

Financial Statements
with Independent Auditors' Report

SAN FRANCISCO EDUCATION FUND

For the Years Ended
June 30, 2017 and 2016



SD MAYER & ASSOCIATES, LLP

ACCOUNTING | TAX | CONSULTING | WEALTH MANAGEMENT

San Francisco Education Fund

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
San Francisco Education Fund
San Francisco, California

We have audited the accompanying financial statements of San Francisco Education Fund (the "Education Fund" or "Organization"), a nonprofit organization, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, cash flows, and functional expenses for the years 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Francisco Education Fund as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



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INDEPENDENT AUDITORS' REPORT - Continued

Emphasis of Matter-Correction of an Error

As described in Note 3, during the year ended June 30, 2017, management of the Organization discovered that the second installment of a multi-year grant was not properly recorded in the year ended June 30, 2016, resulting in an understatement of grant revenue and pledges receivable of \$559,000. As a result, the Organization has restated the accompanying financial statements as of and for the year ended June 30, 2016 to reflect the corrected amounts. Our opinion is not modified with respect to this matter.

SD Mayer & Associates, LLP

SD Mayer & Associates, LLP

San Francisco, CA
December 19, 2017

San Francisco Education Fund

Statements of Financial Position

As of June 30, 2017 and 2016

	<u>2017</u>	<u>(Restated) 2016</u>
ASSETS		
Assets		
Unrestricted cash and cash equivalents	\$ 120,578	\$ 638,343
Restricted cash	-	11,498
Contracts receivable	-	2,994
Pledges receivable, net	688,328	565,260
Prepaid expenses and other assets	10,184	4,181
Investments	7,731,012	6,406,180
Property and equipment, net	33,331	49,032
	<u>\$ 8,583,433</u>	<u>\$ 7,677,488</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 108,720	\$ 139,517
Capital lease obligations	22,937	28,755
	<u>131,657</u>	<u>168,272</u>
Net assets		
Unrestricted	2,035,440	1,779,657
Temporarily restricted	3,249,332	2,562,555
Permanently restricted	3,167,004	3,167,004
	<u>8,451,776</u>	<u>7,509,216</u>
Total liabilities and net assets	<u>\$ 8,583,433</u>	<u>\$ 7,677,488</u>

The accompanying notes are an integral part of these financial statements

San Francisco Education Fund
Statements of Activities
For The Years Ended June 30, 2017 and 2016

	2017				(Restated) 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Support and Revenue								
Contributions	\$ 342,755	\$ 1,024,417	\$ -	\$ 1,367,172	\$ 557,939	\$ 1,997,841	\$ -	\$ 2,555,780
Government grants	331,650	-	-	331,650	357,333	-	-	357,333
In kind donations	160,496	-	-	160,496	283,985	-	-	283,985
Event revenue, net of expenses of \$357,232 and \$246,876, respectively	234,491	(52,500)	-	181,991	191,231	-	-	191,231
Interest and dividends	30,359	69,627	-	99,986	42,282	110,677	-	152,959
Other income	2,807	-	-	2,807	3,425	-	-	3,425
Net assets released from restrictions	1,260,030	(1,260,030)	-	-	1,545,563	(1,545,563)	-	-
Total operating support and revenue	2,362,588	(218,486)	-	2,144,102	2,981,758	562,955	-	3,544,713
Operating Expenses								
Program services	2,190,116	-	-	2,190,116	2,296,306	-	-	2,296,306
Management and general	118,480	-	-	118,480	116,585	-	-	116,585
Fundraising	192,769	-	-	192,769	208,769	-	-	208,769
Total operating expenses	2,501,365	-	-	2,501,365	2,621,660	-	-	2,621,660
Change in net assets from operations	(138,777)	(218,486)	-	(357,263)	360,098	562,955	-	923,053
Other change								
Net gain (loss) from investments	394,560	905,263	-	1,299,823	(536,187)	142,804	-	(393,383)
Change in net assets	255,783	686,777	-	942,560	(176,089)	705,759	-	529,670
Net Assets								
Beginning of year, as restated (See Note 3)	1,779,657	2,562,555	3,167,004	7,509,216	1,955,746	1,856,796	3,167,004	6,979,546
End of year	\$ 2,035,440	\$ 3,249,332	\$ 3,167,004	\$ 8,451,776	\$ 1,779,657	\$ 2,562,555	\$ 3,167,004	\$ 7,509,216

The accompanying notes are an integral part of these financial statements

San Francisco Education Fund
Statements of Cash Flows
For The Years Ended June 30, 2017 and 2016

	2017	(Restated) 2016
Cash flows from operating activities		
Change in net assets	\$ 942,560	\$ 529,670
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Prior period adjustment	559,000	-
Depreciation	15,702	8,638
Net realized gains on investments	(2,879,075)	-
Net Unrealized loss on investments	1,579,252	590,573
Gain on disposal of property and equipment	-	(680)
Other	-	(1,447)
Changes in assets and liabilities		
Decrease (increase) in contract receivable	2,994	217,005
Decrease in pledges receivable	(682,068)	(530,510)
Decrease in prepaid expenses and other assets	(6,003)	5,038
Increase in accounts payable	(30,796)	5,700
Net cash provided by operating activities	<u>(498,434)</u>	<u>823,987</u>
Cash flows from investing activities		
Purchases of investments	(6,468,708)	(350,153)
Proceeds from sale of investments	<u>6,443,697</u>	<u>-</u>
Net cash used by investing activities	<u>(25,011)</u>	<u>(350,153)</u>
Cash flows from financing activities		
Payments on capital lease obligations	<u>(5,818)</u>	<u>(5,690)</u>
Net cash used by financing activities	<u>(5,818)</u>	<u>(5,690)</u>
Net change in cash and cash equivalents	(529,263)	468,144
Unrestricted and restricted cash and cash equivalents at beginning of year	<u>649,841</u>	<u>181,697</u>
Unrestricted cash and cash equivalents at end of year	\$ 120,578	\$ 638,343
Restricted cash and cash equivalents at end of year	\$ -	\$ 11,498
Total unrestricted and restricted cash and cash equivalents at end of year	<u>\$ 120,578</u>	<u>\$ 649,841</u>
Supplemental disclosure of cash flow information:		
Assets acquired through capital leases	<u>\$ -</u>	<u>\$ 30,200</u>
Interest paid	<u>\$ 302</u>	<u>\$ 1,062</u>
In-kind donations	<u>\$ 160,496</u>	<u>\$ 283,985</u>

The accompanying notes are an integral part of these financial statements

San Francisco Education Fund
Statement of Functional Expenses
For The Year Ended June 30, 2017

	Program Services						Supporting Services			
	Literacy	Math	College and Career Readiness	Public Engagement	Maisin Scholar Award	Fiscally Sponsored Projects	Total Program Services	Management and General	Fundraising	Total
Salaries	\$ 167,020	\$ 119,813	\$ 118,537	\$ 222,509	\$ 193,119	\$ -	\$ 820,998	\$ 17,590	\$ 137,233	\$ 975,821
Payroll taxes	14,329	10,328	9,973	18,944	16,354	-	69,928	1,476	11,712	83,116
Employee benefits	18,390	13,840	9,243	22,844	16,618	-	80,935	1,197	13,888	96,020
Total personnel costs	199,739	143,981	137,753	264,297	226,091	-	971,861	20,263	162,833	1,154,957
Bank fees and finance charges	64	61	57	68	63	1,490	1,803	1	2,145	3,949
Depreciation	2,704	2,537	2,369	2,869	2,640	2,028	15,147	43	512	15,702
Dues, subscriptions, and publications	42	32	196	52	38	-	360	3	327	690
Equipment and computers	13,232	12,204	11,164	14,364	16,079	9,075	76,118	271	3,140	79,529
Grants and awards	51,778	9,357	20,186	21,087	529,558	149,512	781,478	14	162	781,654
Hospitality	-	-	-	-	-	-	-	-	100	100
Insurance	2,061	1,551	1,036	2,561	1,863	-	9,072	134	1,557	10,763
Other	10,492	10,105	8,720	32,836	1,430	2,474	66,057	1,389	1,287	68,733
Payroll processing	5,065	3,812	2,546	6,292	4,577	-	22,292	330	3,825	26,447
Postage and delivery	190	173	107	255	420	-	1,145	4	3,111	4,260
Printing and reproduction	377	202	121	1,195	2,897	-	4,792	-	1,413	6,205
Professional services	21,435	18,760	19,772	21,507	19,284	15,375	116,133	95,437	4,932	216,502
Program event	8,247	7,833	8,485	7,544	19,783	7,385	59,277	-	262	59,539
Rent	8,044	6,054	4,043	9,992	7,269	-	35,402	523	6,075	42,000
Substitute teacher expense	(990)	-	-	-	-	12,482	11,492	-	-	11,492
Supplies	2,316	1,305	755	8,455	488	-	13,319	35	607	13,961
Telephone and internet service	353	266	177	438	339	-	1,573	23	266	1,862
Travel	901	217	257	1,174	246	-	2,795	10	215	3,020
Total	\$ 326,050	\$ 218,450	\$ 217,744	\$ 394,986	\$ 833,065	\$ 199,821	\$ 2,190,116	\$ 118,480	\$ 192,769	\$ 2,501,365

The accompanying notes are an integral part of these financial statements

San Francisco Education Fund
Statement of Functional Expenses
For The Year Ended June 30, 2016

	Program Services						Supporting Services			
	Literacy	Math	College and Career Readiness	Public Engagement	Maisin Scholar Award	Fiscally Sponsored Projects	Total Program Services	Management and General	Fundraising	Total
Salaries	\$ 111,536	\$ 106,698	\$ 101,863	\$ 238,184	\$ 215,879	\$ -	\$ 774,160	\$ 14,519	\$ 113,689	\$ 902,368
Payroll taxes	9,543	9,139	8,712	20,441	18,616	-	66,451	1,225	9,777	77,453
Employee benefits	11,289	11,289	11,289	26,321	24,199	-	84,387	1,335	16,832	102,554
Total personnel costs	132,368	127,126	121,864	284,946	258,694	-	924,998	17,079	140,298	1,082,375
Bank fees and finance charges	159	168	159	1,072	336	12	1,906	19	1,563	3,488
Depreciation	955	955	955	2,226	2,012	-	7,103	112	1,423	8,638
Dues, subscriptions, and publications	67	67	142	157	142	-	575	8	200	783
Equipment rental	5,187	5,187	5,187	12,095	11,009	225,000	263,665	613	7,734	272,012
Grants and awards	28,600	13,470	34,054	41,422	489,606	8,026	615,178	-	-	615,178
Hospitality	278	278	278	746	2,820	-	4,400	33	476	4,909
Insurance	1,115	1,115	1,115	2,600	2,351	-	8,296	132	1,663	10,091
Other	5,706	5,700	3,781	28,212	12,278	6,050	61,727	344	2,582	64,653
Payroll processing	2,698	2,698	2,698	6,290	5,687	-	20,071	319	4,022	24,412
Postage and delivery	22	26	22	1,441	643	-	2,154	149	2,530	4,833
Printing and reproduction	207	207	119	960	1,856	-	3,349	-	8,142	11,491
Professional services	50,844	47,816	39,696	46,858	61,092	-	246,306	97,131	29,403	372,840
Program event	1,154	1,263	819	2,262	11,324	-	16,822	-	314	17,136
Rent	4,641	4,641	4,641	10,822	20,836	-	45,581	551	6,920	53,052
Substitute teacher expense	-	-	-	-	-	16,000	16,000	-	-	16,000
Supplies	1,327	760	473	43,646	1,855	677	48,738	36	365	49,139
Telephone and internet service	379	379	379	716	3,127	-	4,980	30	378	5,388
Travel	694	697	557	1,816	693	-	4,457	29	756	5,242
Total	\$ 236,401	\$ 212,553	\$ 216,939	\$ 488,287	\$ 886,361	\$ 255,765	\$ 2,296,306	\$ 116,585	\$ 208,769	\$ 2,621,660

The accompanying notes are an integral part of these financial statements

San Francisco Education Fund

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 1 – ORGANIZATION

The San Francisco Education Fund (the “Education Fund” or “Organization”) 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”).

Vision

The Education Fund envisions a San Francisco where our public schools are as renowned as our City. San Franciscans, known for their ingenuity, innovation and passion, partner with the Education Fund to help all of our students succeed.

Mission

The Education Fund harnesses the power of the community to equip every public school student with the skills to succeed in college, career and civic responsibility. We analyze data to target resources where they are needed most, engage volunteers in classrooms and provide grants to educators, to build a bright future for our city and its young people.

Goals

We focus our resources on three critical milestones that research shows accelerate students' progress on the path to high school and college graduation:

- Reading proficiently by third grade
- Performing at grade-level in math by eighth grade
- Graduating from high school prepared for college and career

Programs

The Education Fund's programs are aligned with its goals: literacy, math, college and career readiness, public engagement, and Maisin Scholar Award.

- The Literacy Program works in 5 high-need elementary schools. In each school, the Education Fund trains and places volunteers in classrooms to work one-on-one with students on their literacy skills. The Education Fund supplements those volunteers with direct grants to teachers and principals focused on improving literacy in their classroom or school, and uses data analysis to identify which individual students or groups of students need our support.

San Francisco Education Fund

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 1 – ORGANIZATION *(continued)*

- The Math Program works in 3 high-need middle schools to place trained math volunteers in classrooms or after-school programs, provide math related grants to educators, and targets the students most in need. In high school, the Education Fund shifts its emphasis to our College and Career Readiness Program.
- The College and Career Readiness Program places career volunteers in 2 high-need high schools to help provide college and career advice, provides grants focused on improving college and career readiness, and utilizes data to work with schools and partners to follow college going trends and identify students most in need of support. The current fiscal year was the final year for this program.
- The Public Engagement Program continues to engage community members in all 117 San Francisco public schools as general volunteers, tutors, mentors and supporters. A subset of those schools is also involved in its corporate partnership program, Circle the Schools, and receive grants as a result.
- The Maisin Scholar Award Program provides scholarships and counseling to 76 new San Francisco Public School graduates each year, as well to returning scholars for an additional 3 years.

The Education Fund addresses current challenges in classrooms and supports the achievement of our goals using the following strategies across all four program areas:

School Volunteers

The Education Fund recruits, trains, places and supports more than 1,200 community and corporate volunteers annually who provide tutoring, mentoring and classroom and event support. The Education Fund directs our people power to where they will have the greatest impact and to those who need them most. The Education Fund has three in-depth programs, focused on elementary school literacy, middle school math, and high school college and career readiness, in 10 high-need focus schools in 11 campuses. In addition, the Education Fund fulfills volunteer requests for SFUSD teachers and administrators from all public schools, matching them based on the volunteers' skills and the educator's needs. In fiscal years ended June 30, 2017 and 2016, volunteers placed in San Francisco public schools through the Education Fund provided more than 60,000 hours of service each year, which delivered a value of over \$1,440,000 each year in staffing support to schools.

Grants and Scholarship for Educators and Students

Throughout its history, the Education Fund has provided direct grants to teachers and educators allowing them to invest in both their own professional development and innovative ideas that they would like to bring to life in their schools and classrooms. In the year ended June 30, 2017, the Education Fund provided almost \$100,000 in direct grants to educators in ten target high-needs schools. In the year ended June 30, 2016, the Education Fund provided \$90,000 in direct grants to educators in seventeen target high-needs schools.

San Francisco Education Fund

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 1 – ORGANIZATION *(continued)*

The Education Fund also has a longstanding partnership with Fund for Teachers to award San Francisco Pre K - 12 teachers with fellowships for self-designed professional growth. Fund for Teachers fellowships have taken place in countries on every continent, empowering teachers to explore countless ideas, terrains and cultures. Fellowship grants provide up to \$5,000 for individual teachers or \$10,000 for teams.

In the year ended June 30, 2017, 10 San Francisco teachers received grants totaling \$43,133. In the year ended June 30, 2016, 14 San Francisco teachers received grants totaling \$42,921. The funds granted to San Francisco teachers are not included in these financial statements as fellowships were funded directly by Fund for Teachers.

The San Francisco Education Fund believes every young person has unlimited potential to succeed when they are amply supported and provided equal access to opportunity. The Maisin Scholar Award Program was designed to identify and support students who are determined to achieve their academic goals beyond high school. The Maisin Scholar Award helps students overcome the financial obstacles that stand in between them and their pursuits of higher education by providing financial support, academic and career counseling, internships and professional development opportunities, encouragement and direction, and community and peer support.

Communication

In addition to engaging community members and corporate employees as volunteers, the Education Fund also leads city-wide campaigns to raise awareness about education issues. For example, we organize 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Description of Net Assets

The financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

The Education Fund reports information regarding its financial position and activities according to these 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

June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Temporarily Restricted Net Assets – The portion of net assets, the use of which by the Education Fund is limited by donor-imposed stipulations that either expire through the 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 restrictions that neither expire through the passage of time nor can be fulfilled or otherwise removed by actions of the Education Fund.

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 unconditional promise to give (pledge) is made known to the Education Fund. 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 as net assets released from restrictions.

Government contracts and revenue are recognized when the Education Fund incurs expenses related to the provision of the required services.

Contributed Services and In-kind Donations

Contributions of donated assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

A number of unpaid volunteers have made significant contributions of their time to the Education Fund. See Note 1, School Volunteers Program. The value of this contributed time is not reflected in the financial statements.

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.

Restricted Cash

Restricted cash represents unspent funds related to fiscally sponsored projects as of the balance sheet date.

San Francisco Education Fund

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Pledges Receivable

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 at June 30, 2017 within the next fiscal year.

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.

Fair Value Measurements

Investments are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 value is 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.

Property and Equipment

Property and equipment is 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 with a cost of greater than \$1,000.

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.

San Francisco Education Fund
Notes to Financial Statements
June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates include estimated pledges receivable, fair value of investments, useful lives, functional allocation of expenses and allowances for doubtful accounts. Accordingly, actual results could differ from those estimates.

Advertising costs

The Education Fund expenses advertising production costs as they are incurred. There were no advertising costs incurred in fiscal years ended June 30, 2017 and 2016.

Allowance for Doubtful Accounts

Any allowance for doubtful accounts reflects the Education Fund's best estimate of probable losses inherent in its pledges receivable portfolio determined on the basis of historical experience, specific allowances for known troubled accounts, as well as other data. The allowance for doubtful accounts for the years ended June 30, 2017 and 2016 amounted to \$1,200 and \$0, respectively.

NOTE 3 – CORRECTION OF AN ERROR

During the year ended June 30, 2017, management discovered that the second installment of a multi-year grant was not properly recorded in the year ended June 30, 2016, resulting in an understatement of grant revenue and pledges receivable of \$559,000. As a result, the Organization has restated the accompanying financial statements as of and for the year ended June 30, 2016 to reflect the corrected amounts. The Organization has addressed the fault in the underlying process of recording grants for future fiscal years which caused the original understatement.

San Francisco Education Fund

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 3 – CORRECTION OF AN ERROR (continued)

This error has been corrected in the current year by restating the amounts reported in the year ended June 30, 2016 as follows:

Pledges receivable before adjustment at June 30, 2016	\$ 6,260
Add: Understatement of grant revenue	559,000
Pledges receivable at June 30, 2016, as restated	<u>\$ 565,260</u>
Total assets before adjustment at June 30, 2016	\$ 7,118,488
Add: Understatement of grant revenue	559,000
Total assets at June 30, 2016, as restated	<u>\$ 7,677,488</u>
Total temporarily restricted net assets at June 30, 2016	\$ 2,003,555
Add: Understatement of grant revenue	559,000
Total temporarily restricted net assets at June 30, 2016, as restated	<u>\$ 2,562,555</u>
Change in nets assets before adjustment at June 30, 2016	\$ (29,330)
Add: Understatement of grant revenue	559,000
Change in net assets for the year ended June 30, 2016, as restated	<u>\$ 529,670</u>
Total net assets at June 30, 2016	\$ 6,950,216
Add: Understatement of grant revenue	559,000
Total net assets at June 30, 2016, as restated	<u>\$ 7,509,216</u>

NOTE 4 – INVESTMENTS

Investments consisted of the following at June 30, 2017 and 2016:

Description	June 30, 2017		June 30, 2016	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	\$ 7,357,921	\$ 7,731,012	\$ 4,242,160	\$ 6,406,180
Equity securities	-	-	-	-
	<u>\$ 7,357,921</u>	<u>\$ 7,731,012</u>	<u>\$ 4,242,160</u>	<u>\$ 6,406,180</u>

Investment income consisted of the following:

	2017	2016
Interest and dividends reinvested	\$ 99,986	\$ 152,959
Net realized gains	2,879,075	-
Net Unrealized (loss)	(1,579,252)	(590,573)
Total investment income (loss)	<u>\$ 1,399,809</u>	<u>\$ (437,614)</u>

San Francisco Education Fund

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table sets forth the Education Fund's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2017:

Description	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 7,731,012	\$ -	\$ -	\$ 7,731,012
Equities	-	-	-	-
	<u>\$ 7,731,012</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,731,012</u>

The following table sets forth the Education Fund's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2016:

Description	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 6,406,180	\$ -	\$ -	\$ 6,406,180
Equities	-	-	-	-
	<u>\$ 6,406,180</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,406,180</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment is valued as stated in Note 1 and is summarized as follows:

	2017	2016
Furniture and equipment	\$ 76,435	\$ 76,435
Capital leased equipment	30,200	30,200
Accumulated depreciation	(73,304)	(57,603)
Property and equipment, net	<u>\$ 33,331</u>	<u>\$ 49,032</u>

Depreciation expense amounted to \$15,702 and \$8,638 for the years ended June 30, 2017 and 2016, respectively, which includes depreciation expense of \$6,040 and \$5,101 of equipment under capital lease obligations for the years ended June 30, 2017 and 2016, respectively.

NOTE 7 – CAPITAL LEASES

During the year ended June 30, 2016, the Education Fund acquired certain equipment under a non-cancelable capital lease arrangement. The arrangement 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 in liabilities. Payments are made periodically throughout the year, which reduce the liability.

San Francisco Education Fund

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 7 – CAPITAL LEASES (continued)

The minimum future commitments under these arrangements are as follow:

Year ending June 30,		
2018	\$	6,120
2019		6,120
2020		6,120
2021		5,100
Total future minimum payments		<u>23,460</u>
Less amount representing interest		<u>(523)</u>
Capital lease obligations	\$	<u>22,937</u>

NOTE 8 – OPERATING LEASES

The Education Fund leases office space under a non-cancelable operating lease arrangement that expires on June 30, 2020. In addition to monthly rent, the Education Fund is responsible for a share of 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,		
2018	\$	42,000
2019		42,000
2020		42,000
Thereafter		-
Total future minimum lease payment	\$	<u>126,000</u>

Total payments under the above arrangement were \$42,000 and \$53,052 in each of the years ended June 30, 2017 and 2016, respectively.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2017 and 2016 were available for:

	June 30, 2017	(Restated) June 30, 2016
Teacher grants and public education	\$ 2,186,737	\$ 1,295,322
College and career readiness	-	20,000
Literary	-	13,501
Other	-	11,498
Special projects	81,943	130,463
Mayors scholarship	75,000	-
Maisin Scholar award	830,652	1,046,771
Expense for future periods	75,000	45,000
Total	\$ <u>3,249,332</u>	\$ <u>2,562,555</u>

San Francisco Education Fund

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS (continued)

Temporarily restricted net assets were released in 2017 and 2016 as follows:

	June 30, 2017	June 30, 2016
Teacher grants and public education	\$ 145,975	\$ 182,258
College and career readiness	45,000	115,295
Expense for future periods	20,000	64,640
Math	15,000	-
Special projects	188,434	275,717
Literacy	48,501	7,012
Mayors scholarship	65,000	-
Maisin Scholar award	732,120	875,870
Other	-	24,771
Total	\$ <u>1,260,030</u>	\$ <u>1,545,563</u>

NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2017 and 2016 of \$3,167,004 is restricted in perpetuity, the income from this fund is expendable to support teacher professional development and general activities of the Education Fund.

NOTE 11 – 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 an endowment.

The Board of Directors of the Education Fund has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of gift of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Education Fund classifies as permanently restricted net assets (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 remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Education Fund in a manner consistent with the standard of prudence prescribed by UPMIFA.

San Francisco Education Fund

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 11 – ENDOWMENT FUND *(continued)*

In accordance with UPMIFA, 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

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.

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 5% 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.

San Francisco Education Fund
Notes to Financial Statements
June 30, 2017 and 2016

NOTE 11 – ENDOWMENT FUND *(continued)*

Endowment net assets composition by type of fund as of June 30, 2017 and 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 2,174,737	\$ 3,167,004	\$ 5,344,741
Board designed funds-other	1,596,219	-	-	1,596,219
Total endowment funds at June 30, 2017	<u>\$ 1,596,219</u>	<u>\$ 2,174,737</u>	<u>\$ 3,167,004</u>	<u>\$ 6,937,960</u>
Donor restricted endowment funds	\$ -	\$ 1,294,474	\$ 3,167,004	\$ 4,461,478
Board designed funds-other	1,478,611	-	-	1,478,611
Total endowment funds at June 30, 2016	<u>\$ 1,478,611</u>	<u>\$ 1,294,474</u>	<u>\$ 3,167,004</u>	<u>\$ 5,940,089</u>
Endowment net assets at June 30, 2015	<u>\$ 1,660,614</u>	<u>\$ 1,645,354</u>	<u>\$ 3,167,004</u>	<u>\$ 6,472,972</u>
Investment return				
Interest and dividends	38,191	110,677	-	148,868
Net appreciation (realized and unrealized)	(97,907)	(283,729)	-	(381,636)
Appropriation of endowment assets for expenditure	<u>(122,287)</u>	<u>(177,828)</u>	<u>-</u>	<u>(300,115)</u>
Endowment net assets at June 30, 2016	<u>\$ 1,478,611</u>	<u>\$ 1,294,474</u>	<u>\$ 3,167,004</u>	<u>\$ 5,940,089</u>
Investment return				
Interest and dividends	23,076	69,627	-	92,703
Net appreciation (realized and unrealized)	300,020	905,263	-	1,205,283
Appropriation of endowment assets for expenditure	<u>(205,488)</u>	<u>(94,627)</u>	<u>-</u>	<u>(300,115)</u>
Endowment net assets at June 30, 2017	<u>\$ 1,596,219</u>	<u>\$ 2,174,737</u>	<u>\$ 3,167,004</u>	<u>\$ 6,937,960</u>

NOTE 12 – 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 years ending June 30, 2017 and 2016.

San Francisco Education Fund

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 13 – CONCENTRATIONS

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

The Education Fund maintains all cash accounts at a bank in California. Accounts at the bank are insured up to \$250,000 by the FDIC at June 30, 2017. The Education Fund had no uninsured cash balance as of June 30, 2017. The Education Fund had \$362,004 of uninsured cash balances as of June 30, 2016.

Receivables consist primarily of unsecured amounts due from individuals, foundations and governmental agencies. 81% and 99% of the pledges receivable were due from one Foundation at June 30, 2017 and June 30, 2016, respectively.

The Education Fund received 30% of its revenue from one foundation and 19% of its revenue from two agencies operating in the city and county of San Francisco during the year ended June 30, 2017. The Education Fund received 57% of its revenue from two foundations and 19% of its revenue from an agency operating in the city and county of San Francisco during the year ended June 30, 2016.

NOTE 14 – DONATED GOODS AND SERVICES

The Education Fund recognized contribution revenue and expenses for in-kind donations received at their estimated fair values for the following for the years ended June 30:

	2017	2016
Software licenses	\$ 45,000	\$ 36,000
Donated auction items and raffle prizes	43,797	13,884
Computer hardware	9,447	228,106
Books and DVDs	-	5,995
Professional services	62,252	-
	<u>\$ 160,496</u>	<u>\$ 283,985</u>

These donated goods and services support The Education Fund different programs mainly the fiscally sponsored projects program.

NOTE 15 – INCOME TAXES

The Education Fund is a not-for-profit organization, exempt from federal income tax under Section 501(c)(3) of the U.S Internal Revenue Code (the Code), and contributions to it are tax deductible as prescribed by the Code. The Education Fund is also exempt from California income tax under Section 23701d of the California Revenue and Taxation Code. The Education Fund is generally no longer subject to tax examinations relating to federal and state tax returns for years prior to 2012.

The Education Fund has been classified as an organization that is not a private foundation under Section 509(a)(1) and has been designated as a “publicly supported” organization under Section 170(b)(1)(A)(vi) of the Code.

San Francisco Education Fund

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 15 – INCOME TAXES *(continued)*

The Education Fund assesses its accounting for uncertainty in income taxes recognized in its financial statements and prescribes a threshold of “more likely than not” for recognition and derecognition of tax positions taken or expected to be taken in its tax returns. There was no material impact on the Education Fund’s financial statements as a result of the adoption of this policy.

NOTE 16 – RELATED PARTY TRANSACTIONS

The Organization recognized \$20,280 and \$24,108 of donation revenues from board members during the years ended June 30, 2017 and 2016, respectively. Amounts due from board members totaled \$1,050 and \$2,060 at June 30, 2017 and 2016, respectively.

NOTE 17 – SUBSEQUENT EVENTS

The Education Fund evaluates events that occur subsequent to the balance sheet date of periodic reports, but before financial statements are issued for periods ending on such balance sheet dates, for possible adjustment to such financial statements or other disclosure. This evaluation generally occurs through the date at which the Education Fund’s financial statements are issued. For the financial statements as of and for the year ended June 30, 2017, this date was December 19, 2017.