

# SOLANA BEACH SCHOOLS FOUNDATION

AUDIT REPORT  
JUNE 30, 2016

San Diego

Los Angeles

San Francisco  
Bay Area

christy  white  
A PROFESSIONAL  
ACCOUNTANCY CORPORATION *associates*

**SOLANA BEACH SCHOOLS FOUNDATION**  
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**JUNE 30, 2016**

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## FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

Governance Board  
Solana Beach Schools Foundation  
Solana Beach, California

We have audited the accompanying financial statements of Solana Beach Schools Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, 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.

### Auditor's 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 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.

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Solana Beach Schools Foundation as of June 30, 2016, 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 Solana Beach Schools Foundation's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Christy White Associates*

San Diego, California  
December 13, 2016

**SOLANA BEACH SCHOOLS FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2016**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)**

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	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 278,368	\$ 210,337
Marketable securities	68,079	66,901
Beneficial interest in endowment	<u>107,103</u>	<u>106,179</u>
<b>Total Assets</b>	<u>\$ 453,550</u>	<u>\$ 383,417</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Contributions payable	\$ 112,031	\$ 104,262
Accounts payable	<u>10,319</u>	<u>-</u>
Total liabilities	<u>122,350</u>	<u>104,262</u>
Net assets		
Unrestricted	(341,784)	(221,799)
Temporarily restricted	565,881	394,775
Permanently restricted	<u>107,103</u>	<u>106,179</u>
Total net assets	<u>331,200</u>	<u>279,155</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 453,550</u>	<u>\$ 383,417</u>

The notes to the financial statements are an integral part of this statement.

**SOLANA BEACH SCHOOLS FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)**

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>SUPPORT AND REVENUES</b>					
Contributions	1,445	\$ 710,130	\$ 6,361	\$ 717,936	\$ 748,405
Special events, net of direct benefit to donors (\$23,265)	-	283,015	-	283,015	272,755
Net investment earnings (losses)	2,643	5,398	(5,437)	2,604	5,923
Net assets released from restrictions					
Donor restrictions satisfied	827,437	(827,437)	-	-	-
<b>Total Support and Revenues</b>	<b>831,525</b>	<b>171,106</b>	<b>924</b>	<b>1,003,555</b>	<b>1,027,083</b>
<b>EXPENSES</b>					
Program services					
Educational support	856,120	-	-	856,120	878,594
Supporting services					
Management and general	53,589	-	-	53,589	57,045
Fundraising activities	41,801	-	-	41,801	46,144
<b>Total Expenses</b>	<b>951,510</b>	<b>-</b>	<b>-</b>	<b>951,510</b>	<b>981,783</b>
<b>CHANGE IN NET ASSETS</b>	<b>(119,985)</b>	<b>171,106</b>	<b>924</b>	<b>52,045</b>	<b>45,300</b>
<b>Net Assets - Beginning</b>	<b>(221,799)</b>	<b>394,775</b>	<b>106,179</b>	<b>279,155</b>	<b>233,855</b>
<b>Net Assets - Ending</b>	<b>\$ (341,784)</b>	<b>\$ 565,881</b>	<b>\$ 107,103</b>	<b>\$ 331,200</b>	<b>\$ 279,155</b>

The notes to the financial statements are an integral part of this statement.

**SOLANA BEACH SCHOOLS FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)**

EXPENSES	2016				2015
	Program	Management	Fundraising	Total	Total
	Services	and General			
Personnel expenses					
Salaries and wages	\$ 24,868	\$ 29,318	\$ 2,852	\$ 57,038	\$ 52,088
Employee benefits	1,759	2,075	202	4,036	4,091
Payroll taxes, etc.	2,056	2,424	236	4,716	4,376
Total personnel expenses	28,683	33,817	3,290	65,790	60,555
Direct expenses					
Educational support to Solana Beach School District	765,806	-	-	765,806	798,619
Program support	61,631	-	-	61,631	53,573
Professional fees	-	1,300	-	1,300	1,250
Marketing	-	-	5,040	5,040	10,944
Office expenses	-	1,492	-	1,492	3,362
Information technology	-	4,850	-	4,850	7,684
Fees and licenses	-	809	-	809	3,132
Occupancy	-	600	-	600	600
Conferences and meetings	-	859	-	859	1,132
Fundraising	-	4,843	33,471	38,314	37,375
Insurance	-	4,676	-	4,676	2,994
Miscellaneous	-	343	-	343	563
Total direct expenses	827,437	19,772	38,511	885,720	921,228
<b>Total Expenses</b>	<b>\$ 856,120</b>	<b>\$ 53,589</b>	<b>\$ 41,801</b>	<b>\$ 951,510</b>	<b>\$ 981,783</b>

The notes to the financial statements are an integral part of this statement.



**SOLANA BEACH SCHOOLS FOUNDATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)**

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	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 52,045	\$ 45,300
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Net investment (earnings) losses	(924)	(23,300)
Increase (decrease) in operating liabilities		
Contributions payable	7,769	(94,087)
Accounts payable	10,319	-
<b>Net cash provided by (used in) operating activities</b>	<u>68,031</u>	<u>(72,087)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	68,031	(72,087)
<b>Cash and cash equivalents - Beginning</b>	<u>210,337</u>	<u>349,325</u>
<b>Cash and cash equivalents - Ending</b>	<u>\$ 278,368</u>	<u>\$ 277,238</u>

The notes to the financial statements are an integral part of this statement.

**SOLANA BEACH SCHOOLS FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

Solana Beach Schools Foundation (the “Foundation”), located in San Diego County, was formed as a nonprofit public benefit corporation in April 1999. The Foundation is organized with the purpose of providing benefits to the educational programs and services of the Solana Beach School District (the “District”).

The Foundation’s primary sources of income are public donations through the annual fund drive as well as net income and contributions from various annual fundraising events.

**B. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures, such as depreciation expense and the net book value of capital assets. Accordingly, actual results could differ from those estimates.

**C. Functional Expenses**

The costs of providing services have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Certain costs and expenditures have been allocated between program and supporting services based on management’s estimates.

**D. Basis of Accounting**

The Foundation’s policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenues are recognized when earned rather than when cash is received and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

**E. Comparative Totals**

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 Foundation’s financial statements for the year ended June 30, 2016 from which the summarized information was derived.

**SOLANA BEACH SCHOOLS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Financial Statement Presentation**

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include all resources available for use by the Board of Directors and management's discretion in carrying out the activities of the Foundation in accordance with its Bylaws. Temporarily or permanently restricted net assets are only expendable for the purposes specified by the donor or through the passage of time. 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. Permanently restricted net assets are generally required to be held by the Foundation in perpetuity while the earnings on those assets are available for use by the Foundation to support its activities. Donors can place restrictions on the earnings from permanently restricted contributions at the time the contributions are made or pledged.

**G. Contributions**

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

Non-cash contributions of goods, materials, and facilities are recorded at fair value at the date of contribution. Contributed services are recorded at fair value at the date of contribution if they are used to create or enhance a non-financial asset or require specialized skills, are provided by someone possessing those skills, and would have to be purchased by the Foundation if not donated.

**H. Income Taxes**

The Foundation is a 509(a)(1) publicly supported nonprofit organization that is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private organization. The Foundation is also exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code and is registered with the California Attorney General as a charity.

Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Foundation did not have any net unrelated business income for the year ended June 30, 2016. It is management's belief that the Foundation does not hold any uncertain tax positions that would materially impact the financial statements. The Foundation's information and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

**SOLANA BEACH SCHOOLS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**I. Capital Assets**

The Foundation has not adopted a policy to capitalize significant asset purchases in conformance with generally accepted accounting principles because the Foundation does not own, nor does it have plans to acquire property or equipment.

**J. Deferred Revenue**

Deferred revenue arises when potential revenue does not meet the criteria for recognition in the current period and when resources are received by the Foundation prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the Foundation has a legal claim to the resources, the liability for deferred revenue is removed from the statement of financial position and revenue is recognized.

**K. Cash and Cash Equivalents**

The Foundation considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents.

**L. Marketable Securities**

The Foundation determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held to maturity when the Foundation has the positive intent and ability to hold the securities to maturity. Debt securities for which the Foundation does not have the intent or ability to hold to maturity are classified as available for sale. Held-to-maturity securities are recorded as either short term or long term on the Balance Sheet, based on contractual maturity date and are stated at amortized cost. Marketable securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings. Debt and marketable equity securities not classified as held to maturity or as trading, are classified as available for sale, and are carried at fair market value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in shareholders' equity.

The fair value of substantially all securities is determined by quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market.

**M. Investments**

The Foundation's method of accounting for investments is the fair value method. Fair value is determined by published quotes when they are readily available. Adjustments to fair values are included in the accompanying statement of financial position and statement of activities.

SOLANA BEACH SCHOOLS FOUNDATION  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2016

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NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

N. Fair Value Measurements

The Fair Value Measurements Topic of the FASB *Accounting Standards Codification* establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1     Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
  
- Level 2     Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
  
- Level 3     Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

NOTE 2 – CASH AND EQUIVALENTS

Cash and cash equivalents as of June 30, 2016, consists of the following amounts:

Cash in checking	\$	37,078
Cash in money market/savings		241,290
Total cash and cash equivalents	\$	<u>278,368</u>

Cash in Banks – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. The Foundation does not have a policy for custodial credit risk for deposits. The FDIC insures 100% of balances in non-interest bearing accounts and up to \$250,000 per depositor in interest bearing accounts per insured bank. As of June 30, 2016, \$21,715 of the Foundation's cash balance with First Citizens Bank was exposed to custodial credit risk.

**SOLANA BEACH SCHOOLS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

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**NOTE 3 – MARKETABLE SECURITIES**

Marketable securities as of June 30, 2016, consist of the following amounts:

	Amortized Cost	Unrealized		Fair Value
		Gains		
Exchange-traded fund (ETF)	\$ 66,520	\$ 1,559	\$	68,079
Total available-for-sale securities	\$ 66,520	\$ 1,559	\$	68,079

The Foundation currently holds marketable securities in the SPDR S&P 500 ETF Trust, which is classified as an available-for-sale security. The securities are part of a trust that is currently managed by State Street Global Advisors. The amortized cost of these securities is \$66,520 with prior year unrealized gains of \$381, as it was purchased on February 4, 2015. Unrealized gains for the year ended June 30, 2016 were \$1,178. The estimated fair value of the Foundation’s position in this ETF at June 30, 2016 is \$68,079. See Note 5 for fair value measurement classification.

**NOTE 4 – ENDOWMENT**

In 2001 the Foundation entered into an irrevocable split interest agreement to create the Solana Beach Foundation for Learning Endowment Fund (the “Fund”) at Rancho Santa Fe Foundation. Transfers to the fund are treated as irrevocable gifts to Rancho Santa Fe Foundation for the benefit of Solana Beach Schools Foundation.

The Fund is invested, in conjunction with a pool of other funds, in a well-diversified asset mix. The Board of Directors of Rancho Santa Fe Foundation has the power to adopt investment policies and strategies for the Fund. The Board of Directors of Solana Beach Schools Foundation only has the authority to authorize distribution of up to 5% of the Fund’s value at January 1<sup>st</sup> of each year. A distribution was taken in the amount of \$5,398 during the year ended June 30, 2016.

The Board of Directors of Solana Beach Schools Foundation interprets the Uniform Prudent Management of Institutional Funds Act (UPMIFA), enacted by the State of California in 2009, as requiring the preservation of fair value of the original gift, as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. In relation to the Fund, this interpretation extends to the Board designated transfers because of the irrevocable nature of the transfers. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the value of gifts donated to the permanent endowment as of the date of donation, (b) the value of Board designated transfers to the Fund as of the date of designation, and (b) accumulations of earnings and net investment appreciation in the Fund less allowable distributions taken. The distributions are classified as unrestricted or temporarily restricted investment income in conformance with generally accepted accounting principles.

**SOLANA BEACH SCHOOLS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

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**NOTE 4 – ENDOWMENT (continued)**

Changes in endowment fund balance by net asset classification are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Balance - June 30, 2015	\$ -	106,179	\$ 106,179
Contributions	-	6,361	6,361
Dividend and interest income	2,471	-	2,471
Net app(depr)eciation in investments, net of fees	2,927	(5,437)	(2,510)
Appropriated for expenditure	(5,398)	-	(5,398)
Balance - June 30, 2016	<u>\$ -</u>	<u>\$ 107,103</u>	<u>\$ 107,103</u>

**NOTE 5 – FAIR VALUE MEASUREMENT**

Fair values of assets measured on a recurring basis at June 30, 2016 are as follows:

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Marketable securities	\$ 68,079	\$ 68,079	\$ 68,079	\$ -	\$ -
Beneficial interest in endowment	107,103	107,103	-	-	107,103
<b>Total</b>	<u>\$ 175,182</u>	<u>\$ 175,182</u>	<u>\$ 68,079</u>	<u>\$ -</u>	<u>\$ 107,103</u>

The Foundation classifies its agreement with the Rancho Santa Fe Foundation (see Note 4) as an irrevocable split interest agreement and the fund at Rancho Santa Fe Foundation as perpetual trust held by an unrelated third party. The Foundation’s beneficial interest in endowment is required to be measured on a recurring basis at fair value. Generally accepted accounting principles indicate that fair value of the beneficial interest can be approximated by the fair value of the fund upon which the Foundation has an irrevocable beneficial interest, unless specific circumstances indicate otherwise. The Foundation’s Board of Directors believes that no such circumstances exist. Measurement of the Foundations beneficial interest in the fund is a Level 3 measurement within the fair value hierarchy because even though that measurement is based on the unadjusted fair value of assets held at Rancho Santa Fe Foundation, the Foundation will never receive those assets or have the ability to direct Rancho Santa Fe Foundation to redeem them.

**NOTE 6 – DONATED MATERIALS AND SERVICES**

The Foundation accepts donated goods and materials, primarily for fundraising purposes. These donations are not recorded in the financial statements.

During the year, many parents, administrators and other individuals donated significant amounts of time and services to the Foundation in an effort to advance the programs and objectives of the Foundation. These services have not been recorded in the financial statements of the Foundation because they do not meet the criteria required by generally accepted accounting principles.

**SOLANA BEACH SCHOOLS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

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**NOTE 7 – RELATED PARTY TRANSACTIONS**

The Foundation's stated mission is to support Solana Beach School District; therefore, transactions between the Foundation and the District and the involvement of District personnel and parents of students attending schools in the District are expected. During the year ended June 30, 2016, the Foundation contributed \$765,806 to the District in support of its educational programs. In addition, the Foundation provided \$61,631 in program support for school activities. The District also provides office space to some employees of the foundation at an amount of \$600 per year.

**NOTE 8 – CONTRIBUTIONS PAYABLE**

The contributions payable balance as of June 30, 2016 was \$112,031 and consisted of the balance owed as a contribution to the Solana Beach School District.

**NOTE 9 – SUBSEQUENT EVENTS**

The Foundation has evaluated subsequent events for the period from June 30, 2016 through December 13, 2016, the date the financial statements were available to be issued. Management did not identify any transactions that require disclosure or that would have an impact on the financial statements.