

THE SAN BRUNO COMMUNITY FOUNDATION

Financial Statements
and
Report of Independent Auditors

For the year ended June 30, 2017
with comparative totals as of and for the year ended June 30, 2016

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Report of Independent Auditors

To the Board of Directors of
The San Bruno Community Foundation:

Report on the Financial Statements

We have audited the accompanying financial statements of The San Bruno Community Foundation, a California nonprofit corporation, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and changes in net assets, 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 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 auditors consider 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The San Bruno Community Foundation as of June 30, 2017, 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 Bruno Community Foundation's financial statements for the year ended June 30, 2016, and our report dated October 25, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Novogradac & Company LLP

San Rafael, California
October 23, 2017

THE SAN BRUNO COMMUNITY FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2017
with comparative totals as of June 30, 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 260,457	\$ 299,609
Investments	71,900,879	69,987,770
Accounts receivable	-	1
Interest receivable	42,632	58,621
Prepaid expenses	8,709	7,664
Deposits	<u>1,335</u>	<u>1,517</u>
 Total assets	 <u>\$ 72,214,012</u>	 <u>\$ 70,355,182</u>

LIABILITIES

Accounts payable	\$ 23,445	\$ 22,566
Accrued scholarships	140,000	80,000
Accrued grants payable	<u>497,562</u>	<u>55,000</u>
Total liabilities	661,007	157,566

UNRESTRICTED NET ASSETS

Board designated	16,614,411	15,118,120
Non-designated	<u>54,938,594</u>	<u>55,079,496</u>
Total unrestricted net assets	71,553,005	70,197,616
 Total liabilities and net assets	 <u>\$ 72,214,012</u>	 <u>\$ 70,355,182</u>

see accompanying notes

THE SAN BRUNO COMMUNITY FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended June 30, 2017
with comparative totals for the year ended June 30, 2016

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS		
REVENUE AND OTHER SUPPORT		
Restitution funds	\$ -	\$ 70,052,576
Restricted donations	15,999	-
Interest and dividends	1,557,877	128,131
Net realized / unrealized gain on investments	1,570,791	327,665
Less: investment fees	<u>(201,010)</u>	<u>(7,258)</u>
Total revenue and other support	2,943,657	70,501,114
 EXPENSES		
Program expense	1,445,095	323,710
Management and general	<u>143,173</u>	<u>157,026</u>
Total expenses	<u>1,588,268</u>	<u>480,736</u>
 CHANGE IN NET ASSETS	1,355,389	70,020,378
 NET ASSETS AT BEGINNING OF YEAR	<u>70,197,616</u>	<u>177,238</u>
 NET ASSETS AT END OF YEAR	<u>\$ 71,553,005</u>	<u>\$ 70,197,616</u>

see accompanying notes

THE SAN BRUNO COMMUNITY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2017
with comparative totals for the year ended June 30, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>2016 Total</u>
SALARY AND PAYROLL				
Salaries and wages	\$ 115,409	\$ 62,143	\$ 177,552	\$ 175,000
Payroll taxes and benefits	20,212	10,883	31,095	26,712
Total personnel expenses	<u>135,621</u>	<u>73,026</u>	<u>208,647</u>	<u>201,712</u>
OTHER EXPENSES				
Scholarships	120,000	-	120,000	100,000
Grants	1,121,047	-	1,121,047	55,000
Rent	8,558	4,608	13,166	11,413
Insurance	-	16,510	16,510	16,555
Telecommunications	1,180	636	1,816	1,467
Postage and shipping	1,234	665	1,899	373
Printing and copying	7,254	2,650	9,904	3,160
Office supplies	892	913	1,805	1,369
Office equipment and furniture	129	69	198	2,023
Legal fees	16,860	11,761	28,621	27,766
Accounting and payroll fees	-	27,940	27,940	25,832
Other professional services	32,033	116	32,149	27,267
Travel, meetings and conferences	287	2,876	3,163	5,880
Miscellaneous	-	1,403	1,403	919
Total other expenses	<u>1,309,474</u>	<u>70,147</u>	<u>1,379,621</u>	<u>279,024</u>
TOTAL EXPENSES	<u>\$ 1,445,095</u>	<u>\$ 143,173</u>	<u>\$ 1,588,268</u>	<u>\$ 480,736</u>

see accompanying notes

THE SAN BRUNO COMMUNITY FOUNDATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2017
with comparative totals for the year ended June 30, 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,355,389	\$ 70,020,378
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized/unrealized gain on investments	(1,570,791)	(327,665)
Decrease (increase) in assets:		
Accounts receivable	1	89
Interest receivable	15,989	(58,621)
Prepaid expenses	(1,045)	(290)
Increase in liabilities:		
Accounts payable	879	12,775
Accrued scholarships	60,000	80,000
Accrued grants payable	442,562	55,000
Net cash provided by operating activities	302,984	69,781,666
 CASH FLOWS FROM INVESTING ACTIVITIES		
Withdrawal from deposits	182	3
Purchase of securities	(342,318)	(69,660,105)
Net cash used in investing activities	(342,136)	(69,660,102)
 Net (decrease) increase in cash and cash equivalents	(39,152)	121,564
 Cash and cash equivalents at beginning of year	299,609	178,045
 Cash and cash equivalents at end of year	\$ 260,457	\$ 299,609

see accompanying notes

THE SAN BRUNO COMMUNITY FOUNDATION

Notes to Financial Statements

June 30, 2017

with comparative totals as of and for the year ended June 30, 2016

1. Organization

The San Bruno Community Foundation (the "Foundation"), a California nonprofit corporation, was organized in 2013 as a public benefit 501(c)(3) nonprofit corporation and has been determined to be a Type I supporting organization under Section 509(a)(3) of the Internal Revenue Code ("IRC"). Pursuant to the settlement agreement dated March 12, 2012, between Pacific Gas & Electric Company ("PG&E") and the City of San Bruno (the "City"), both parties agreed to resolve and settle all claims arising out of the September 9, 2010 pipeline incident (the "Settlement Agreement"). The terms required PG&E to contribute a total of \$70 million to the City, which comprised of 1) five vacant plots of land in the Glenview (Crestmoor) neighborhood, which had a total fair market value of \$1,250,000 and 2) \$68,750,000 in cash, to transfer to a tax-exempt, nonprofit public purpose entity. Hence, the Foundation was created from the Settlement Agreement. The Foundation engages primarily in the administration of PG&E restitution funds.

The Foundation's goals serve the San Bruno community by investing in projects, programs, services, and facilities that have significant and lasting benefits. Through making grants, leveraging partnerships, and taking advantage of other resources, the Foundation assists and enables the community to maximize shared investments and realize their subsequent enhancements and benefits.

2. Summary of significant accounting policies

Basis of accounting

The Foundation prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America. The Foundation's year end for tax and financial reporting purposes is June 30.

Basis of 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 represent funds, which are fully available or have been fully reserved, at the discretion of management, to utilize for any of its programs or supporting services. Temporarily restricted net assets are comprised of funds, which are restricted by donors for specific purposes or time periods. Permanently restricted net assets include contributions, which donors have specified must be maintained in perpetuity. As of June 30, 2017 and 2016, the Foundation had no temporarily restricted or permanently restricted net assets.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

THE SAN BRUNO COMMUNITY FOUNDATION

Notes to Financial Statements

June 30, 2017

with comparative totals as of and for the year ended June 30, 2016

2. Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition. As of June 30, 2017 and 2016, cash and cash equivalents consist of the following:

	<u>2017</u>	<u>2016</u>
Cash - operating	\$ 242,753	\$ 44,417
Liquidity fund cash	<u>17,704</u>	<u>255,192</u>
Total cash and cash equivalents	<u>\$ 260,457</u>	<u>\$ 299,609</u>

Concentration of credit risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of temporary cash investments. The Foundation places its temporary cash investments with high credit quality financial institutions and, by policy, limits the amount of credit exposed to any one financial institution. The Foundation has not experienced any losses in such accounts.

Restitution funds recognition

Restitution funds are recognized when the City makes an unconditional promise to give to the Foundation.

In February 2015, the City Council approved transfer of \$491,031 of funds to cover the Foundation's reimbursement to the City of costs incurred in the formation of the Foundation and enough funds to cover what was estimated to be approximately one year of operating expenses. The City has transferred the remaining restitution funds to the Foundation during the year ended June 30, 2016. For the years ended June 30, 2017 and 2016, the Foundation recognized \$0 and \$70,052,576, respectively, as income.

The City held the balance of the restitution funds in two custodial accounts. The first account held the balance of the original \$68,750,000 cash payment the City received in 2012. The second account held the proceeds of the sale of three of the lots that were part of the restitution settlement in the amount of \$1,243,563.

Investments

The Foundation carries investments in various investment pools with readily determinable fair values and all investments are stated at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities and Changes in Net Assets.

Accounts receivable

Management considers receivables to be fully collectible. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

THE SAN BRUNO COMMUNITY FOUNDATION

Notes to Financial Statements

June 30, 2017

with comparative totals as of and for the year ended June 30, 2016

2. Summary of significant accounting policies (continued)

Fair value measurements

The Foundation applies the accounting provisions related to fair value measurements. These provisions define fair value 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, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data. These provisions also provide valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost).

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs other than 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: Unobservable inputs that reflect the Foundation's own assumptions.

The following tables present the Foundation's assets that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 30, 2017 and 2016:

	June 30, 2017			Fair Value Measurements
	Level 1	Level 2	Level 3	
Assets				
Liquidity pool	\$ 70,785	\$ -	\$ -	\$ 70,785
Strategic pool	55,215,683	-	-	55,215,683
Quasi-endowment pool	16,614,411	-	-	16,614,411
Total assets	<u>\$ 71,900,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,900,879</u>

	June 30, 2016			Fair Value Measurements
	Level 1	Level 2	Level 3	
Assets				
Liquidity pool	\$ 1,090,228	\$ -	\$ -	\$ 1,090,228
Strategic pool	53,779,422	-	-	53,779,422
Quasi-endowment pool	15,118,120	-	-	15,118,120
Total assets	<u>\$ 69,987,770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,987,770</u>

THE SAN BRUNO COMMUNITY FOUNDATION

Notes to Financial Statements

June 30, 2017

with comparative totals as of and for the year ended June 30, 2016

2. Summary of significant accounting policies (continued)

Income taxes

The Foundation is a not-for-profit corporation under Section 501(c)(3) of the IRC and Section 23701(d) of the California Revenue and Taxation Code and therefore, is generally exempt from both federal and state income taxes, except on net income derived from unrelated business activities.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Foundation to report information regarding its exposure to various tax positions taken. Management has determined whether any tax positions have met the recognition threshold and has measured its exposure to those tax positions. Management believes that the Foundation has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal tax authorities generally have the right to examine and audit the previous three years of tax returns filed. California tax authorities generally have the right to examine and audit the previous four years of tax returns filed. Any interest or penalties assessed to the Foundation are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Scholarships expense

The Foundation offers three types of scholarships, which are defined as follows:

1. \$5,000 each year for four years, totaling \$20,000, for a high school student to attend a 4-year college.
2. \$2,500 each year for two years, totaling \$5,000, for a high school student to attend a 2-year community college.
3. \$5,000 each year for two years, totaling \$10,000, for a community college student who transfers to a 4-year college.

Members of the San Bruno community are eligible to apply for a scholarship. Scholarships are recognized when they have been awarded. Recipients are required to renew their scholarships for each year by submitting proof of full time enrollment for the following fall and certification of status as a student in good standing, by June 1 of each year. For the years ended June 30, 2017 and 2016, scholarship expense was \$120,000 and \$100,000, respectively. As of June 30, 2017 and 2016, accrued scholarships payable was \$140,000 and \$80,000, respectively.

Grant expense

Grants are recognized when they are approved by the board, all significant conditions are met, all due diligence has been completed, and grant agreements have been executed. Grant refunds are recorded as a reduction of grant expense at the time the Foundation receives or is notified of the refund. For the years ended June 30, 2017 and 2016, grant expense was \$1,121,047 and \$55,000, respectively. As of June 30, 2017 and 2016, accrued grants payable was \$497,562 and \$55,000, respectively.

Functional allocation of expenses

For the years ended June 30, 2017 and 2016, all of the Foundation's expenses are classified as Program or Management, and there were no fundraising activities undertaken in either year. Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by the Foundation's management.

THE SAN BRUNO COMMUNITY FOUNDATION

Notes to Financial Statements

June 30, 2017

with comparative totals as of and for the year ended June 30, 2016

2. Summary of significant accounting policies (continued)

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Subsequent events

Subsequent events have been evaluated through October 23, 2017, which is the date the financial statements were available to be issued. There are no subsequent events requiring disclosure.

3. Investments

Securities are stated at current market value and consist of the following as of June 30, 2017 and 2016:

	<u>Cost</u>	<u>2017 Market Value</u>
Liquidity pool	\$ 70,067	\$ 70,785
Strategic pool	54,759,627	55,215,683
Quasi-endowment pool	<u>15,498,247</u>	<u>16,614,411</u>
Total securities	<u>\$ 70,327,941</u>	<u>\$ 71,900,879</u>

	<u>Cost</u>	<u>2016 Market Value</u>
Liquidity pool	\$ 1,091,101	\$ 1,090,228
Strategic pool	53,479,554	53,779,422
Quasi-endowment pool	<u>15,013,314</u>	<u>15,118,120</u>
Total securities	<u>\$ 69,583,969</u>	<u>\$ 69,987,770</u>

The following schedule summarizes the investment return and its classification in the Statement of Activities and Changes in Net Assets for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 1,557,877	\$ 128,131
Realized gain	401,654	308
Unrealized gain	1,182,734	327,357
Less: investment fees	<u>(201,010)</u>	<u>(7,258)</u>
Total investment returns	<u>\$ 2,927,658</u>	<u>\$ 448,538</u>

THE SAN BRUNO COMMUNITY FOUNDATION

Notes to Financial Statements

June 30, 2017

with comparative totals as of and for the year ended June 30, 2016

4. Office lease

The Foundation entered into an office lease with San Bruno Office Associates, LLC for a term of one year, which expired on March 31, 2016. On March 3, 2016, the Foundation renewed its office lease agreement for a term of one year commencing on April 1, 2016, with monthly payments of \$1,064. On March 3, 2016, the Foundation renewed its office lease agreement for a term of one year commencing on April 1, 2016, with monthly payments of \$1,064. On February 17, 2017, the Foundation renewed its office lease again with an expiration date of March 31, 2023, with monthly payments of \$1,161. The monthly rent increases annually at a rate of 3% on April 1 of each year. For the years ended June 30, 2017 and 2016, office lease payments were \$13,166, and \$11,413, respectively. The Foundation's total minimum rental commitments for the lease for the year ending June 30, are as follows:

2018	\$	14,034
2019		14,468
2020		<u>11,079</u>
Total	\$	<u>39,581</u>

5. Employee benefit plan

Effective January 1, 2015, the Foundation established a tax-deferred annuity plan qualified under Section 403(b) of the IRC for its employees. The Foundation makes non-matching contributions equal to 5% of the gross salary for individual employees. In March 2017, an additional, one-time, non-matching contribution was made. For the years ended June 30, 2017 and 2016, \$17,628 and \$8,750, respectively, was contributed by the Foundation on behalf of its employees.

6. Prior period comparison

The financial statements include certain prior-period summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in accordance 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.