



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

June 30, 2021 and 2020



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Report of Independent Auditors

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, 2021, which comprise the statement of financial position as of June 30, 2021, 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, 2021, 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

We have previously audited the Foundation's June 30, 2020 financial statements, and our report, dated October 12, 2020, 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, 2020, is consistent, in all material respects, with the audited financial statements from which it was derived.

Moss Adams LLP

Los Angeles, California
October 18, 2021

Scholarship Foundation of Santa Barbara
Statements of Financial Position

ASSETS		June 30,	
		<u>2021</u>	<u>2020</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	9,412,160	\$ 7,848,917
Pledges receivable		1,587,615	1,796,411
Interest receivable		4,188	3,143
Other receivables		1,264	746
Prepaid expenses		33,488	43,770
Total current assets		<u>11,038,715</u>	<u>9,692,987</u>
INVESTMENTS		<u>62,908,419</u>	<u>48,652,851</u>
PROPERTY AND EQUIPMENT, net		<u>17,204</u>	<u>40,405</u>
OTHER ASSETS			
Pledges receivable, long-term		-	18,000
Mineral interests, net		2,000	4,000
Deposits		2,216	2,216
Land held for investment		110,000	110,000
Contributions receivable from split interest agreements		158,905	151,871
Total other assets		<u>273,121</u>	<u>286,087</u>
Total assets		<u><u>\$ 74,237,459</u></u>	<u><u>\$ 58,672,330</u></u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$	134,218	\$ 109,537
Scholarship awards payable, net		7,132,052	5,357,083
Note payable		242,470	242,470
Total current liabilities		<u>7,508,740</u>	<u>5,709,090</u>
NET ASSETS			
Without donor restrictions		7,083,151	5,640,757
With donor restrictions		59,645,568	47,322,483
Total net assets		<u>66,728,719</u>	<u>52,963,240</u>
Total liabilities and net assets		<u><u>\$ 74,237,459</u></u>	<u><u>\$ 58,672,330</u></u>

Scholarship Foundation of Santa Barbara

Statements of Activities

(With Summarized Comparative Financial Information for the Year Ended June 30, 2020)

	Without Donor Restrictions	With Donor Restrictions	For the Year Ended June 30,	
			2021 Total	2020 Total
PUBLIC SUPPORT AND REVENUE				
Public support				
Fundraising events – gross revenue	\$ -	\$ 74,802	\$ 74,802	\$ 3,003
Donations	1,334,922	5,495,902	6,830,824	6,834,201
Bequests	926,334	16,950	943,284	1,395,198
Total public support	<u>2,261,256</u>	<u>5,587,654</u>	<u>7,848,910</u>	<u>8,232,402</u>
Revenue				
Grant for student aid support	85,392	-	85,392	85,392
Interest and dividends	109,716	1,208,862	1,318,578	1,080,527
Realized and unrealized gain (loss) on investments	1,106,340	12,117,057	13,223,397	(407,149)
Mineral royalties	43,382	-	43,382	64,870
Change in value of split interest agreements	-	7,034	7,034	(18,793)
Total revenue	<u>1,344,830</u>	<u>13,332,953</u>	<u>14,677,783</u>	<u>804,847</u>
Total public support and revenue	<u>3,606,086</u>	<u>18,920,607</u>	<u>22,526,693</u>	<u>9,037,249</u>
Net assets released from restriction and redesignations	<u>6,597,522</u>	<u>(6,597,522)</u>	<u>-</u>	<u>-</u>
EXPENSES				
Program expenses				
Scholarship and student aid	7,846,343	-	7,846,343	6,266,667
Outreach and financial aid services	295,959	-	295,959	309,722
Total program expenses	<u>8,142,302</u>	<u>-</u>	<u>8,142,302</u>	<u>6,576,389</u>
Supporting services				
General and administrative	359,996	-	359,996	358,222
Fundraising	258,916	-	258,916	476,159
Total supporting services	<u>618,912</u>	<u>-</u>	<u>618,912</u>	<u>834,381</u>
Total expenses	<u>8,761,214</u>	<u>-</u>	<u>8,761,214</u>	<u>7,410,770</u>
CHANGE IN NET ASSETS	1,442,394	12,323,085	13,765,479	1,626,479
NET ASSETS, beginning of year	<u>5,640,757</u>	<u>47,322,483</u>	<u>52,963,240</u>	<u>51,336,761</u>
NET ASSETS, ending of year	<u>\$ 7,083,151</u>	<u>\$ 59,645,568</u>	<u>\$ 66,728,719</u>	<u>\$ 52,963,240</u>

Scholarship Foundation of Santa Barbara Statements of Functional Expenses

(With Summarized Comparative Financial Information for the Year Ended June 30, 2020)

	Program			Supporting Services		For the Year Ended June 30,	
	Student Aid	Outreach and Financial Aid Services	Total	General and Administrative	Fundraising	2021	2020
Salaries	\$ 539,426	\$ 189,992	\$ 729,418	\$ 217,032	\$ 165,076	\$ 1,111,526	\$ 1,362,543
Employee benefits	73,849	26,010	99,859	29,712	22,599	152,170	173,757
Payroll taxes	38,389	13,521	51,910	15,445	11,748	79,103	106,881
Professional fees and consulting	4,570	4,570	9,140	4,570	4,570	18,280	29,912
Depreciation and amortization	18,415	7,003	25,418	6,522	3,261	35,201	44,923
Rent	49,107	18,673	67,780	17,391	8,695	93,866	93,900
Telephone and utilities	12,329	4,688	17,017	4,366	2,183	23,566	22,723
Insurance	8,199	3,118	11,317	2,903	1,452	15,672	13,870
Advertising and promotion	4,498	2,999	7,497	-	22,491	29,988	43,770
Printing and graphics	1,482	1,482	2,964	1,482	1,482	5,928	8,439
Postage	2,345	131	2,476	1,789	4,456	8,721	11,259
Public relations and meetings	-	-	-	3,478	-	3,478	59,759
Supplies	5,067	1,927	6,994	1,794	897	9,685	20,737
Information technology	43,492	16,538	60,030	15,402	7,701	83,133	69,036
Repairs and maintenance	5,203	1,978	7,181	1,843	921	9,945	11,926
Legal and accounting	-	-	-	33,500	-	33,500	40,603
Education and conferences	1,544	-	1,544	-	-	1,544	3,205
Travel	-	358	358	-	-	358	14,659
Scholarships awarded	7,030,614	-	7,030,614	-	-	7,030,614	5,268,653
Miscellaneous	7,814	2,971	10,785	2,767	1,384	14,936	10,215
2021 total functional expenses	<u>\$ 7,846,343</u>	<u>\$ 295,959</u>	<u>\$ 8,142,302</u>	<u>\$ 359,996</u>	<u>\$ 258,916</u>	<u>\$ 8,761,214</u>	
2020 total functional expenses	<u>\$ 6,266,667</u>	<u>\$ 309,722</u>	<u>\$ 6,576,389</u>	<u>\$ 358,222</u>	<u>\$ 476,159</u>		<u>\$ 7,410,770</u>

See accompanying notes.

Scholarship Foundation of Santa Barbara

Statements of Cash Flows

	Years Ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 13,765,479	\$ 1,626,479
Adjustments to reconcile change in net assets to cash used in operating activities		
Depreciation and amortization	35,201	44,923
Net realized and unrealized gains on investments	(13,223,397)	407,149
Donated securities	(198,985)	(533,157)
Change in value of split interest agreements	(7,034)	18,793
Contributions perpetually restricted	(1,270,839)	(2,233,453)
Changes in operating assets and liabilities		
Pledges receivable	226,796	421,849
Interest and other receivables	(1,563)	19,052
Prepaid expenses and deposits	10,282	(10,620)
Accounts payable and accrued expenses	24,681	(8,777)
Scholarships payable	1,774,969	(1,823,136)
Net cash provided by (used in) operating activities	<u>1,135,590</u>	<u>(2,070,898)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(10,000)	-
Proceeds from sale of investments	12,922,153	15,486,728
Purchase of investments	<u>(13,755,339)</u>	<u>(21,413,282)</u>
Net cash used in investing activities	<u>(843,186)</u>	<u>(5,926,554)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on note payable	-	242,470
Contributions perpetually restricted	<u>1,270,839</u>	<u>2,233,453</u>
Net cash provided by investing activities	<u>1,270,839</u>	<u>2,475,923</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,563,243	(5,521,529)
CASH AND CASH EQUIVALENTS, beginning of year	<u>7,848,917</u>	<u>13,370,446</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 9,412,160</u>	<u>\$ 7,848,917</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Noncash transactions consisted of the following		
In-kind donation of contributed goods and services	<u>\$ -</u>	<u>\$ 13,600</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 (IRC) 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 Foundation 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 (U.S. GAAP).

Summarized comparative information – The statements of activities and statements of functional expenses include prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation’s financial statements for the year ended June 30, 2020, from which the summarized information was derived.

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

Without donor restrictions – Net assets without donor restrictions are resources available to support operations. The only limits on the use of net assets without donor restrictions 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.

With donor restrictions – Net assets with donor restrictions 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. Some assets restricted by a donor are 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.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 with donor-restriction to without donor-restriction net assets. Net assets restricted for acquisition of buildings or equipment (or, less commonly, the contribution of those assets directly) are reported as donor-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.

Revenue recognition – Public support revenue (including donations and bequests) are recognized when received or unconditionally pledged 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 earned.

Classification of transactions – All revenues and net gains are reported as increases in net assets without donor restrictions in the statements of activities unless the use of the related resources is subject to donor restrictions. All expenses and net losses other than losses on endowment investments and actuarial adjustments are reported as decreases in net assets without donor restrictions. Net losses on endowment investments reduce net assets with donor restrictions.

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, including time and effort.

Cash and cash equivalents – Cash equivalents are short-term, interest bearing, highly liquid investments with original maturities of three months or less, unless the cash equivalents 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.

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.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 more than one year are reported at net realizable value. Net realizable 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 – Marketable securities (including exchange traded funds) 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. Alternative equity funds are recorded at fair value based on similarly priced investments in an active market. Donated securities are recorded at the estimated fair value on the date received. Unrealized gains and losses reflect the changes in the fair values of investments. Investment income and gains and losses on investments without donor restrictions, net of related expenses, are reported as increases or decreases in net assets without donor restrictions.

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 its investments at fair value in accordance with U.S. GAAP.

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 – Observable inputs other than Level 1 inputs such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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.

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 alternative equity funds 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 hedge funds. The Investment Committee monitors the valuations monthly and does a performance analysis quarterly. The Investment Committee reports to the Board of Directors. 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 statements of financial position at cost, if purchased, and at fair value at the date of donation, if donated. Leasehold improvements, furniture, and equipment are capitalized if they have 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.

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.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

The trusts are separate legal entities, created under the provisions of Section 664 of the IRC, 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, 2021, the Foundation awarded scholarships totaling \$8,013,542 and estimated \$881,490 of the awarded scholarships will be rescinded. For the year ended June 30, 2020, the Foundation awarded scholarships totaling \$6,019,194 and estimated \$662,111 of the awarded scholarships will be rescinded.

Use of estimates – The preparation of financial statements in accordance with U.S. GAAP 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 net assets with donor restrictions is considered expendable for scholarships and is allocated to the net assets with donor restrictions until the scholarships are awarded. The balance of investment income is allocated to the net assets without donor restrictions.

Income taxes – The Foundation is incorporated exempt from federal income taxation under Section 501(c)(3) of the IRC, though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). Contributions to the Foundation are tax deductible to donors under Section 170 of the IRC. The Foundation is not classified as a private foundation.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

The Foundation had no uncertain tax positions for the years ended June 30, 2021 or 2020.

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.

Recently adopted accounting standards – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASC 606”). As compared to existing guidance on revenue recognition, ASU 2014-09 significantly enhances comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. On July 1, 2020, the Foundation adopted ASU 2014-09, applying the modified retrospective method. The adoption did not have a material impact on the measurement or the recognition of revenue.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies disclosure requirements for transfers between levels in the fair value hierarchy, timing of liquidation of investments in certain entities that calculate net asset value, and various disclosures relating the Level 3 investments. The Foundation has adopted this standard as of July 1, 2020, using the prospective method for certain disclosures and the retrospective method for all others. The adoption of this guidance did not have a material impact on the Foundation’s financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the statements of financial position date but before the 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 statements 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 statements of financial position but arose after the statements of financial position date and before the financial statements are available to be issued.

The Foundation has evaluated subsequent events through October 18, 2021, 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.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

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, 2021 and 2020, pledges receivable totaled \$1,587,615 and \$1,814,411, respectively. Management believes all receivables are collectible and thus no reserve for doubtful pledges has been established. The pledges receivable as of June 30 are expected to be collected in the following years:

	2021	2020
Amounts due in		
Less than one year	\$ 1,587,615	\$ 1,796,411
One to five years	-	18,000
Total pledges receivable	\$ 1,587,615	\$ 1,814,411

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, 2021, the cost and accumulated amortization is \$50,000 and \$48,000, respectively. As of June 30, 2020, the cost and accumulated amortization is \$50,000 and \$46,000, respectively.

Note 5 – Investments and Fair Value Measurement

The Foundation's investments include both marketable securities and nonmarketable securities. At June 30, 2021 and 2020, investments consist of the following, stated at fair value:

	2021	2020
Exchange-traded funds	\$ 60,292,085	\$ 46,366,549
Global distressed debt – Hedge Fund	49,536	64,344
Alternative equity funds	2,566,798	2,221,958
Total	\$ 62,908,419	\$ 48,652,851

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 5 – Investments and Fair Value Measurement (continued)

The following table summarizes the Foundation's financial assets by the fair value hierarchy levels as of June 30, 2021:

	June 30, 2021	Level 1	Level 2	Level 3	Net Asset Value (or Equivalent)
Exchange-traded funds	\$ 60,292,085	\$ 60,292,085	\$ -	\$ -	\$ -
Global distressed debt – Hedge Fund	49,536	-	-	-	49,536
Alternative equity funds	2,566,798	-	2,566,798	-	-
Total investments	\$ 62,908,419	\$ 60,292,085	\$ 2,566,798	\$ -	\$ 49,536

	June 30, 2021	Level 1	Level 2	Level 3	Assets Held at Net Asset Value (or Equivalent)
Beneficial interest in Charitable remainder trusts	\$ 158,905	\$ -	\$ -	\$ 158,905	\$ -
Total other financial assets	\$ 158,905	\$ -	\$ -	\$ 158,905	\$ -

The following table summarizes the Foundation's financial assets by the fair value hierarchy levels as of June 30, 2020:

	June 30, 2020	Level 1	Level 2	Level 3	Net Asset Value (or Equivalent)
Exchange-traded funds	\$ 46,366,549	\$ 46,366,549	\$ -	\$ -	\$ -
Global distressed debt – Hedge Fund	64,344	-	-	-	64,344
Alternative equity funds	2,221,958	-	2,221,958	-	-
Total investments	\$ 48,652,851	\$ 46,366,549	\$ 2,221,958	\$ -	\$ 64,344

	June 30, 2020	Level 1	Level 2	Level 3	Assets Held at Net Asset Value (or Equivalent)
Beneficial interest in Charitable remainder trusts	\$ 151,871	\$ -	\$ -	\$ 151,871	\$ -
Total other financial assets	\$ 151,871	\$ -	\$ -	\$ 151,871	\$ -

Scholarship Foundation of Santa Barbara Notes to Financial Statements

Note 5 – Investments and Fair Value Measurement (continued)

The following table summarizes the liquidity, redemption restrictions, and any capital commitments of the Foundation's financial assets that are valued using the fair value practical expedient of net asset value or its equivalent, as of June 30, 2021:

	2021			
	Fair Value at Year End	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global distressed debt – Hedge Fund	\$ 49,536	\$ 152,600	Annual	120 Days
	<u>\$ 49,536</u>	<u>\$ 152,600</u>		

Hedge Fund investment seeks to pursue an investment program consisting of various types of distressed debt investments that seek 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.

The following table represents the Organization's Level 3 financial instruments for the year ended June 30, 2021, 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	\$ 158,905	Income approach	Discount rate based on mortality tables	3.4% to 10%

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 6 – Property and Equipment

Property and equipment at June 30, 2021 and 2020, consist of the following major classifications:

	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 362,106	\$ 362,106
Furniture and equipment	<u>340,954</u>	<u>330,954</u>
Total cost	703,060	693,060
Less: accumulated depreciation	<u>(685,856)</u>	<u>(652,655)</u>
Net property and equipment	<u><u>\$ 17,204</u></u>	<u><u>\$ 40,405</u></u>

For the years ending June 30, 2021 and 2020, the Foundation recognized depreciation expense of \$33,201 and \$42,923, respectively.

Note 7 – Note Payable

In May 2020, the Foundation qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, for an aggregate principal amount of approximately \$242,470 (the "PPP Loan"). The PPP Loan bears interest at a fixed rate of 1.0 percent per annum, with the first six months of interest deferred and has a term of two years. The principal amount of the PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the Foundation's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Foundation. The Foundation applied for forgiveness and the full amount was formally forgiven on July 6, 2021.

Note 8 – Net Assets

Net assets without donor restrictions comprised of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Undesignated	<u><u>\$ 7,083,151</u></u>	<u><u>\$ 5,640,757</u></u>

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 8 – Net Assets (continued)

Net assets with donor restrictions comprised of the following as of June 30:

	2021	2020
Subject to expenditure when a specific event occurs		
Scholarships	\$ 1,216,279	\$ 1,194,864
Endowment earnings	17,410,387	6,327,890
Outreach and financial aid services	70,000	70,000
Future years operational expense	551,300	600,000
Capital expenses	25,000	35,000
Split interest agreements	106,042	99,008
Total net assets restricted by time or purpose	19,379,008	8,326,762
Amounts required to be maintained in perpetuity		
Investments held in perpetuity, with income and appreciation expendable to support scholarships	40,213,697	38,942,858
Split interest agreements	52,863	52,863
Total net assets with perpetual restrictions	40,266,560	38,995,721
Total net assets with donor restrictions	\$ 59,645,568	\$ 47,322,483

Note 9 – Assets Released from Donor Restrictions

During the year ended June 30, 2021, the Foundation released a total of \$6,597,522 of net assets with donor restrictions by awarding scholarships as specified by donors and fulfilling student aid services.

During the year ended June 30, 2020, the Foundation released a total of \$5,638,268 of net assets with donor restrictions by awarding scholarships as specified by donors and fulfilling student aid services.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 10 – Liquidity

The following table reflects the financial assets of the Foundation as of June 30 reduced by amounts not available for general expenditure within one year. Financial assets may be unavailable because of contractual or donor-imposed restrictions within one year.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 9,412,160	\$ 7,848,917
Pledges receivables	1,587,615	1,814,411
Interest and other receivables	5,452	3,889
Investments	<u>62,908,419</u>	<u>48,652,851</u>
 Total financial assets	 73,913,646	 58,320,068
 Less:		
Pledges receivables scheduled to be collected in more than one year	-	(18,000)
Pledges receivables scheduled to be collected within one year but have donor restriction	(1,099,879)	(1,331,211)
Investments held in perpetuity	<u>(40,266,560)</u>	<u>(38,995,721)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 32,547,207</u>	 <u>\$ 17,975,136</u>

The Foundation operates with a balanced budgeting process and anticipates collection of sufficient revenue to cover general expenditures. As part of the Foundation's liquidity management plan, it considers the composition of its financial assets to ensure sufficient funds are available as obligations come due.

Note 11 – Commitments and Contingencies

Operating leases – The Foundation rents facilities located in Santa Barbara, California, under a lease agreement expiring on April 30, 2031. Rent expense for these leases totaled \$93,866 and \$93,900 for the years ended June 30, 2021 and 2020, respectively.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 11 – Commitments and Contingencies (continued)

As of June 30, 2021, minimum lease payments under these noncancelable operating leases for future years ending are as follows:

Years Ending June 30,	
2022	\$ 64,771
2023	77,613
2024	79,942
2025	82,340
2026	84,810
Thereafter	<u>446,983</u>
	<u>\$ 836,459</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, change in net assets, cash flows, or liquidity of the Foundation.

COVID-19 – In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak has continued to spread and has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal activities of many entities, including the Scholarship Foundation of Santa Barbara. It is not possible for the Foundation to predict the duration or magnitude of the adverse results of the outbreak and its effects on the organization or results of activities at this time.

Note 12 – Concentrations

A significant portion of the Foundation's public support comes from the Santa Barbara Foundation. At June 30, 2021 and 2020, \$779,608 and \$1,012,108 is receivable from the Santa Barbara Foundation, respectively.

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 13 – Retirement Plans

Since 1996, the Foundation has maintained a salary deferral arrangement for eligible employees under Section 403(b) of the IRC. 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, 2021 and 2020, were \$66,187 and \$63,987, 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 2021, 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, 2021 and 2020.

Note 14 – 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 U.S. 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 net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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 is classified as net assets with donor restrictions 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 14 – 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 U.S. GAAP, deficiencies of this nature are reported in net assets without donor restrictions, and at June 30, 2021 and 2020, 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 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, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 57,676,947	\$ 57,676,947

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 14 – Endowment (continued)

Changes in endowment net assets for the year ended June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 45,323,611	\$ 45,323,611
Investment return			
Investment income	-	1,208,862	1,208,862
Net appreciation (realized and unrealized)	-	12,117,057	12,117,057
Total investment return	-	13,325,919	13,325,919
Contributions		1,270,839	1,270,839
Appropriation of endowment assets for expenditures	-	(2,392,387)	(2,392,387)
Other changes			
Prior year appropriations returned to funds *	-	148,965	148,965
Other	-	-	-
Endowment net assets, end of year	\$ -	\$ 57,676,947	\$ 57,676,947

* 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, 2020:

Donor-restricted endowment funds	\$ -	\$ 45,323,611	\$ 45,323,611
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Scholarship Foundation of Santa Barbara
Notes to Financial Statements

Note 14 – Endowment (continued)

Changes in endowment net assets for the year ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 42,806,034	\$ 42,806,034
Investment return			
Investment income	-	950,310	950,310
Net appreciation (realized and unrealized)	-	136,025	136,025
Total investment return	-	1,086,335	1,086,335
Contributions	-	2,233,453	2,233,453
Appropriation of endowment assets for expenditures	-	(969,900)	(969,900)
Other changes			
Prior year appropriations returned to funds *	-	192,362	192,362
Other	-	(24,673)	(24,673)
Endowment net assets, end of year	\$ -	\$ 45,323,611	\$ 45,323,611

* *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 15 – Scholarships Awarded

Scholarships awarded for the years ended June 30, 2021 and 2020, consist of the following:

	2021	2020
Scholarships awarded	\$ 8,013,542	\$ 6,019,194
Estimated scholarship rescissions	(881,490)	(662,111)
Scholarship awards payable, net	7,132,052	5,357,083
Prior year rescission true-up	(101,438)	(88,430)
Total scholarship award expense (per statement of functional expense)	\$ 7,030,614	\$ 5,268,653