



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

June 30, 2022 and 2021



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Report of Independent Auditors

The Board of Directors
Scholarship Foundation of Santa Barbara

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Scholarship Foundation of Santa Barbara, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Scholarship Foundation of Santa Barbara as of June 30, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Scholarship Foundation of Santa Barbara and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

Prior Period Financial Statements and Summarized Comparative Information

We have previously audited the Foundation's June 30, 2021 financial statements, and our report, dated October 18, 2021, 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, 2021, is consistent, in all material respects, with the audited financial statements from which it was derived.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Scholarship Foundation of Santa Barbara's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Scholarship Foundation of Santa Barbara's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Scholarship Foundation of Santa Barbara's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Moss Adams LLP

Los Angeles, California
October 17, 2022

Scholarship Foundation of Santa Barbara
Statements of Financial Position

ASSETS		June 30,	
		<u>2022</u>	<u>2021</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	8,402,612	\$ 9,412,160
Pledges receivable		1,905,585	1,587,615
Interest receivable		71,313	4,188
Other receivables		1,901	1,264
Prepaid expenses		26,836	33,488
Total current assets		<u>10,408,247</u>	<u>11,038,715</u>
INVESTMENTS		<u>53,598,433</u>	<u>62,908,419</u>
PROPERTY AND EQUIPMENT, net		<u>25,799</u>	<u>17,204</u>
OTHER ASSETS			
Mineral interests, net		-	2,000
Deposits		7,516	2,216
Land held for investment		110,000	110,000
Beneficial interest in charitable remainder trust		141,328	158,905
Total other assets		<u>258,844</u>	<u>273,121</u>
Total assets	\$	<u><u>64,291,323</u></u>	\$ <u><u>74,237,459</u></u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$	188,341	\$ 134,218
Scholarship awards payable, net		6,876,137	7,132,052
Note payable		-	242,470
Total current liabilities		<u>7,064,478</u>	<u>7,508,740</u>
NET ASSETS			
Without donor restrictions		5,707,422	7,083,151
With donor restrictions		51,519,423	59,645,568
Total net assets		<u>57,226,845</u>	<u>66,728,719</u>
Total liabilities and net assets	\$	<u><u>64,291,323</u></u>	\$ <u><u>74,237,459</u></u>

Scholarship Foundation of Santa Barbara

Statements of Activities

(With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	For the Year Ended June 30,	
			2022 Total	2021 Total
PUBLIC SUPPORT AND REVENUE				
Public support				
Fundraising events – gross revenue	\$ -	\$ 147,589	\$ 147,589	\$ 74,802
Donations	1,978,962	4,908,571	6,887,533	6,830,824
Bequests	62,279	10,000	72,279	943,284
Total public support	<u>2,041,241</u>	<u>5,066,160</u>	<u>7,107,401</u>	<u>7,848,910</u>
Revenue and gain (loss)				
Grant for student aid support	85,392	-	85,392	85,392
Interest and dividends	257,756	1,320,862	1,578,618	1,318,578
Realized and unrealized (loss) gain on investments	(1,622,246)	(8,432,492)	(10,054,738)	13,223,397
Mineral royalties	19,580	-	19,580	43,382
Change in value of split interest agreements	-	(17,577)	(17,577)	7,034
Total revenue and (loss) gain	<u>(1,259,518)</u>	<u>(7,129,207)</u>	<u>(8,388,725)</u>	<u>14,677,783</u>
Total public support and revenue	<u>781,723</u>	<u>(2,063,047)</u>	<u>(1,281,324)</u>	<u>22,526,693</u>
Net assets released from restriction and redesignations	<u>6,063,098</u>	<u>(6,063,098)</u>	<u>-</u>	<u>-</u>
EXPENSES				
Program expenses				
Scholarship and student aid	7,386,966	-	7,386,966	7,846,343
Outreach and financial aid services	365,623	-	365,623	295,959
Total program expenses	<u>7,752,589</u>	<u>-</u>	<u>7,752,589</u>	<u>8,142,302</u>
Supporting services				
General and administrative	394,756	-	394,756	359,996
Fundraising	315,675	-	315,675	258,916
Total supporting services	<u>710,431</u>	<u>-</u>	<u>710,431</u>	<u>618,912</u>
Total expenses	<u>8,463,020</u>	<u>-</u>	<u>8,463,020</u>	<u>8,761,214</u>
OTHER INCOME AND EXPENSE				
Other income				
Gain on forgiveness of PPP loan	(242,470)	-	(242,470)	-
Total other income and expense	<u>(242,470)</u>	<u>-</u>	<u>(242,470)</u>	<u>-</u>
CHANGE IN NET ASSETS	(1,375,729)	(8,126,145)	(9,501,874)	13,765,479
NET ASSETS, beginning of year	<u>7,083,151</u>	<u>59,645,568</u>	<u>66,728,719</u>	<u>52,963,240</u>
NET ASSETS, ending of year	<u>\$ 5,707,422</u>	<u>\$ 51,519,423</u>	<u>\$ 57,226,845</u>	<u>\$ 66,728,719</u>

Scholarship Foundation of Santa Barbara Statements of Functional Expenses

(With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

	Program			Supporting Services		For the Year Ended June 30,	
	Student Aid	Outreach and Financial Aid Services	Total	General and Administrative	Fundraising	2022	2021
Salaries	\$ 410,539	\$ 227,649	\$ 638,188	\$ 196,957	\$ 202,418	\$ 1,037,563	\$ 1,111,526
Employee benefits	57,792	32,046	89,838	27,726	28,494	146,058	152,170
Payroll taxes	29,106	16,140	45,246	13,964	14,351	73,561	79,103
Professional fees and consulting	5,167	5,167	10,334	5,167	5,167	20,668	18,280
Depreciation and amortization	3,898	2,660	6,558	1,454	1,228	9,240	35,201
Rent	34,238	23,366	57,604	12,768	10,791	81,163	93,866
Telephone and utilities	11,656	7,955	19,611	4,347	3,673	27,631	23,566
Insurance	6,190	4,224	10,414	2,308	1,951	14,673	15,672
Advertising and promotion	4,715	3,144	7,859	-	23,577	31,436	29,988
Printing and graphics	3,105	3,105	6,210	3,105	3,105	12,420	5,928
Postage	2,029	113	2,142	1,548	3,858	7,548	8,721
Public relations and meetings	-	-	-	66,600	-	66,600	3,478
Supplies	7,837	5,348	13,185	2,924	2,470	18,579	9,685
Information technology	36,048	24,601	60,649	13,444	11,361	85,454	83,133
Repairs and maintenance	6,375	4,351	10,726	2,377	2,009	15,112	9,945
Legal and accounting	-	-	-	38,621	-	38,621	33,500
Education and conferences	-	-	-	-	-	-	1,544
Travel	-	3,108	3,108	-	-	3,108	358
Scholarships awarded	6,764,392	-	6,764,392	-	-	6,764,392	7,030,614
Miscellaneous	3,879	2,646	6,525	1,446	1,222	9,193	14,936
	<u>\$ 7,386,966</u>	<u>\$ 365,623</u>	<u>\$ 7,752,589</u>	<u>\$ 394,756</u>	<u>\$ 315,675</u>	<u>\$ 8,463,020</u>	
2022 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>
2021 total functional expenses							

Scholarship Foundation of Santa Barbara

Statements of Cash Flows

	Years Ended June 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (9,501,874)	\$ 13,765,479
Adjustments to reconcile change in net assets to cash (used in) provided by operating activities		
Gain on Paycheck Protection Program Loan forgiveness	(242,470)	-
Depreciation and amortization	9,240	35,201
Net realized and unrealized losses (gains) on investments	10,054,738	(13,223,397)
Donated securities	(392,199)	(198,985)
Change in value of split interest agreements	17,577	(7,034)
Contributions perpetually restricted	(1,414,764)	(1,270,839)
Changes in operating assets and liabilities		
Pledges receivable	(317,970)	226,796
Interest and other receivables	(67,762)	(1,563)
Prepaid expenses	6,652	10,282
Deposits	(5,300)	-
Accounts payable and accrued expenses	54,123	24,681
Scholarship awards payable	(255,915)	1,774,969
Net cash (used in) provided by operating activities	<u>(2,055,924)</u>	<u>1,135,590</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(15,835)	(10,000)
Proceeds from sale of investments	10,455,254	12,922,153
Purchase of investments	<u>(10,807,807)</u>	<u>(13,755,339)</u>
Net cash used in investing activities	<u>(368,388)</u>	<u>(843,186)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions perpetually restricted	<u>1,414,764</u>	<u>1,270,839</u>
Net cash provided by investing activities	<u>1,414,764</u>	<u>1,270,839</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,009,548)	1,563,243
CASH AND CASH EQUIVALENTS, beginning of year	<u>9,412,160</u>	<u>7,848,917</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 8,402,612</u>	<u>\$ 9,412,160</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Noncash transactions consisted of the following		
Forgiveness of Paycheck Protection Program Loan	<u>\$ 242,470</u>	<u>\$ -</u>
In-kind donation of securities	<u>\$ 392,199</u>	<u>\$ 198,985</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 (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 GAAP. Accordingly, such information should be read in conjunction with the Foundation’s financial statements for the year ended June 30, 2021, 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 fundraising events, 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 net assets without donor restrictions. 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.

Other sources of revenue consist primarily of grant revenue, revenue from investments, and mineral royalties and are recorded when earned on an accrual basis.

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 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 – GAAP defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. 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 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 daily market prices of identical assets.

The investments of the Foundation in Level 2 include alternative equity funds and are valued based on quoted prices in markets that are not active.

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.

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.

Beneficial interest in charitable remainder trusts – 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 and is held by a third-party trustee. 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 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.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

The Foundation does not act as trustee for these trusts, which are included on the financial statements under the caption “beneficial interest in charitable remainder trusts.” For financial statement presentation, the interest in these trusts is presented at the fair 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, 2022, the Foundation awarded scholarships totaling \$7,725,997 and estimated \$849,860 of the awarded scholarships will be rescinded. 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.

Use of estimates – The preparation of financial statements in accordance with 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 exempt from federal income taxation under Section 501(c)(3) of the IRC, though it is 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.

The Foundation had no uncertain tax positions for the years ended June 30, 2022 or 2021.

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.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Recently adopted accounting standards – In September 2020, the Financial Accounting Standards Board issued Accounting Standards Update 2020-07, *Not-for-profit entities (Topic 958): Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which required the separation of financial and nonfinancial contributions on the statement of activity. The Foundation has adopted this standard as of July 1, 2021, using the retrospective method. During the years ending June 30, 2022 and 2021, the Foundation did not receive any nonfinancial asset contributions.

Subsequent events – Subsequent events are events or transactions that occur after the statement 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 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 the financial statements are available to be issued.

The Foundation has evaluated subsequent events through October 17, 2022, 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.

Note 3 – Pledges Receivable

Unconditional promises are included in the financial statements as pledges receivable and revenue in the appropriate net asset category. There were no conditional pledge receivables as of June 30, 2022 and 2021. As of June 30, 2022 and 2021, pledges receivable totaled \$1,905,585 and \$1,587,615, 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 within a year.

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, 2022, the cost and accumulated amortization is \$50,000 and \$50,000, respectively. As of June 30, 2021, the cost and accumulated amortization is \$50,000 and \$48,000, 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, 2022 and 2021, investments consist of the following, stated at fair value:

	2022	2021
Exchange-traded funds	\$ 50,337,640	\$ 60,292,085
Global distressed debt – Hedge Fund	37,983	49,536
Alternative equity funds	3,222,810	2,566,798
Total	\$ 53,598,433	\$ 62,908,419

The following table summarizes the Foundation's financial assets by the fair value hierarchy levels as of June 30, 2022:

	June 30, 2022	Level 1	Level 2	Level 3	Net Asset Value (or Equivalent)
Exchange-traded funds	\$ 50,337,640	\$ 50,337,640	\$ -	\$ -	\$ -
Global distressed debt – Hedge Fund	37,983	-	-	-	37,983
Alternative equity funds	3,222,810	-	3,222,810	-	-
Total investments	\$ 53,598,433	\$ 50,337,640	\$ 3,222,810	\$ -	\$ 37,983

	June 30, 2022	Level 1	Level 2	Level 3	Assets Held at Net Asset Value (or Equivalent)
Beneficial interest in charitable remainder trusts	\$ 141,328	\$ -	\$ -	\$ 141,328	\$ -
Total other financial assets	\$ 141,328	\$ -	\$ -	\$ 141,328	\$ -

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	\$ -

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, 2022:

	2022			
	Fair Value at Year End	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global distressed debt – Hedge Fund	\$ 37,983	\$ 152,600	Annual	120 Days

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 Foundation's Level 3 financial instruments for the year ended June 30, 2022, 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	\$ 141,328	Income approach	Discount rate based on mortality tables	3.4% to 10%

Note 6 – Property and Equipment

Property and equipment at June 30, 2022 and 2021, consist of the following major classifications:

	2022	2021
Leasehold improvements	\$ 362,106	\$ 362,106
Furniture and equipment	356,789	340,954
Total cost	718,895	703,060
Less: accumulated depreciation	(693,096)	(685,856)
Net property and equipment	<u>\$ 25,799</u>	<u>\$ 17,204</u>

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 6 – Property and Equipment (continued)

For the years ending June 30, 2022 and 2021, the Foundation recognized depreciation expense of \$7,240 and \$33,201, 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 (SBA) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, for an aggregate principal amount of \$242,470 (the “PPP Loan”). The PPP Loan bore 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 was 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 obtained forgiveness from the SBA for the full amount of the loan totaling \$242,470 in July 2021. The Foundation has recognized the forgiveness within other income on the accompanying statements of activities for the year ended June 30, 2022. The SBA reserves the right to review the Foundation’s eligibility for the PPP Loan for six years after the date that the loan was forgiven.

Note 8 – Net Assets

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

	<u>2022</u>	<u>2021</u>
Undesignated	<u>\$ 5,707,422</u>	<u>\$ 7,083,151</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:

	<u>2022</u>	<u>2021</u>
Subject to expenditure when a specific event occurs		
Scholarships	\$ 1,097,454	\$ 1,216,279
Endowment earnings	8,009,961	17,410,387
Outreach and financial aid services	71,500	70,000
Future years operational expense	545,719	551,300
Capital expenses	25,000	25,000
Split-interest agreements	<u>88,465</u>	<u>106,042</u>
Total net assets restricted by time or purpose	<u>9,838,099</u>	<u>19,379,008</u>
Amounts required to be maintained in perpetuity		
Investments held in perpetuity, with income and appreciation expendable to support scholarships	41,628,461	40,213,697
Split-interest agreements	<u>52,863</u>	<u>52,863</u>
Total net assets with perpetual restrictions	<u>41,681,324</u>	<u>40,266,560</u>
Total net assets with donor restrictions	<u>\$ 51,519,423</u>	<u>\$ 59,645,568</u>

Note 9 – Assets Released from Donor Restrictions

During the year ended June 30, 2022, the Foundation released a total of \$6,063,098 of net assets with donor restrictions by awarding scholarships as specified by donors and fulfilling student aid services.

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.

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.

	2022	2021
Cash and cash equivalents	\$ 8,402,612	\$ 9,412,160
Pledges receivables	1,905,585	1,587,615
Interest and other receivables	73,214	5,452
Investments	53,598,433	62,908,419
Beneficial interest in charitable remainder trust	141,328	158,905
Total financial assets	64,121,172	74,072,551
Less:		
Pledges receivables scheduled to be collected within one year but have donor restriction	(1,353,285)	(1,099,879)
Investments held in perpetuity	(41,681,324)	(40,266,560)
Financial assets available to meet cash needs for general expenditures within one year	\$ 21,086,563	\$ 32,706,112

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 \$81,163 and \$93,866 for the years ended June 30, 2022 and 2021, respectively.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 11 – Commitments and Contingencies (continued)

As of June 30, 2022, minimum lease payments under these noncancelable operating leases for future years ending are as follows:

Years Ending June 30,	
2023	\$ 77,613
2024	79,942
2025	82,340
2026	84,810
2027	87,354
Thereafter	<u>359,628</u>
	<u>\$ 771,687</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.

Note 12 – Concentrations

A significant portion of the Foundation's public support comes from the Santa Barbara Foundation. At June 30, 2022 and 2021, \$868,008 and \$779,608 is receivable from the Santa Barbara Foundation, respectively. Revenues from the Santa Barbara Foundation at June 30, 2022 and 2021 consisted of \$953,400 and \$900,000, 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.

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, 2022 and 2021, were \$66,210 and \$66,187, respectively.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 13 – Retirement Plans (continued)

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 2022 and 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, 2022 and 2021.

Note 14 – Endowment

The Foundation's endowment consists of approximately 200 individual funds established to fund scholarship awards. Its endowment consists of donor-restricted endowment funds. As required by 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

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 net assets without donor restrictions, and at June 30, 2022 and 2021, 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.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 14 – Endowment (continued)

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, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 49,691,285	\$ 49,691,285

Changes in endowment net assets for the year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 57,676,947	\$ 57,676,947
Investment return			
Investment income	-	1,320,862	1,320,862
Net losses (realized and unrealized)	-	(8,432,492)	(8,432,492)
Total investment return (loss)	-	(7,111,630)	(7,111,630)
Contributions		1,414,764	1,414,764
Appropriation of endowment for expenditures	-	(2,621,700)	(2,621,700)
Other changes			
Prior year appropriations returned to funds *	-	332,904	332,904
Endowment net assets, end of year	\$ -	\$ 49,691,285	\$ 49,691,285

* 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.

Scholarship Foundation of Santa Barbara
Notes to Financial Statements

Note 14 – Endowment (continued)

Endowment net asset composition by type of fund as of June 30, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 57,676,947</u>	<u>\$ 57,676,947</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ -</u>	<u>\$ 45,323,611</u>	<u>\$ 45,323,611</u>
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
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 57,676,947</u>	<u>\$ 57,676,947</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 15 – Scholarships Awarded

Scholarships awarded for the years ended June 30, 2022 and 2021, consist of the following:

	<u>2022</u>	<u>2021</u>
Scholarships awarded	\$ 7,725,997	\$ 8,013,542
Estimated scholarship rescissions	<u>(849,860)</u>	<u>(881,490)</u>
Scholarship awards payable, net	6,876,137	7,132,052
Prior year rescission true-up	<u>(111,745)</u>	<u>(101,438)</u>
Total scholarship award expense (per statement of functional expense)	<u>\$ 6,764,392</u>	<u>\$ 7,030,614</u>