

SAN FRANCISCO EDUCATION FUND

JUNE 30, 2012

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, 2012, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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, 2011 financial statements and, in our report dated November 30, 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, 2012, 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.

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San Francisco, California
November 29, 2012

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San Francisco Education Fund

Statement of Financial Position

<i>June 30, 2012 (with comparative totals for 2011)</i>	2012	2011
Assets		
Cash and cash equivalents	\$ 368,146	\$ 91,908
Grants receivable		315,000
Contracts receivable	128,464	202,885
Pledges receivable, net of allowance for doubtful accounts of \$5,460 and \$64,000, respectively	48,240	77,551
Prepaid expenses and other assets	40,679	42,530
Investments	4,908,353	5,438,691
Property and equipment, net	34,200	42,292
Total assets	\$ 5,528,082	\$ 6,210,857
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 200,885	\$ 234,904
Leases payable	15,126	31,151
Payable to fiduciary groups	13,974	144,897
Deferred revenue	96,528	
Total liabilities	326,513	410,952
Net Assets:		
Unrestricted	1,155,875	1,354,037
Temporarily restricted	878,690	1,278,864
Permanently restricted	3,167,004	3,167,004
Total net assets	5,201,569	5,799,905
Total liabilities and net assets	\$ 5,528,082	\$ 6,210,857

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, 2012 (with comparative totals for 2011)

	2012			Total	2011 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenue:					
Contributions and contracts:					
Foundation	\$ 185,675	\$ 686,900		\$ 872,575	\$ 1,132,145
Individual	379,444	90,125		469,569	496,715
Corporate	186,269	90,519		276,788	414,717
In-kind	170,470			170,470	13,000
Government contracts	28,672			28,672	54,046
Other:					
Interest and dividends	50,819	73,913		124,732	114,041
Net (loss) gain from investments	(82,320)	(124,304)		(206,624)	1,101,423
Other income	22,872			22,872	29,953
Net assets released from restrictions	1,217,327	(1,217,327)			
Total support and revenue	2,159,228	(400,174)		1,759,054	3,356,040
Expenses:					
Program services	1,704,757			1,704,757	1,902,794
Management and general	189,992			189,992	195,498
Fundraising	462,641			462,641	640,838
Total expenses	2,357,390			2,357,390	2,739,130
Change in Net Assets	(198,162)	(400,174)		(598,336)	616,910
Net Assets, beginning of year	1,354,037	1,278,864	\$ 3,167,004	5,799,905	5,182,995
Net Assets, end of year	\$ 1,155,875	\$ 878,690	\$ 3,167,004	\$ 5,201,569	\$ 5,799,905

The accompanying notes are an integral part of this statement.

San Francisco Education Fund

Statement of Cash Flows

<i>Year Ended June 30, 2012 (with comparative totals for 2011)</i>	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	\$ (598,336)	\$ 616,910
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	8,092	12,405
Net loss (gain) from investments	206,624	(1,101,423)
Loss on disposal of equipment		
Changes in assets and liabilities:		
Grants receivable	315,000	(110,000)
Contracts receivable	74,421	(98,393)
Pledges receivable	29,311	(18,911)
Prepaid expenses and other assets	1,851	72,349
Accounts payable and accrued expenses	(34,019)	(90,196)
Payable to fiduciary groups	96,528	129,543
Deferred revenue	(130,923)	
Net cash used by operating activities	(31,451)	(587,716)
Cash Flows from Investing Activities:		
Purchases of property		(14,064)
Purchases of investment securities	(392,135)	(114,041)
Proceeds from sales and maturities of investment securities	715,849	714,438
Net cash provided by investing activities	323,714	586,333
Cash Flows from Financing Activities:		
Payments on obligations under capital lease	(16,025)	(10,074)
Net cash used by financing activities	(16,025)	(10,074)
Net Increase (Decrease) in Cash and Equivalents	276,238	(11,457)
Cash and Equivalents, beginning of year	91,908	103,365
Cash and Equivalents, end of year	\$ 368,146	\$ 91,908
Supplemental Data:		
Interest paid	\$ 2,632	\$ 3,051
Non-cash investing and financing transactions, lease of equipment:		
Equipment purchase		1,474
Capital lease obligation		(1,474)

The accompanying notes are an integral part of this statement.

San Francisco Education Fund

Statement of Functional Expenses

Year Ended June 30, 2012 (with comparative totals for 2011)

	2012								2011 Total
	Program Services					Supporting Services			
	Leadership & Professional Development	Peer Resources	Public Engagement (includes School Volunteers)	Public Awareness	Postsecondary Success	Management & General	Fundraising	Total	
Salaries	\$ 94,301	\$ 103,557	\$ 358,895	\$ 52,510	\$ 120,411	\$ 112,428	\$ 272,499	\$ 1,114,601	\$ 1,382,982
Payroll taxes	7,634	8,349	28,775	4,253	9,731	5,021	22,004	85,767	94,335
Unemployment compensation	622	1,436	5,922	456	983	796	2,243	12,458	115,139
Total personnel costs	102,557	113,342	393,592	57,219	131,125	118,245	296,746	1,212,826	1,592,456
Consultants	232,172	24,591	64,699	3,798	63,214	13,023	24,662	426,159	486,777
Grants and awards	2,032	18,343	11,922		2,474		100	34,871	135,149
Health insurance	4,044	9,342	38,521	2,969	6,392	1,466	14,590	77,324	104,254
Special event							41,711	41,711	64,286
Other expenses	8,213	15,629	24,992	8,806	3,405	2,551	6,763	70,359	56,946
Professional development and recruitment	305	2,217	38,513	102	220	37,160	503	79,020	47,662
Rent	10,317	23,830	98,264	7,574	16,306	13,211	37,217	206,719	44,120
Travel	205	1,660	7,613	341	8,741	125	752	19,437	30,403
Insurance	38,161	1,504	6,201	478	1,029	834	2,349	50,556	30,167
Equipment rent	416	961	4,080	305	2,609	533	1,501	10,405	20,475
Hospitality	144	1,126	2,108	60	2,397	92	3,298	9,225	20,081
Supplies	635	4,097	4,682	1,445	239	194	1,561	12,853	19,057
Workers compensation	799	1,846	7,612	587	1,263	1,023	2,883	16,013	13,683
Depreciation	403	933	3,847	297	638	517	1,457	8,092	12,405
Printing & reproduction			1,135				6,557	7,692	9,427
Substitute teacher expense	165	4,572						4,737	9,074
Dues, subscriptions and publications	576	1,260	5,019	375	1,258	655	11,634	20,777	7,436
Program transfer expense	34,298							34,298	
Finance charges	173	430	1,652	127	274	246	4,030	6,932	6,034
Postage & delivery	22	52	661	74	57	28	4,076	4,970	5,442
Telephone & internet service	70	661	1,181	52	110	89	251	2,414	3,796
Bad debt expense									20,000
Total	\$ 435,707	\$ 226,396	\$ 716,294	\$ 84,609	\$ 241,751	\$ 189,992	\$ 462,641	\$ 2,357,390	\$ 2,739,130

The accompanying notes are an integral part of this statement.

San Francisco Education Fund

Notes to Financial Statements

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 merged 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 600 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 FY11-12, volunteers placed through the Education Fund provided more than 63,000 hours of service in San Francisco public schools, which delivered a value of over \$1.5 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.

San Francisco Education Fund

Notes to Financial Statements

In fiscal year 2011-2012, 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 2011-2012, Peer Resources teacher salaries and benefits were funded directly by approximately \$467,000 in contributed support from the Public Education Enrichment Fund (Proposition H, administered by SFUSD) and \$349,000 in contributed support from Peer Resources school sites. The funds from Prop H and school sites 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

Leadership & Professional Development

Since 1979, the Leadership and Professional Development Grants program has awarded money to pre-K through 12th grade educators in the San Francisco Unified School District to support innovative teaching in an effort to close the achievement gap. In fiscal year 2011-2012, the Teacher Leadership and Professional Development Grants Program was in a redesign phase to determine how best to support and enhance teacher practice in SFUSD schools while also coordinating with the District's strategic priorities for students and teachers. From 2009-2011, this 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. During fiscal year 2011-2012, the Education Fund provided targeted support for the continuation of those Equity-Centered Professional Learning Communities while working with individual school sites to institutionalize their own practice of this type of ongoing professional development.

Additionally, in 2011-2012, the Education Fund collaborated with San Francisco Unified School District, University of San Francisco, Stanford University, United Educators of San Francisco and AmeriCorps, to move the San Francisco Teacher Residency forward. The Teacher Residency 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 2011-2012 expenses related to the San Francisco Teacher Residency, other program partners provided an additional \$1.1 million of in-kind and cash contributions towards total program costs for the San Francisco Teacher Residency.

The Education Fund transferred the San Francisco Teacher Residency program to the Community Initiatives and the school district effective July 1, 2012. In fiscal year 2012, the Statement of Activities reflects revenues and expenses of \$301,150 and \$266,850 respectively.

The netted amount was recorded as program transfer expense as of June 30, 2012 and was subsequently disbursed to the Community Initiatives.

Public Awareness

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. We also collaborated with groups like the Public Engagement for Public Schools (PEPS) to develop and implement a broad-based dialogue process that engaged diverse populations in San Francisco in creating home-grown, clear, compelling public education goals that capture the imagination of our city and inspire action.

San Francisco Education Fund

Notes to Financial Statements

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.

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.

Government contracts and revenue are recognized when the Organization incurs expenditures related to the required services.

San Francisco Education Fund

Notes to Financial Statements

c. Contributed Services and In-kind Donations

Approximately 865 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, 2012. Additionally, approximately 63,000 hours of service were provided directly to students, teachers and schools in fiscal year 2011-2012 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.

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, 2013.

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.

San Francisco Education Fund

Notes to Financial Statements

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, 2012, 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. Therefore, no provision or liability for income taxes has been included in the financial statements. The Education Fund continues to remain subject to examination by U.S. federal authorities for the years 2010 through 2012 and for California state authorities for the years 2009 through 2012.

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.

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, 2011 from which the summarized information was derived. Certain 2011 amounts have been reclassified to conform to the 2012 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. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in a 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.

San Francisco Education Fund

Notes to Financial Statements

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

In May 2011, the FASB issued updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between U.S. GAAP and International Financial Reporting Standards. This guidance includes amendments that clarify the application of existing fair value measurement requirements, in addition to other amendments that change principles or requirements for measuring fair value and for disclosing information about fair value measurements. This guidance is effective for annual periods beginning after December 15, 2011. The adoption of this guidance is not expected to have a material effect on the Education Fund's financial statements. 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 29, 2012, 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, 2012:

	Cost	Fair Value
Mutual Funds	\$ 3,845,205	\$ 4,905,202
Equity Securities	3,215	3,151
Total	\$ 3,848,420	\$ 4,908,353

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, 2012 measured at fair value on a recurring basis:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Mutual Funds:			
Equity securities held in mutual funds:			
Energy	\$ 257,659		\$ 257,659
Materials	141,156		141,156
Industrials	279,302		279,302
Consumer discretionary	566,078		566,078
Consumer staples	83,086		83,086
Health care	696,991		696,991
Financials	784,442		784,442
Information technology	710,750		710,750
Telecommunication service	142,698		142,698
Fixed income held in mutual funds:			
US Treasury bills	44,552		44,552
Mortgage-related securities	360,893		360,893
Corporate	588,585		588,585
Government-related	105,042		105,042
Money market	143,968		143,968
Equity securities:			
Technology	3,151	\$ 3,151	
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Total investments measured at fair value	\$ 4,908,353	\$ 3,151	\$ 4,905,202

Note 4 - Property and Equipment:

Property and equipment at June 30, 2012 consisted of:

Furniture and equipment	\$	67,883
Less: accumulated depreciation		(33,683)
		<hr/>
		\$ 34,200

Depreciation expense was \$8,092 for the year ended June 30, 2012.

San Francisco Education Fund

Notes to Financial Statements

Note 5 - Capital Leases:

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, 2012 were as follows:

Year ending June 30,		
2013	\$	7,106
2014		6,900
2015		3,450
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Minimum lease payments		17,456
Less: amount representing interest		(2,330)
Less: current portion of lease payments		(7,106)
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Minimum long-term commitment	\$	8,020

Amortization expense related to these capital leases is recorded under depreciation expense. Total payments under the above leases were \$16,025 during the year ended June 30, 2012.

Note 6 - Operating Lease:

The Education Fund leases office space under a non-cancelable operating lease arrangement that expires on August 31, 2017. 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,		
2013	\$	42,000
2014		43,100
2015		44,300
2016		45,700
2017		47,000
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	\$	222,100

Total payments under the above arrangement were \$42,000 for the year ended June 30, 2012. The Education Fund has determined that the fair market value of the use of the office netted total payment was \$174,470 which are included in the in-kind contribution and functional expense on the Statement of Activities for the years ended June 30, 2012.

San Francisco Education Fund

Notes to Financial Statements

Note 7 - 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 \$13,974 at June 30, 2012 of cash payable to such groups.

Note 8 - Temporarily Restricted Net Assets:

Temporarily restricted net assets at June 30, 2012 were available for:

Public Engagement (includes School Volunteers)	\$ 27,000
Post Secondary Success	247,093
Special Projects	4,787
Expenses of Future Periods	69,500
Teacher Grants and Public Education	530,310
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	\$ 878,690

Temporarily restricted net assets were released in 2012 for:

Public Engagement (includes School Volunteers)	\$ 176,602
Post Secondary Success	203,805
Peer Resources	156,897
Leadership & Professional Development	295,058
Special Projects	49,213
Expenses of Future Periods	128,800
Teacher Grants and Public Education	206,952
	<hr/>
	\$ 1,217,327

Note 9 - Permanently Restricted Net Assets:

Permanently restricted net assets as of June 30, 2012 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.

San Francisco Education Fund

Notes to Financial Statements

Note 10 - 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 30, 2012, the Board of Directors further designated a portion of these net assets to be used specifically to fund the PSP program.

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.

San Francisco Education Fund

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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 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, 2012:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds		\$ 530,310	\$ 3,167,004	\$ 3,697,314
Board designated for Post- Secondary Success Program	\$ 104,064			
Board designated funds-other	972,000			
Total Endowment Funds	\$ 1,076,064	\$ 530,310	\$ 3,167,004	\$ 4,773,337

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	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, June 30, 2011	\$ 1,354,037	\$ 787,652	\$ 3,167,004	\$ 5,308,693
Investment Return:				
Interest and dividends	49,984	73,913		123,897
Net appreciation (realized and unrealized)	(84,060)	(124,304)		(208,364)
Appropriation of endowment assets for expenditure	(243,897)	(206,951)		(450,848)
Endowment Net Assets, June 30, 2012	\$ 1,076,064	\$ 530,310	\$ 3,167,004	\$ 4,773,378

Note 11 - 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, 2012.

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.