



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

June 30, 2018 and 2017

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Report of Independent Auditors

To the Board of Directors
Scholarship Foundation of Santa Barbara

Report on the Financial Statements

We have audited the accompanying financial statements of Scholarship Foundation of Santa Barbara, (the "Foundation"), as of June 30, 2018, which comprise the statement of financial position as of June 30, 2018, and the related statement 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, 2018, and the change 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.

Other Matter

Prior Period Financial Statements and Summarized Comparative Information

The summarized comparative information presented herein was derived from the prior year financial statements of Scholarship Foundation of Santa Barbara, as of and for the year ended June 30, 2017. The prior year financial statements and summarized comparative information were audited by other auditors whose report dated October 25, 2017, expressed an unmodified opinion on those statements.

Moss Adams LLP

Los Angeles, California
October 12, 2018

Scholarship Foundation of Santa Barbara
Statements of Financial Position

| ASSETS | | June 30, | |
|--|----|--------------------------|-----------------------------|
| | | <u>2018</u> | <u>2017</u> |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ | 8,507,925 | \$ 4,628,194 |
| Pledges receivable | | 2,518,971 | 2,901,359 |
| Accrued interest receivable | | 18,397 | 2 |
| Other receivables | | 5,502 | 40,196 |
| Prepaid expenses | | 14,871 | 24,002 |
| Total Current Assets | | <u>11,065,666</u> | <u>7,593,753</u> |
| INVESTMENTS | | 44,183,932 | 46,629,375 |
| PROPERTY AND EQUIPMENT, NET | | 130,449 | 174,441 |
| OTHER ASSETS | | | |
| Pledges receivable, long-term | | 71,000 | 53,685 |
| Mineral interests, net | | 8,000 | 10,000 |
| Deposits | | 2,216 | 2,216 |
| Land held for investment | | 110,000 | 110,000 |
| Contributions receivable from split interest agreements | | 174,948 | 182,316 |
| Total Other Assets | | <u>366,164</u> | <u>358,217</u> |
| Total Assets | \$ | <u><u>55,746,211</u></u> | \$ <u><u>54,755,786</u></u> |
| LIABILITIES AND NET ASSETS | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued expenses | \$ | 104,908 | \$ 106,876 |
| Scholarship awards payable, net | | 7,489,312 | 7,254,809 |
| Total Current Liabilities | | <u>7,594,220</u> | <u>7,361,685</u> |
| NET ASSETS | | | |
| Unrestricted | | 7,811,207 | 8,897,039 |
| Temporarily restricted | | 6,776,022 | 5,713,211 |
| Permanently restricted | | 33,564,762 | 32,783,851 |
| Total Net Assets | | <u>48,151,991</u> | <u>47,394,101</u> |
| Total Liabilities and Net Assets | \$ | <u><u>55,746,211</u></u> | \$ <u><u>54,755,786</u></u> |

Scholarship Foundation of Santa Barbara

Statements of Activities

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2018 Total | 2017 Total |
|---|--------------|------------------------|------------------------|---------------|---------------|
| PUBLIC SUPPORT AND REVENUE | | | | | |
| Public Support | | | | | |
| Fundraising events - gross revenue | \$ - | \$ 275,849 | \$ - | \$ 275,849 | \$ 270,950 |
| Less costs of direct benefits to donors | - | (106,313) | - | (106,313) | (98,640) |
| Net revenues from fundraising events | - | 169,536 | - | 169,536 | 172,310 |
| Donations | 1,365,390 | 4,623,204 | 653,443 | 6,642,037 | 6,551,719 |
| Bequests | 351,050 | - | 127,590 | 478,640 | 2,718,796 |
| Total Public Support | 1,716,440 | 4,792,740 | 781,033 | 7,290,213 | 9,442,825 |
| Revenue | | | | | |
| Grant for student aid support | 85,392 | - | - | 85,392 | 85,392 |
| Interest and dividends | 426,454 | 1,640,647 | - | 2,067,101 | 859,779 |
| Realized and unrealized gain on investments | 369,354 | 994,175 | - | 1,363,529 | 4,204,021 |
| Mineral royalties | 30,735 | - | - | 30,735 | 25,104 |
| Change in value of split interest agreements | - | (3,596) | (3,772) | (7,368) | 18,137 |
| Total Revenue | 911,935 | 2,631,226 | (3,772) | 3,539,389 | 5,192,433 |
| Total Public Support and Revenue | 2,628,375 | 7,423,966 | 777,261 | 10,829,602 | 14,635,258 |
| Net assets released from restriction and redesignations | 6,357,505 | (6,361,155) | 3,650 | - | - |
| EXPENSES | | | | | |
| Program Expenses: | | | | | |
| Scholarship and loan services | 8,715,155 | - | - | 8,715,155 | 7,562,457 |
| Outreach and financial aid services | 278,250 | - | - | 278,250 | 546,594 |
| Total Program Expenses | 8,993,405 | - | - | 8,993,405 | 8,109,051 |
| Supporting Services: | | | | | |
| General and administrative | 561,495 | - | - | 561,495 | 406,650 |
| Fundraising | 516,812 | - | - | 516,812 | 485,804 |
| Total Supporting Services | 1,078,307 | - | - | 1,078,307 | 892,454 |
| Total Expenses | 10,071,712 | - | - | 10,071,712 | 9,001,505 |
| Change in Net Assets | (1,085,832) | 1,062,811 | 780,911 | 757,890 | 5,633,753 |
| Net Assets, beginning of year | 8,897,039 | 5,713,211 | 32,783,851 | 47,394,101 | 41,760,348 |
| Net Assets, ending of year | \$ 7,811,207 | \$ 6,776,022 | \$ 33,564,762 | \$ 48,151,991 | \$ 47,394,101 |

Scholarship Foundation of Santa Barbara
Statements of Functional Expenses

| | Program | | | Supporting Services | | 2018 | 2017 |
|---------------------------------------|---------------------|-----------------------------------|---------------------|----------------------------|-------------------|----------------------|---------------------|
| | Student Aid | Outreach & Financial Aid Services | Total | General and Administrative | Fundraising | | |
| Salaries | \$ 579,083 | \$ 177,703 | \$ 756,786 | \$ 379,114 | \$ 284,745 | \$ 1,420,645 | \$ 1,222,331 |
| Employee benefits | 63,677 | 19,540 | 83,217 | 41,688 | 31,311 | 156,216 | 229,690 |
| Payroll taxes | 41,949 | 12,873 | 54,822 | 27,464 | 20,628 | 102,914 | 90,353 |
| Professional fees & consulting | 16,099 | - | 16,099 | 14,000 | 7,735 | 37,834 | 25,477 |
| Depreciation and amortization | 25,701 | 11,714 | 37,415 | 8,601 | 9,458 | 55,474 | 58,637 |
| Rent | 41,755 | 19,031 | 60,786 | 13,973 | 15,365 | 90,124 | 88,340 |
| Telephone and utilities | 8,878 | 4,047 | 12,925 | 2,971 | 3,267 | 19,163 | 16,253 |
| Insurance | 5,852 | 2,667 | 8,519 | 1,958 | 2,153 | 12,630 | 9,915 |
| Advertising and promotion | 5,284 | 3,157 | 8,441 | 100 | 38,366 | 46,907 | 39,471 |
| Printing and graphics | 3,093 | 112 | 3,205 | 1,050 | 3,067 | 7,322 | 9,452 |
| Postage | 3,898 | 217 | 4,115 | 2,971 | 7,399 | 14,485 | 16,972 |
| Public relations and meetings | 30,457 | 1,602 | 32,059 | 21,330 | 65,039 | 118,428 | 117,764 |
| Supplies | 9,205 | 4,196 | 13,401 | 3,081 | 3,388 | 19,870 | 17,001 |
| Information technology | 41,572 | 9,160 | 50,732 | 9,227 | 11,367 | 71,326 | 67,306 |
| Repairs and maintenance | 4,888 | 2,227 | 7,115 | 1,635 | 1,798 | 10,548 | 9,711 |
| Legal and accounting | - | - | - | 22,019 | - | 22,019 | 28,358 |
| Education and conferences | 5,700 | 370 | 6,070 | 7,965 | 648 | 14,683 | 10,221 |
| Travel | 9,183 | 7,448 | 16,631 | 743 | 1,401 | 18,775 | 17,357 |
| Scholarships awarded | 7,814,087 | - | 7,814,087 | - | - | 7,814,087 | 6,910,029 |
| Miscellaneous | 4,794 | 2,186 | 6,980 | 1,605 | 9,677 | 18,262 | 16,867 |
| 2018 Total Functional Expenses | \$ 8,715,155 | \$ 278,250 | \$ 8,993,405 | \$ 561,495 | \$ 516,812 | \$ 10,071,712 | |
| 2017 Total Functional Expenses | \$ 7,562,457 | \$ 546,594 | \$ 8,109,051 | \$ 406,650 | \$ 485,804 | | \$ 9,001,505 |

See accompanying notes.

Scholarship Foundation of Santa Barbara

Statements of Cash Flows

| | Years Ended June 30, | |
|--|----------------------|---------------------|
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 757,890 | \$ 5,633,753 |
| Adjustments to reconcile change in net assets to cash (used in) operating activities: | | |
| Depreciation and amortization | 55,474 | 58,637 |
| Net realized and unrealized gains on investments | (1,363,529) | (4,204,021) |
| Donated securities | (188,317) | (171,314) |
| Change in value of split interest agreements | 7,368 | (18,137) |
| Contributions permanently restricted | (781,033) | (2,461,963) |
| Changes in operating assets and liabilities: | | |
| Split interest agreements | - | 284,968 |
| Pledges receivable | 365,073 | (789,681) |
| Interest and other receivables | 16,299 | 32,453 |
| Prepaid expenses and deposits | 9,131 | 18,239 |
| Scholarships payable | 234,503 | (494,235) |
| Accounts payable and accrued expenses | (1,968) | 6,653 |
| Net cash (used in) operating activities | <u>(889,109)</u> | <u>(2,104,648)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of equipment | (9,482) | (25,752) |
| Proceeds from sale of investments | 11,187,152 | 5,098,490 |
| Purchase of investments | <u>(7,189,863)</u> | <u>(5,570,528)</u> |
| Net cash provided by (used in) investing activities | <u>3,987,807</u> | <u>(497,790)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions permanently restricted | <u>781,033</u> | <u>2,461,963</u> |
| Net cash provided by investing activities | <u>781,033</u> | <u>2,461,963</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 3,879,731 | (140,475) |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>4,628,194</u> | <u>4,768,669</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 8,507,925</u> | <u>\$ 4,628,194</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Noncash transactions consisted of the following: | | |
| In-kind donation of contributed goods and services | <u>\$ 26,854</u> | <u>\$ 22,066</u> |

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 1 – Nature of Operations

Scholarship Foundation of Santa Barbara (the "Foundation") is a California nonprofit public benefit organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and applicable State tax codes. The objective of the Foundation is to provide scholarships to graduates of high schools in Santa Barbara County, California. The Scholarship Foundation of Santa Barbara inspires, encourages, and supports Santa Barbara County students to and through college, graduate, and vocational school by providing information, advising, and scholarships. The Foundation also provides free outreach and financial aid counseling as a public service. The Scholarship Foundation of Santa Barbara believes that students need and deserve education beyond high school. Since its founding in 1962, the Scholarship Foundation of Santa Barbara has impacted the lives of local youth by awarding scholarships provided by generous donors, advising students and their families on how to save for and afford college, and reaching out to encourage students who are underserved or overlooked.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – The financial statements of the Foundation have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 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.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Revenue recognition – Public support revenue (including donations and bequests) are recognized when received and are reported as increases in the appropriate category of net assets. Contributions where donor restrictions are met within the same fiscal year as the contribution are included in without donor restriction net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions even when a donor restriction expires in the same reporting period that the contribution was made. Contributions of assets other than cash are recorded at their fair value. Unconditional contributions to be received in future periods are discounted to net present value at an appropriate discount rate, if significant.

Other sources of revenue consist primarily of grant revenue, revenue from investments, and mineral royalties, and are recognized when services are earned.

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.

Functional allocation of expenses – The costs of providing the various programs and other activities have been summarized on a functional basis. Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on methods determined by management.

Fair value of financial instruments – The estimated fair values of the Foundation's short-term financial instruments, including cash, cash equivalents, accrued expenses, 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. Investments are reported at fair value.

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. Deposit accounts at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Contributions receivable – Contributions receivable or pledges 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 collectability of individual promises.

Investments – Investments include multi-asset funds, marketable securities, U.S treasury bills, hedge funds, and foreign corporate bonds. Marketable securities (including exchange traded funds) and U.S. treasury bills are recorded at fair value based on quoted prices for identical securities. The multi-asset fund and hedge fund investments are recorded at estimated fair value based on the Foundation's share of net asset value as reported by each of the investment funds. Foreign corporate bonds are recorded at fair value based on similarly priced bonds in an active market. Donated securities are recorded at the estimated fair value on the date received.

Fair value measurements – U.S. GAAP defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. U.S. GAAP provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction.

The Foundation carries all of their investments at fair value in accordance with generally accepted accounting principles.

The standard also prioritizes, within the measurement of fair value, the use of market-based information for investments not measured using the net asset value per share over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date. The three levels of hierarchy are as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date;

Level 2 – Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 – Inputs that are unobservable.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Inputs are used in applying the valuation techniques and broadly refer to the assumptions that the Foundation uses to make valuation decisions, including assumptions about risk. Inputs may include quoted market prices, recent transactions, manager statements, provisions within agreements with investment managers and other factors. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Foundation's perceived risk of the investment.

Transfers between hierarchy levels are recognized at the end of the reporting period. There were no transfers for the years ended June 30, 2018 or 2017.

The investments of the Foundation in Level 1 include exchange-traded funds and are valued based on quoted market prices of identical assets.

The investments of the Foundation in Level 2 include government securities, U.S. Treasury Bills, certificate of deposits, and a foreign corporate bond and are valued based on quoted market prices of comparable assets.

The investments of the Foundation in Level 3 include charitable remainder trusts reported at the estimated fair value based on the discounted value of anticipated future cash flows.

The investments of the Foundation in Assets Held at Net Asset Value (or equivalent) include a multi-asset fund and hedge funds and other alternative investments. The Investment Committee, monitors the valuations monthly and does a performance analysis quarterly. The Investment Committee reports to the Board of Trustees. The valuations consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information.

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 \$2,000 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 | 3–7 years |
| Leasehold improvements | Lesser of lease term or useful life |

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.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Contributions receivable from split interest agreements – The Foundation is the remainderman for four charitable split interest agreements 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 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 percent to 10 percent 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.

Land held for investment – Land investments are stated at the lower of historical cost, if purchased, or fair value at the date of donation. The Foundation's investment in land consists of interest in unimproved land located in Santa Barbara, California. Periodic fair value appraisals are made as deemed necessary based on economic conditions and management discretion.

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, 2018, the Foundation awarded scholarships totaling \$8,321,458 and estimated \$832,146 of the awarded scholarships will be rescinded. 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 2015, 2016, and 2017 are still open to audit for both federal and state purposes. Contributions to the Foundation are tax deductible to donors under Section 170 of the IRC. The Foundation is not classified as a private foundation.

The Foundation had no uncertain tax positions for the years ended June 30, 2018 or 2017.

Donated goods and services – Donated goods received by the Foundation are recorded at the estimated fair value at the time of the donation. Donated or contributed services are reported at fair value in the financial statements for voluntary donations of services when those services (1) create or enhance non-financial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation. The value of donated services is also recorded as an equivalent expense in the period incurred.

Comparative amounts – The amounts shown for 2017 in the accompanying financial statements are included to provide a basis for comparison with 2018 and are not intended to present all information necessary for a fair presentation of the 2017 financial statements in conformity with generally accepted accounting principles.

Subsequent events – Subsequent events are events or transactions that occur after the Statement of Financial Position date but before financial statements are available to be issued. The Foundation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the Statement of Financial Position, including the estimates inherent in the process of preparing the financial statements. The Foundation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the Statement of Financial Position but arose after the statement of financial position date and before financial statements are available to be issued.

The Foundation has evaluated subsequent events through October 12, 2018, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that need to be disclosed.

Recently adopted accounting pronouncement – *ASU 2015-07- Topic 820 Fair Value Hierarchy Levels for Certain Investments Measured at Net Asset Value*. The Foundation adopted the fair value measurement promulgated by the Financial Accounting Standards Board (FASB) during the fiscal year ended June 30, 2018. This update removes the requirement to categorize investments measured using the net asset value per share/unit practical expedient within the fair value hierarchy. This update has been applied retrospectively and prior year disclosures have been revised accordingly.

Scholarship Foundation of Santa Barbara Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* promulgated by the Financial Accounting Standards Board (FASB). During the fiscal year ended June 30, 2018, the Foundation adopted this standard, which requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of the financial statements are issued and to provide related footnote disclosures in certain circumstances. The adoption of this accounting pronouncement did not have an impact on the Foundations' financial statements.

Reclassifications – Certain reclassifications have been made to the 2017 financial statements to conform to current year presentation. These reclassifications have no effect on previously reported change in net assets or total ending net assets of the Foundation.

Note 3 – 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, 2018 and 2017, pledges receivable totaled \$2,589,971 and \$2,955,044, respectively. Management believes all receivables are collectible and thus no reserve for doubtful pledges has been established. The pledges receivable as of June 30, 2018, are expected to be collected in the following years:

| | 2018 | 2017 |
|--------------------------|---------------------|---------------------|
| Amounts due in | | |
| Less than one year | \$ 2,518,971 | \$ 2,901,359 |
| One to five years | 62,000 | 53,685 |
| Over five years | 9,000 | - |
| | <u>2,589,971</u> | <u>-</u> |
| Total Pledges Receivable | <u>\$ 2,589,971</u> | <u>\$ 2,955,044</u> |

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 at historical cost in the Statements of Financial Position at the date of donation, less depletion. As of June 30, 2018, the cost and accumulated amortization is \$50,000 and \$42,000, respectively. As of June 30, 2017, the cost and accumulated amortization is \$50,000 and \$40,000, respectively.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 5 – Investments and Fair Value Measurement

The Foundation's investments include both marketable securities and nonmarketable securities. At June 30, 2018 and 2017, investments consist of the following, stated at fair value:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------|--------------------------|--------------------------|
| Multi-Asset Fund | \$ 36,451,343 | \$ 39,040,172 |
| Exchange-Traded Funds | 4,308,918 | 6,888,215 |
| U.S Treasury Bills | 2,307,672 | - |
| Cash Equivalents | 488,990 | - |
| Global Distressed Debt - Hedge Fund | 151,938 | 225,767 |
| Government Securities | 71 | 221 |
| Foreign Corporate Bonds | <u>475,000</u> | <u>475,000</u> |
| Total | <u>\$ 44,183,932</u> | <u>\$ 46,629,375</u> |

Net unrealized loss and net realized gain in the Foundation's total investments were \$2,302,117 and \$3,665,646 respectively, for the year ended June 30, 2018.

Net unrealized gain and net realized gain in the Foundation's total investments were \$4,153,924 and \$50,097 respectively, for the year ended June 30, 2017.

The following table summarizes the Foundation's financial assets by the fair value hierarchy levels as of June 30, 2018:

| | <u>June 30, 2018</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Net Asset Value (or equivalent)</u> |
|-------------------------------------|--------------------------|-------------------------|-------------------------|-----------------|--|
| Multi-Asset Fund | \$ 36,451,343 | \$ - | \$ - | \$ - | \$ 36,451,343 |
| Exchange-Traded Funds | 4,308,918 | 4,308,918 | - | - | - |
| U.S Treasury Bills | 2,307,672 | - | 2,307,672 | - | - |
| Global Distressed Debt - Hedge Fund | 151,938 | - | - | - | 151,938 |
| Government Securities | 71 | - | 71 | - | - |
| Foreign Corporate Bonds | 475,000 | - | 475,000 | - | - |
| Cash equivalents | <u>488,990</u> | <u>-</u> | <u>488,990</u> | <u>-</u> | <u>-</u> |
| Total investments | <u>\$ 44,183,932</u> | <u>\$ 4,308,918</u> | <u>\$ 3,271,733</u> | <u>\$ -</u> | <u>\$ 36,603,281</u> |

Scholarship Foundation of Santa Barbara Notes to Financial Statements

Note 5 – Investments and Fair Value Measurement (continued)

| | June 30, 2018 | Level 1 | Level 2 | Level 3 | Assets Held at Net Asset Value (or equivalent) |
|------------------------------|-------------------|-------------|-------------|-------------------|--|
| Beneficial interest in | | | | | |
| Charitable Remainder Trusts | \$ 174,948 | \$ - | \$ - | \$ 174,948 | \$ - |
| Total other financial assets | <u>\$ 174,948</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 174,948</u> | <u>\$ -</u> |

For the year ended June 30, 2018, the changes in other financial assets classified as Level 3 are as follows:

| | <u>2018</u> |
|--|---|
| | <u>Beneficial Interest in Charitable Remainder Trusts</u> |
| Balance, beginning of year, July 1, 2017 | \$ 182,316 |
| Changes in value | <u>(7,368)</u> |
| Balance, end of year, June 30, 2018 | <u>\$ 174,948</u> |

The following table summarizes the Foundation's financial assets by the fair value hierarchy levels as of June 30, 2017:

| | June 30, 2017 | Level 1 | Level 2 | Level 3 | Net Asset Value (or equivalent) |
|-------------------------------------|----------------------|---------------------|-------------------|-------------|------------------------------------|
| Multi-Asset Fund | \$ 39,040,172 | \$ - | \$ - | \$ - | \$ 39,040,172 |
| Exchange-Traded Funds | 6,888,215 | 6,888,215 | - | - | - |
| Global Distressed Debt - Hedge Fund | 225,767 | - | - | - | 225,767 |
| Government Securities | 221 | - | 221 | - | - |
| Foreign Corporate Bond | <u>475,000</u> | <u>-</u> | <u>475,000</u> | <u>-</u> | <u>-</u> |
| Total investments | <u>\$ 46,629,375</u> | <u>\$ 6,888,215</u> | <u>\$ 475,221</u> | <u>\$ -</u> | <u>\$ 39,265,939</u> |

| | June 30, 2017 | Level 1 | Level 2 | Level 3 | Assets Held at Net Asset Value (or equivalent) |
|------------------------------|-------------------|-------------|-------------|-------------------|--|
| Beneficial interest in | | | | | |
| Charitable Remainder Trusts | \$ 182,316 | \$ - | \$ - | \$ 182,316 | \$ - |
| Total other financial assets | <u>\$ 182,316</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 182,316</u> | <u>\$ -</u> |

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 5 – Investments and Fair Value Measurement (continued)

For the year ended June 30, 2017, the changes in other financial assets classified as Level 3 are as follows:

| | <u>2017</u> |
|--|--|
| | Beneficial Interest in Charitable Remainder Trusts |
| Balance, beginning of year, July 1, 2016 | \$ 449,147 |
| Distributions | (284,968) |
| Changes in value | <u>18,137</u> |
| Balance, end of year, June 30, 2017 | <u><u>\$ 182,316</u></u> |

The following table summarizes the liquidity, redemption restrictions, and any capital commitments of the Foundation's financial assets which are valued using the fair value practical expedient of net asset value or its equivalent, as of June 30, 2018.

| | <u>2018</u> | | | |
|-------------------------------------|-----------------------------------|---------------------------------|---------------------------------|-------------------------------------|
| | <u>Fair Value at Year End</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
| Multi-Asset Fund | \$ 36,451,343 | \$ - | None | None |
| Global Distressed Debt - Hedge Fund | <u>151,938</u> | <u>152,600</u> | Annual | 120 Days |
| | <u><u>\$ 36,603,281</u></u> | <u><u>\$ 152,600</u></u> | | |

Multi-Assets Funds' investment objectives and strategy is to seek long term meaningful returns while providing appropriate diversification to avoid market sensitivity. This objective is achieved through diversification across multiple asset classes, including investment in equity oriented assets and fixed income assets.

Hedge Fund investment seeks to pursue an investment program consisting of various types distressed debt investments that seeks to provide a net internal rate of return to investors in the mid-teens. In certain credit environments, these Funds may also invest in performing debt (new issue or secondary) that is not stressed. The strategy intends to achieve its objective by pursuing both public, liquid trading strategies and private, longer term, illiquid active strategies in the U.S. and international credit markets, subject to available investment opportunities and prevailing market conditions.

Scholarship Foundation of Santa Barbara Notes to Financial Statements

Note 5 – Investments and Fair Value Measurement (continued)

The following table represents the Organization's Level 3 financial instruments for the year ended June 30, 2018, the valuation technique used to measure the fair value of the financial instruments and the significant unobservable inputs and the ranges of values for those inputs:

| Instrument | Fair Value | Principal Valuation Technique | Unobservable Inputs | Range |
|---|------------|-------------------------------------|--|-------------|
| Beneficial interest in Charitable Remainder Trusts | \$ 174,948 | Income Approach | Discount rate based on mortality tables | 3.4% to 10% |

Note 6 – Property and Equipment

Property and equipment at June 30, 2018 and 2017, consist of the following major classifications:

| | 2018 | 2017 |
|-------------------------------|-------------------|-------------------|
| Leasehold improvements | \$ 362,106 | \$ 362,106 |
| Furniture and equipment | 330,954 | 321,472 |
| Total cost | 693,060 | 683,578 |
| Less accumulated depreciation | (562,611) | (509,137) |
| Net property and equipment | <u>\$ 130,449</u> | <u>\$ 174,441</u> |

For the years ending June 30, 2018 and 2017, the Foundation recognized depreciation expense of \$53,474 and \$56,637, respectively.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 7 – Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2018 and 2017, are available for the following purposes:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------|---------------------|---------------------|
| Scholarships | \$ 882,502 | \$ 1,190,739 |
| Endowment earnings | 5,217,871 | 4,305,125 |
| Outreach and financial aid services | 70,000 | 70,000 |
| Future years operational expense | 460,000 | - |
| Alumni donations fund | - | 8,102 |
| Capital expenses | 20,000 | 10,000 |
| Split interest agreements | 125,649 | 129,245 |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 6,776,022</u> | <u>\$ 5,713,211</u> |

Note 8 – Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2018 and 2017, are restricted to:

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|
| Investments held in perpetuity, with income and appreciation expendable to support scholarships | \$ 33,515,463 | \$ 32,730,780 |
| Split interest agreements | 49,299 | 53,071 |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 33,564,762</u> | <u>\$ 32,783,851</u> |

Note 9 – Assets Released from Donor Restrictions

During the year ended June 30, 2018, the Foundation released a total of \$6,361,155 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, 2017, the Foundation released a total of \$6,760,626 from temporarily restricted net assets from donor restrictions by awarding scholarships as specified by donors and fulfilling student aid services.

Note 10 – Commitments and Contingencies

Operating Leases – The Foundation rents facilities located in Santa Barbara, California under a lease agreement expiring on April 30, 2021, with minimum annual increases of 3 percent.

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.

Scholarship Foundation of Santa Barbara Notes to Financial Statements

Note 10 – Commitments and Contingencies (continued)

Rent expense for these leases totaled \$90,124 and \$88,340 for the years ended June 30, 2018 and 2017, respectively.

As of June 30, 2018, minimum lease payments under these noncancelable operating leases for future years ending are as follows:

| <u>Years Ending June 30,</u> | |
|------------------------------|-------------------|
| 2019 | \$ 80,059 |
| 2020 | 82,460 |
| 2021 | <u>70,427</u> |
| | <u>\$ 232,946</u> |

Legal proceedings – From time to time, the Foundation is party to various legal proceedings incidental to its operations. In the opinion of management, none of these items, individually or in the aggregate, would have a significant effect on the financial position, result of operations, cash flows or liquidity of the Foundation.

Note 11 – Concentrations

A significant portion, of the Foundation's public support comes from the Santa Barbara Foundation. At June 30, 2018 and 2017, \$1,266,967 and \$1,448,021 is receivable from the Santa Barbara Foundation, respectively. In addition, approximately 36 percent of the Foundation's public support for the year ended June 30, 2018 was received from 2 donors, the Santa Barbara Foundation and Cavalletto Charities.

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 should mitigate the impact of changes in any one class.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

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 percent for the first 5 percent of deferred salary. After one year of service, the Foundation also contributes an additional 2 percent of the employee's salary. Contributions and expenses for the years ended June 30, 2018 and 2017, were \$75,888 and \$70,584, respectively.

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 June 2018, there are no participants designated by the Board of Directors. There was no expense for the 457(b) plan for the years ended June 30, 2018 and 2017.

Note 13 – Endowment

The Foundation's endowment consists of approximately 186 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:

- (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

Scholarship Foundation of Santa Barbara Notes to Financial Statements

Note 13 – Endowment (continued)

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 are reported in unrestricted net assets, and at June 30, 2018 and 2017, there were three funds and zero funds with deficiencies, respectively. Deficits of this nature reported in unrestricted net assets were \$230 and \$0 as of June 30, 2018 and 2017, respectively. Future gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporary restricted net assets.

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 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 percent and 6 percent, 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, 2018:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Donor-restricted endowment funds | <u>\$ (230)</u> | <u>\$ 5,217,871</u> | <u>\$ 33,564,762</u> | <u>\$ 38,782,403</u> |

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 13 – Endowment (continued)

Changes in Endowment Net Assets for the Year Ended June 30, 2018:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets, beginning of year | \$ - | \$ 4,305,125 | \$ 32,783,851 | \$ 37,088,976 |
| Investment return: | | | | |
| Investment income | - | 1,640,647 | - | 1,640,647 |
| Net appreciation (realized and unrealized) | - | 993,946 | - | 993,946 |
| Total investment return | - | 2,634,593 | - | 2,634,593 |
| Contributions | - | - | 781,033 | 781,033 |
| Appropriation of endowment assets for expenditures | - | (1,877,600) | - | (1,877,600) |
| Other changes: | | | | |
| Prior year appropriations returned to funds * | - | 155,523 | - | 155,523 |
| Transfer for underwater endowments | (230) | 230 | - | - |
| Other | - | - | 3,650 | 3,650 |
| Change in value, split interest agreements | - | - | (3,772) | (3,772) |
| Endowment net assets, end of year | <u>\$ (230)</u> | <u>\$ 5,217,871</u> | <u>\$ 33,564,762</u> | <u>\$ 38,782,403</u> |

* Prior year appropriations returned to fund relate to awards adjusted if a student is not enrolled full-time, or no longer meets donor fund criteria or has a change in financial need.

Endowment Net Asset Composition by Type of Fund as of June 30, 2017:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Donor-restricted endowment funds | <u>\$ -</u> | <u>\$ 4,305,125</u> | <u>\$ 32,783,851</u> | <u>\$ 37,088,976</u> |

Scholarship Foundation of Santa Barbara
Notes to Financial Statements

Note 13 – Endowment (continued)

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

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|----------------------|
| 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) | - | 3,535,669 | - | 3,535,669 |
| 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 | - | - | (962) | (962) |
| 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 fund relate to awards adjusted if a student is not enrolled full-time, or no longer meets donor fund criteria or has a change in financial need.

Note 14 – Scholarships Awarded

Scholarships awarded for the years ended June 30, 2018 and 2017, consist of the following:

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Scholarships awarded | \$ 8,321,458 | \$ 8,437,275 |
| Estimated scholarship rescissions | (832,146) | (1,182,466) |
| Scholarship awards payable, net | 7,489,312 | 7,254,809 |
| Prior year rescission true-up | 324,775 | (344,780) |
| Total Scholarship award expense (Per Statement of Functional Expense) | <u>\$ 7,814,087</u> | <u>\$ 6,910,029</u> |