

# OAKLAND PUBLIC EDUCATION FUND

JUNE 30, 2018



INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# Oakland Public Education Fund

## Independent Auditors' Report and Financial Statements

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A Century Strong

## **Independent Auditors' Report**

THE BOARD OF DIRECTORS  
OAKLAND PUBLIC EDUCATION FUND  
Oakland, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **OAKLAND PUBLIC EDUCATION FUND (the Ed Fund)**, which comprise the statement of financial position as of June 30, 2018, 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 Ed Fund'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 Ed Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oakland Public Education Fund as of June 30, 2018 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.

*Hood & Strong LLP*

San Francisco, California  
September 19, 2019

# Oakland Public Education Fund

## Statement of Financial Position

<i>June 30, 2018</i>	2018
<b>Assets</b>	
Cash and cash equivalents	\$ 21,285,911
Grants and pledges receivable	1,650,866
Contracts receivable	1,045,084
Short-term investments	2,910,550
Prepaid expenses and other assets	488,911
<b>Total Assets</b>	<b>\$ 27,381,322</b>
<b>Liabilities and Net Assets</b>	
Accounts payable and accrued expenses	\$ 743,514
Accrued wages and related costs	178,826
Grants payable	7,739,767
<b>Total liabilities</b>	<b>8,662,107</b>
<b>Net Assets:</b>	
Unrestricted:	
Undesignated	1,871,674
Board designated - operating reserve	417,000
<b>Total unrestricted</b>	<b>2,288,674</b>
Temporarily restricted	16,430,541
<b>Total net assets</b>	<b>18,719,215</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 27,381,322</b>

See accompanying notes to financial statements.

# Oakland Public Education Fund

## Statement of Activities and Changes in Net Assets

*Year Ended June 30, 2018*

	Unrestricted	Temporarily Restricted	2018 Total
<b>Support and Revenue:</b>			
Contributions and grants	\$ 1,835,003	\$ 25,039,448	\$ 26,874,451
Fiscal sponsor projects	2,248,805		2,248,805
Program revenue	371,474		371,474
Government contracts	128,803		128,803
Special events (net of direct expenses of \$316,208 for 2018)	326,559		326,559
Investment income, net	136,089	(29,450)	106,639
Other income	891	5,046	5,937
Net assets released from restrictions	21,723,799	(21,723,799)	-
<b>Total support and revenue</b>	<b>26,771,423</b>	<b>3,291,245</b>	<b>30,062,668</b>
<b>Expenses:</b>			
Program services	25,143,443		25,143,443
Management and general	433,122		433,122
Fundraising	375,882		375,882
<b>Total expenses</b>	<b>25,952,447</b>	<b>-</b>	<b>25,952,447</b>
<b>Change in Net Assets</b>	<b>818,976</b>	<b>3,291,245</b>	<b>4,110,221</b>
<b>Net Assets, beginning of year</b>			
as previously stated	4,136,714	10,472,280	14,608,994
Reclassification of net assets (Note 10)	(2,667,016)	2,667,016	-
<b>Net Assets, beginning of year as restated</b>	<b>1,469,698</b>	<b>13,139,296</b>	<b>14,608,994</b>
<b>Net Assets, end of year</b>	<b>\$ 2,288,674</b>	<b>\$ 16,430,541</b>	<b>\$ 18,719,215</b>

See accompanying notes to financial statements.

# Oakland Public Education Fund

## Statement of Functional Expenses

*Year Ended June 30, 2018*

	<u>Program Services</u>			Management and General	Fundraising	2018 Total
	Program	Projects	Total			
Salaries	\$ 283,607	\$ 5,323,798	\$ 5,607,405	\$ 111,768	\$ 211,977	\$ 5,931,150
Benefits	14,679	279,864	294,543	6,516	15,842	316,901
Payroll taxes	21,898	470,360	492,258	8,685	16,367	517,310
<b>Total personnel costs</b>	<b>320,184</b>	<b>6,074,022</b>	<b>6,394,206</b>	<b>126,969</b>	<b>244,186</b>	<b>6,765,361</b>
Grants		12,052,741	12,052,741			12,052,741
Contract and professional services	525	3,751,357	3,751,882	117,338	39,062	3,908,282
Advertising		25,900	25,900	6,246		32,146
Supplies and communication	320,352	1,092,703	1,413,055	102,741	66,525	1,582,321
Rent and occupancy	6,912	229,805	236,717	3,530	6,045	246,292
Travel and meetings	1,120	195,368	196,488	1,258		197,746
Bank and payroll fees		1,994	1,994	23,998		25,992
Dues and subscriptions	17,555	301,630	319,185	28,083	19,772	367,040
Equipment and maintenance	560	62,975	63,535	6,338	292	70,165
Software licenses		16,370	16,370	7,308		23,678
Staff development		330,817	330,817	7,016		337,833
Stipends		336,580	336,580			336,580
Other		3,973	3,973	2,297		6,270
<b>Total Expenses</b>	<b>\$ 667,208</b>	<b>\$ 24,476,235</b>	<b>\$ 25,143,443</b>	<b>\$ 433,122</b>	<b>\$ 375,882</b>	<b>\$ 25,952,447</b>

See accompanying notes to financial statements.

# Oakland Public Education Fund

## Statement of Cash Flows

*Year Ended June 30, 2018*

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**Operating Activities:**

Cash flows provided by operating activities	
Changes in net assets	\$ 4,110,221
Adjustment to reconcile changes in net assets to net cash provided by operating activities:	
Realized and unrealized loss on investments	34,458
Pledge receivable transferred to spun-off fiscal project	
Changes in operating assets and liabilities	
Grants and pledges receivable	1,525,459
Contracts receivable	(24,659)
Prepaid expenses and other assets	(379,964)
Accounts payable and accrued expenses	191,667
Accrued wages and related costs	(21,599)
Grants payable	5,181,907

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Net cash provided by operating activities	10,617,490
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**Cash Flows from Investing Activities:**

Purchase of investments	(2,975,008)
Proceeds from sale of investments	30,000

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Net cash used by investing activities	(2,945,008)
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<b>Net Change in Cash and Cash Equivalents</b>	7,672,482
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<b>Cash and Cash Equivalents, beginning of year</b>	13,613,429
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<b>Cash and Cash Equivalents, end of year</b>	\$ 21,285,911
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See accompanying notes to financial statements.



# Oakland Public Education Fund

## Notes to Financial Statement

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### Note 1 - Organization:

Oakland Public Education Fund (the Ed Fund) is a California nonprofit public benefit corporation. The Ed Fund secures and manages resources for schools while helping those schools develop their own capacity to create the best learning environments for their students. The Ed Fund works with schools that strive to be results oriented, to develop entrepreneurial leadership, and to cultivate collaboration and family leadership, and to focus on student personalization and innovative curriculum. The Ed Fund is also a fiscal sponsor for a range of projects with the Oakland public schools, Oakland Unified School District, and education-focused projects.

The Ed Fund is primarily funded through grants, contributions, and fees generated from its fiscal sponsor contracts.

### Note 2 - Significant Accounting Policies:

#### a. Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The financial statements have been presented on the basis of unrestricted, temporarily restricted and permanently restricted net assets predicated upon the existence of donor-imposed restrictions. The Ed Fund does not have any permanently restricted net assets.

#### *Unrestricted Net Assets*

Unrestricted net assets represent the portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations. The Board has designated funds of approximately \$417,000 for future operating expenses.

#### *Temporarily Restricted Net Assets*

Temporarily restricted net assets represent the portion of net assets, the use of which by the Ed Fund is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Ed Fund.

#### b. Revenue Recognition

Contributions and grants are recognized at their fair value when the donor/grantor makes an unconditional promise to give to the Ed Fund. Fiscal sponsor project and program revenues are recognized when earned. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as temporarily restricted.

# Oakland Public Education Fund

## Notes to Financial Statement

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The satisfaction of a donor-imposed restriction on a contribution is recognized when the corresponding expenditures are incurred or when the time restriction expires. Such transactions are recorded as net assets released from restriction on the Statement of Activities and Changes in Net Assets.

Unconditional grants and pledges receivable which are scheduled to be received after one year are discounted at rates commensurate with the risks involved. Amortization of the discount is recorded with contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. Conditional promises to give are not included as support until the conditions are substantially met.

c. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Ed Fund considers all money market funds and other highly liquid investments with original maturities of three months or less when purchased to be cash and cash equivalents.

d. Grants, Pledges and Contracts Receivable

Grants, contributions, and accounts receivable are stated at the amount management expects to collect from outstanding balances. The Ed Fund considers all grants, pledges and contracts receivable to be fully collectible at June 30, 2018. The Ed Fund uses the allowance method to determine uncollectible receivables. The allowance is based on prior years' experience and management's analysis of specific promises made.

e. Investments

Investments are reported at fair value. Funds held by East Bay Community Foundation (the Foundation) for which the Ed Fund is the beneficiary are accounted for under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-605, *Transfer of Assets to a Not-for-Profit Organization* and are valued at the net asset value per share as reported by the Foundation. The net asset value per share is determined by the Foundation under the so-called "practical expedient." The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met.

Gains and losses are recognized in the Statement of Activities and Change in Net Assets in the period such fluctuations occur. Dividend and interest income are accrued when earned.

# Oakland Public Education Fund

## Notes to Financial Statement

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f. Fair Value Measurements

The Ed Fund carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Ed Fund classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 - Observable inputs other than quoted market prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

g. Grants

Unconditional grants awarded are accrued as a liability and expensed when approved. Grant cancellations or unspent funds are recorded in the year cancelled or the funds are returned. Total grants payable as of June 30, 2018 was \$7,739,767 of which all is expected to be paid in 2019.

h. Fiscal Sponsorship Projects

The Ed Fund provides fiscal sponsorship and organizational services to approximately 99 projects. All the financial activity of fiscal sponsored projects is aggregated for financial statement purposes. The fiscal sponsorship projects are legally a part of the Ed Fund and all of their employees are employees of the Ed Fund. From time to time, projects will obtain their own 501(c)(3) status and are "spun-off" as separate organizations.

i. Functional Allocation of Expenses

Program expenses include the expenses of various Ed Fund projects. The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

j. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

# Oakland Public Education Fund

## Notes to Financial Statement

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### k. Income Taxes

The Ed Fund has been determined to be exempt from federal and state income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

The Ed Fund follows the guidance on accounting for uncertainty in income taxes issued by FASB ASC Topic 740. As of June 30, 2018, management evaluated the Ed Fund's tax positions and concluded that the Ed Fund had maintained its tax-exempt status and had taken no uncertain tax positions that required adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

### l. Accounting Pronouncements Under Consideration

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. The Ed Fund has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In February 2016, the FASB issued amendments to ASU 2016-02 - *Leases*. Among other things, lessees will be required to recognize the following for all leases (with exception of short-term leases) at the commencement date: 1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Ed Fund is currently evaluating the guidance and the effect that the updated standard will have on its financial statements.

In August 2016, the FASB issued ASU 2016-04 *Not-for-Profit Entities* (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this update are designed to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. Amendments should be applied on a retrospective basis in the year the update is first applied. The Ed Fund is currently evaluating the impact of this pronouncement on its financial statements.

# Oakland Public Education Fund

## Notes to Financial Statement

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m. Subsequent Events

The Ed Fund evaluated subsequent events with respect to the financial statements for the year ended June 30, 2018 through September 19, 2019, the date these financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure, except as disclosed in Note 11.

**Note 3 - Grants and Pledges Receivable:**

Grants and pledges receivable of \$1,650,866 consists primarily of commitments made by individuals and foundations. Grants and pledges receivables are expected to be collected in 2019.

The Ed Fund has received thirteen conditional grants for fiscal projects which require the Ed Fund to comply with additional reporting requirements and other metrics that must be met prior to receiving additional payments. The Ed Fund earned and received payments of \$6,401,250 under these grants during 2018.

If the Ed Fund complies with all requirements, payments will be recorded in the fiscal year the condition is met and are expected to be earned as follows:

Due in less than one year	\$ 10,236,250
Due in one to four years	3,020,000
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	\$ 13,256,250
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# Oakland Public Education Fund

## Notes to Financial Statement

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### Note 4 - Investments and Fair Value Measurements:

At December 31, 2018, investments consist of the following:

Investment held by East Bay Community Foundation:	
Long-term investment pool	\$ 2,910,550
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Total	\$ 2,910,550

Investment income, net is comprised of the following:

Interest and dividends	\$ 148,233
Realized and unrealized loss	(34,458)
Investment fees	(7,136)
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Total	\$ 106,639

The investments held by East Bay Community Foundation (the Foundation) are valued using the net asset value per share (or its equivalent) practical expedient and therefore have not been classified in the fair value hierarchy. The Ed Fund has no other investments required to be classified in the fair value hierarchy.

#### *Net Asset Value Disclosure:*

The Ed Fund uses the Net Asset Value (NAV) as a practical expedient to determine the fair value of all the underlying investments which do not have readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The Ed fund invests in the Long-Term Core Diversified Pool (the Pool) which is structured to prioritize long-term growth over capital preservation. The Pool is a diversified portfolio composed of global stocks and bonds, including real estate (REITs), natural resources, and alternatives, including hedge funds and private equity. The Pool utilizes a combination of active and passive investment managers. Expected annual fees are estimated to range from 0.60% to 0.80% per year. The Pool is redeemable with no term restrictions.

# Oakland Public Education Fund

## Notes to Financial Statement

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**Note 5 - Revocable Fund:**

A fund was established by an outside donor in 2018 for \$10,000,000 under the administration of the San Francisco Foundation to support the mission and activities of Oakland Promise, a fiscally sponsored project of the Ed Fund. The Oakland Promise Fund is invested in the San Francisco Foundation's long-term pool with a balance of approximately \$10,211,000 at June 30, 2018. The San Francisco Foundation has variance power and has the ability to modify any restrictions or conditions on the distribution of funds and distributions are subject to the San Francisco Foundation's approval. Due to the structure of the Oakland Promise Fund it is not recorded by the Ed Fund as an asset or contribution. During 2018, there were no distributions from the Oakland Promise Fund.

**Note 6 - Temporarily Restricted Net Assets:**

As of June 30, 2018, temporarily restricted net assets were available for the following purposes:

Projects	\$ 16,263,667
Other	166,874
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Total	\$ 16,430,541

During 2018, net assets were released from donor restriction by incurring expenses satisfying the restrictions specified by donors as follows:

Projects	\$ 21,639,447
Other	84,352
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Total	\$ 21,723,799

# Oakland Public Education Fund

## Notes to Financial Statement

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### Note 7 - Commitments and Contingencies:

#### a. Operating Leases

The Ed Fund entered into lease agreements for its headquarters and office equipment. The approximate future minimum lease payments related to these leases are as follows:

Year Ended June 30,	
2019	\$ 148,000
2020	116,000
2021	87,000
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	\$ 351,000

Total rent and occupancy expense for the year ended June 30, 2018 was \$246,292.

#### b. Contingencies

Grant awards required the fulfillment of certain conditions as set forth in the grant agreement. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Ed Fund's management is of the opinion that it has complied with the terms of all grants.

### Note 8 - Pension Plans:

The Ed Fund sponsors a 401(k) profit sharing plan (the Plan) that covers all employees who meet certain eligibility requirements. The Plan is funded by employee contributions and the Ed Fund does not match or make discretionary contributions into the Plan.

### Note 9 - Concentrations of Credit Risk:

The Ed Fund has defined its financial instruments, which are potentially subject to credit risk as cash and accounts receivable.

Periodically, throughout the year, the Ed Fund has maintained balances in various operation and money market accounts in excess of federally insured limits. The Ed Fund has not experienced any losses on such accounts.

Grants and contributions receivables consist primarily of unsecured amounts due from foundations and individuals. Approximately 81% of these receivables are due from one donor at June 30, 2018 and 47% of contributions and grant revenue was recognized from four donors for the year ended June 30, 2018.



# Oakland Public Education Fund

## Notes to Financial Statement

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### **Note 10 - Net Asset Reclassification:**

During 2018, the Ed Fund performed an analysis of its fund balance accounts to ensure that the presentation and treatment of fiscal sponsorship projects was consistent with its accounting policies. As a result of the Ed Fund's analysis, the Ed Fund determined that certain fiscal sponsoring project fund balances were classified as unrestricted. The unrestricted balances represent the accumulated balances of monies available to the projects that are considered unrestricted for the projects but temporarily restricted for the Ed Fund. The Ed Fund elected to reclassify \$2,667,016 to temporarily restricted due to the funds being related to fiscal sponsorship projects. The reclassification increased temporarily restricted net assets as of July 1, 2017 and had no impact on the changes in net assets for June 30, 2017.

### **Note 11 - Subsequent Events:**

The Ed Fund and Oakland Promise have entered into an Exit- Project Transfer Agreement (the Agreement), dated July 1, 2019. The agreement requires the Ed Fund to assign, transfer, convey, grant and deliver to Oakland Promise any and all of the Ed Fund's rights, title, and interest in the Project Assets. Oakland Promise assumes and agrees to pay, perform, and discharge when due, all of the Project liabilities. The Agreement also requires transfers of ownership in the investment account held by East Bay Community Foundation (Note 4) and the revocable funds held by the San Francisco Foundation (Note 5).

Funds transfer will take place within 60 days following the July 1, 2019 agreement date. As indicated in the Fiscally Sponsored Project Agreement, the Ed Fund will hold 10% of the fund balance based on the Project Assets dated August 31, 2019.

On September 11, 2019, the Ed Fund wired \$4,317,016 to Oakland Promise.