



SCHOLARSHIP FOUNDATION OF SANTA BARBARA

FINANCIAL STATEMENTS

June 30, 2009

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

June 30, 2009

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Independent Auditors' Report

To the Board of Directors
Scholarship Foundation of Santa Barbara
Santa Barbara, California

We have audited the accompanying statement of financial position of the Scholarship Foundation of Santa Barbara (the Foundation), a non-profit organization, as of June 30, 2009 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended June 30, 2008, is presented for comparative purposes only and was extracted from the financial statements for that year, on which an unqualified opinion dated August 28, 2008 was expressed.

We conducted our audit in accordance with generally accepted auditing standards 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Scholarship Foundation of Santa Barbara as of June 30, 2009 and the changes in net assets and cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Stoltey & Associates

September 18, 2009

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

STATEMENT OF FINANCIAL POSITION
June 30, 2009
(With Comparative Totals for June 30, 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
ASSETS					
CURRENT ASSETS					
Cash and equivalents	\$ 2,789,211	\$ 643,574	\$ -	\$ 3,432,785	\$ 3,967,662
Pledges receivable (note 2)	2,109,713	760,000	-	2,869,713	2,164,966
Interest receivable	43,989	-	-	43,989	77,886
Other receivable	323	-	-	323	227
Prepaid expenses	12,552	-	-	12,552	11,552
Total Current Assets	4,955,788	1,403,574	-	6,359,362	6,222,293
INVESTMENTS (NOTE 4)					
Nonmarketable securities	3,736,463	-	-	3,736,463	4,037,980
Marketable securities	-	360,987	18,343,581	18,704,568	25,809,180
Total Investments	3,736,463	360,987	18,343,581	22,441,031	29,847,160
PROPERTY AND EQUIPMENT, NET (NOTE 5)	100,374	-	-	100,374	106,061
OTHER ASSETS					
Pledges receivable - long-term (note 2)	-	760,000	-	760,000	-
Mineral interests, net (note 3)	26,000	-	-	26,000	28,000
Deposits	2,812	-	-	2,812	4,216
Land held for investment	-	-	110,000	110,000	110,000
Contributions receivable from split interest agreements (note 6)	-	587,278	17,573	604,851	637,049
Total Other Assets	28,812	1,347,278	127,573	1,503,663	779,265
Total Assets	\$ 8,821,437	\$ 3,111,839	\$ 18,471,154	\$ 30,404,430	\$ 36,954,779
 LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 60,193	\$ -	\$ -	\$ 60,193	\$ 51,342
Scholarship and student loan awards payable	6,185,930	-	-	6,185,930	7,617,768
Total Current Liabilities	6,246,123	-	-	6,246,123	7,669,110
NET ASSETS					
Unrestricted - Undesignated	2,575,314	-	-	2,575,314	5,180,606
Temporarily restricted (note 7)	-	3,111,839	-	3,111,839	6,136,164
Permanently restricted (note 8)	-	-	18,471,154	18,471,154	17,968,899
Total Net Assets	2,575,314	3,111,839	18,471,154	24,158,307	29,285,669
Total Liabilities and Net Assets	\$ 8,821,437	\$ 3,111,839	\$ 18,471,154	\$ 30,404,430	\$ 36,954,779

The accompanying notes are an integral part of this financial statement

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009
(With Comparative Totals for the Year Ended June 30, 2008)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009 Total</u>	<u>2008 Total</u>
PUBLIC SUPPORT AND REVENUE					
Public Support					
Fundraising events - gross revenue	\$ -	\$ 187,028	\$ -	\$ 187,028	\$ 183,900
Less costs of direct benefits to donors	-	(61,337)	-	(61,337)	(58,459)
Net revenues from fundraising events	-	125,691	-	125,691	125,441
Donations	1,175,966	7,353,994	634,528	9,164,488	7,466,263
Bequests	2,112	-	-	2,112	94,593
Total Public Support	<u>1,178,078</u>	<u>7,479,685</u>	<u>634,528</u>	<u>9,292,291</u>	<u>7,686,297</u>
Revenue					
Administration fees	199,650	-	-	199,650	194,411
Interest and dividends	143,482	343,756	-	487,238	647,956
Realized and unrealized gain (loss) on investments	(2,866,218)	(4,926,535)	-	(7,792,753)	(1,338,424)
Mineral royalties	55,411	-	-	55,411	56,031
Change in value of split interest agreements	-	(22,425)	(9,773)	(32,198)	(23,275)
Total Revenue	<u>(2,467,675)</u>	<u>(4,605,204)</u>	<u>(9,773)</u>	<u>(7,082,652)</u>	<u>(463,301)</u>
Total Public Support and Revenue	<u>(1,289,597)</u>	<u>2,874,481</u>	<u>624,755</u>	<u>2,209,639</u>	<u>7,222,996</u>
Net assets released from restrictions (note 9)	<u>6,021,306</u>	<u>(5,898,806)</u>	<u>(122,500)</u>	<u>-</u>	<u>-</u>
EXPENSES					
Program Expenses:					
Scholarship and loan services	6,708,007	-	-	6,708,007	8,038,971
Outreach and financial aid services	92,327	-	-	92,327	93,420
Total Program Services	<u>6,800,334</u>	<u>-</u>	<u>-</u>	<u>6,800,334</u>	<u>8,132,391</u>
Supporting Services:					
General and administrative	242,635	-	-	242,635	223,195
Fundraising	294,032	-	-	294,032	311,414
Total Supporting Services	<u>536,667</u>	<u>-</u>	<u>-</u>	<u>536,667</u>	<u>534,609</u>
Total Expenses	<u>7,337,001</u>	<u>-</u>	<u>-</u>	<u>7,337,001</u>	<u>8,667,000</u>
Change in Net Assets	<u>(2,605,292)</u>	<u>(3,024,325)</u>	<u>502,255</u>	<u>(5,127,362)</u>	<u>(1,444,004)</u>
Net Assets, beginning of year	5,180,606	6,136,164	17,968,899	29,285,669	30,729,673
Net Assets, ending of year	<u>\$ 2,575,314</u>	<u>\$ 3,111,839</u>	<u>\$ 18,471,154</u>	<u>\$ 24,158,307</u>	<u>\$ 29,285,669</u>

The accompanying notes are an integral part of this financial statement

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2009
(With Comparative Totals for the Year Ended June 30, 2008)

	<u>Program</u>			<u>Supporting Services</u>		<u>2009</u>	<u>2008</u>
	<u>Scholarships and Loans</u>	<u>Outreach & Financial Aid Services</u>	<u>Total</u>	<u>General and Adminstrative</u>	<u>Fund Raising</u>		
Salaries	\$ 328,467	\$ 61,678	\$ 390,145	\$ 154,488	\$ 141,783	\$ 686,416	\$ 633,238
Employee benefits	33,498	4,180	37,678	12,549	11,774	62,001	60,280
Payroll taxes	25,069	4,707	29,776	11,791	10,821	52,388	48,788
Temporary staff	-	-	-	-	-	-	6,967
Professional fees and consulting	-	-	-	8,400	12,600	21,000	21,000
Depreciation and amortization	18,020	2,763	20,783	5,434	4,482	30,699	31,499
Rent	27,092	4,154	31,246	8,169	6,739	46,154	44,818
Telephone and utilities	7,109	1,090	8,199	2,143	1,768	12,110	10,588
Insurance	4,442	681	5,123	1,340	1,105	7,568	7,764
Printing and graphics	8,602	2,277	10,879	1,506	46,312	58,697	64,201
Postage	7,112	1,538	8,650	1,922	8,649	19,221	17,665
Public relations and meetings	579	1,169	1,748	3,847	37,414	43,009	58,020
Supplies	8,311	1,274	9,585	2,506	2,068	14,159	12,041
Repairs and maintenance	22,723	3,484	26,207	6,852	5,652	38,711	32,326
Legal and accounting	-	-	-	15,424	-	15,424	12,073
Education and conferences	2,732	1,873	4,605	3,394	498	8,497	14,682
Scholarships and loans awarded	6,204,734	-	6,204,734	-	-	6,204,734	7,575,840
Miscellaneous	9,517	1,459	10,976	2,870	2,367	16,213	15,210
2009 Total Functional Expenses	\$ 6,708,007	\$ 92,327	\$ 6,800,334	\$ 242,635	\$ 294,032	\$ 7,337,001	
2008 Total Functional Expenses	\$ 8,038,971	\$ 93,420	\$ 8,132,391	\$ 223,195	\$ 311,414		\$ 8,667,000

The accompanying notes are an integral part of this financial statement

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2009

(With Comparative Amounts for the Year Ended June 30, 2008)

	2009	2008
Cash Flows From Operating Activities:		
Change in net assets	\$ (5,127,362)	\$ (1,444,004)
Adjustments to reconcile increase in net assets - unrestricted to cash used for operating activities:		
Depreciation and amortization	30,699	31,499
Realized and unrealized loss (gain) on investments	7,792,753	1,338,424
Loss on disposition of fixed assets	963	-
Contributions permanently restricted	(634,528)	(889,349)
(Gains) losses on split interest agreements	32,198	(7,914)
Decrease/(Increase) in pledges receivable	(1,464,747)	162,503
Decrease/(Increase) in interest and other receivables	33,801	22,429
Decrease/(Increase) in prepaid expenses and deposits	404	(2,330)
(Decrease)/Increase in student loans and scholarships payable	(1,431,838)	1,005,843
(Decrease)/Increase in accounts payable and accrued expenses	8,851	9,373
Net cash from operating activities	(758,806)	226,474
Cash Flows From Investing Activities:		
Purchase of furniture and equipment and leasehold improvements	(23,974)	(1,581)
Proceeds from sale of investments	5,020,494	7,382,089
Purchase of marketable securities	(5,407,119)	(7,940,490)
Net cash from (used by) investing activities	(410,599)	(559,982)
Cash Flows From Financing Activities		
Contributions permanently restricted	634,528	889,349
Net cash from financing activities	634,528	889,349
Net increase in cash and cash equivalents	(534,877)	555,841
Cash and cash equivalents at Beginning of Year	3,967,662	3,411,821
Cash and cash equivalents at Ending of Year	\$ 3,432,785	\$ 3,967,662
Supplemental Disclosure of Cash Flow Information		
Noncash transactions consisted of the following:		
In-Kind donation of contributed services	\$ 13,852	\$ 13,425

The accompanying notes are an integral part of this financial statement

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Scholarship Foundation of Santa Barbara (the Foundation) is a non-profit organization that provides scholarships and loans to graduates of high schools in Santa Barbara County, California. The Foundation also provides free outreach and financial aid counseling as a public service.

Basis of Accounting

The accompanying financial statements of the Foundation have been prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions as follows:

Unrestricted Net Assets

The unrestricted group of net assets represents unrestricted resources available for current support of Foundation activities.

Temporarily Restricted Net Assets

Temporarily restricted net assets include charitable remainder trusts and donations that have been restricted by donors for time or certain purposes, generally awarding student aid. When the restrictions have been met, the funds are fully expendable.

Permanently Restricted Net Assets

Permanently restricted net assets represent endowment funds and charitable remainder trusts which by donor restriction require that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

The Foundation includes in cash equivalents all highly liquid investments that can be readily converted to a known amount of cash. These investments are typically savings and money market accounts from which funds may be withdrawn by check.

Marketable Securities

Marketable securities are recorded at fair market value. Changes in unrealized gains or losses are recorded as a change in the appropriate class of net assets.

Donor Restrictions

The Foundation reports donations of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. The Foundation reports donations of property and equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Donations of long-lived assets with explicit restrictions that specify how the donated assets must be used and donations of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Santa Barbara Foundation Loan Program

The Foundation receives a significant grant from the Santa Barbara Foundation each year that is restricted for funding Santa Barbara Foundation Loan Program loans. The Foundation expends a significant amount of effort and resources in recruiting, screening, evaluating and communicating with applicants for the Santa Barbara Foundation Loan Program. Management has determined the grant constitutes a contribution to the Foundation in accordance with SFAS No. 116 *Accounting for Contributions Received and Contributions Made* and reports the grant as a contribution in the accompanying financial statements. In addition, the Foundation has determined the loan awards made under the loan program meet the definition of an expense as defined by SFAS No. 116. Accordingly, the Foundation reports the amount of loan awards as a program expense in the accompanying financial statements.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

Donated Property and Investments

Donated property and investments are recorded as contributions at their fair market value at date of receipt.

Property and Equipment

The Foundation's investment in equipment and leasehold improvements is stated at cost. Depreciation is calculated using the straight-line method over an estimated useful life of five to ten years. One-half year depreciation is taken in the year of acquisition.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

Scholarships and Student Loans Awarded Payable

The Foundation reports scholarship and student loans awarded payable at the total awards made less the estimated awards that will be rescinded due to changes in the recipient student's situation. The Foundation estimates the amount of rescinded awards using the average of rescissions made in the previous 5 years.

Allocation of Income Between Funds

Income, including gains and losses, earned by permanently restricted net assets is considered expendable for scholarships and is allocated to the temporarily restricted net assets until the scholarships are awarded. The balance of investment income is allocated to the unrestricted net assets.

Income Taxes

The Foundation is a nonprofit organization which is exempt from income taxes under Internal Revenue Code Section number 501(c)(3); therefore, no provision for income taxes is required. The Foundation is not a private foundation for income tax purposes.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

Donated Services

Donated goods and services received by the Foundation are recorded at the estimated fair market value at the time of the donation.

Comparative Amounts

The amounts shown for 2008 in the accompanying financial statements are included to provide a basis for comparison with 2009 and are not intended to present all information necessary for a fair presentation of the 2008 financial statements in conformity with generally accepted accounting principles.

NOTE 2 - PLEDGES RECEIVABLE

Unconditional promises are included in the financial statements as pledges receivable and revenue in the appropriate net asset category. As of June 30, 2009 and 2008 pledges receivable totaled \$3,629,713 and \$2,164,966, respectively. Management believes all receivables are collectible and thus no reserve for doubtful pledges has been established. The pledges receivable as of June 30, 2009 are expected to be collected in the following year:

2010	\$ 2,869,713
2011	<u>760,000</u>
	<u>\$ 3,629,713</u>

NOTE 3 - MINERAL INTERESTS

The Foundation received a bequest of various mineral interests in Oklahoma which is held in trust. The trustee is the First National Bank of Okmulgee. The trust is revocable by the Foundation. The mineral rights are carried in the balance sheet at the estimated fair market value at the date of donation, less depletion. As of June 30, 2009, the cost and accumulated amortization is \$50,000 and \$24,000, respectively.

NOTE 4 - INVESTMENTS

The Foundation's investments include both marketable securities and nonmarketable securities. Marketable securities are presented in the financial statements at fair market value, while nonmarketable securities are presented at estimated market value.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

At June 30, 2009 and 2008, investments consist of the following:

June 30, 2009:

	Cost	Market Value	Excess of Market over Cost
Mutual Funds	\$ 16,098,992	\$ 13,483,384	\$ (2,615,608)
Archstone Offshore, LTD	2,750,000	2,698,142	(51,858)
CommonFund Realty			
Investors	974,571	545,335	(429,236)
CommonFund Distressed			
Investors	581,031	492,986	(88,045)
Bonds	5,248,788	5,221,185	(27,603)
Total	\$ 25,653,382	\$ 22,441,032	\$ (3,212,350)
Unrealized gain at beginning of year			2,885,086
Change in unrealized gain on marketable securities			\$(6,097,436)

June 30, 2008:

	Cost	Market Value	Excess of Market over Cost
Mutual Funds	\$ 17,700,064	\$ 19,953,309	\$ 2,253,245
Archstone Offshore, LTD	2,750,000	3,184,496	434,496
CommonFund Realty			
Investors	628,184	628,184	-
CommonFund Distressed			
Investors	225,300	225,300	-
Bonds	5,658,526	5,855,871	197,345
Total	\$ 26,962,074	\$ 29,847,160	\$ 2,885,086
Unrealized gain at beginning of year			6,554,515
Change in unrealized gain on marketable securities			\$(3,669,429)

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2009 consist of the following major classifications:

	<u>Cost/Basis</u>	<u>Estimated Useful Life</u>
Leasehold improvements	\$ 109,005	5-10 years
Furniture and equipment	<u>175,223</u>	4-5 years
Total cost	284,228	
Less accumulated depreciation	<u>(183,854)</u>	
Net property and equipment	<u>\$ 100,374</u>	

For the year ending June 30, 2008, the Foundation recognized depreciation expense of \$28,699.

NOTE 6 - SPLIT INTEREST AGREEMENTS

The Foundation is the remainderman for seven charitable split interest agreements as of June 30, 2009, that have been established by donors to provide income, generally for life, to designated beneficiaries. The remainder of the trusts will be distributed to the Foundation for the purposes designated in the trust agreements, generally for restricted or endowment purposes. Each year, beneficiaries receive a percentage of the trust's fair market value, limited to the net income or net-income-with-make-up provisions, payable quarterly.

The trusts are separate legal entities, created under the provisions of Section 664 of the Internal Revenue Code, and have a calendar year end as required by the Tax Reform Act of 1986. They are exempt from federal and California income taxes on investment accumulated for future distributions and any net capital gains.

The Foundation does not act as trustee for these trusts, which are included on the financial statements under the caption "contributions receivable from split interest agreements". For financial statement presentation, the interest in these trusts is presented at the net present value of the estimated future benefits to be received when the trust assets are distributed, using a discount rate of 5.4% to 10% based on the terms of the trust agreement. This discount rate is then applied to the estimated future cash flows based on the life expectancy of each trust's income beneficiary.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2009 and 2008 are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Scholarships	\$ 2,349,561	\$ 5,493,461
Outreach and financial aid services	175,000	33,000
Split interest agreements	<u>587,278</u>	<u>609,703</u>
Total	<u>\$ 3,111,839</u>	<u>\$ 6,136,164</u>

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2009 and 2008 are restricted to:

	<u>2009</u>	<u>2008</u>
Investments held in perpetuity, with income and appreciation expendable to support scholarships	\$ 18,453,581	\$ 17,941,553
Split interest agreements	<u>17,573</u>	<u>27,346</u>
Total	<u>\$ 18,471,154</u>	<u>\$ 17,968,899</u>

NOTE 9 - ASSETS RELEASED FROM DONOR RESTRICTIONS

During the year ended June 30, 2009 the Foundation released a total of \$5,898,806 of temporarily restricted net assets and \$122,500 of permanently restricted net assets from donor restrictions by awarding scholarships and loans as specified by donors and fulfilling student aid services. During the year ended June 30, 2008 the Foundation released a total of \$7,108,764 from temporarily restricted net assets by awarding scholarships and loans as specified by donors and fulfilling student aid services.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - LEASE AGREEMENT

The Foundation rents facilities under a lease agreement expiring on April 11, 2011, payable in monthly installments of \$5,260, with increases scheduled annually. A portion of the facility is sub-leased to another non-profit organization. Minimum annual lease payments are as follows for the fiscal years ended June 30:

2010	\$ 63,436
2011	<u>54,180</u>
	<u>\$117,616</u>

NOTE 11 - CONCENTRATIONS

The Foundation maintains cash balances in money market funds. Such funds are not fully insured.

The Foundation maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the year the Foundation had an excess of cash over the insured amount.

The Foundation receives a majority of its donations from sources within Santa Barbara County, California.

NOTE 12 - RETIREMENT PLANS

In December 2002, the Foundation adopted a 457(b) deferred compensation plan with an effective date of January 1, 2003. Eligible employees are designated by name by the Board of Directors and must meet plan qualifications. As of January 2007, there are no participants designated by the Board of Directors. There was no expense for the 457(b) plan for the year ended June 30, 2009.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

NOTE 13 - ASSETS VALUED AT FAIR VALUE

Fair Value Measurements at June 30, 2009 are summarized as follows:

	Quoted Prices In Active Markets For Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Marketable Securities	\$ 18,704,569	\$ -	\$ -
Alternative Investments	-	3,736,463	-
Charitable Remainder Trusts	<u>-</u>	<u>-</u>	<u>604,851</u>
Total	<u>\$ 18,704,569</u>	<u>\$ 3,736,463</u>	<u>\$ 604,851</u>

Changes in Fair Value Measurement Using Significant Observable Inputs are summarized as follows:

	Alternative Investments
Beginning Balance	\$ 4,037,980
Purchases	728,300
Total Gains(Losses) Included In Changes in Net Assets	<u>(1,029,817)</u>
Ending Balance	<u>\$ 3,736,463</u>
The Amount of Total Losses For The Period Included In Changes In Net Assets Still Held At June 30, 2009	<u>\$ (1,029,817)</u>

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

Changes in Fair Value Measurement Using Significant Unobservable Inputs are summarized as follows:

	Charitable Remainder Trusts
Beginning Balance	\$ 637,049
Total Gains(Losses) Included	
In Changes in Net Assets	<u>(32,198)</u>
Ending Balance	<u>\$ 604,851</u>
The Amount of Total Losses For The Period Included In Changes In Net Assets Still Held At June 30, 2009	<u>\$ (32,198)</u>

NOTE 14 -ENDOWMENT

The Foundation's endowment consists of approximately 140 individual funds established to fund scholarship awards. Its endowment consists of donor-restricted endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted in California as requiring the preservation of the 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 Foundation 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 fund. The remaining portion of the donor-restricted endowment fund 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 Foundation in a manner consistent with the standard of prudent prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation 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 Foundation
- (7) The investment policies of the Foundation.

Funds with Deficiencies

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 UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$854,716 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred during the year ending June 30, 2009.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for scholarship awards supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity mutual funds investments to achieve its long-term objectives within prudent risk constraints.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

**Endowment Net Asset Composition by Type of Fund
As of June 30, 2009**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ (854,716)</u>	<u>\$ 381,024</u>	<u>\$ 18,471,154</u>	<u>\$17,997,462</u>

**Changes in Endowment
Net Assets for the Year
Ended June 30, 2009**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 4,960,932	\$ 17,968,899	\$22,929,831
Investment return:				
Investment income	-	343,756	-	343,756
Net depreciation (realized and unrealized)	<u>(854,716)</u>	<u>(4,926,535)</u>	<u>-</u>	<u>(5,781,251)</u>
Total investment return	(854,716)	(4,582,779)	-	(5,437,495)
Contributions	-	2,250	634,528	636,778
Appropriation of endowment assets for expenditures	-	(97,170)	-	(97,170)
Other changes:				
Prior year appropriations returned to funds *	-	97,791	-	97,791
Change in value, split interest agreements	-	-	(9,773)	(9,773)
Funds released by donors for current year appropriation	<u>-</u>	<u>-</u>	<u>(122,500)</u>	<u>(122,500)</u>
Endowment net assets, end of year	<u>\$ (854,716)</u>	<u>\$ 381,024</u>	<u>\$ 18,471,154</u>	<u>\$ 17,997,462</u>

* - Prior year appropriations returned to funds relate to scholarships declined by the recipient.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Board of Directors of the Foundation determines the total dollar amount of funds from the endowment to be appropriated for scholarship awards each year as part of the overall student aid awards budget that is finalized in March. This amount is calculated as a percent of the average fair value of the endowment over the prior 36 months. Generally, the percent may fall between 5% and 7%, depending on the Foundation's student aid goals as well as economic conditions. In extraordinary circumstances, the Board of Directors may approve appropriations outside of this range.