

San Luis Coastal Education Foundation

Financial Statements

Year Ended June 30, 2020

**San Luis Coastal Education Foundation
Financial Statements
Year Ended June 30, 2020**

Table of Contents

	Page
Independent Auditors' Report	3-4
Statement of Financial Position	5
Statement of Activities	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9-16



Independent Auditors' Report

To the Board of Directors of
San Luis Coastal Education Foundation
San Luis Obispo, California

We have audited the accompanying financial statements of San Luis Coastal Education Foundation (a nonprofit organization) which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, 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 of 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 auditors' 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.

SAN LUIS OBISPO

1150 Palm Street
San Luis Obispo, CA 93401
p 805 544 1441
f 805 544 4351

PASO ROBLES

102 South Vine Street, Ste. A
Paso Robles, CA 93446
p 805 237 3995
f 805 239 9332

SANTA MARIA

2222 South Broadway, Ste. A
Santa Maria, CA 93454
p 805 922 4010
f 805 922 4286

**Board of Directors of
San Luis Coastal Education Foundation
Page 2**

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Luis Coastal Education Foundation as of June 30, 2020, 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.

Glenn Burdette Attest Corporation

Glenn Burdette Attest Corporation
San Luis Obispo, California

November 3, 2020

San Luis Coastal Education Foundation
Statement of Financial Position
June 30, 2020

Assets

Current assets:

Cash	\$ 1,215,025
------	--------------

Noncurrent assets:

SB 1090 receivable	5,500,000
--------------------	-----------

Quasi-endowment investments	4,490,794
-----------------------------	-----------

Total other assets	<u>9,990,794</u>
--------------------	------------------

Total assets	<u><u>\$ 11,205,819</u></u>
--------------	-----------------------------

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 60,243
------------------	-----------

Accrued liabilities	15,238
---------------------	--------

Total current liabilities	<u>75,481</u>
---------------------------	---------------

Net assets:

Without donor restrictions:

Undesignated	5,564,718
--------------	-----------

Board designated for quasi-endowment	4,490,794
--------------------------------------	-----------

Total without donor restrictions	<u>10,055,512</u>
----------------------------------	-------------------

With donor restrictions

	1,074,826
--	-----------

Total net assets	<u>11,130,338</u>
------------------	-------------------

Total liabilities and net assets	<u><u>\$ 11,205,819</u></u>
----------------------------------	-----------------------------

The accompanying notes are an integral part of these financial statements.

San Luis Coastal Education Foundation
Statement of Activities
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support:			
Contributions	\$ 127,848	\$ 1,298,300	\$ 1,426,148
SB 1090 revenue	10,000,000		10,000,000
In-kind contributions	169,786		169,786
Investment income, net	66,953		66,953
Net assets released from restrictions	223,474	(223,474)	-
Total support	10,588,061	1,074,826	11,662,887
Expenses:			
Program services	365,896		365,896
Supporting services:			
Management and general	84,239		84,239
Fundraising	83,278		83,278
Total expenses	533,413		533,413
Net depreciation (realized and unrealized)	75,896		75,896
Change in net assets	9,978,752	1,074,826	11,053,578
Net assets - beginning of year	76,760		76,760
Net assets - end of year	\$ 10,055,512	\$ 1,074,826	\$ 11,130,338

The accompanying notes are an integral part of these financial statements.

San Luis Coastal Education Foundation
Statement of Functional Expenses
Year Ended June 30, 2020

	<u>Program Services</u>			<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
	<u>iINNOVATE</u>	<u>Learning Grants</u>	<u>School Closure Impact</u>			
Advertising	\$	\$	\$	\$	1,607	\$ 1,607
Audit and tax				12,000		12,000
Contract labor	80,946					80,946
Grant expense		107,802	51,000			158,802
Insurance				1,973		1,973
Internship fees					2,598	2,598
Legal fees				1,398		1,398
Meals	191				463	654
Occupancy	327			655	655	1,637
Online transaction fees					2,343	2,343
Other expense				953		953
Personnel expense	33,630			67,260	67,259	168,149
Printing and publications					5,701	5,701
Software					2,652	2,652
Supplies	19,054					19,054
Technology	72,474					72,474
Travel and conferences	472					472
	<u>\$ 207,094</u>	<u>\$ 107,802</u>	<u>\$ 51,000</u>	<u>\$ 84,239</u>	<u>\$ 83,278</u>	<u>\$ 533,413</u>

The accompanying notes are an integral part of these financial statements.

San Luis Coastal Education Foundation
Statement of Cash Flows
Year Ended June 30, 2020

Cash flows from operating activities:		
Change in net assets		\$ 11,053,578
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized loss on investments	\$ 75,896	
Changes in operating assets and liabilities:		
SB 1090 receivable	(5,500,000)	
Accounts payable	59,404	
Accrued liabilities	15,238	
Net cash provided by operating activities	5,704,116	5,704,116
Cash flows from investing activities:		
Purchase of investments and reinvestment of net investment earnings	(5,470,388)	
Proceeds from sale of investments	903,698	
Net cash used in investing activities	(4,566,690)	(4,566,690)
Net increase in cash		1,137,426
Cash - beginning of year		77,599
Cash - end of year		\$ 1,215,025

The accompanying notes are an integral part of these financial statements.

San Luis Coastal Education Foundation
Notes to Financial Statements
June 30, 2020

Note 1: Nature of Business

The San Luis Coastal Education Foundation (the Organization) was established in 2019 in San Luis Obispo, California, and is a nonprofit organization incorporated for charitable purposes as permitted under section 501(c)(3) of the Internal Revenue Code. The mission of the Organization is to provide resources and opportunities for excellence in teaching, promote innovation in learning and partner with the community to enhance the quality of education for all students of the San Luis Coastal Unified School District (the District). The Organization derives the majority of its revenues from contributions and grants.

Note 2: Summary of Significant Accounting Policies

Cash and Cash Equivalents and Restricted Cash

For purposes of the statement of cash flow, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. As of June 30, 2020, the Company had no cash equivalents or restricted cash.

Accounts Receivable and Allowance for Doubtful Accounts

It is the policy of management to review the outstanding grants, accounts and contributions receivable at year-end, as well as historical bad debt write-offs and aging analysis, and establish an allowance for doubtful accounts for estimated uncollectible amounts. At June 30, 2020, management believed that no allowance for doubtful accounts was necessary for accounts receivable.

Investments and Quasi-Endowment Investments

The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment gain or loss is reported in the statement of activities and may include interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Funds received by the Organization as the result of the passage of Senate Bill 1090 (SB 1090) are maintained in a Quasi-Endowment Fund. This board-designated fund has been established to protect the resources and provide stewardship funds for various programs and operating expenses that enable the Organization to fulfill its mission long term. These funds included \$4,490,794 in net assets without donor restrictions. Investment fees for this fund were \$10,877 for the year ended June 30, 2020.

San Luis Coastal Education Foundation

Notes to Financial Statements

June 30, 2020

Page 2

Note 2: Summary of Significant Accounting Policies (Continued)

The quasi-endowment is managed as follows:

Return Objectives and Risk Parameters:

The Organization has adopted investment and spending policies for quasi-endowment assets that attempt to maintain a prudent balance between preservation of capital and long-term growth as well as sufficient liquidity to provide for periodic disbursements to support the objectives of the quasi-endowment. The investment objectives call for a philosophy which avoids extreme positions or opportunistic styles.

Strategies Employed for Achieving Objectives:

To satisfy its long-term rate-of-return objectives, the Organization 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 Organization targets a diversified asset allocation that balances a greater emphasis on equity-based investments to achieve its long-term rate-of-return objectives within prudent risk constraints along with an allocation to fixed income to provide certainty of return and tempering of volatility.

Spending Policy and How the Investment Objectives Relate to Spending Policy:

The Organization has a policy of appropriating for distribution each year not more than an amount equal to the prior year's growth, after adjusting for inflation as defined in the bylaws of the Organization. There were no distributions for the year ended June 30, 2020.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, assets totaling \$4,490,794 to be maintained in a quasi-endowment fund.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

San Luis Coastal Education Foundation

Notes to Financial Statements

June 30, 2020

Page 3

Note 2: Summary of Significant Accounting Policies (Continued)

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue and Revenue Recognition

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. There were no conditional promises to give at June 30, 2020.

Change in Accounting Principle

The Organization has adopted Accounting Standards Update (ASU) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*, ASU No. 2014-09 *Revenue Recognition from Contracts with Customers* and subsequent amendments, and ASU No. 2016-01 *Recognition and Measurement of Financial Assets and Financial Liabilities* and related guidance, as management believes the standards improve the usefulness and understandability of the Organization's financial reporting.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction, and has been determined not to be a private foundation. Annually, the Organization files a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, it is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purposes. Management has determined the Organization is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Advertising and Promotion Costs

Advertising and promotion costs are expensed as incurred and were \$1,607 during the year ended June 30, 2020.

San Luis Coastal Education Foundation

Notes to Financial Statements

June 30, 2020

Page 4

Note 2: Summary of Significant Accounting Policies (Continued)

Donated Materials and Services

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Organization records donated professional services at the respective fair values of the services received.

The personnel costs of the Organization, which currently consist of the Executive Director are paid by San Luis Coastal Unified School District, who also provides office space, utilities and equipment to the Organization. This contribution consists of \$168,149 in personnel related costs and \$1,637 for occupancy related costs for the year ended June 30, 2020 and are included in the statement of activities as in-kind contributions.

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 and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. At June 30, 2020, cash in excess of insured amounts was \$945,633. To date, the Organization has not experienced losses in any of these accounts.

Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and the size of the accounts receivable balances. Investments are made by diversified investment managers whose performance is monitored by management and the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Organization and the board believe that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

San Luis Coastal Education Foundation

Notes to Financial Statements

June 30, 2020

Page 5

Note 2: Summary of Significant Accounting Policies (Continued)

Functional Allocations of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. Based upon management estimates, costs have been allocated between program services and supporting services, including fundraising, as they relate to those functions. The expenses that are allocated include personnel and occupancy expense which are allocated on the basis of estimates of time and effort.

Fair Value Measurements

The Organization records its financial assets and liabilities at fair value in accordance with the Fair Value Measurements and Disclosures Topic of FASB ASC (the Topic). The Topic provides a framework for measuring fair value, clarifies the definition of fair value and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The Topic also establishes a three-tier hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

This hierarchy requires the Organization to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

San Luis Coastal Education Foundation

Notes to Financial Statements

June 30, 2020

Page 6

Note 2: Summary of Significant Accounting Policies (Continued)

Equity and tangible assets: Equity and tangible assets are recorded at fair value based upon quoted market prices using Level 1 inputs.

Bonds: Bonds are primarily municipal and other government bonds that are recorded at based upon quoted market prices for similar assets in inactive markets using Level 2 inputs.

At June 30, 2020, the following sets forth by level, within the fair value hierarchy, the Organization’s quasi-endowment investments at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money market funds pending investment	\$ 515,829	\$	\$	\$ 515,829
Mutual funds				
Bonds		1,629,970		1,629,970
Equity	2,213,317			2,213,317
Tangible assets	<u>131,678</u>			<u>131,678</u>
Total assets at fair value	<u>\$ 2,860,824</u>	<u>\$ 1,629,970</u>	<u>\$ -</u>	<u>\$ 4,490,794</u>

Note 3: Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash	\$ 1,215,025
Less: net assets with purpose restrictions	<u>(1,074,826)</u>
	<u>\$ 140,199</u>

The Organization is committed to investing in the long-term success of the San Luis Coastal Unified School District. To do so, management believes the investment strategy must balance the Organization’s need to invest in near term program initiatives while ensuring the long-term stability of the Foundation. As part of management’s liquidity management plan, cash in excess of daily requirements is maintained in cash and savings accounts.

As shown on the statement of financial position, the board has designated a portion of their net assets with donor restrictions as a quasi-endowment. See Note 4.

San Luis Coastal Education Foundation

Notes to Financial Statements

June 30, 2020

Page 7

Note 4: Investments and Quasi-Endowment Investments

At June 30, 2020, quasi-endowment investments were carried at fair value and consisted of the following:

Cash and money market funds pending investment	\$ 515,829
Mutual funds	
Bonds	1,629,970
Equity	2,213,317
Tangible asset	<u>131,678</u>
Total quasi-endowment investments	<u>\$ 4,490,794</u>

The SB 1090 Quasi-Endowment Fund was established by the Board and is currently invested in cash, and bond and equity mutual funds. The funds are intended to be used for a variety of activities related to stewardship funds for various programs and the operational costs of the Organization and are included in net assets without donor restriction. The portfolio emphasizes safety and income, with a secondary goal of capital growth. Short term losses are acceptable in return for a degree of long-term growth. The portfolio is primarily invested in mutual funds, but may be adjusted based on long-term trends in the market.

For the year ended June 30, 2020, changes in quasi-endowment net assets were as follows:

Quasi-endowment net assets - beginning of year	\$
Investment Return:	
Investment income, net of fees	66,690
Net depreciation (realized and unrealized)	<u>(75,896)</u>
Total investment return	(9,206)
Contributions	<u>4,500,000</u>
Quasi-endowment net assets - end of year	<u>\$ 4,490,794</u>

Note 5: Designations and Restrictions on Net Assets

At June 30, 2020, the Organization had the following net assets with donor restrictions:

Purpose restrictions:	
iINNOVATE	\$ 1,027,311
Andrea Blanco Legacy Fund	1,938
School Closure Impact Fund	<u>45,577</u>
	<u>\$ 1,074,826</u>

San Luis Coastal Education Foundation

Notes to Financial Statements

June 30, 2020

Page 8

Note 6: Related Party Transactions

The Organization received a contribution of salary and benefits, office space, utilities, and equipment from a related party. See Note 2.

Note 7: COVID-19 Pandemic

The Organization has been impacted by the recent COVID-19 pandemic. Due to the uncertainty surrounding the pandemic, the length and severity of the outbreak, and the volatility in the world investment markets, there is uncertainty as to how these events will affect results of operations and investment returns going forward.

Note 8: Subsequent Events

Events subsequent to June 30, 2020 have been evaluated through November 3, 2020, which is the date the financial statements were available to be issued. Management did not identify any subsequent events requiring disclosure.