 2011 consisted of:

|                                |  |            |           |
|--------------------------------|--|------------|-----------|
| Furniture and equipment        |  | \$ 290,472 |           |
| Less: accumulated depreciation |  |            | (248,180) |
| <hr/>                          |  |            |           |
|                                |  | \$ 42,292  |           |

# San Francisco Education Fund

## Notes to Financial Statements

Depreciation expense was \$12,405 for the year ended June 30, 2011.

### Note 5 - Capital Lease Obligations:

The Education Fund acquired certain equipment under non-cancelable capital lease arrangements. Each of these arrangements provides the Education Fund an option to purchase the equipment upon the termination of the lease. These leases are accounted for by an increase to fixed assets and a corresponding increase to liabilities. Payments are made periodically throughout the year, which reduce the liability. The minimum future commitments under these arrangements at June 30, 2011 were as follows:

|   |    |        |
|---|----|--------|
| Year ending June 30,                    |    |        |
| 2012                                    | \$ | 18,070 |
| 2013                                    |    | 7,106  |
| 2014                                    |    | 6,900  |
| 2015                                    |    | 3,450  |
| <hr/>                                   |    |        |
| Minimum lease payments                  |    | 35,526 |
| Less: amount representing interest      |    | 4,375  |
| Less: current portion of lease payments |    | 16,024 |
| <hr/>                                   |    |        |
| Minimum long-term commitment            | \$ | 15,127 |

Amortization expense related to these capital leases is recorded under depreciation expense. Total payments under the above leases were \$10,047 during the year ended June 30, 2011.

### Note 6 - Payable to Fiduciary Groups:

From time to time, the Education Fund serves as fiscal agent for fiduciary groups whose activities benefit the work of the Education Fund. As such the Education Fund receives incoming contributions and subsequently disburses funds to these groups and exercises no discretionary authority over such receipts and disbursements. The Education Fund was in custody of \$9,897 at June 30, 2011 of cash payable to such groups. The remaining amount of \$135,000 is included in accounts receivable at June 30, 2011.



# San Francisco Education Fund

## Notes to Financial Statements

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### Note 7 - Temporarily Restricted Net Assets:

Temporarily restricted net assets at June 30, 2011 were available for:

|  |              |
|--|--------------|
| Public Engagement (includes School Volunteers) | \$ 95,104    |
| Post Secondary Success                         | 195,000      |
| Peer Resources                                 | 35,000       |
| Leadership & Professional Development          | 10,058       |
| Special Projects                               | 27,250       |
| Expenses of Future Periods                     | 128,800      |
| Teacher Grants and Public Education            | 787,652      |
|  | <hr/>        |
|  | \$ 1,278,864 |

Temporarily restricted net assets were released in 2011 for:

|  |              |
|--|--------------|
| Public Engagement (includes School Volunteers) | \$ 202,003   |
| Post Secondary Success                         | 145,000      |
| Peer Resources                                 | 68,500       |
| Leadership & Professional Development          | 294,942      |
| Special Projects                               | 105,140      |
| Expenses of Future Periods                     | 109,350      |
| Teacher Grants and Public Education            | 219,843      |
|  | <hr/>        |
|  | \$ 1,144,778 |

### Note 8 - Permanently Restricted Net Assets:

Permanently restricted net assets as of June 30, 2011 of \$3,167,004 are restricted to investment in perpetuity, the income from which is expendable to support teacher professional development and general activities of the Education Fund.

### Note 9 - Endowment Fund:

The Education Fund's endowment includes two donor-restricted endowment funds, one to support teacher grants and the second to support activities deemed by the Board of Directors of the Education Fund to improve the quality of education in San Francisco public schools. A third endowment fund consists of reserves designated by the Board of Directors of the Education Fund to function as endowment. As of June 30th, 2011 the Board of Directors further designated a portion of these net assets to be used specifically to fund the PSP program.

# San Francisco Education Fund

## Notes to Financial Statements

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As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

### *Interpretation of Relevant Law*

The Board of Directors of the Education Fund has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Education Fund classifies permanently restricted net assets at (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The investment income of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Education Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) The duration and preservation of the fund, (2) The purposes of the organization and the donor-restricted endowment fund, (3) General economic conditions, (4) The possible effect of inflation and deflation, (5) The expected total return from income and the appreciation of investments, (6) Other resources of the organization, (7) The investment policies of the organization.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Education Fund to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets.

### *Return Objectives and Risk Parameters*

The Education Fund has adopted investment and spending policies for endowment assets with the objective of ultimately providing a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Education Fund must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that, at a minimum, maintains the purchasing power of the original Endowment corpus and shall be consistent with: i) the risk deemed appropriate by the Investment Committee; ii) the mission and programs of the Education Fund, and iii) the projected cash needs of the Education Fund which may require a constant and reliable flow of income to the annual operating budget.

# San Francisco Education Fund

## Notes to Financial Statements

### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, The Education Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Education Fund targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Education Fund determines an annual spending rate based on the average fair market value of the endowed assets over the previous twelve quarters, with a minimum required spending per donor imposed restrictions. This rate may not exceed 4% without a majority vote of the Education Fund Board. Over the long term, the Education Fund expects the current spending policy to allow its endowment to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The Education Fund follows the FASB ASC No. 958, *Presentation of Financial Statements*, which provides guidance on the net assets classification of contributed funds.

Endowment net assets composition by type as of June 30, 2011:

|   | Unrestricted<br>Funds | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
|---|-----------------------|---------------------------|---------------------------|---------------------|
| Donor restricted endowment funds                        |                       | \$ 787,652                | \$ 3,167,004              | \$ 3,954,656        |
| Board designated for Post-<br>Secondary Success Program | \$ 106,750            |                           |                           | 106,750             |
| Board designated funds-other                            | 1,247,287             |                           |                           | 1,247,287           |
| <b>Total Endowment Funds</b>                            | <b>\$ 1,354,037</b>   | <b>\$ 787,652</b>         | <b>\$ 3,167,004</b>       | <b>\$ 5,308,693</b> |

# San Francisco Education Fund

## Notes to Financial Statements

Changes in endowment net asset for the year ended June 30, 2011 reflect a \$222,396 reclassification of restrictions from unrestricted to temporarily restricted related to the investment return (including interest and dividends, net appreciation, and appropriation for expenditure) for the year ended June 30, 2010. This reclassification is based on the proportions between the permanently restricted endowment and the board designated reserves functioning as endowment, and the changes are as follows:

|  | Unrestricted<br>Funds | Temporarily<br>Restricted | Permanently<br>Restricted | Total        |
|--|-----------------------|---------------------------|---------------------------|--------------|
| Endowment Net Assets,<br>June 30, 2010               | \$ 1,734,251          |                           | \$ 3,167,004              | \$ 4,901,255 |
| Reclassification of restrictions                     | (222,396)             | \$ 222,396                |                           |              |
| <hr/>  |                       |                           |                           |              |
| Endowment Net Assets, after<br>reclassification      | 1,511,855             | 222,396                   | 3,167,004                 | 4,901,255    |
| Investment Return:                                   |                       |                           |                           |              |
| Interest and dividends                               | 40,195                | 73,401                    |                           | 113,596      |
| Net appreciation (realized<br>and unrealized)        | 389,725               | 711,698                   |                           | 1,101,423    |
| Appropriation of endowment<br>assets for expenditure | (587,738)             | (219,843)                 |                           | (807,581)    |
| <hr/>  |                       |                           |                           |              |
| Endowment Net Assets,<br>June 30, 2011               | \$ 1,354,037          | \$ 787,652                | \$ 3,167,004              | \$ 5,308,693 |

**Note 10 - Defined Contribution Pension Plan:**

The Education Fund provides a defined contribution retirement plan, under Section 403(b) of the Internal Revenue Code, to all its employees. The Education Fund is not required to make contributions to the plan and made no contributions to the plan for the year ending June 30, 2011.

# San Francisco Education Fund

## Notes to Financial Statements

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### Note 11 - Operating Lease:

The Education Fund leases office space under a non-cancelable operating lease arrangement that expires on August 31, 2012. In addition to monthly rent, the Education Fund is responsible for some building expenses as stipulated in the lease agreement. Future minimum lease payments, excluding building expenses, under this arrangement are as follows:

|             |           |
|-------------|-----------|
| Year ending |           |
| June 30,    |           |
| 2012        | \$ 42,000 |
| 2013        | 7,000     |
|             | <hr/>     |
|             | \$ 49,000 |

Total payments under the above arrangement were \$42,000 for the year ended June 30, 2011.

### Note 12 - Concentration of Credit Risk:

The Education Fund has defined its financial instruments, which are potentially subject to credit risk as cash, receivables and investments.

All receivables consist primarily of unsecured amounts due from individuals and foundations. The credit risk associated with the receivables from individuals and foundations is mitigated by the number of donors comprising the receivable balance.

Periodically, throughout the year, the Education Fund has maintained balances in various operation and money market accounts in excess of federally insured limits.