



SCHOLARSHIP FOUNDATION OF SANTA BARBARA
FINANCIAL STATEMENTS

June 30, 2011

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

June 30, 2011

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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, 2011 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, 2010, is presented for comparative purposes only and was extracted from the financial statements for that year, on which an unqualified opinion dated September 16, 2010 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, 2011 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 19, 2011

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

STATEMENT OF FINANCIAL POSITION
June 30, 2011
(With Comparative Totals for June 30, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
ASSETS					
CURRENT ASSETS					
Cash and equivalents	\$ 2,965,883	\$ 1,410,550	\$ -	\$ 4,376,433	\$ 7,611,294
Pledges receivable (note 2)	1,840,566	-	-	1,840,566	3,074,857
Interest receivable	23,354	-	-	23,354	32,468
Other receivable	240	-	-	240	180
Prepaid expenses	20,476	-	-	20,476	13,255
Total Current Assets	4,850,519	1,410,550	-	6,261,069	10,732,054
INVESTMENTS (NOTE 4)					
Nonmarketable securities	2,939,111	-	5,664,162	8,603,273	3,817,157
Marketable securities	3,823,403	5,945,784	18,826,870	28,596,057	21,277,905
Total Investments	6,762,514	5,945,784	24,491,032	37,199,330	25,095,062
PROPERTY AND EQUIPMENT, NET (NOTE 5)	73,342	-	-	73,342	90,337
OTHER ASSETS					
Mineral interests, net (note 3)	22,000	-	-	22,000	24,000
Deposits	4,216	-	-	4,216	5,216
Land held for investment	-	-	110,000	110,000	110,000
Contributions receivable from split interest agreements (note 6)	219,593	596,629	27,640	843,862	647,074
Total Other Assets	245,809	596,629	137,640	980,078	786,290
Total Assets	\$ 11,932,184	\$ 7,952,963	\$ 24,628,672	\$ 44,513,819	\$ 36,703,743
 LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 103,493	\$ -	\$ -	\$ 103,493	\$ 62,438
Scholarship and student loan awards payable	6,524,848	-	-	6,524,848	6,580,406
Total Current Liabilities	6,628,341	-	-	6,628,341	6,642,844
NET ASSETS					
Unrestricted - Undesignated	5,303,843	-	-	5,303,843	3,485,139
Temporarily restricted (note 7)	-	7,952,963	-	7,952,963	3,660,096
Permanently restricted (note 8)	-	-	24,628,672	24,628,672	22,915,664
Total Net Assets	5,303,843	7,952,963	24,628,672	37,885,478	30,060,899
Total Liabilities and Net Assets	\$ 11,932,184	\$ 7,952,963	\$ 24,628,672	\$ 44,513,819	\$ 36,703,743

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, 2011
(With Comparative Totals for the Year Ended June 30, 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
PUBLIC SUPPORT AND REVENUE					
Public Support					
Fundraising events - gross revenue	\$ -	\$ 207,000	\$ -	\$ 207,000	\$ 204,000
Less costs of direct benefits to donors	-	(75,143)	-	(75,143)	(70,373)
Net revenues from fundraising events	-	131,857	-	131,857	133,627
Donations	1,231,751	5,476,650	844,918	7,553,319	6,128,454
Bequests	2,292	25,169	862,593	890,054	4,481,244
Total Public Support	<u>1,234,043</u>	<u>5,633,676</u>	<u>1,707,511</u>	<u>8,575,230</u>	<u>10,743,325</u>
Revenue					
Administration fees	194,795	-	-	194,795	193,057
Interest and dividends	82,719	291,923	-	374,642	326,629
Realized and unrealized gain on investments	1,571,160	4,536,661	-	6,107,821	2,164,767
Mineral royalties	53,052	-	-	53,052	44,694
Change in value of split interest agreements	-	191,291	5,497	196,788	24,752
Total Revenue	<u>1,901,726</u>	<u>5,019,875</u>	<u>5,497</u>	<u>6,927,098</u>	<u>2,753,899</u>
Total Public Support and Revenue	<u>3,135,769</u>	<u>10,653,551</u>	<u>1,713,008</u>	<u>15,502,328</u>	<u>13,497,224</u>
Net assets released from restrictions (note 9)	<u>6,360,684</u>	<u>(6,360,684)</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENSES					
Program Expenses:					
Scholarship and loan services	6,824,062	-	-	6,824,062	6,904,988
Outreach and financial aid services	204,926	-	-	204,926	135,691
Total Program Services	<u>7,028,988</u>	<u>-</u>	<u>-</u>	<u>7,028,988</u>	<u>7,040,679</u>
Supporting Services:					
General and administrative	265,963	-	-	265,963	236,831
Fundraising	382,798	-	-	382,798	317,122
Total Supporting Services	<u>648,761</u>	<u>-</u>	<u>-</u>	<u>648,761</u>	<u>553,953</u>
Total Expenses	<u>7,677,749</u>	<u>-</u>	<u>-</u>	<u>7,677,749</u>	<u>7,594,632</u>
Change in Net Assets	<u>1,818,704</u>	<u>4,292,867</u>	<u>1,713,008</u>	<u>7,824,579</u>	<u>5,902,592</u>
Net Assets, beginning of year	3,485,139	3,660,096	22,915,664	30,060,899	24,158,307
Net Assets, ending of year	<u>\$ 5,303,843</u>	<u>\$ 7,952,963</u>	<u>\$ 24,628,672</u>	<u>\$ 37,885,478</u>	<u>\$ 30,060,899</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, 2011
(With Comparative Totals for the Year Ended June 30, 2010)

	Program			Supporting Services			2011	2010
	Scholarships and Loans	Outreach & Financial Aid Services	Total	General and Administrative	Fund Raising			
Salaries	\$ 346,084	\$ 117,088	\$ 463,172	\$ 168,637	\$ 181,011	\$ 812,820	\$ 709,357	
Employee benefits	31,281	7,921	39,202	15,097	25,167	79,466	69,029	
Payroll taxes	27,033	9,146	36,179	13,173	14,139	63,491	55,410	
Professional fees and consulting	-	-	-	8,400	22,500	30,900	21,000	
Depreciation and amortization	19,377	5,991	25,368	6,181	6,370	37,919	33,770	
Rent	24,874	7,691	32,565	7,934	8,178	48,677	47,540	
Telephone and utilities	6,492	2,007	8,499	2,071	2,135	12,705	12,840	
Insurance	3,358	1,038	4,396	1,071	1,104	6,571	7,032	
Advertising and promotion	5,168	2,170	7,338	-	47,745	55,083	46,798	
Printing and graphics	8,276	3,022	11,298	1,272	3,007	15,577	13,104	
Postage	6,996	1,513	8,509	1,891	8,508	18,908	18,237	
Public relations and meetings	1,338	1,350	2,688	7,878	47,694	58,260	46,003	
Supplies	8,322	2,573	10,895	2,654	2,736	16,285	14,308	
Information technology	14,732	4,555	19,287	4,699	4,844	28,830	29,800	
Repairs and maintenance	4,768	1,474	6,242	1,521	1,568	9,331	9,211	
Legal and accounting	-	-	-	13,435	-	13,435	12,546	
Education and conferences	923	35	958	4,609	1,018	6,585	3,245	
Travel	1,811	4,579	6,390	2,580	2,126	11,096	8,290	
Program grants to others	-	30,000	30,000	-	-	30,000	-	
Scholarships and loans awarded	6,304,258	-	6,304,258	-	-	6,304,258	6,423,849	
Miscellaneous	8,971	2,773	11,744	2,860	2,948	17,552	13,263	
2011 Total Functional Expenses	\$ 6,824,062	\$ 204,926	\$ 7,028,988	\$ 265,963	\$ 382,798	\$ 7,677,749		
2010 Total Functional Expenses	\$ 6,904,988	\$ 135,691	\$ 7,040,679	\$ 236,831	\$ 317,122		\$ 7,594,632	

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, 2011

(With Comparative Amounts for the Year Ended June 30, 2010)

	2011	2010
Cash Flows From Operating Activities:		
Change in net assets	\$ 7,824,579	\$ 5,902,592
Adjustments to reconcile increase in net assets - unrestricted to cash from (used by) operating activities:		
Depreciation and amortization	37,919	33,770
Realized and unrealized loss (gain) on investments	(6,107,821)	(2,164,767)
Contributions permanently restricted	(1,707,511)	(4,638,947)
(Gains) losses on split interest agreements	(196,788)	(42,223)
Decrease/(Increase) in pledges receivable	1,234,291	554,856
Decrease/(Increase) in interest and other receivables	9,054	11,664
Decrease/(Increase) in prepaid expenses and deposits	(6,221)	(3,107)
(Decrease)/Increase in student loans and scholarships payable	(55,558)	394,476
(Decrease)/Increase in accounts payable and accrued expenses	41,055	2,245
Net cash from operating activities	1,072,999	50,559
Cash Flows From (Used By) Investing Activities:		
Purchase of furniture and equipment and leasehold improvements	(18,924)	(21,733)
Proceeds from sale of investments	4,920,123	2,462,659
Purchase of marketable securities	(10,916,570)	(2,951,923)
Net cash from (used by) investing activities	(6,015,371)	(510,997)
Cash Flows From Financing Activities		
Contributions permanently restricted	1,707,511	4,638,947
Net cash from financing activities	1,707,511	4,638,947
Net increase (decrease) in cash and cash equivalents	(3,234,861)	4,178,509
Cash and cash equivalents at Beginning of Year	7,611,294	3,432,785
Cash and cash equivalents at Ending of Year	\$ 4,376,433	\$ 7,611,294
Supplemental Disclosure of Cash Flow Information		
Noncash transactions consisted of the following:		
In-Kind donation of contributed services	\$ 24,624	\$ 16,629

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 2010 in the accompanying financial statements are included to provide a basis for comparison with 2011 and are not intended to present all information necessary for a fair presentation of the 2010 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, 2011 and 2010 pledges receivable totaled \$1,840,566 and \$3,074,857, respectively. Management believes all receivables are collectible and thus no reserve for doubtful pledges has been established. The pledges receivable as of June 30, 2011 are expected to be collected in the year ended June 30, 2012.

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, 2011, the cost and accumulated amortization is \$50,000 and \$28,000, 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, 2011 and 2010, investments consist of the following:

June 30, 2011:

	<u>Cost</u>	<u>Market Value</u>	<u>Excess of Market over Cost</u>
Mutual Funds	\$ 18,866,316	\$ 24,101,127	\$ 5,234,811
Archstone Offshore, LTD	3,100,000	3,611,238	511,238
CommonFund Realty Investors	910,348	7,999	(902,349)
CommonFund Distressed Investors	695,831	959,083	263,252
CommonFund Multi- Strategy Global Hedged Partners	2,050,181	2,046,273	(3,908)
EnTrust Capital Diversified	2,000,000	1,978,680	(21,320)
Bonds	<u>4,312,530</u>	<u>4,494,930</u>	<u>182,400</u>
 Total	 <u>\$ 31,935,206</u>	 <u>\$ 37,199,330</u>	 \$ 5,264,124
 Unrealized loss at beginning of year			<u>(652,087)</u>
Change in unrealized gain on marketable securities			<u>\$ 5,916,211</u>

June 30, 2010:

	<u>Cost</u>	<u>Market Value</u>	<u>Excess of Market over Cost</u>
Mutual Funds	\$ 16,250,442	\$ 16,004,394	\$ (246,048)
Archstone Offshore, LTD	2,750,000	2,962,570	212,570
CommonFund Realty Investors	910,348	36,228	(874,120)
CommonFund Distressed Investors	658,435	818,359	159,924
Bonds	<u>5,177,924</u>	<u>5,273,511</u>	<u>95,587</u>
 Total	 <u>\$ 25,747,149</u>	 <u>\$ 25,095,062</u>	 \$ (652,087)
 Unrealized loss at beginning of year			<u>(3,212,350)</u>
Change in unrealized gain on marketable securities			<u>\$ 2,560,263</u>

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2011 consist of the following major classifications:

	<u>Cost/Basis</u>	<u>Estimated Useful Life</u>
Leasehold improvements	\$ 110,505	5-10 years
Furniture and equipment	<u>201,595</u>	4-5 years
Total cost	312,100	
Less accumulated depreciation	<u>(238,758)</u>	
Net property and equipment	<u>\$ 73,342</u>	

For the year ending June 30, 2011, the Foundation recognized depreciation expense of \$35,919.

NOTE 6 - SPLIT INTEREST AGREEMENTS

The Foundation is the remainderman for eight charitable split interest agreements as of June 30, 2011, 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 3.4% 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, 2011 and 2010 are available for the following purposes:

	2011	2010
Scholarships	\$ 6,996,414	\$ 2,890,165
Outreach and financial aid services	220,000	145,000
Alumni donations fund	91,602	-
Scholarship Foundation history project	48,318	-
Split interest agreements	<u>596,629</u>	<u>624,931</u>
Total	<u>\$ 7,952,963</u>	<u>\$ 3,660,096</u>

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2011 and 2010 are restricted to:

	2011	2010
Investments held in perpetuity, with income and appreciation expendable to support scholarships	\$ 24,601,032	\$ 22,893,521
Split interest agreements	<u>27,640</u>	<u>22,143</u>
Total	<u>\$ 24,628,672</u>	<u>\$ 22,915,664</u>

NOTE 9 - ASSETS RELEASED FROM DONOR RESTRICTIONS

During the year ended June 30, 2011 the Foundation released a total of \$6,360,684 of temporarily 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, 2010 the Foundation released a total of \$5,780,156 from temporarily restricted net assets and \$199,007 of permanently restricted net assets from donor restrictions 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 30, 2021, payable in monthly installments of \$5,397, with minimum annual increases of 3% starting May 1, 2012. The Foundation is obligated under the lease as follows:

Year ended June 30,	
2012	\$ 65,095
2013	67,048
2014	69,059
2015	71,131
2016	73,266
Thereafter (2017-2021)	<u>386,135</u>
Total	<u>\$ 731,734</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, 2011.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

NOTE 13 - ASSETS VALUED AT FAIR VALUE

Fair Value Measurements at June 30, 2011 are summarized as follows:

	Quoted Prices In Active Markets For <u>Identical Assets</u>	Significant Other Observable <u>Inputs</u>	Significant Unobservable <u>Inputs</u>
Marketable Securities	\$ 28,596,057	\$ -	\$ -
Alternative Investments	-	8,603,273	-
Charitable Remainder Trusts	<u>-</u>	<u>-</u>	<u>843,862</u>
Total	<u>\$ 28,596,057</u>	<u>\$ 8,603,273</u>	<u>\$ 843,862</u>

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

	Alternative Investments
Beginning Balance	\$ 3,817,157
Purchases, net	4,391,400
Total Gains Included	
In Changes in Net Assets	<u>394,716</u>
Ending Balance	<u>\$ 8,603,273</u>
The Amount of Total Gains For The Period Included In Changes In Net Assets Still Held At June 30, 2011	<u>\$ 394,716</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	\$ 647,074
Total Gains(Losses) Included	
In Changes in Net Assets	<u>196,788</u>
Ending Balance	<u>\$ 843,862</u>
The Amount of Total Gains For The Period Included In Changes In Net Assets Still Held At June 30, 2011	<u>\$ 196,788</u>

NOTE 14 -ENDOWMENT

The Foundation's endowment consists of approximately 150 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 prudence 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:

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- (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 \$227 as of June 30, 2011. These deficiencies resulted from unfavorable market fluctuations that occurred during the years 2008 and 2009 and were not fully recovered in the year that ended June 30, 2011.

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.

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

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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.

Endowment Net Asset Composition by Type of Fund as of June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ <u>(227)</u>	\$ <u>4,776,362</u>	\$ <u>24,628,672</u>	\$ <u>29,404,807</u>

Changes in Endowment Net Assets for the Year for the Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (361,630)	\$ 973,618	\$ 22,915,664	\$ 23,527,652
Investment return:				
Investment income	-	291,923	-	291,923
Net appreciation (realized and unrealized)	<u>361,403</u>	<u>4,536,661</u>	<u>-</u>	<u>4,898,064</u>
Total investment return	361,403	4,828,584	-	5,189,987
Contributions	-	2,350	1,707,511	1,709,861
Appropriation of endowment assets for expenditures	-	(1,128,650)	-	(1,128,650)
Other changes:				
Prior year appropriations returned to funds *	-	100,460	-	100,460
Change in value, split interest agreements	<u>-</u>	<u>-</u>	<u>5,497</u>	<u>5,497</u>
Endowment net assets, end of year	\$ <u>(227)</u>	\$ <u>4,776,362</u>	\$ <u>24,628,672</u>	\$ <u>29,404,807</u>

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