



SCEF

San Carlos Education Foundation

Financial Statements

June 30, 2021

(With summarized comparative totals for June 30, 2020)

Together with

Independent Auditors' Report

SAN CARLOS EDUCATION FOUNDATION

Table of Contents

June 30, 2021

	PAGE
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7-23



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of San Carlos Education Foundation (a California public benefit corporation, the "Foundation"), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the San Carlos Education Foundation's 2020 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated January 19, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Robert Lee & Associates, LLP

San Jose, California
January 13, 2022

SAN CARLOS EDUCATION FOUNDATION

Statements of Financial Position

June 30, 2021

(With summarized comparative totals for June 30, 2020)

	June 30,	
	2021	2020 <i>(Comparative)</i>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 369,029	\$ 610,892
Pledges receivable	149,767	342,904
Accounts receivable	44	4,834
Prepaid expenses	14,526	20,101
Deposits	5,150	22,340
Investments	6,805,830	5,471,232
Total assets, all current	\$ <u>7,344,346</u>	\$ <u>6,472,303</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and other liabilities	\$ 39,495	\$ 29,691
Deferred revenue	8,400	27,190
Note payable	-	45,500
Total liabilities, all current	<u>47,895</u>	<u>102,381</u>
Contingency		
Net assets:		
Without donor restrictions		
Undesignated	3,641,675	3,432,305
Board designated for quasi-endowment	1,432,758	791,232
Board designated for innovation fund	25,555	25,555
Total net assets without donor restrictions	5,099,988	4,249,092
With donor restrictions	2,196,463	2,120,830
Total net assets	<u>7,296,451</u>	<u>6,369,922</u>
Total liabilities and net assets	\$ <u>7,344,346</u>	\$ <u>6,472,303</u>

The accompanying notes are an integral part of these financial statements

SAN CARLOS EDUCATION FOUNDATION

Statements of Activities and Changes in Net Assets

For the Year Ended June 30, 2021

(With summarized comparative totals for the year ended June 30, 2020)

	2021			2020 Totals <i>(Comparative)</i>
	Without donor restrictions	With donor restrictions	Total	
REVENUE				
Contributions	\$ 3,116,355	\$ 277,813	\$ 3,394,168	\$ 3,149,469
Special events, net	545,504	231,182	776,686	659,270
Other income:				
In-kind income	17,614	-	17,614	18,500
Investment income, net	643,438	-	643,438	162,689
Forgiveness of Paycheck Protection Program loan	45,810	-	45,810	-
Net assets released from restrictions	<u>433,362</u>	<u>(433,362)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>4,802,083</u>	<u>75,633</u>	<u>4,877,716</u>	<u>3,989,928</u>
EXPENSES				
Program services:				
San Carlos School District grant	3,003,676	-	3,003,676	2,408,953
San Carlos Charter Learning Center grant	466,242	-	466,242	279,956
Total program services	<u>3,469,918</u>	<u>-</u>	<u>3,469,918</u>	<u>2,688,909</u>
Supporting services:				
Management and general	268,844	-	268,844	274,914
Fundraising	212,425	-	212,425	189,121
Total supporting services	<u>481,269</u>	<u>-</u>	<u>481,269</u>	<u>464,035</u>
Total expenses	<u>3,951,187</u>	<u>-</u>	<u>3,951,187</u>	<u>3,152,944</u>
Change in net assets	850,896	75,633	926,529	836,984
Net assets, beginning of year	<u>4,249,092</u>	<u>2,120,830</u>	<u>6,369,922</u>	<u>5,532,938</u>
Net assets, end of year	<u>\$ 5,099,988</u>	<u>\$ 2,196,463</u>	<u>\$ 7,296,451</u>	<u>\$ 6,369,922</u>

The accompanying notes are an integral part of these financial statements

SAN CARLOS EDUCATION FOUNDATION

Statements of Functional Expenses

For the Year Ended June 30, 2021

(With summarized comparative totals for the year ended June 30, 2020)

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>2021 Totals</u>	<u>2020 Totals (Comparative)</u>
Awards and grants	\$ 3,469,918	\$ -	\$ -	\$ 3,469,918	\$ 2,688,909
Salaries, benefits and payroll taxes	-	130,728	153,309	284,037	272,465
Credit card fees	-	60,773	-	60,773	61,210
Fees for services (non-employees)	-	39,725	-	39,725	39,278
All other expenses	-	3,784	18,603	22,387	20,246
Information technology	-	8,456	9,861	18,317	12,466
Occupancy	-	11,496	-	11,496	11,891
Advertising and promotion	-	-	10,770	10,770	9,050
Printing and graphics	-	-	9,110	9,110	9,506
Insurance	-	6,670	-	6,670	6,444
Supplies	-	1,212	5,450	6,662	11,040
Postage and shipping	-	12	5,322	5,334	5,852
Conferences, conventions and meetings	-	4,551	-	4,551	3,541
Membership dues	-	995	-	995	748
Bank and other fees	-	442	-	442	298
Total operating expenses	\$ <u>3,469,918</u>	\$ <u>268,844</u>	\$ <u>212,425</u>	\$ <u>3,951,187</u>	\$ <u>3,152,944</u>

The accompanying notes are an integral part of these financial statements

SAN CARLOS EDUCATION FOUNDATION

Statements of Cash Flows

For the Year Ended June 30, 2021

(With summarized comparative totals for the year ended June 30, 2020)

	June 30,	
	2021	2020 <i>(Comparative)</i>
Cash flows from operating activities:		
Change in net assets	\$ 926,529	\$ 836,984
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Realized and unrealized gains on investments, net	(486,931)	(57,221)
Forgiveness of Paycheck Protection Program loan	(45,500)	-
Changes in operating assets and liabilities:		
Pledges receivable	193,137	(24,985)
Accounts receivable	4,790	(3,834)
Prepaid expenses	5,575	(10,451)
Deposits	17,190	(9,920)
Accounts payable and other liabilities	9,804	(1,334)
Deferred revenue	(18,790)	(9,225)
Net cash provided by operating activities	<u>605,804</u>	<u>720,014</u>
Cash flows from investing activities:		
Proceeds from sales of investments	3,075,115	2,271,153
Purchases of investments	(3,922,782)	(2,648,994)
Net cash used by investing activities	<u>(847,667)</u>	<u>(377,841)</u>
Cash flows from financing activities:		
Borrowings on PPP loan	-	45,500
Net cash provided by investing activities	<u>-</u>	<u>45,500</u>
Increase (decrease) in cash and cash equivalents	(241,863)	387,673
Cash and cash equivalents, beginning of year	610,892	223,219
Cash and cash equivalents, end of year	<u>\$ 369,029</u>	<u>\$ 610,892</u>

The accompanying notes are an integral part of these financial statements

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 1 - Foundation and operations:

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

Note 2 - Summary of significant accounting policies:

Basis of accounting - The financial statements are prepared on the accrual basis of accounting, which recognizes revenue and support when earned and expenses when incurred and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of presentation - The Foundation presents information regarding its financial position and activities according to two classes of net assets:

- *Without donor restrictions* – net assets which are available to support all activities of the Foundation without restrictions and include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation. The Foundation has elected to report any restricted revenue received in the current year for which the restrictions have been met in the current year as an increase in without donor restrictions.
- *With donor restrictions* – net assets which are subject to donor-imposed restrictions that will be met rather by actions of the Foundation or the passage of time. Also, included in this category are net assets restricted by the donor for investment in perpetuity, such as endowments. The income from such invested assets is available to support the activities of the Foundation.

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

Use of estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents - Cash and cash equivalents consist of cash and money market accounts. The Foundation considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. The carrying amount in the statements of financial position approximate fair value.

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 2 - Summary of significant accounting policies (continued):

Pledges receivable - Pledges receivable are either unconditional or conditional. Unconditional pledges are pledges that depend only on the passage of time or the demand by the promisor for performance. A conditional pledge receivable is a pledge that depends on the occurrence of a specified future and uncertain event to bind the promisor. Unconditional pledges receivable represent the remaining pledges due from the donors who have pledged funds to the Foundation for use in its programs. There were no conditional promises for the years ended June 30, 2021 and 2020. Promises to give that are expected to be collected after one year are reported at present value based on the collectability of the pledge and the timing of the expected cash flows. An allowance reserve for uncollectible pledges has been established based on management's best estimates. The financial statements reflect pledges receivable net of the discount and allowance reserve, if any. The Foundation did not recognize an allowance reserve for the years ended June 30, 2021 and 2020. At June 30, 2021 and 2020, all pledges are expected to be collected in the following year.

Accounts receivable - Accounts receivable arise in the normal course of operations. It is the policy of management to review the outstanding accounts receivable at year end, as well as bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. No allowance was considered necessary at June 30, 2021 and 2020 as management believes that all amounts are collectible.

Prepaid expenses - Prepaid expenses include payments for insurance, software and other program related activities.

Investments - The Foundation's investments are valued in accordance with generally accepted accounting principles ("GAAP"), including Fair Value Measurements. The Foundation's investments include cash and cash equivalents held for investment purpose, and marketable securities. All debt securities and equity securities are carried at quoted market prices as of the last trading date of the Foundation's fiscal year. Contributions of investments are recorded at quoted market prices at the date of donation and are sold as soon as reasonably possible. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur as part of net assets without restrictions or as net assets with restrictions as appropriate. Realized gains or losses resulting from sales or maturities are the differences between the investment's cost basis and the sale or maturity settlement of the investment. Dividend and interest income are accrued when earned.

Deferred revenue - Deferred revenue represents funds received for events scheduled to take place in the following fiscal year. The Foundation will recognize these revenues when the service occurs and revenue have been earned. The Foundation's deferred revenue predominantly represents sponsorships and registrations.

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 2 - Summary of significant accounting policies (continued):

Revenue recognition - Revenue from exchange transactions: In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 606, Revenue from Contracts with Customers, the Foundation recognizes revenue upon the transfer of goods or services to a customer at an amount that reflects the expected consideration to be received in exchange for those goods or services. The principles in ASC 606 are applied using the following five steps: (i) identify the contract with a customer; (ii) identify the performance obligation(s) in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation(s) in the contract; and (v) recognize revenue when (or as) the Foundation satisfies its performance obligation(s). The Foundation recognizes revenue when control of the promised goods or services are transferred to outside parties in an amount that reflects the consideration. The Foundation expects to be entitled to in exchange for those goods or services.

Special events - The Foundation conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event - the exchange component, and a portion represents a contribution to the Foundation. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Foundation. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The performance obligation is delivery of the event. The event fee is set by the Foundation. FASB ASC 606 requires allocation of the transaction price to the performance obligation(s). Accordingly, the Foundation separately presents in its notes to financial statements, the exchange and contribution components of the gross proceeds from special events.

Contribution revenue - The Foundation recognizes contributions when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as with or without donor restrictions depending on the nature of donor restrictions and depending on whether the restrictions are met in the current fiscal year. When the restriction is met on a contribution received in a prior fiscal year, the amount is shown as a reclassification of net assets with restrictions to net assets without donor restrictions. These contributions are generally expected to be collected in one year.

In-kind contributions - The Foundation records various types of in-kind support including professional services and tangible assets. Contributed services, which require a specialized skill and which the Foundation would have paid for if not contributed, have been recorded at their estimated fair market value. Contributions of tangible assets are recognized at fair value when received. These amounts have been recorded as both revenue and expenses in the statements of activities and changes in net assets. Numerous other volunteers donate significant amounts of their time to the Foundation’s fundraising and other activities. No amounts have been recorded for these donated services since they do not meet the criteria noted above. See Note 14 for further discussion.

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 2 - Summary of significant accounting policies (continued):

Functional expense allocations - The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated, principally on a direct cost basis, among the classifications. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are salaries and benefits, which are allocated on the basis of time studies conducted annually for each employee; expenses that are truly shared by all programs and supporting functions of the Foundation, including depreciation, telephone, internet, some office supplies, and some other expenses are allocated based on the weighted average of the full time equivalent of each position resulting in a general split for the Foundation.

Fair value of financial instruments – Unless indicated otherwise, the fair values of all reported assets and liabilities approximate the carrying values of such amounts.

Tax-exempt status - The Foundation is exempt from taxes on income under section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Franchise Tax Board code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. Management is not aware of any unrelated business income that would subject the Foundation to Federal or State income tax.

Accounting for uncertainty in income taxes - The Foundation evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of June 30, 2021, management did not identify any uncertain tax positions.

Concentration of credit risk - Financial instruments that potentially subject the Foundation to credit risk consist primarily of uninsured cash and cash equivalents, investments and accounts receivable. The Foundation maintains cash and cash equivalents with commercial banks and other major financial institutions. Cash equivalents include overnight investments, and money market funds. These accounts are insured up to \$250,000 per depositor by an agency of the federal government. At times, such amounts may exceed Federal Deposit Insurance Corporation (“FDIC”) limits.

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 2 - Summary of significant accounting policies (continued):

Concentration of credit risk (continued) - The Foundation manages this risk by maintaining deposits in high quality institutions. The credit risk associated with receivables is mitigated by the fact that the receivables are generally related to government grants and contracts that have already been earmarked for the Foundation. Additionally, any receivables that are expected to be collected after one year have been discounted and are reflected in the financial statements at their net present value. It is the Foundation's opinion that it is not exposed to any significant credit risks.

Revenue and receivable concentrations - For the year ended June 30, 2021, two donors comprised approximately 23% and 13%, of the Foundation's contributions revenue. For the year ended June 30, 2020, one donor comprised approximately 32% of the Foundation's contributions revenue. The donations were used to support annual grants. At June 30, 2021 and 2020, the Foundation did not have pledges receivable outstanding greater than 10% of contribution revenue.

Advertising - Advertising costs are expensed as incurred. Advertising and marketing expense for the years ended June 30, 2021 and 2020 was approximately \$11,000 and \$9,000 respectively.

Endowment accounting and interpretation of relevant law - In 2008, The Foundation established an endowment, whereby only the income earned from its investments was to be used for its philanthropic endeavors, with the principal to be left to accumulate in perpetuity. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of The Foundation 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 gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Foundation classifies this endowment as net assets with donor restrictions in perpetuity at (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Comparative totals - The statements of activities and changes in net assets include certain prior year summarized comparative information in total but not by net asset class and fund as presented for the current year. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 2 - Summary of significant accounting policies (continued):

Recently adopted accounting guidance - In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (“ASC 606”) which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASC 606 is effective for annual reporting periods beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Foundation adopted ASC 606 with a date of the initial application of July 1, 2020. The ASU has been applied retrospectively to all periods presented, with no effect on net assets. The adoption of ASC 606 did not have a material impact to the Foundation’s revenue recognition.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurements: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurements.” This ASU modifies the disclosure requirements for fair value measurements. Those modifications include the removal and addition of disclosure requirements as well as clarifying specific disclosure requirements. The ASU is effective for fiscal years beginning after December 15, 2019. Certain provisions of the ASU were applied prospectively while the rest of the provisions were applied retrospectively. The ASU has been applied retrospectively to all periods presented, with no effect on net assets.

Recent accounting pronouncements - In September 2020, FASB issued ASU 2020- 07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. This ASU is meant to improve financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets for not-for-profit entities (“NFP”), including additional disclosure requirements for recognized contributed services. This ASU requires that all NFP receiving nonfinancial assets must present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. The ASU also requires further disclosure on the contributed nonfinancial assets in the notes to the financial statements. The ASU will be applied retrospectively and is effective for fiscal years beginning after June 15, 2021, and interim periods beginning after June 15, 2022. Early adoption is permitted. Management has not determined the impact of this pronouncement.

Subsequent events - Subsequent events have been evaluated through the date of the independent auditors’ report, which is the date the financial statements were available to be issued and it has been determined that no material subsequent events require an estimate to be recorded as of June 30, 2021.

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 3 - Liquidity and availability of financial assets:

Financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows, as of June 30:

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 369,029	\$ 610,892
Pledges receivable	149,767	342,904
Investment	<u>6,805,830</u>	<u>5,471,232</u>
Total financial assets	7,324,626	6,425,028
Less amounts unavailable for general expenditures within one year, due to:		
Board designated for quasi-endowment	1,432,758	791,232
Board designated for innovation fund	25,555	25,555
Net assets with donor restrictions	<u>2,196,463</u>	<u>2,120,830</u>
Financial assets available to meet general expenditures within one year	<u>\$ 3,669,850</u>	<u>\$ 3,487,411</u>

The Foundation is substantially supported by contributions. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations as they become due. Amounts not available for general operating use due to Board designations could be drawn upon with Board approval if needed.

Note 4 - Investments:

The Foundation follows the provisions of the Fair Value Measurements and Disclosure Topic of the FASB Accounting Standards Codification. These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, The Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 4 - Investments (continued):

An investment's classification within a level in the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The categorization of the investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Foundation's perceived risk of that investment.

At June 30, 2021 and 2020, the Foundation was invested in Level 1 investments and had no investment in Level 2 or Level 3 inputs. The Foundation's investments were measured using quoted prices in active markets for identical assets (Level 1) at June 30 as follows:

	<u>2021</u>	<u>2020</u>
Investments		
Cash and cash equivalent	\$ 2,002	\$ 43,573
Fixed income	<u>6,803,828</u>	<u>5,427,659</u>
Total investments	<u>\$ 6,805,830</u>	<u>\$ 5,471,232</u>

The following schedule summarizes total investment returns as of June 30:

	<u>2021</u>	<u>2020</u>
Unrealized gains (losses)	\$ 462,431	\$ (17,236)
Realized gains	24,500	74,457
Dividends and interest income	168,701	116,923
Less investment fee	<u>(12,194)</u>	<u>(11,455)</u>
Total investment income	<u>\$ 643,438</u>	<u>\$ 162,689</u>

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 5 - Accounts payable and other liabilities:

Accounts payable and other liabilities consisted of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Accrued payroll liabilities	\$ 21,570	\$ 13,372
Vendors payable	8,279	1,666
Credit card payable	6,934	4,878
Other current liabilities	<u>2,712</u>	<u>9,775</u>
Total accounts payable and other liabilities	<u>\$ 39,495</u>	<u>\$ 29,691</u>

Note 6 - Deferred revenue:

The activity and balances for deferred revenue from contracts with customers are shown in the following table:

	<u>Event</u>
Balance at June 30, 2019	\$ 36,415
Revenue recognized	(36,415)
Payments received for future obligations	<u>27,190</u>
Balance at June 30, 2020	27,190
Revenue recognized	(18,790)
Payments received for future obligations	<u>-</u>
Balance at June 30, 2021	<u>\$ 8,400</u>

Note 7 - Note payable:

On April 14, 2020, the Foundation secured a loan in the amount of approximately \$46,000 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and meets certain criteria. The Small Business Administration and the lender establish these criteria.

The Foundation initially recorded a note payable and subsequently recorded forgiveness when the loan obligation was legally released on December 18, 2020. The Foundation recognized approximately \$46,000 of loan forgiveness as income for the year ended June 30, 2021 on the statements of activities.

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 8 - Board designations of net assets without donor restrictions:

Board designated net assets consisted of the following as of June 30:

	2021	2020
Board designated for quasi-endowment	\$ 1,432,758	\$ 791,232
Board designated for innovation fund	25,555	25,555
Total board designated net assets	\$ 1,458,313	\$ 816,787

Note 9 - Net assets with donor restrictions:

Net assets with donor restrictions and amounts released from restriction were as follows for the year ended June 30, 2021:

	Beginning	Additions	Releases	Ending
<i>Subject to expenditure for a specific purpose:</i>				
Fund-a-need	\$ 154,220	\$ 231,182	\$ (154,220)	\$ 231,182
STEM	30,000	30,000	(30,000)	30,000
Counseling	153,500	152,500	(153,500)	152,500
Faculty and Friends Music	9,851	-	(9,851)	-
WEB grant	5,000	-	(5,000)	-
CLC Joint-ask	-	80,791	(80,791)	-
Total purpose restrictions	352,571	494,473	(433,362)	413,682
<i>Endowment:</i>				
Perpetual in nature	268,259	14,522	-	282,781
<i>Subject to endowment spending policy and appropriation:</i>				
Health-related programs	1,500,000	-	-	1,500,000
Total donor restricted for endowment	1,768,259	14,522	-	1,782,781
Total net assets with donor restrictions	\$ 2,120,830	\$ 508,995	\$ (433,362)	\$ 2,196,463

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 9 - Net assets with donor restrictions (continued):

Net assets with donor restrictions and amounts released from restriction were as follows for the year ended June 30, 2020:

	<u>Beginning</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending</u>
<i>Subject to expenditure for a specific purpose:</i>				
Fund-a-need	\$ 55,310	\$ 155,935	\$ (57,025)	\$ 154,220
STEM	37,500	30,000	(37,500)	30,000
Counseling	150,000	153,500	(150,000)	153,500
Faculty and Friends Music	-	9,851	-	9,851
WEB grant	-	5,000	-	5,000
Total purpose restrictions	<u>242,810</u>	<u>354,286</u>	<u>(244,525)</u>	<u>352,571</u>
<i>Endowment:</i>				
Perpetual in nature	267,259	1,000	-	268,259
<i>Subject to endowment spending policy and appropriation:</i>				
Health-related programs	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>
Total donor restricted for endowment	<u>1,767,259</u>	<u>1,000</u>	<u>-</u>	<u>1,768,259</u>
Total net assets with donor restrictions	<u>\$ 2,010,069</u>	<u>\$ 355,286</u>	<u>\$ (244,525)</u>	<u>\$ 2,120,830</u>

Net assets with donor restrictions in perpetuity consist of endowment fund investments that represent the principal amounts of gifts accepted with donor stipulation that the principal be maintained intact in perpetuity, with only the income to be utilized for operations.

Note 10 - Endowment:

In 2008, the Endowment was established as a result of a \$1,500,000 gift to support health and wellness programs in the San Carlos public schools. Additional contributions to the endowment have been made since the fund was established. The net assets with donor restrictions in perpetuity represent the principal amounts of gifts received with donor stipulation that the principal be maintained intact in perpetuity. The quasi endowments consist of Board designated net assets without donor restrictions.

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 10 - Endowment (continued):

The Board of Directors of the Foundation has interpreted the UPMIFA 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 Foundation classifies as net assets with donor restrictions in perpetuity (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, the Foundation 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 Foundation 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 Foundation
- (7) The investment policies of the Foundation.

The Endowment fund contains restricted net assets held in perpetuity, which represent funds received from resources in which the principal must be maintained intact in perpetuity. Interest income, dividends and net realized and unrealized gains on the invested principal can be used in accordance with the endowment trust documents or donor restrictions. Certain costs of raising contributions and of maintaining the trust assets are to be paid out of cumulative gains on investment earnings, which are included in net assets without restrictions. If these costs exceed cumulative gains, they are absorbed by certain contributions in unrestricted net assets.

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 10 - Endowment (continued):

Endowment net asset and changes in endowment net assets consisted of the following at June 30, 2021:

	Without donor restrictions	<u>With donor restrictions</u>		Total
		Health- related programs	Perpetual in nature	
Donor restricted endowment funds, beginning	\$ -	\$ 1,500,000	\$ 268,259	\$ 1,768,259
Board designated endowment funds, beginning	791,232			791,232
Investment return:				
Interest and dividend income, net	151,034	-	-	151,034
Realized and unrealized gains	490,492	-	-	490,492
Total investment return	<u>641,526</u>	<u>-</u>	<u>-</u>	<u>641,526</u>
Donor contributions	-	-	14,522	14,522
Endowment net assets, end	<u>\$ 1,432,758</u>	<u>\$ 1,500,000</u>	<u>\$ 282,781</u>	<u>\$ 3,215,539</u>

Endowment net asset and changes in endowment net assets consisted of the following at June 30, 2020:

	Without donor restrictions	<u>With donor restrictions</u>		Total
		Health- related programs	Perpetual in nature	
Donor restricted endowment funds, beginning	\$ -	\$ 1,500,000	\$ 267,259	\$ 1,767,259
Board designated endowment funds, beginning	718,059			718,059
Investment return:				
Interest and dividend income, net	70,306	-	-	70,306
Realized and unrealized gains	62,071	-	-	62,071
Total investment return	<u>132,377</u>	<u>-</u>	<u>-</u>	<u>132,377</u>
Donor contributions	-	-	1,000	1,000
Investment transfer-in	12,585	-	-	12,585
Appropriation of endowment net assets for expenditure	<u>(71,789)</u>	<u>-</u>	<u>-</u>	<u>(71,789)</u>
Endowment net assets, end	<u>\$ 791,232</u>	<u>\$ 1,500,000</u>	<u>\$ 268,259</u>	<u>\$ 2,559,491</u>

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 10 - Endowment (continued):

Return objectives and risk parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide 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 Foundation must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Foundation's Investment Committee, the endowment assets are invested in a manner that is intended to provide a moderate average annual real return in excess of inflation. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the Foundation 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 Foundation 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 policies and how the investment objectives relate to spending policy: The Foundation has an investment portfolio that is managed based on the Foundation's investment policy, which attempts to maximize return while maintaining an appropriate level of risk. Exposure is limited by prudent diversification, guided by a strategic asset allocation model. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow each fiscal year. This is consistent with the Foundation's objective 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 Endowment Charter stipulates an annual distribution range of 0% to 10%. The distribution, if any, is based on the percentage of Endowment Fund market value average over the previous 3 years at the February month end after review by the Investment Committee.

A distribution from the Endowment is considered each year to provide program support. In the 2021 fiscal year, the board determined that it would not take a distribution from the fund. In the 2020 fiscal year, the board took a distribution of approximately \$72,000 from the fund. Total accumulated distribution from the Endowment is approximately \$944,000 as of June 30, 2021.

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 11 - Special events:

Special event revenues, contribution and expenses by event for the year ended June 30, 2021 are as follows:

	<u>Special events contributions</u>	<u>Special events registration fees</u>	<u>Less direct donor benefit</u>	<u>Total</u>
Special events:				
Virtual gala	\$ 718,368	\$ 9,498	\$ (119,035)	\$ 608,831
Parent parties	24,706	-	(1,847)	22,859
Readathon/Community	146,698	-	(1,702)	144,996
Total	<u>\$ 889,772</u>	<u>\$ 9,498</u>	<u>\$ (122,584)</u>	<u>\$ 776,686</u>

Special event revenues, contribution and expenses by event for the year ended June 30, 2020 are as follows:

	<u>Special events contributions</u>	<u>Special events registration fees</u>	<u>Less direct donor benefit</u>	<u>Total</u>
Special events:				
Town event	\$ 133,049	\$ 48,075	\$ (69,552)	\$ 111,572
Teacher auction	55,831	-	(2,779)	53,052
Spring gala	464,858	-	(42,066)	422,792
Parent parties	8,200	62,110	(9,228)	61,082
Community parties	5,244	5,715	(187)	10,772
Total	<u>\$ 667,182</u>	<u>\$ 115,900</u>	<u>\$ (123,812)</u>	<u>\$ 659,270</u>

Direct expenses related to the events and activities are netted against the events and activities revenue on the statements of activities. Special event contributions and expenses include approximately \$5,000 and \$31,000 for the years ended June 30, 2021 and 2020, respectively, of special events in-kind contributions and in-kind direct donor cost. Total fundraising expenses including the above direct donor costs were approximately \$335,000 and \$313,000 for the years ended June 30, 2021 and June 30, 2020, respectively.

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 12 - Related-party transactions:

The Foundation's volunteer members of the Board of Directors are active in oversight of fundraising events, activities, and in making private contributions. Contributions received from the Board of Directors was approximately \$158,000 and \$134,000 for the years ended June 30, 2021 and 2020, respectively.

Note 13 - Grants:

During the fiscal years ended June 30, 2021 and 2020, the Foundation provided grants to the San Carlos School District in the amount of \$3,003,676 and \$2,408,953, respectively and to the San Carlos Charter Learning Center in the amount of \$466,242 and \$279,956, respectively.

The grants went to provide the following for the year ended June 30:

	<u>2021</u>	<u>2020</u>
Technology	\$ 763,363	\$ 470,098
Smaller class sizes (K-3)	540,000	421,800
Hybrid learning support & PPE	394,975	-
Electives/Seminars	385,000	288,632
Counseling & Social Emotional Programs	320,950	405,300
SCC Educators and Programs	308,100	216,897
Grants directly to school sites (flex funds)	300,000	250,000
Elementary Music/PE	221,000	270,597
Fund-a-need	155,740	-
SCC joint-ask	80,790	-
Library and literacy programs	-	270,000
Field trips and milestones	-	73,000
Innovation fund grants for teachers	-	22,585
Total grants	<u>\$ 3,469,918</u>	<u>\$ 2,688,909</u>

SAN CARLOS EDUCATION FOUNDATION

Notes to Financial Statements

June 30, 2021

Note 14 - In-kind contributions:

In-kind contributions consisted of the following at June 30:

In-kind facilities - In-kind facilities donation is composed entirely of the facilities in the school district, where the Foundation has agreements with the school district that the Foundation will record the rental expense that has been incurred as an in-kind facilities donation. In-kind facilities donation of \$10,800 was recognized for the years ended June 30, 2021 and 2020, respectively.

In-kind materials and services - The Foundation receives significant amounts of in-kind materials for donations and auction items from parents and businesses. The donor will typically provide the Foundation with an estimate of the fair value; the Foundation will start the value of an auction item at a deemed reduced value of what the donor typically estimates for each donation. In-kind materials and services contributions of approximately \$7,000 and \$38,000 was recognized for the years ended June 30, 2021 and 2020, respectively.

In-kind fundraising support - Whereas many Foundations utilize the services of paid staff and contracted services, the Foundation relies heavily on a broad base of dedicated and experienced volunteers to support the Foundation's varied programs and general operational needs. Without this help, the Foundation would not be able to sustain the depth of services to the community that it is currently able to provide. These services do not meet the criteria for recognition in the financial statements as donated services. However, management estimates that in fiscal years 2021 and 2020, various volunteers donated in excess of 200 and 500 hours of service to the Foundation, respectively. If these services were recognized in the financial statements, they would represent an additional estimated donation of \$10,000 and \$16,000 for fiscal years 2021 and 2020, respectively, effectively reducing the ratio of administration / development expenses to program expenses. In addition, approximately 20% of the Foundation's volunteers do not report their volunteer time. If these hours were included in the above totals, the contributed time would be even more significant.

Note 15 - Contingency:

Covid-19 - In March 2020, the World Health Organization declared that the spread of the coronavirus disease ("Covid-19") had become a pandemic. Further knowledge on Covid-19 and the availability of vaccines have subsequently improved the situation, but the overall long-term impact of the pandemic is still uncertain. The extent of the impact of Covid-19 on the Foundation's operational and financial performance will depend on a variety of factors, including the duration and spread of the pandemic. As of the date of independent auditors' report, the extent to which Covid-19 may affect the Foundation's financial condition or results of operations is uncertain.