



Financial Statements
June 30, 2019 and 2018

Together with
Independent Auditors' Report

PALO ALTO PARTNERS IN EDUCATION

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June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Palo Alto Partners in Education
Palo Alto, California

We have audited the accompanying financial statements of Palo Alto Partners in Education (a California public benefit corporation, "PiE" or "Organization"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Board of Directors of
Palo Alto Partners in Education
Palo Alto, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Robert Lee + Associates, LLP

San Jose, California
September 25, 2019

PALO ALTO PARTNERS IN EDUCATION
Statements of Financial Position

| | June 30, | |
|--|------------|------------|
| | 2019 | 2018 |
| <u>ASSETS</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 381,502 | \$ 243,940 |
| Prepaid expenses | 21,341 | 19,306 |
| Total assets, all current | \$ 402,843 | \$ 263,246 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 504 | \$ 3,518 |
| Total liabilities, all current | 504 | 3,518 |
| Commitment (Note 10) | | |
| Net assets: | | |
| Without donor restrictions | 394,989 | 259,728 |
| With donor restrictions | 7,350 | - |
| Total net assets | 402,339 | 259,728 |
| Total liabilities and net assets | \$ 402,843 | \$ 263,246 |

The accompanying footnotes are an integral part of these financial statements

PALO ALTO PARTNERS IN EDUCATION
Statements of Activities and Change in Net Assets

| | For the Year Ended June 30, | | |
|-------------------------------|-------------------------------|----------------------------|--------------|
| | 2019 | | |
| | Without donor restrictions | With donor restrictions | Total |
| Support and revenue: | | | |
| Contributions | \$ 6,004,847 | \$ 7,350 | \$ 6,012,197 |
| In-kind revenue | 5,000 | - | 5,000 |
| Investment income | 76,128 | - | 76,128 |
| | 6,085,975 | 7,350 | 6,093,325 |
| Expense: | | | |
| Program services | 5,626,833 | - | 5,626,833 |
| Management and general | 84,992 | - | 84,992 |
| Fundraising | 238,889 | - | 238,889 |
| | 5,950,714 | - | 5,950,714 |
| Change in net assets | 135,261 | 7,350 | 142,611 |
| Net assets, beginning of year | 259,728 | - | 259,728 |
| Net assets, end of year | \$ 394,989 | \$ 7,350 | \$ 402,339 |

The accompanying footnotes are an integral part of these financial statements

PALO ALTO PARTNERS IN EDUCATION
Statements of Activities and Change in Net Assets

| | For the Year Ended June 30, | | |
|---------------------------------------|-------------------------------|----------------------------|--------------|
| | 2018 | | |
| | Without donor restrictions | With donor restrictions | Total |
| Support and revenue: | | | |
| Contributions | \$ 5,790,356 | \$ - | \$ 5,790,356 |
| In-kind revenue | 5,000 | - | 5,000 |
| Investment income | 41,787 | - | 41,787 |
| Net assets released from restrictions | 15,000 | (15,000) | - |
| Total support and revenue | 5,852,143 | (15,000) | 5,837,143 |
| Expense: | | | |
| Program services | 5,876,985 | - | 5,876,985 |
| Management and general | 83,025 | - | 83,025 |
| Fundraising | 230,858 | - | 230,858 |
| Total expenses | 6,190,868 | - | 6,190,868 |
| Change in net assets | (338,725) | (15,000) | (353,725) |
| Net assets, beginning of year | 598,453 | 15,000 | 613,453 |
| Net assets, end of year | \$ 259,728 | \$ - | \$ 259,728 |

The accompanying footnotes are an integral part of these financial statements

PALO ALTO PARTNERS IN EDUCATION
Statements of Functional Expenses

| | For the Year Ended June 30, 2019 | | | |
|---------------------------|----------------------------------|---------------------------|-------------------|---------------------|
| | Program services | Management and general | Fundraising | Total |
| District grants | \$ 5,566,887 | \$ - | \$ - | \$ 5,566,887 |
| Salaries | 45,738 | 45,738 | 91,475 | 182,951 |
| Payroll expenses | 4,437 | 4,437 | 8,874 | 17,748 |
| Bank and merchant fees | - | - | 37,863 | 37,863 |
| Training and development | - | 1,863 | 32,440 | 34,302 |
| Facilities | 7,545 | 7,545 | 15,090 | 30,180 |
| Advertising and promotion | - | - | 27,154 | 27,154 |
| Accounting | - | 16,805 | - | 16,805 |
| Software licenses | - | 2,210 | 9,666 | 11,876 |
| Donor events | - | - | 8,801 | 8,801 |
| Insurance | 1,916 | 1,916 | 3,832 | 7,663 |
| Design and annual report | - | - | 3,075 | 3,075 |
| Rental | - | 2,616 | - | 2,616 |
| Office expenses | 222 | 1,248 | 444 | 1,914 |
| Membership dues and fees | 88 | 534 | 175 | 799 |
| Professional fees | - | 80 | - | 80 |
| | \$ 5,626,833 | \$ 84,992 | \$ 238,889 | \$ 5,950,714 |

The accompanying footnotes are an integral part of these financial statements

PALO ALTO PARTNERS IN EDUCATION
Statements of Functional Expenses

For the Year Ended June 30, 2018

| | <u>Program services</u> | <u>Management and general</u> | <u>Fundraising</u> | <u>Total</u> |
|---------------------------|-----------------------------|-----------------------------------|--------------------|---------------------|
| District grants | \$ 5,819,692 | \$ - | \$ - | \$ 5,819,692 |
| Salaries | 44,355 | 44,355 | 88,709 | 177,419 |
| Payroll expenses | 4,117 | 4,117 | 8,233 | 16,467 |
| Bank and merchant fees | - | - | 44,393 | 44,393 |
| Facilities | 6,520 | 6,632 | 13,040 | 26,192 |
| Advertising and promotion | - | - | 21,855 | 21,855 |
| Training and development | - | 380 | 18,786 | 19,166 |
| Donor events | - | - | 16,548 | 16,548 |
| Accounting | - | 16,477 | - | 16,477 |
| Software licenses | - | 1,296 | 11,576 | 12,872 |
| Insurance | 1,982 | 1,982 | 3,965 | 7,929 |
| Office expenses | 194 | 3,144 | 387 | 3,725 |
| Design and annual report | - | - | 2,860 | 2,860 |
| Rental | - | 2,560 | - | 2,560 |
| Professional fees | - | 1,788 | 257 | 2,045 |
| Membership dues and fees | 125 | 294 | 249 | 668 |
| | <u>\$ 5,876,985</u> | <u>\$ 83,025</u> | <u>\$ 230,858</u> | <u>\$ 6,190,868</u> |

The accompanying footnotes are an integral part of these financial statements

PALO ALTO PARTNERS IN EDUCATION
Statements of Cash Flows

| | For the Year Ended | |
|---|--------------------|--------------|
| | June 30, | |
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Change in net assets | \$ 142,611 | \$ (353,725) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses | (2,035) | (7) |
| Accounts payable and accrued expenses | (3,014) | (17) |
| Net cash provided by (used in) operating activities | 137,562 | (353,749) |
| Net increase (decrease) in cash and cash equivalents | 137,562 | (353,749) |
| Cash and cash equivalents, beginning of year | 243,940 | 597,689 |
| Cash and cash equivalents, end of year | \$ 381,502 | \$ 243,940 |

The accompanying footnotes are an integral part of these financial statements

PALO ALTO PARTNERS IN EDUCATION

Notes to Financial Statements

June 30, 2019

Note 1 - Organization and operations:

Palo Alto Partners in Education ("PiE" or the "Organization") was formed by the merging of Palo Alto Organization for Education ("PAFE") and the All Schools Fund ("ASF") in May of 2005. The Organization is a California non-profit Organization with the mission to raise money from parents and the community to provide all Palo Alto Unified School District (PAUSD) students an educational experience beyond what is possible with public funding. PiE's volunteers, in partnership with parents, schools, and the community, will ensure every student in the Palo Alto Unified School District experiences an enriched and fulfilling education. The Organization's primary sources of income are from contributions in the Palo Alto area.

The Organization has been classified as a publicly supported, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Organization is exempt from California franchise taxes under Revenue and Taxation Code Section 23701(d).

Note 2 - Summary of significant accounting policies:

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

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

- *Without donor restrictions* are available to support all activities without restrictions and include those net assets whose use is not restricted by donors even though their use may be limited in other respects, such as by contract or board designation.
- *With donor restrictions* represent contributions whose use is limited to donor-imposed stipulations that expire by the passage of time or other restrictions and for which the applicable restriction has not been met as of the end of the current reporting period. Net assets with donor restrictions as of June 30, 2019 were \$7,350. There were no net assets with donor restrictions as of June 30, 2018.

Use of estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates included in these financial statements relate primarily to functional expense allocation.

PALO ALTO PARTNERS IN EDUCATION

Notes to Financial Statements

June 30, 2019

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

Revenue recognition - The Organization's revenue recognition policy requires that contributions received, including unconditional promises to give, be recognized as revenue at their fair value in the period the contribution or pledge is received. Contributed support that is restricted by the donor is reported as an increase in net assets with donor restrictions and released from restrictions if the restriction expires in the reporting period in which the support is recognized. When such restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restriction. All other contributed support is recognized as revenue without restrictions when received or un-conditionally promised.

In-kind contributions - Contributed services which require a specialized skill and, which the Organization would have paid for if not contributed, is recorded at their estimated fair market value at the date of receipt. The Organization receives contributed services from a substantial number of volunteers who promote the Organization's programs. While the Board of Directors and Advisory Council members of the Organization possess specialized skills, the value of their services has not been recorded as their skills are provided in their capacity as Board of Directors or Advisory Council members. The value of other contributed volunteer services has not been recognized in the accompanying financial statements because they did not meet the criteria for specialized skill or would not have been paid for if not contributed. The estimated value of advertising space is disclosed in Note 9.

Functional expense allocations - The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated based on estimates of time and other factors among the programs and supporting services benefited. Salaries are allocated to program and supporting services based on estimated percentage of hours worked by employee. The same allocation is applied to insurance, facilities, and other similar accounts. Grant expenses are allocated to program only. All other expenses are directly allocated.

Cash and cash equivalents - Cash and cash equivalents consist of checking and money market funds. For purposes of reporting cash flows, the Organization considers all unrestricted highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

Prepaid expenses - The majority of prepaid expenses consisted of prepaid insurance and subscriptions.

PALO ALTO PARTNERS IN EDUCATION

Notes to Financial Statements

June 30, 2019

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

Property, equipment, depreciation and amortization - Property and equipment are stated at cost. Acquisitions of items in excess of \$2,500 are capitalized. Significant donated items are recorded at estimated fair value at the date of receipt. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets ranging from two to ten years. Expenditures for maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred.

Grants payable - Grants are made in accordance with the Organization's mission. Unconditional grants that are expected to be paid after one year are evaluated at a discount rate as determined by the deferral interest free rate valid for the year that the grant was pledged and are stated at their net present value. Such present value reserves are recorded only if material to the financial statements. Conditional grants are expensed and considered payable in the period the conditions are substantially satisfied. There were no conditional grants or grants payable as of June 30, 2019 and 2018.

Concentration of credit risk - Financial instruments that potentially subject the Organization to credit risk consist primarily of cash and cash equivalents. The Organization maintains cash and cash equivalents with a commercial bank. Cash and cash equivalents are maintained in interest bearing accounts which are fully insured by the Federal Deposit Insurance Corporation ("FDIC").

Fair value of financial instruments - Financial instruments included in the Organization's statements of financial position as of June 30, 2019 and 2018 include cash and cash equivalents and prepaid expenses. For these accounts the carrying amounts approximate their fair value due to their short maturities.

Concentration of expense - The Organization has a concentration in grant expense; 100% of total grant expense was used to support the PAUSD for the years ended June 30, 2019 and 2018.

Accounting for uncertainty in income taxes - The Organization evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of June 30, 2019 and 2018 management did not identify any uncertain tax positions.

PALO ALTO PARTNERS IN EDUCATION

Notes to Financial Statements

June 30, 2019

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

Accounting for uncertainty in income taxes (continued) - The Organization is subject to potential examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction and the State of California. The tax years that remain subject to potential examination for the U.S. federal jurisdiction are the years ended June 30, 2016 and forward. Fiscal tax years ended June 30, 2015 and forward are subject to potential examination by the State of California tax jurisdiction.

Recently adopted accounting pronouncements - During 2018, the Foundation adopted Financial Accounting Standards Board (“FASB”) Accounting Standard Update (“ASU”) No. 2016-14 “Not-for-Profit Entities: Presentation of Financial Statements for Not-for-Profit Entities.” The ASU is intended to improve the net asset classification requirements and the information presented in the financial statements and footnotes about not-for-profit liquidity, financial performance, and cash flows.

Unrestricted net assets of \$259,728 at June 30, 2018 have been classified as net assets without donor restrictions as a direct result of the new ASU.

Recent accounting pronouncements - In June 2018, the FASB issued ASU No. 2018-08 “Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.” The new standard provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction based on whether a resource provider is receiving value in return for the resources transferred. Further, the ASU provides additional guidance to help determine whether a contribution is conditional and better distinguish a donor-imposed condition from a donor-imposed restriction. The effective date of this amendment is for fiscal years beginning after December 15, 2018. Early application is permitted. Management has not determined the impact of this pronouncement.

Subsequent events - Subsequent events are evaluated through the date of the independent auditors' report, which is the date the financial statements were available to be issued and determined that no material subsequent events require an estimate to be recorded or disclosed as of June 30, 2019.

PALO ALTO PARTNERS IN EDUCATION

Notes to Financial Statements

June 30, 2019

Note 3 - Liquidity and availability of financial assets:

Financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were made up solely of cash and cash equivalents of \$381,502 and \$243,940 at June 30, 2019 and 2018, respectively.

The Organization maintains cash in its checking account to meet at least six months of normal operating expenses, which are, on average, under \$200,000. The Board sets the goal for the grant based on the budget and the fundraising goal.

Note 4 - Property and equipment:

Property and equipment stated at cost basis for approximately \$25,000 have been fully depreciated for the years ended June 30, 2019 and 2018.

There was no depreciation and amortization expense for the years ended June 30, 2019 and 2018.

Note 5 - Related-party transactions:

For the years ending June 30, 2019 and 2018, the Organization received approximately \$83,000 and \$95,000 from Board members, management and their affiliated organizations, respectively.

Note 6 - Retirement plan:

The Organization has a 401(k) Profit Sharing Plan (the "Plan") for all employees. Employees who have met certain service and eligibility requirements may participate. Each eligible employee may elect to contribute to the Plan. The Plan does not provide for matching contributions, as defined by the plan agreement.

Note 7 - Net assets with donor restrictions:

Net assets with donor restrictions as of June 30, 2019 consisted of \$7,350 in contributions, which had a less than one year time restriction. There were no net assets with donor restrictions as of June 30, 2018.

Note 8 - Concentration:

For the years ended June 30, 2019 and 2018, 21% and 17% of total contributions were received from one donor, a not-for-profit service provider, respectively.

PALO ALTO PARTNERS IN EDUCATION

Notes to Financial Statements

June 30, 2019

Note 9 - In-kind services:

For the years ended June 30, 2019 and 2018, the Organization received \$5,000 each year for advertising space.

Note 10 - Commitment:

The Organization entered into an annual lease with PAUSD beginning July 2014. Annual rent was approximately \$30,000 and \$26,000 for the years ended June 30, 2019 and 2018, respectively. Included in the rental fees was approximately \$6,000 for administrative services provided by the district. The lease term renews automatically each year with the option for either party to cancel without penalty with a 90 day written notice.

Note 11 - Change in operating reserves:

During the fiscal year 2018, the Board of Directors amended the policy specifying the level of operating reserves from one year of expenses (\$400,000) to instead maintain a designated operating reserve balance of \$200,000 which was determined by the Board of Directors to be an adequate amount to cover the Organization's operating expenses at any point during the fiscal year based on the Organization's current fundraising and cash flow cycle. The released reserves of \$200,000 were included in the grant given to PAUSD in the fiscal year ended June 30, 2018.