



SCHOLARSHIP FOUNDATION OF SANTA BARBARA
FINANCIAL STATEMENTS

June 30, 2017

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

June 30, 2017

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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 financial statements of Scholarship Foundation of Santa Barbara (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, 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.

Auditor's 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 auditor's 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 Scholarship Foundation of Santa Barbara as of June 30, 2017, 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.

Report on Summarized Comparative Information

We have previously audited the Scholarship Foundation of Santa Barbara financial statements, and our report dated October 28, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stoltey & Associates

October 25, 2017

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

STATEMENT OF FINANCIAL POSITION

June 30, 2017

(With Comparative Totals for June 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
ASSETS					
CURRENT ASSETS					
Cash and equivalents	\$ 3,980,787	\$ 647,407	\$ -	\$ 4,628,194	\$ 4,768,669
Pledges receivable (note 2)	1,694,314	207,045	1,000,000	2,901,359	2,077,754
Interest receivable	2	-	-	2	3
Other receivable (note 3)	40,196	-	-	40,196	36,648
Prepaid expenses	24,002	-	-	24,002	42,241
Total Current Assets	<u>5,739,301</u>	<u>854,452</u>	<u>1,000,000</u>	<u>7,593,753</u>	<u>6,925,315</u>
INVESTMENTS (NOTE 5)	10,332,766	4,675,829	31,620,780	46,629,375	41,782,002
PROPERTY AND EQUIPMENT, NET (NOTE 6)	<u>174,441</u>	<u>-</u>	<u>-</u>	<u>174,441</u>	<u>205,328</u>
OTHER ASSETS					
Pledges receivable - long-term (note 2)	-	53,685	-	53,685	87,609
Other receivable (note 3)	-	-	-	-	36,000
Mineral interests, net (note 4)	10,000	-	-	10,000	11,998
Deposits	2,216	-	-	2,216	2,216
Land held for investment	-	-	110,000	110,000	110,000
Contributions receivable from split interest agreements (note 1)	-	129,245	53,071	182,316	449,147
Total Other Assets	<u>12,216</u>	<u>182,930</u>	<u>163,071</u>	<u>358,217</u>	<u>696,970</u>
Total Assets	<u>\$ 16,258,724</u>	<u>\$ 5,713,211</u>	<u>\$ 32,783,851</u>	<u>\$ 54,755,786</u>	<u>\$ 49,609,615</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 106,876	\$ -	\$ -	\$ 106,876	\$ 100,223
Scholarship awards payable	7,254,809	-	-	7,254,809	7,749,044
Total Current Liabilities	<u>7,361,685</u>	<u>-</u>	<u>-</u>	<u>7,361,685</u>	<u>7,849,267</u>
NET ASSETS					
Unrestricted - Undesignated	8,897,039	-	-	8,897,039	7,881,044
Temporarily restricted (note 7)	-	5,713,211	-	5,713,211	3,685,128
Permanently restricted (note 8)	-	-	32,783,851	32,783,851	30,194,176
Total Net Assets	<u>8,897,039</u>	<u>5,713,211</u>	<u>32,783,851</u>	<u>47,394,101</u>	<u>41,760,348</u>
Total Liabilities and Net Assets	<u>\$ 16,258,724</u>	<u>\$ 5,713,211</u>	<u>\$ 32,783,851</u>	<u>\$ 54,755,786</u>	<u>\$ 49,609,615</u>

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, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
PUBLIC SUPPORT AND REVENUE					
Public Support					
Fundraising events - gross revenue	\$ -	\$ 270,950	\$ -	\$ 270,950	\$ 247,750
Less costs of direct benefits to donors	-	(98,640)	-	(98,640)	(93,126)
Net revenues from fundraising events	-	172,310	-	172,310	154,624
Donations	1,291,200	4,491,011	769,508	6,551,719	6,269,025
Bequests	1,020,341	6,000	1,692,455	2,718,796	1,983,954
Total Public Support	<u>2,311,541</u>	<u>4,669,321</u>	<u>2,461,963</u>	<u>9,442,825</u>	<u>8,407,603</u>
Revenue					
Grant for student aid support	85,392	-	-	85,392	89,696
Interest and dividends	213,535	646,244	-	859,779	1,808,111
Realized and unrealized gain on investments	749,976	3,454,045	-	4,204,021	(3,413,882)
Mineral royalties	25,104	-	-	25,104	32,951
Change in value of split interest agreements	-	19,099	(962)	18,137	56,321
Total Revenue	<u>1,074,007</u>	<u>4,119,388</u>	<u>(962)</u>	<u>5,192,433</u>	<u>(1,426,803)</u>
Total Public Support and Revenue	<u>3,385,548</u>	<u>8,788,709</u>	<u>2,461,001</u>	<u>14,635,258</u>	<u>6,980,800</u>
Net assets released from restrictions (note 9)	<u>6,631,952</u>	<u>(6,760,626)</u>	<u>128,674</u>	<u>-</u>	<u>-</u>
EXPENSES					
Program Expenses:					
Scholarship and loan services	7,562,457	-	-	7,562,457	8,082,070
Outreach and financial aid services	546,594	-	-	546,594	485,222
Total Program Services	<u>8,109,051</u>	<u>-</u>	<u>-</u>	<u>8,109,051</u>	<u>8,567,292</u>
Supporting Services:					
General and administrative	406,650	-	-	406,650	419,263
Fundraising	485,804	-	-	485,804	497,256
Total Supporting Services	<u>892,454</u>	<u>-</u>	<u>-</u>	<u>892,454</u>	<u>916,519</u>
Total Expenses	<u>9,001,505</u>	<u>-</u>	<u>-</u>	<u>9,001,505</u>	<u>9,483,811</u>
Change in Net Assets	<u>1,015,995</u>	<u>2,028,083</u>	<u>2,589,675</u>	<u>5,633,753</u>	<u>(2,503,011)</u>
Net Assets, beginning of year	7,881,044	3,685,128	30,194,176	41,760,348	44,263,359
Net Assets, ending of year	<u>\$ 8,897,039</u>	<u>\$ 5,713,211</u>	<u>\$ 32,783,851</u>	<u>\$ 47,394,101</u>	<u>\$ 41,760,348</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, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	Program			Supporting Services		2017	2016
	Student Aid	Outreach & Financial Aid Services	Total	General and Administrative	Fund Raising		
Salaries	\$ 411,027	\$ 320,302	\$ 731,329	\$ 230,863	\$ 260,139	\$ 1,222,331	\$ 1,157,962
Employee benefits	77,237	60,188	137,425	43,382	48,883	229,690	187,879
Payroll taxes	30,383	23,676	54,059	17,065	19,229	90,353	93,694
Professional fees and consulting	7,629	946	8,575	4,710	12,192	25,477	37,943
Depreciation and amortization	20,249	21,661	41,910	8,313	8,414	58,637	61,094
Rent	30,507	32,634	63,141	12,524	12,675	88,340	85,223
Telephone and utilities	5,613	6,004	11,617	2,304	2,332	16,253	16,055
Insurance	3,423	3,663	7,086	1,406	1,423	9,915	8,685
Advertising and promotion	4,058	5,907	9,965	368	29,138	39,471	56,408
Printing and graphics	2,910	326	3,236	872	5,344	9,452	12,419
Postage	4,567	255	4,822	3,481	8,669	16,972	13,916
Public relations and meetings	9,783	21,957	31,740	27,259	58,765	117,764	92,593
Supplies	5,871	6,281	12,152	2,410	2,439	17,001	17,743
Information technology	23,243	24,864	48,107	9,542	9,657	67,306	55,794
Repairs and maintenance	3,354	3,587	6,941	1,377	1,393	9,711	15,758
Legal and accounting	-	-	-	28,358	-	28,358	28,705
Education and conferences	2,850	1,670	4,520	5,241	460	10,221	5,572
Travel	3,899	6,442	10,341	4,784	2,232	17,357	20,258
Scholarships awarded	6,910,029	-	6,910,029	-	-	6,910,029	7,464,923
Miscellaneous	5,825	6,231	12,056	2,391	2,420	16,867	51,187
2017 Total Functional Expenses	\$ 7,562,457	\$ 546,594	\$ 8,109,051	\$ 406,650	\$ 485,804	\$ 9,001,505	
2016 Total Functional Expenses	\$ 8,082,070	\$ 485,222	\$ 8,567,292	\$ 419,263	\$ 497,256		\$ 9,483,811

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, 2017

(With Comparative Amounts for the Year Ended June 30, 2016)

	2017	2016
Cash Flows From (Used By) Operating Activities:		
Change in net assets	\$ 5,633,753	\$ (2,503,011)
Adjustments to reconcile change in net assets to cash from (used by) operating activities:		
Depreciation and amortization	58,637	61,094
Realized and unrealized loss (gain) on investments	(4,204,021)	3,413,882
Donated securities	(171,314)	(258,801)
(Gains) losses on split interest agreements	(18,137)	(56,321)
Loss on disposition of fixed assets	-	2,682
Contributions permanently restricted	(2,461,963)	(1,080,692)
Decrease/(Increase) in split interest agreements	284,968	333,300
Decrease/(Increase) in pledges receivable	(789,681)	1,198,092
Decrease/(Increase) in interest and other receivables	32,453	(68,801)
Decrease/(Increase) in prepaid expenses and deposits	18,239	(17,558)
(Decrease)/Increase in student loans and scholarships payable	(494,235)	(122,335)
(Decrease)/Increase in accounts payable and accrued expenses	6,653	(86,274)
Net cash (used by) from operating activities	(2,104,648)	815,257
Cash Flows From (Used By) Investing Activities:		
Purchase of furniture and equipment and leasehold improvements	(25,752)	(13,917)
Proceeds from sale of investments	5,098,490	2,035,787
Purchase of marketable securities	(5,570,528)	(3,482,431)
Net cash from (used by) investing activities	(497,790)	(1,460,561)
Cash Flows From Financing Activities		
Contributions permanently restricted	2,461,963	1,080,692
Net cash from financing activities	2,461,963	1,080,692
Net increase (decrease) in cash and cash equivalents	(140,475)	435,388
Cash and cash equivalents at Beginning of Year	4,768,669	4,333,281
Cash and cash equivalents at End of Year	\$ 4,628,194	\$ 4,768,669
Supplemental Disclosure of Cash Flow Information		
Noncash transactions consisted of the following:		
In-Kind donation of contributed goods and services	\$ 22,066	\$ 29,848

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 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 organization prepares its financial statements using the accrual basis of accounting and accounting principles generally accepted in the United States of America.

Net Assets

The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Unrestricted Net Assets

Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting for the nature of the Foundation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Temporarily Restricted Net Assets

Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Foundation's unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of its donor-restricted endowment funds.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

net assets. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as temporarily restricted until the specified asset is placed in service by the Foundation, unless the donor provides more specific directions about the period of its use.

Permanently Restricted Net Assets

Permanently restricted net assets are resources whose use by the Foundation is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The portion of the Foundation's donor-restricted endowment funds that must be maintained in perpetuity are classified in this net asset class.

Classification of Transactions

All revenues and net gains are reported as increases in unrestricted net assets in the statement of activities unless the use of the related resources is subject to temporary or permanent donor restrictions. All expenses and net losses other than losses on endowment investments are reported as decreases in unrestricted net assets. Net losses on endowment investments reduce temporarily restricted net assets to the extent that net gains of the fund from prior years are unspent and classified there; remaining losses are classified as decreases in unrestricted net assets. If an endowment fund has no net gains from prior years, such as when a fund is newly established, net losses are classified as decreases in unrestricted net assets.

Fair Value of Financial Instruments

The estimated fair values of the Foundation's short-term financial instruments, including cash, cash equivalents, and accounts payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. The fair value of the marketable securities is based on quoted market rates, alternative investments based on net asset value and nonmarketable fixed income security on discounted anticipated cash flows.

Cash and Cash Equivalents

Cash equivalents are short term, interest bearing, highly liquid investments with original maturities of three months or less, unless the investments are held for meeting restrictions of an endowment nature. The Foundation

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

maintains cash balances at several financial institutions located in the Santa Barbara area. Deposit accounts at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. The balances occasionally exceed those limits. At June 30, 2017 the amount held at financial institutions exceeded the FDIC insurance limits by approximately \$1,766,845.

Cash equivalents, other securities, and limited amounts of cash held in brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC) in the event of broker-dealer failure, up to \$500,000 of protection for each brokerage account, with a limit of \$250,000 for claims of uninvested cash balances. The SIPC insurance does not protect against market losses on investments. At June 30, 2017 the amount of uninvested cash held in brokerage accounts exceeded the SIPC insurance limits by approximately \$860,000.

Contributions Receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectibility of individual promises.

Prepaid Expenses

Prepaid expenses primarily consist of prepaid insurance and occupancy expenses.

Investments

Investments include marketable securities, alternative investments and a nonmarketable fixed income security. Marketable securities are recorded at fair market value based on quoted prices for identical securities. Alternative investments are recorded at estimated fair market value based on the Foundation's share of net asset value as reported by each of the investment managers. The nonmarketable fixed income security is reported at estimated market value based on the discounted value of the anticipated cash

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

flows from the security. Donated securities are recorded at the estimated fair market value on the date received.

Property and Equipment

Leasehold improvements, furniture and equipment are reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated. Leasehold improvements, furniture and equipment is capitalized if it has a cost of \$500 or more and a useful life when acquired of more than 1 year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Furniture and equipment	3 to 7 years
Leasehold improvements	3 to 10 years

Leasehold improvements, furniture and equipment are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

Contributions Receivable from Split Interest Agreements

The Foundation is the remainderman for four charitable split interest agreements as of June 30, 2017, 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

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

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. The value of the receivable from split interest agreements is adjusted annually for changes in the value of the assets, accretion of the discount, and other changes.

Scholarship Awards Payable

The Foundation reports scholarship awards payable as 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 rescission percent from the most recent fiscal year. For the year ended June 30, 2017 the Foundation awarded scholarships totaling \$8,437,275 and estimated \$1,182,466 of the awarded scholarships will be rescinded.

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.

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 incorporated exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). The tax years ending 2014, 2015, and 2016 are still open to audit for both federal and state purposes. Contributions to the organization are tax deductible to donors under Section 170 of the IRC. The organization is not classified as a private foundation.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

Donated Goods and 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 2016 in the accompanying financial statements are included to provide a basis for comparison with 2017 and are not intended to present all information necessary for a fair presentation of the 2016 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, 2017 and 2016 pledges receivable totaled \$2,953,370 and \$2,165,363, respectively. Management believes all receivables are collectible and thus no reserve for doubtful pledges has been established. The pledges receivable as of June 30, 2017 are expected to be collected in the following years:

2018	\$ 2,901,359
2019	23,000
2020	23,000
2021	13,000
2022	<u>-</u>
Total	2,960,359
Less discount on long term pledges receivable	<u>(5,315)</u>
Pledges receivable, net	<u>\$ 2,955,044</u>

Pledges receivable with due dates extending beyond one year are discounted using a discount rate of 2.5%.

NOTE 3 - OTHER RECEIVABLE

Other receivable includes a \$36,000 note receivable from the President and CEO of the Foundation. The proceeds of the note were used to provide housing support. The note is unsecured and carries an interest rate of 1% per annum. The note is to be forgiven as follows:

July 6, 2017	\$24,000
July 6, 2018	\$12,000

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

Should the employment of the President and CEO terminate prior to July 6, 2018, any amount that has not been forgiven, including accrued interest, is immediately due.

NOTE 4 - 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, 2017, the cost and accumulated amortization is \$50,000 and \$40,000, respectively.

NOTE 5 - 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. At June 30, 2017 and 2016, investments consist of the following:

June 30, 2017:

	Cost	Market Value	Excess of Market over Cost
Mutual Funds and ETFs	\$ 46,637,546	\$ 45,928,387	\$ (709,159)
CommonFund Distressed Investors	5,060	225,767	220,707
Bonds	500,040	475,221	(24,819)
Total	<u>\$ 47,142,646</u>	<u>\$ 46,629,375</u>	(513,271)
Unrealized loss at beginning of year			<u>3,505,756</u>
Change in unrealized gain on marketable securities			<u>\$ 2,992,485</u>

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016:

	Cost	Market Value	Excess of Market over Cost
Mutual Funds and ETFs	\$ 41,593,705	\$ 36,866,356	\$ (4,727,349)
Archstone Offshore, LTD	3,100,000	4,041,734	941,734
CommonFund Distressed			
Investors	55,088	297,125	242,037
EnTrust Capital			
Diversified	38,925	101,366	62,441
Bonds	<u>500,040</u>	<u>475,421</u>	<u>(24,619)</u>
Total	<u>\$ 45,287,758</u>	<u>\$ 41,782,002</u>	<u>(3,505,756)</u>
Unrealized loss at beginning of year			<u>50,850</u>
Change in unrealized gain on marketable securities			<u>\$ (3,454,906)</u>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2017 consist of the following major classifications:

	<u>Cost/Basis</u>	<u>Estimated Useful Life</u>
Leasehold improvements	\$ 362,106	5-10 years
Furniture and equipment	<u>321,472</u>	3-5 years
Total cost	683,578	
Less accumulated depreciation	<u>(509,137)</u>	
Net property and equipment	<u>\$ 174,441</u>	

For the year ending June 30, 2017, the Foundation recognized depreciation expense of \$56,637.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2017 and 2016 are available for the following purposes:

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

	2017	2016
Scholarships	\$ 5,495,864	\$ 3,195,656
Outreach and financial aid services	70,000	70,000
Alumni donations fund	8,102	24,358
Capital expenses	10,000	-
Split interest agreements	<u>129,245</u>	<u>395,114</u>
Total	<u>\$ 5,713,211</u>	<u>\$ 3,685,128</u>

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2017 and 2016 are restricted to:

	2017	2016
Investments held in perpetuity, with income and appreciation expendable to support scholarships	\$ 32,730,780	\$ 30,140,143
Split interest agreements	<u>53,071</u>	<u>54,033</u>
Total	<u>\$ 32,783,851</u>	<u>\$ 30,194,176</u>

NOTE 9 - ASSETS RELEASED FROM DONOR RESTRICTIONS

During the year ended June 30, 2017 the Foundation released a total of \$6,760,626 of temporarily restricted net assets from donor restrictions by awarding scholarships as specified by donors and fulfilling student aid services. During the year ended June 30, 2016 the Foundation released a total of \$7,173,427 from temporarily restricted net assets from donor restrictions by awarding scholarships as specified by donors and fulfilling student aid services.

NOTE 10 - LEASE AGREEMENTS

The Foundation rents facilities located in Santa Barbara, California under a lease agreement expiring on April 30, 2021, payable in monthly installments of \$6,075, with minimum annual increases of 3%.

The Foundation also leases facilities located in Santa Maria, California under a month to month lease agreement. The lease agreement calls for a monthly rent payment of \$702 along with common area maintenance expenses of approximately \$296 per month.

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The Foundation is obligated under the leases as follows:

Year ended June 30,	
2018	\$ 77,727
2019	80,059
2020	82,460
2021	<u>70,427</u>
Total	<u>\$ 310,673</u>

NOTE 11 - CONCENTRATIONS

A significant portion, approximately 15 percent, of the Foundation's public support comes from the Santa Barbara Foundation. At June 30, 2017, \$1,448,021 is receivable from the Santa Barbara Foundation. In addition, approximately 10 percent of the Foundation's public support for the year ended June 30, 2017 was received from 1 bequest. At June 30, 2017 the Foundation reported a receivable from the bequest of \$1,000,000.

The majority of the Foundation's contributions and grants are received from corporations, foundations, and individuals located in the Santa Barbara, California area. As such, the Foundation's ability to generate resources via contributions and grants is dependent upon the economic health of that area.

The Foundation's investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, because of the significance of the investments to the Foundation's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes (see note 5) should mitigate the impact of changes in any one class.

NOTE 12 - RETIREMENT PLANS

Since 1996, the Scholarship Foundation of Santa Barbara has maintained a salary deferral arrangement for eligible employees under Section 403(b) of the Internal Revenue Code. In 2014 this plan was amended to include a match of employee contributions of 100% for the first 5% of deferred salary. After one year of service the Foundation also contributes an additional 2% of the employee's salary. Contributions and expenses for the year ended June 30, 2017 were \$70,584.

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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, 2017.

NOTE 13 - ASSETS VALUED AT FAIR VALUE

The Financial Accounting Standard Board's authoritative guidance on fair value measurements establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Assets carried at fair value include the following as of June 30, 2017:

Level 1

- Mutual funds and ETFs which consist of the following:
 - TIFF Multi-Asset Fund with a total market value at June 30, 2017 of \$39,040,175,
 - Vanguard Total Stock Fund with a total market value at June 30, 2017 of \$4,676,431,
 - Vanguard Short Term Bond Fund with a total market value at June 30, 2017 of \$2,211,781.
- Government securities with a reported market value of \$221.

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NOTES TO FINANCIAL STATEMENTS

Level 2

- Hedge funds and other alternative investments reporting asset values as of June 30, 2017 on a basis of net asset value (NAV) including:

CommonFund Global Distressed Investors	\$ 225,767
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Level 3

- Foreign corporate bond with no marketable quoted value reported at the discounted present value of the anticipated future cash flows based on the terms of the bond. Anticipated future cash flows discounted at 2% per annum. Estimated fair market value of the foreign bond at June 30, 2017 is \$475,000.
- Charitable remainder trusts reported at the estimated fair market value based on the discounted value of anticipated future cash flows.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

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Assets and liabilities measured at fair value are summarized as follows:

	<u>Fair Value</u>	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds and ETFs	\$ 45,928,387	\$ 45,928,387	\$ -	\$ -
Government securities	221	221	-	-
Hedge funds and other alternative investments	225,767	-	225,767	-
Nonmarketable foreign corporate bond	475,000	-	-	475,000
Charitable remainder trusts	182,316	-	-	182,316
	<u>\$ 46,811,691</u>	<u>\$45,928,608</u>	<u>\$ 225,767</u>	<u>\$ 657,316</u>

No transfers were made from level 2 or level 3 to level 1.

Changes in Fair Value Measurement Using Significant Observable Inputs (Level 2) are summarized as follows:

	Alternative Investments
Beginning Balance	\$ 4,440,225
Sales	(4,398,964)
Total Gains Included	
In Changes in Net Assets	<u>184,506</u>
Ending Balance	<u>\$ 225,767</u>
The Amount of Total Gains For The Period Included In Changes In Net Assets Still Held At June 30, 2017	<u>\$ 184,506</u>

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Changes in Fair Value Measurement Using Significant Unobservable Inputs (Level 3) are summarized as follows:

	Charitable Remainder Trusts	Foreign Corporate Bond
Beginning Balance	\$ 449,147	\$ 475,000
Distributions Received, net	(284,968)	-
Total Gains Included In		
Changes in Net Assets	18,137	-
Ending Balance	\$ 182,316	\$ 475,000
The Amount of Total Gains For		
The Period Included In Changes		
In Net Assets Still Held At		
June 30, 2017	\$ 18,137	\$ -

NOTE 14 - ENDOWMENT

The Foundation's endowment consists of approximately 179 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

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making a determination to appropriate or accumulate donor-restricted endowment funds:

- (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. At June 30, 2017 there were no funds with deficiencies.

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 4% and 6%, 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, 2017

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>4,305,125</u>	\$ <u>31,783,851</u>	\$ <u>36,088,976</u>

Changes in Endowment Net Assets for the Year for the Year Ended June 30, 2017

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,537,420	\$ 30,194,176	\$ 31,731,596
Investment return:				
Investment income	-	646,244	-	646,244
Net appreciation (realized and unrealized)	<u>-</u>	<u>3,535,669</u>	<u>-</u>	<u>3,535,669</u>
Total investment return	-	4,181,913	-	4,181,913
Contributions	-	-	2,590,637	2,590,637
Appropriation of endowment assets for expenditures	-	(1,570,650)	-	(1,570,650)
Other changes:				
Prior year appropriations returned to funds *	-	156,442	-	156,442
Change in value, split interest agreements	<u>-</u>	<u>-</u>	<u>(962)</u>	<u>(962)</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>4,305,125</u>	\$ <u>32,783,851</u>	\$ <u>37,088,976</u>

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

NOTE 15 - SUBSEQUENT EVENTS

Management has evaluated events through October 25, 2017, which is the date the financial statements were available to be issued. Management has

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determined that no subsequent event requiring disclosure or significantly impacting disclosure has occurred.