SAN BRUNO
Community Foundation

Audit Committee
John P. McGlothlin, *Chair* • Patricia Bohm, *Member*
Leslie Hatamiya, *Executive Director*

AGENDA

SAN BRUNO COMMUNITY FOUNDATION

Special Meeting of the Audit Committee

November 3, 2015
2:30 p.m.

Meeting Location:
San Bruno Veterans Memorial Recreation Center,
251 City Park Way, Conference Room #2, San Bruno

In compliance with the Americans with Disabilities Act, individuals requiring reasonable accommodations or appropriate alternative formats for notices, agendas, and records for this meeting should notify us 48 hours prior to meeting. Please call the City Clerk's Office at 650-616-7058.

1. Call to Order

2. Roll Call

4. Conduct of Business

a. Review Report from Novogradac & Company LLP on Audited Financial Statements for Year Ended June 30, 2015

5. Public Comment: Individuals are allowed three minutes, groups in attendance, five minutes. If you are unable to remain at the meeting, contact the President to request that the Board consider your comments earlier. It is the Board's policy to refer matters raised in this forum to staff for research and/or action where appropriate. The Brown Act prohibits the Board from discussing or acting upon any matter not agendized pursuant to State Law.

6. Adjourn

SAN BRUNO
Community Foundation

Memorandum

DATE: November 2, 2015

TO: Audit Committee, San Bruno Community Foundation

FROM: Leslie Hatamiya, Executive Director

SUBJECT: Review of Report from Novogradac and Company LLP on Audited Financial Statements for Year Ended June 30, 2015

Article XIII, Section 4, of the San Bruno Community Foundation's Bylaws states that the Foundation "shall retain an[] independent auditor and conduct annual independent audits (commencing with Section 12586(d) of the California Government Code)." On September 2, 2015, at the recommendation of the Audit Committee, the Board of Directors authorized President Nancy Kraus to execute a contract with Novogradac & Company LLP, a national certified public accounting firm, to conduct an audit of the Foundation's financial statements for the year ended June 30, 2015, and to prepare the Foundation's annual federal and state tax returns.

In mid-September, President Kraus signed a contract with Novogradac for audit and tax preparation services, and Accounting Consultant Frank Bittner and I began working with the Novogradac team headed by engagement partner Lance Smith to complete the audit. From late September through late October, the Novogradac team examined the Foundation's financial records, accounts, business transactions, accounting practices, and internal controls. At the end of October, the Novogradac team produced the attached final audit report, which covers the Foundation's finances from August 5, 2013 (inception) through June 30, 2015.

On October 28, the Novogradac team held an audit-closing conference call with management (represented by Accounting Consultant Frank Bittner and me) and Audit Committee Chair John McGlothlin to discuss the audit report and Mr. Smith's upcoming presentation to the Board. On November 4, at the Board's regularly scheduled meeting, Mr. Smith will present the audited financial statements, review his team's findings with regard to the Foundation's financial records, accounts, business transactions, accounting practices, and internal controls, and field questions from the Board.

On November 3, the Audit Committee will meet to review the audit report and prepare for Mr. Smith's presentation at the Board meeting.

Attachment:

1. The San Bruno Community Foundation Financial Statements and Report of Independent Auditors for the period beginning August 5, 2013, and ending June 30, 2015

THE SAN BRUNO COMMUNITY FOUNDATION

Financial Statements
and
Report of Independent Auditors

For the period beginning July 24, 2013 (inception)
and ending June 30, 2015

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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, 2015, and the related statements of activities and changes in net assets, and cash flows for the period beginning July 24, 2013 (inception) and ending June 30, 2015, 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.

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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, 2015, and the changes in its net assets and its cash flows for the period beginning July 24, 2013 (inception) and ending June 30, 2015, in accordance with accounting principles generally accepted in the United States of America.

Novogradac & Company LLP

San Francisco, California
October 27, 2015

THE SAN BRUNO COMMUNITY FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2015

ASSETS		
Cash and cash equivalents	$	178,045
Accounts receivable		90
Prepaid expenses		7,374
Deposits		1,520
Total assets	$	187,029
LIABILITIES AND NET ASSETS		
Accounts payable	$	9,791
Total liabilities		9,791
Unrestricted net assets		177,238
Total liabilities and net assets	$	187,029

see accompanying notes

THE SAN BRUNO COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the period beginning July 24, 2013 (inception)

and ending June 30, 2015

UNRESTRICTED NET ASSETS		
REVENUE AND OTHER SUPPORT		
Restitution funds	$	491,031
Interest and dividends		18
Total revenue and other support		491,049
EXPENSES		
Program expense		83,995
Management and general		229,816
Total expenses		313,811
CHANGE IN NET ASSETS		177,238
NET ASSETS AT BEGINNING OF PERIOD		-
NET ASSETS AT END OF PERIOD	$	177,238

THE SAN BRUNO COMMUNITY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the period beginning July 24, 2013 (inception)

and ending June 30, 2015

	Program Services	Management and General	Total
SALARY AND PAYROLL			
Salaries and wages	$ 32,813	$ 40,104	$ 72,917
Payroll taxes and benefits	6,903	8,438	15,341
Total personnel expenses	39,716	48,542	88,258
OTHER EXPENSES			
Rent	1,228	1,500	2,728
Insurance	-	24,016	24,016
Telecommunications	766	937	1,703
Postage and shipping	1,296	95	1,391
Printing and copying	4,204	-	4,204
Office supplies	544	359	903
Office equipment and furniture	1,626	1,988	3,614
Organizational costs	-	139,941	139,941
Accounting and payroll fees	-	10,595	10,595
Listening campaign consultants	33,940	-	33,940
Travel, meetings and conferences	675	1,633	2,308
Miscellaneous	-	210	210
Total other expenses	44,279	181,274	225,553
TOTAL EXPENSES	$ 83,995	$ 229,816	$ 313,811

see accompanying notes

THE SAN BRUNO COMMUNITY FOUNDATION
STATEMENT OF CASH FLOWS
For the period beginning July 24, 2013 (inception)
and ending June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	177,238
Adjustments to reconcile change in net assets to		
net cash provided by operating activities:		
Increase in assets:		
Accounts receivable		(90)
Prepaid expenses		(7,374)
Deposits		-
Increase in liabilities:		
Accounts payable		9,791
Net cash provided by operating activities		179,565
CASH FLOWS FROM INVESTING ACTIVITIES		
Funding of deposits		(1,520)
Net cash used in investing activities		(1,520)
Net increase in cash and cash equivalents		178,045
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period	$	178,045

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 require 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 has a total fair market value of $1,250,000 and 2) $68,750,000 in cash, which will be transferred 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, 2015, 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.

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.

2. Summary of significant accounting policies (continued)

Concentration of credit risk
The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash and cash equivalents.

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

For the period beginning July 24, 2013 (inception) and ending June 30, 2015, the Foundation recognized $491,031 as income. This is the amount of restitution funds that the City transferred to the Foundation in February 2015. At that time, the City Council approved transfer 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 a year of operating expenses.

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

For the period beginning July 24, 2013 (inception) and ending June 30, 2015, the Foundation does not believe the remaining restitution funds that the City is currently holding should be recognized as income. The Foundation must meet certain conditions before the City would be willing to authorize the transfer and the Foundation would be willing to accept the funds. The Foundation has not adopted an investment policy and has not retained the services of an investment management firm to manage the funds. The City would not approve transfer of the funds to the Foundation, and the Foundation would not accept the funds, prior to the Foundation successfully taking those actions.

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.

Furniture and equipment
The Foundation capitalizes equipment, furnishings, and leasehold improvements over $5,000 that materially increase asset lives of one year or more. When assets are sold or otherwise disposed of, the costs and related reserves are removed from the accounts and any resulting gain or loss is included in operations.

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.

2. Summary of significant accounting policies (continued)

Income taxes (continued)
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.

Functional allocation of expenses
For the period beginning July 24, 2013 (inception) and ending June 30, 2015, all of the Foundation's expenses are classified as Program or Management, and there were no fundraising activities undertaken in the current fiscal 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.

Organizational costs
Organizational costs are expensed as incurred.

Subsequent events
Subsequent events have been evaluated through October 27, 2015, which is the date the financial statements were available to be issued. There are no subsequent events requiring disclosure.

3. Office lease

The Foundation entered into an office lease with San Bruno Office Associates, LLC for a term of one year that commenced on April 1, 2015, with monthly rent payments of $909. For the period beginning July 24, 2013 (inception) and ending June 30, 2015, office lease payments were $2,728. The Foundation's total minimum rental commitments for the lease for the year ending June 30, 2016 total $8,180.

4. 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. For the period beginning July 24, 2013 (inception) and ending June 30, 2015, $3,646 was contributed by the Foundation on behalf of its employees.

NOVOGRADAC
& COMPANY LLP®
CERTIFIED PUBLIC ACCOUNTANTS

October 27, 2015

To the Audit Committee and Board of Directors of
The San Bruno Community Foundation:

We have audited the financial statements of The San Bruno Community Foundation, (the "Foundation") for the year ended June 30, 2015, and have issued our report thereon dated October 27, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 18, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Foundation are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 27, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Audit Committee, Board of Directors and management of the Foundation and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Novogradac & Company LLP

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