



Resource Area for Teaching

Financial Statements

December 31, 2016 and 2015

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Board of Directors
Resource Area for Teaching
San Jose, California

Certified
Public
Accountants



Palo Alto
San Francisco
San Jose
St. Helena

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of The Resource Area for Teaching (d.b.a. Resource Area for Teaching) (the Organization), which comprise the statement of financial position as of December 31, 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.

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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Resource Area for Teaching as of December 31, 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.

Prior Period Financial Statements

The financial statements of Resource Area for Teaching as of and for the year ended December 31, 2015 were audited by other auditors whose report, dated March 30, 2016, expressed an unmodified opinion on those statements.

Frank, Rosenman & Co. LLP

San Jose, California
May 17, 2017

**Resource Area for Teaching
Statements of Financial Position**

	December 31,	
	2016	2015
ASSETS		
Cash and Cash Equivalents	\$ 268,873	\$ 327,528
Accounts Receivable	3,531	13,306
Grants and Pledges Receivable	131,970	151,522
Prepaid Expenses and Other Assets	30,297	66,647
Investments	2,418,573	2,906,709
Inventory	240,136	314,165
Property and Equipment, net	<u>9,782,351</u>	<u>9,984,415</u>
Total assets	<u><u>\$ 12,875,731</u></u>	<u><u>\$ 13,764,292</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 124,194	\$ 175,240
Deferred revenue	<u>144,010</u>	<u>80,935</u>
Total liabilities	<u>268,204</u>	<u>256,175</u>
Contingency (Note 8)		
Net Assets		
Unrestricted	12,196,356	12,872,439
Temporarily restricted	313,793	538,300
Permanently restricted	<u>97,378</u>	<u>97,378</u>
Total net assets	<u>12,607,527</u>	<u>13,508,117</u>
Total liabilities and net assets	<u><u>\$ 12,875,731</u></u>	<u><u>\$ 13,764,292</u></u>

See Notes to Financial Statements

Resource Area for Teaching
Statements of Activities
Years ended December 31, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support								
Contributions and grants	\$ 291,980	\$ 650,495	\$ -	\$ 942,475	\$ 73,430	\$ 1,188,963	\$ -	\$ 1,262,393
Fundraising event, net of expenses of \$57,664 (\$73,631 in 2015)	233,859	-	-	233,859	209,069	-	-	209,069
In-kind contributions	120,958	-	-	120,958	150,648	-	-	150,648
Net realized and unrealized gain (loss) on investments	55,509	2,329	-	57,838	(199,978)	(6,957)	-	(206,935)
Interest and dividends	31,969	1,341	-	33,310	158,595	5,514	-	164,109
Membership dues	169,494	-	-	169,494	186,345	-	-	186,345
Workshop fees	48,642	-	-	48,642	54,119	-	-	54,119
Sales to public, net of direct expenses of \$295,779 (\$307,413 in 2015)	717,912	-	-	717,912	823,239	-	-	823,239
Other income	38,514	-	-	38,514	48,151	-	-	48,151
Net assets released from restrictions	878,672	(878,672)	-	-	1,063,971	(1,063,971)	-	-
Total revenues and other support	2,587,509	(224,507)	-	2,363,002	2,567,589	123,549	-	2,691,138
Expenses								
Program	2,707,522	-	-	2,707,522	2,958,580	-	-	2,958,580
Management and general	154,491	-	-	154,491	190,540	-	-	190,540
Fundraising	401,579	-	-	401,579	403,780	-	-	403,780
Total expenses	3,263,592	-	-	3,263,592	3,552,900	-	-	3,552,900
Change in Net Assets	(676,083)	(224,507)	-	(900,590)	(985,311)	123,549	-	(861,762)
Net Assets, beginning of year	12,872,439	538,300	97,378	13,508,117	13,857,750	414,751	97,378	14,369,879
Net Assets, end of year	\$ 12,196,356	\$ 313,793	\$ 97,378	\$ 12,607,527	\$ 12,872,439	\$ 538,300	\$ 97,378	\$ 13,508,117

See Notes to Financial Statements

Resource Area for Teaching
Statement of Functional Expenses
Year Ended December 31, 2016

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, Payroll Taxes and Benefits	\$ 1,620,351	\$ 78,874	\$ 309,769	\$ 2,008,994
Professional Fees	9,408	27,500	-	36,908
Contract Services	281,024	39,561	28,153	348,738
Supplies	62,219	1,964	2,140	66,323
Communications	27,441	2,265	4,056	33,762
Utilities	104,309	-	-	104,309
Postage and Shipping	386	-	361	747
In-Kind Rent	114,750	-	-	114,750
Occupancy	7,213	-	-	7,213
Dues and Subscriptions	2,565	-	830	3,395
Repairs and Maintenance	114,939	-	14,826	129,765
Truck Expense and Travel	27,764	-	1,204	28,968
Conference and Meetings	2,912	58	358	3,328
Insurance	59,657	1,825	3,775	65,257
Advertising	6,110	-	30,632	36,742
Credit Card and Bank Charges	43,760	-	-	43,760
Depreciation	215,672	1,990	4,566	222,228
Payroll Services	7,042	454	909	8,405
Total expenses	<u>\$ 2,707,522</u>	<u>\$ 154,491</u>	<u>\$ 401,579</u>	<u>\$ 3,263,592</u>
Percent of Total Expenses	<u>83%</u>	<u>5%</u>	<u>12%</u>	<u>100%</u>

See Notes to Financial Statements

Resource Area for Teaching
Statement of Functional Expenses
Year Ended December 31, 2015

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, Payroll Taxes and Benefits	\$ 1,971,224	\$ 89,173	\$ 370,489	\$ 2,430,886
Professional Fees	1,985	39,000	3,850	44,835
Contract Services	184,264	56,246	7,626	248,136
Supplies	103,147	535	4,371	108,053
Communications	31,050	1,863	3,694	36,607
Utilities	106,541	-	-	106,541
Postage and Shipping	75	-	490	565
In-Kind Rent	90,000	-	-	90,000
Occupancy	7,141	-	-	7,141
Dues and Subscriptions	5,524	-	810	6,334
Repairs and Maintenance	100,115	-	5,488	105,603
Truck Expense and Travel	39,532	-	873	40,405
Conference and Meetings	3,983	95	231	4,309
Insurance	58,900	1,480	2,633	63,013
Advertising	3,214	225	175	3,614
Credit Card and Bank Charges	32,550	-	-	32,550
Depreciation	212,853	1,623	2,300	216,776
Payroll Services	6,482	300	750	7,532
Total expenses	<u>\$ 2,958,580</u>	<u>\$ 190,540</u>	<u>\$ 403,780</u>	<u>\$ 3,552,900</u>
Percent of Total Expenses	<u>83%</u>	<u>5%</u>	<u>12%</u>	<u>100%</u>

See Notes to Financial Statements

Resource Area for Teaching
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (900,590)	\$ (861,762)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	222,227	216,776
Net realized and unrealized (gain) loss on investments	(57,838)	206,935
Loss on disposal of property and equipment	675	-
In-kind contributions of equipment	-	(30,000)
Changes in operating assets and liabilities:		
Receivables	29,327	70,868
Prepaid expenses and other assets	36,350	(1,817)
Inventory	74,029	(27,387)
Accounts payable and accrued expenses	(51,046)	(35,124)
Deferred revenue	63,075	9,729
Net cash used in operating activities	<u>(583,791)</u>	<u>(451,782)</u>
Cash Flows from Investing Activities:		
Net proceeds from sale of investments	2,945,974	(28,623)
Purchase of investments	(2,400,000)	(2,545)
Purchase of property and equipment	(20,838)	251,178
Net cash provided by investing activities	<u>525,136</u>	<u>220,010</u>
Net Decrease in Cash and Cash Equivalents	(58,655)	(231,772)
Cash and Cash Equivalents, beginning of year	<u>327,528</u>	<u>559,300</u>
Cash and Cash Equivalents, end of year	<u>\$ 268,873</u>	<u>\$ 327,528</u>

See Notes to Financial Statements

Resource Area for Teaching Notes to Financial Statements

1. Nature of Activities

Resource Area for Teaching (the Organization) is a not-for-profit organization with locations in San Jose, Sunnyvale and Redwood City, California. The Organization's specific and primary purpose is to offer ideas, information and a source of materials diverted from industry's material waste stream to teachers and others who work with children.

The Organization provides a vital connection between the business community and educators so that surplus materials can be reused creatively to enhance children's learning. The Organization also conducts demonstrations and workshops to help educators find ways to use these materials in math, science and art projects.

Program Services

Core Program

The Organization believes that every child deserves a powerful learning experience. The Organization's mission is to help educators transform a child's learning experience through hands-on education to inspire the joy and discovery of learning.

Education Program

The Organization provides hands-on tools and training to educators, helping them engage their students for deeper learning in their classrooms. The Organization's professional learning sessions allow teachers to learn new skills, share best practices and grow as an educational community. In 2016, the Organization hosted 71 professional development workshops for 1,481 participants. The Organization also creates curricula and hands-on learning activities that align with current educational standards and provide educators with affordable options for use in their classrooms to inspire a lifelong love of learning among their students.

Resource Centers and Website

The Organization has two Member Resource Centers, located in Redwood City, California and San Jose, California, where members are able to shop for affordable, pre-packaged learning activities, upcycled bulk materials and additional classroom supplies. The Organization's use of repurposed and donated materials allows the Organization to keep prices low and educators are able to stretch their budgets twice as far. At the Organization's Volunteer Resource Center and Warehouse in Sunnyvale, California, donated materials are sorted and approximately 5,800 community volunteers prep and assemble hands on learning activities annually. The Organization's website and online store offer 24/7 access to the educational resources. In 2016, almost 80,000 educators from 188 countries visited the Organization's free online library of over 750 educational idea sheets.

Resource Area for Teaching

Notes to Financial Statements

1. Nature of Activities (continued)

Material Donations and Upcycling Program

In 2016, the Organization diverted 88,500 cubic feet of useful materials and made them available for members in the Organization's Resource Centers. 231 Bay Area companies worked with the Organization to collect and upcycle materials they no longer need, from office supplies to lab equipment, so that the Organization can repurpose them into hands-on learning materials and so that members can buy them in bulk to create their own learning materials. Since being founded in 1994, The Organization has received 3,116,221 cubic feet of donated materials.

2. Significant Accounting Policies

Basis of Presentation:

The Organization prepares its financial statements on the accrual basis of accounting under accounting principles generally accepted in the United States of America.

Not-for-profit organizations are required to segregate their assets, liabilities and operations into three categories: unrestricted, temporarily restricted, and permanently restricted. Unrestricted assets are those available for use in the general activities of the Organization, without restrictions by donors. Temporarily restricted assets are those whose use is restricted by the donor, based on time or purpose. Generally, these funds will be expended for a specified purpose or over a period of time and are not currently available for general use. Permanently restricted assets are endowment assets restricted by the donor in perpetuity.

There are no permanent donor restrictions on investment income earned on permanently restricted assets. Investment earnings on these funds are recorded as temporarily restricted net assets until appropriated for expenditure by the Board of Directors.

Revenue Recognition:

The Organization recognizes contributions, including promises to give (pledges), in the period the donor makes a promise to give that is, in substance, unconditional. Contributions restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction as to time or use expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Resource Area for Teaching

Notes to Financial Statements

2. Significant Accounting Policies (continued)

In-Kind Support:

The Organization regularly accepts donated merchandise from the general public for resale in its stores. The nature and quality of the merchandise donated varies considerably. The fair value of these donations is not recorded by the Organization until sold or provided for free to teachers.

The Organization receives materials and equipment from the general public for use in its programs. The Organization also benefits from the donated services of a number of professionals in the provision of its services as well as free rent at its Redwood City location. Contributions of services are recognized as revenue and expense if the services received (1) create or enhance non-financial assets or (2) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During 2016, the Organization received \$120,958 of such donated services, items and rent (\$150,648 in 2015), which have been recorded by the Organization at estimated fair value. These amounts are reflected in the accompanying financial statements as in-kind support revenue and are off-set by corresponding amounts of program expenses.

Cash and Cash Equivalents:

For purposes of the statements of cash flows, cash and cash equivalents include all short-term highly liquid investments purchased with maturities of three months or less. Cash equivalents are carried at cost, which approximates fair value. Cash and cash equivalent balances held temporarily with brokerage firms are considered investments.

Concentrations of Credit Risk:

Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and accounts receivable. The Organization maintains its cash and cash equivalents at a commercial bank. The Organization is exposed to credit risk in the event of default by the commercial bank to the extent that cash and cash equivalent balances are in excess of the amounts that are insured by the Federal Deposit Insurance Corporation. Cash balances at this commercial bank exceeded the Federal Deposit Insurance Corporation insurable limit at December 31, 2016 and 2015. Additionally, cash and cash equivalents and investments balances are maintained at one major brokerage firm which exceeded the amount insured by the Securities Investor Protection Corporation at December 31, 2016 and 2015.

The Organization estimates the collectability of its receivables based on the allowance method. Management has determined that an allowance for bad debts is not required.

Resource Area for Teaching
Notes to Financial Statements

2. Significant Accounting Policies (continued)

Inventory:

Purchased inventory is valued at the lower of cost or market and consists primarily of purchased components held for resale or included in kits.

Property and Equipment:

Purchased, donated or constructed assets are recorded at cost. Acquisitions of property and equipment with a cost in excess of \$1,000 are capitalized. Expenditures that increase the life of existing assets are capitalized; however, maintenance and repairs are charged to operations as incurred. Depreciation is provided on a straight-line basis over the following estimated useful lives:

Land improvements	40 years
Buildings and improvements	40 years
Furnishings and equipment	10 years
Computer hardware and software	3 - 5 years

Accounting for Impairment of Long-Lived Assets:

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of their carrying cost amount or fair value less cost to sell. The Organization has not recorded any expenses related to impairment of long-lived assets in 2016 or 2015.

Resource Area for Teaching Notes to Financial Statements

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments:

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07 (ASU 2015-07), *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value (NAV) per share as a practical expedient. ASU 2015-07 is effective for the Organization as of July 1, 2017. Early adoption is permitted. The Organization has elected to early adopt ASU 2015-07 and applied the standard to both periods presented. Early adoption of this guidance resulted in the removal of NAV instruments from Level III in the fair value hierarchy of \$2,359,586 at June 30, 2016 (\$2,847,043 at June 30, 2015).

Advertising Costs:

Advertising costs are expensed as incurred. Advertising expenses were \$4,475 in 2016 (\$2,177 in 2015).

Income Taxes:

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state franchise taxes under Section 23701d of the California Revenue and Taxation Code.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used in accounting for, among other things, allowance for uncollectible accounts, inventory obsolescence, estimated future breakage of deferred revenue, useful lives of property and equipment and long-lived asset impairment. Actual results could differ from those estimates.

The Organization recognizes breakage when the probability of customers redeeming gift cards becomes improbable. The Organization presents deferred revenue net of estimated future breakage. The estimated future breakage is \$28,916 for December 31, 2016 (\$27,668 at December 31, 2015).

Resource Area for Teaching Notes to Financial Statements

2. Significant Accounting Policies (continued)

Risks and Uncertainties:

The Organization invests in various types of investments, which are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term, and that such changes could materially affect the fair value of investments reported in the financial statements.

Fair Value Measurements:

The Organization uses a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. The three-level hierarchy prioritizes within the measurement of fair value, the use of market-based information over entity-specific information. Fair value focuses on an exit price and 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 inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

The three-level hierarchy for fair value measurements is defined as follows:

- Level I:** Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level II:** 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 III:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An investment's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Resource Area for Teaching Notes to Financial Statements

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Effective:

Presentation of Financial Statements:

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard changes the financial reporting requirements for not-for-profit organizations by reducing the number of net asset classes from three to two (“with donor restriction” and “without donor restriction”); requiring expenses to be reported by function and nature; and providing disclosures on the entity’s operating measures and liquidity. ASU 2016-14 is effective for the Organization as of January 1, 2019 and requires a retrospective transition approach for its adoption. The Organization is currently evaluating the impact of ASU 2016-14 on its financial statements and related disclosures.

Revenue Recognition:

In May 2014, the FASB issued Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers to reflect the consideration to which the entity expects to be entitled to in exchange for those goods and services.

The standard will replace most existing revenue recognition guidance generally accepted in the United States of America. ASC Topic 606 is effective for the Organization as of January 1, 2018, and permits the use of either a retrospective or cumulative effect transition method. The Organization has not selected a transition method and is currently evaluating the effect ASC Topic 606 will have on its financial statements and related disclosures.

Reclassifications:

Certain reclassifications have been made to prior year balances to conform with current year presentation. These reclassifications did not affect net assets or change in net assets previously reported

Resource Area for Teaching
Notes to Financial Statements

3. Grants and Pledges Receivable

Grants and pledges receivable consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Education	\$ 106,101	\$ 92,202
Programs and other	<u>25,869</u>	<u>59,320</u>
	<u>\$ 131,970</u>	<u>\$ 151,522</u>

All amounts receivable are expected to be collected in less than one year.

4. Investments

The Organization's investments are as follows at December 31, 2016 under the fair value hierarchy:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Cash equivalents	\$ 65,627	\$ -	\$ -	\$ 65,627
Mutual funds	<u>2,352,946</u>	<u>-</u>	<u>-</u>	<u>2,352,946</u>
Total	<u>\$ 2,418,573</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,418,573</u>

The Organization's investments are as follows at December 31, 2015 under the fair value hierarchy:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Cash equivalents	\$ 10,223	\$ -	\$ -	\$ 10,223
Mutual funds	<u>-</u>	<u>2,896,486</u>	<u>-</u>	<u>2,896,486</u>
Total	<u>\$ 10,223</u>	<u>\$ 2,896,486</u>	<u>\$ -</u>	<u>\$ 2,906,709</u>

Resource Area for Teaching
Notes to Financial Statements

5. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 5,451,240	\$ 5,451,240
Building and improvements	6,170,607	6,170,607
Furniture, equipment and vehicles	<u>603,091</u>	<u>642,092</u>
	12,224,938	12,263,939
Less accumulated depreciation	<u>(2,442,587)</u>	<u>(2,279,524)</u>
	<u>\$ 9,872,351</u>	<u>\$ 9,984,415</u>

6. Income Taxes

The Organization uses the “more likely than not” criterion for recognizing the income tax benefit of its income tax exempt status, and establishing measurement criteria for liabilities resulting from the loss of that status. The Organization believes that all income tax filing positions will be sustained upon examination and, accordingly, has not recorded any accruals for interest and penalties as of December 31, 2016 for uncertain income tax positions. In the event the Organization should need to recognize interest and penalties related to unrecognized tax liabilities, this amount will be recorded as an accrued liability and an increase to income tax expense.

Although the Organization is recognized as tax exempt, it is still liable for income tax on its unrelated business taxable income (UBTI). The Organization does not believe it has UBTI that would have resulted in an income tax liability at December 31, 2016 or 2015.

The Organization’s federal exempt organization business income tax return (Form 990) is subject to examination, generally for three years after it is filed with the Internal Revenue Service. The Organization’s California exempt organization business income tax return is subject to examination, generally for four years after it is filed with the Franchise Tax Board.

Resource Area for Teaching
Notes to Financial Statements

7. Contingency

The Organization's warehouse facility was donated by the Sobrato Foundation in 2007. Under the provisions, the property cannot be sold or encumbered by debt during the ten years after the original contribution.

8. Related Party Transactions

The Organization received contributions from members of the Board of Directors in the amount of \$43,900 in 2016 (\$77,800 in 2015).

9. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes at December 31:

	<u>2016</u>	<u>2015</u>
Education Program	\$ 193,101	\$ 402,302
Core Program	21,950	36,950
Other programs	21,998	25,974
Unappropriated endowment income	<u>76,744</u>	<u>73,074</u>
	<u>\$ 313,793</u>	<u>\$ 538,300</u>

Resource Area for Teaching Notes to Financial Statements

10. Endowment

The Organization's endowment consists of donor restricted endowment funds and accumulated earnings on those funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

The Organization's Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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. As a result of this interpretation, the Organization classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment. The remaining portion of the donor restricted endowment that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. Once appropriated, these amounts are classified as unrestricted net assets.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Organization and the donor restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Organization;
- (7) The Organization's investment policies.

The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that conserve capital and maintain liquidity while at all times maintaining cash or maturing investments to cover expected operating expenses for a six month period. In establishing this policy, the Organization considers the long-term expected return on its investment assets and the nature and duration of the individual endowment funds and relies on a total return strategy in which investment returns are achieved through both capital appreciation, realized and unrealized, and current yield, such as interest and dividends.

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10. Endowment (continued)

Endowment assets are invested in a well-diversified asset mix through the purchase of mutual funds. The targeted asset allocation is: 20 - 40% domestic equity securities; 5 - 20% international equity securities, 40 - 60% fixed income securities; 1-5% specialty investments and 1% cash and cash equivalents. Endowment assets are subject to asset class diversification and limitation guidelines in order to avoid excessive investment concentration and to protect the portfolio against unfavorable outcomes within an asset class.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. The fair value of the endowment net assets exceeded the value of the original donor gift's at December 31 2016 and 2015.

Changes in endowment net assets for the year ended December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 73,074	\$ 97,378	\$ 170,552
Interest and dividends	-	1,341	-	1,341
Net realized and unrealized gain on investments	-	2,329	-	2,329
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 76,744</u>	<u>\$ 97,378</u>	<u>\$ 174,122</u>

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10. Endowment (continued)

Changes in endowment net assets for the year ended December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Restricted</u>	<u>Permanently Total</u>
Endowment net assets, beginning of year	\$ -	\$ 74,517	\$ 97,378	\$ 171,895
Interest and dividends	-	5,514	-	5,514
Net realized and unrealized gain on investments	-	(6,957)	-	(6,957)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 73,074</u>	<u>\$ 97,378</u>	<u>\$ 170,452</u>

Endowment net assets are composed entirely of donor-restricted funds at December 31, 2016 and 2015.

11. Subsequent Events:

Subsequent events have been evaluated through the date of the independent auditors' report, which is the date the financial statements were approved by the Organization and available to be issued.