



Report of Independent Auditors and Financial Statements

Scholarship Foundation of Santa Barbara

June 30, 2023 and 2022



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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, 2023, 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, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 Scholarship Foundation of Santa Barbara's June 30, 2022 financial statements, and our report, dated October 17, 2022, 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, 2022, 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.

Emphasis of Matter – Adoption of New Accounting Standards

As discussed in Note 2 to the financial statements, as of and for the year ended June 30, 2023, Scholarship Foundation of Santa Barbara adopted Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The adoption of this standard resulted in additional footnote disclosures and had a significant impact on the statement of financial position through the recognition of operating right-of-use assets and lease liabilities. Scholarship Foundation of Santa Barbara adopted the new standard using the transition method provided in ASU 2018-11 such that prior period amounts are not adjusted and continue to be reported in accordance with Accounting Standards Codification 840, *Leases*. Our opinion is not modified with respect to this matter.

Moss Adams LLP

Los Angeles, California
October 24, 2023

Financial Statements

Scholarship Foundation of Santa Barbara
Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,594,442	\$ 8,402,612
Pledges receivable	1,707,276	1,905,585
Interest receivable	52,978	71,313
Other receivables	2,145	1,901
Prepaid expenses	38,859	26,836
Total current assets	8,395,700	10,408,247
INVESTMENTS	59,700,867	53,598,433
PROPERTY AND EQUIPMENT, net	14,053	25,799
OPERATING RIGHT-OF-USE ASSET	608,122	-
OTHER ASSETS		
Deposits	2,216	7,516
Land held for investment	110,000	110,000
Beneficial interest in charitable remainder trust	141,641	141,328
Total other assets	253,857	258,844
Total assets	\$ 68,972,599	\$ 64,291,323
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 236,982	\$ 188,341
Scholarship awards payable, net	6,402,000	6,876,137
Operating right-of-use liability, short term	62,964	-
Total current liabilities	6,701,946	7,064,478
RIGHT-OF-USE LIABILITY, LONG TERM	555,060	-
Total long term liabilities	555,060	-
Total liabilities	7,257,006	7,064,478
NET ASSETS		
Without donor restrictions	4,572,574	5,707,422
With donor restrictions	57,143,019	51,519,423
Total net assets	61,715,593	57,226,845
Total liabilities and net assets	\$ 68,972,599	\$ 64,291,323

See accompanying notes.

Scholarship Foundation of Santa Barbara
Statement of Activities
Years Ended June 30, 2023 and 2022

(With Summarized Comparative Financial Information for the Year Ended June 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
PUBLIC SUPPORT AND REVENUE				
Public support				
Fundraising events – gross revenue	\$ -	\$ 165,469	\$ 165,469	\$ 147,589
Donations	560,594	6,364,119	6,924,713	6,887,533
Bequests	62,435	1,097,500	1,159,935	72,279
Total public support	<u>623,029</u>	<u>7,627,088</u>	<u>8,250,117</u>	<u>7,107,401</u>
Revenue and gain (loss)				
Grant for student aid support	85,392	-	85,392	85,392
Interest and dividends	160,870	1,333,182	1,494,052	1,578,618
Realized and unrealized gain (loss) on investments	290,519	3,313,365	3,603,884	(10,054,738)
Mineral royalties	63,675	-	63,675	19,580
Change in value of split interest agreements	-	313	313	(17,577)
Total revenue and gain (loss)	<u>600,456</u>	<u>4,646,860</u>	<u>5,247,316</u>	<u>(8,388,725)</u>
Total public support and revenue (loss)	<u>1,223,485</u>	<u>12,273,948</u>	<u>13,497,433</u>	<u>(1,281,324)</u>
Net assets released from restriction and redesignations	<u>6,650,352</u>	<u>(6,650,352)</u>	<u>-</u>	<u>-</u>
EXPENSES				
Program expenses				
Scholarship and student aid	7,276,263	-	7,276,263	7,386,966
Outreach and financial aid services	505,911	-	505,911	365,623
Total program expenses	<u>7,782,174</u>	<u>-</u>	<u>7,782,174</u>	<u>7,752,589</u>
Supporting services				
General and administrative	676,327	-	676,327	394,756
Fundraising	550,184	-	550,184	315,675
Total supporting services	<u>1,226,511</u>	<u>-</u>	<u>1,226,511</u>	<u>710,431</u>
Total expenses	<u>9,008,685</u>	<u>-</u>	<u>9,008,685</u>	<u>8,463,020</u>
OTHER INCOME AND EXPENSE				
Other income				
Gain on forgiveness of PPP loan	-	-	-	(242,470)
Total other income and expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(242,470)</u>
CHANGE IN NET ASSETS	(1,134,848)	5,623,596	4,488,748	(9,501,874)
NET ASSETS, beginning of year	<u>5,707,422</u>	<u>51,519,423</u>	<u>57,226,845</u>	<u>66,728,719</u>
NET ASSETS, ending of year	<u>\$ 4,572,574</u>	<u>\$ 57,143,019</u>	<u>\$ 61,715,593</u>	<u>\$ 57,226,845</u>

See accompanying notes.

Scholarship Foundation of Santa Barbara
Statement of Functional Expenses
June 30, 2023 and 2022

(With Summarized Comparative Financial Information for the Year Ended June 30, 2022)

	Program			Supporting Services		2023	2022
	Student Aid	Outreach and Financial Aid Services	Total	General and Administrative	Fundraising		
Salaries	\$ 533,021	\$ 282,980	\$ 816,001	\$ 313,577	\$ 351,868	\$ 1,481,446	\$ 1,037,563
Employee benefits	65,224	34,627	99,851	38,371	43,058	181,280	146,058
Payroll taxes	38,860	20,631	59,491	22,861	25,653	108,005	73,561
Professional fees and consulting	51,497	51,497	102,994	51,497	51,494	205,985	20,668
Depreciation and amortization	4,471	3,443	7,914	2,174	1,658	11,746	9,240
Rent	39,506	30,418	69,924	19,203	14,659	103,786	81,163
Telephone and utilities	10,890	8,384	19,274	5,293	4,041	28,608	27,631
Insurance	7,153	5,508	12,661	3,476	2,656	18,793	14,673
Advertising and promotion	4,626	3,083	7,709	-	23,124	30,833	31,436
Printing and graphics	4,647	4,646	9,293	4,647	4,647	18,587	12,420
Postage	2,146	120	2,266	1,636	4,077	7,979	7,548
Public relations and meetings	-	-	-	132,055	-	132,055	66,600
Supplies	8,079	6,222	14,301	3,928	2,999	21,228	18,579
Information technology	41,171	31,699	72,870	20,013	15,277	108,160	85,454
Repairs and maintenance	6,306	4,855	11,161	3,066	2,340	16,567	15,112
Legal and accounting	-	-	-	51,081	-	51,081	38,621
Education and conferences	5,561	-	5,561	-	-	5,561	-
Travel	-	12,334	12,334	-	-	12,334	3,108
Scholarships awarded	6,446,009	-	6,446,009	-	-	6,446,009	6,764,392
Miscellaneous	7,096	5,464	12,560	3,449	2,633	18,642	9,193
2023 total functional expenses	<u>\$ 7,276,263</u>	<u>\$ 505,911</u>	<u>\$ 7,782,174</u>	<u>\$ 676,327</u>	<u>\$ 550,184</u>	<u>\$ 9,008,685</u>	
2022 total functional expenses	<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>

See accompanying notes.

Scholarship Foundation of Santa Barbara
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,488,748	\$ (9,501,874)
Adjustments to reconcile change in net assets to cash (used in) operating activities		
Gain on Paycheck Protection Program loan forgiveness	-	(242,470)
Depreciation and amortization	11,746	9,240
Net realized and unrealized (gains) losses on investments	(3,603,884)	10,054,738
Donated securities	(598,373)	(392,199)
Change in value of split interest agreements	(313)	17,577
Contributions perpetually restricted	(2,825,177)	(1,414,764)
Non-cash operating lease expense	9,902	-
Changes in operating assets and liabilities		
Pledges receivable	198,309	(317,970)
Interest and other receivables	18,091	(67,762)
Prepaid expenses	(12,023)	6,652
Deposits	5,300	(5,300)
Accounts payable and accrued expenses	48,641	54,123
Scholarship awards payable	(474,137)	(255,915)
	<u>(2,733,170)</u>	<u>(2,055,924)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	-	(15,835)
Proceeds from sale of investments	25,961,403	10,455,254
Purchase of investments	(27,861,580)	(10,807,807)
	<u>(1,900,177)</u>	<u>(368,388)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions perpetually restricted	2,825,177	1,414,764
	<u>2,825,177</u>	<u>1,414,764</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,808,170)	(1,009,548)
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,402,612</u>	<u>9,412,160</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,594,442</u>	<u>\$ 8,402,612</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Noncash transactions consisted of the following		
Forgiveness of Paycheck Protection Program loan	\$ -	\$ 242,470
In-kind donation of securities	\$ 598,373	\$ 392,199

See accompanying notes.

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 Foundation 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 Foundation 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 statement of activities and statement 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, 2022, 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 is 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

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 statement 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 statement 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

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 (NAV) 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 NAV 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.

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.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

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 assets 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.

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 Foundation of Santa Barbara

Notes to Financial Statements

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, 2023, the Foundation awarded scholarships totaling \$7,193,258 and estimated \$791,258 of the awarded scholarships will be rescinded. 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.

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, 2023 and 2022.

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 February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which supersedes existing guidance for accounting for leases under Topic 840, *Leases*. The FASB also subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU 2018-10, *Codification Improvements to Topic 842, Leases*; ASU 2018-11, *Leases (Topic 842): Targeted Improvements*; ASU 2018-20, *Narrow-scope Improvements for Lessors*; and ASU 2019-01, *Leases (Topic 842): Codification Improvements*. The most significant change in the new leasing guidance is the requirement to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the statement of financial position.

The Foundation elected to adopt these ASUs effective July 1, 2022, using the modified retrospective approach. The Foundation elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Foundation to carry forward the historical lease classification.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

The adoption had an impact on the Foundation's statement of financial position but did not have an impact on the statement of activities. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. The accounting for finance leases (formerly referred to as capital leases) remained substantially unchanged. Adoption of the standard on July 1, 2022, created operating ROU assets of \$678,536 and operating lease liabilities of \$678,536. There was no cumulative effect impact to beginning net assets. Refer to Note 15 – Leases for further discussion.

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 24, 2023, 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, 2023 and 2022. As of June 30, 2023 and 2022, pledges receivable totaled \$1,707,276 and \$1,905,585, respectively. Management believes all receivables are collectible and thus no reserve for doubtful pledges has been established. The pledges receivable as of June 30, 2023, are expected to be collected within a year.

Note 4 – Investments and Fair Value Measurement

The Foundation's investments include both marketable securities and nonmarketable securities. At June 30, 2023 and 2022, investments consist of the following, stated at fair value:

	<u>2023</u>	<u>2022</u>
Exchange-traded funds	\$ 57,026,099	\$ 50,337,640
Global distressed debt – hedge fund	-	37,983
Alternative equity funds	<u>2,674,768</u>	<u>3,222,810</u>
Total	<u>\$ 59,700,867</u>	<u>\$ 53,598,433</u>

Scholarship Foundation of Santa Barbara Notes to Financial Statements

The following table summarizes the Foundation's financial assets by the fair value hierarchy levels as of June 30, 2023:

	June 30, 2023	Level 1	Level 2	Level 3	Net Asset Value (or Equivalent)
Exchange-traded funds	\$ 57,026,099	\$ 57,026,099	\$ -	\$ -	\$ -
Alternative equity funds	2,674,768	-	2,674,768	-	-
Total investments	<u>\$ 59,700,867</u>	<u>\$ 57,026,099</u>	<u>\$ 2,674,768</u>	<u>\$ -</u>	<u>\$ -</u>

	June 30, 2023	Level 1	Level 2	Level 3	Assets Held at Net Asset Value (or Equivalent)
Beneficial interest in charitable remainder trusts	\$ 141,641	\$ -	\$ -	\$ 141,641	\$ -
Total other financial assets	<u>\$ 141,641</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141,641</u>	<u>\$ -</u>

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	<u>\$ 53,598,433</u>	<u>\$ 50,337,640</u>	<u>\$ 3,222,810</u>	<u>\$ -</u>	<u>\$ 37,983</u>

	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	<u>\$ 141,328</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141,328</u>	<u>\$ -</u>

The following table includes a roll forward of the amounts for assets classified within Level 3 at June 30, 2023 and 2022:

	Beneficial interest in charitable remainder trusts	Total
Balance at July 1, 2021	\$ 158,905	\$ 158,905
Actuarial adjustment	(17,577)	(17,577)
Balance at June 30, 2022	141,328	141,328
Actuarial adjustment	313	313
Balance at June 30, 2023	<u>\$ 141,641</u>	<u>\$ 141,641</u>

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Net appreciation/(depreciation) on investments and beneficial interest in charitable remainder trusts are reflected in the line “Realized and unrealized gain (loss) on investments” and “Change in value of split interest agreements,” respectively, on the statement of activities. The Foundation’s policy is to recognize transfer in and transfers out of Level 1, Level 2, and Level 3 at the beginning of the reporting period.

Real estate – Private equity investment, estimated values are based on estimates provided by the underlying funds that are generally presented on a GAAP basis, which records investments at fair value, or “marked-to-market.”

The following table represents the Foundation’s Level 3 financial instruments for the year ended June 30, 2023, 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	\$ 141,641	Income approach	Discount rate based on mortality tables	3.4% to 10%

Note 5 – Property and Equipment

Property and equipment at June 30, 2023 and 2022, consist of the following major classifications:

	2023	2022
Leasehold improvements	\$ 362,106	\$ 362,106
Furniture and equipment	356,789	356,789
Total cost	718,895	718,895
Less: accumulated depreciation	(704,842)	(693,096)
Net property and equipment	<u>\$ 14,053</u>	<u>\$ 25,799</u>

For the years ended June 30, 2023 and 2022, the Foundation recognized depreciation expense of \$11,746 and \$9,240, respectively.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 6 – 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 statement 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 7 – Net Assets

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

	2023	2022
Unrestricted	\$ 4,572,574	\$ 5,707,422

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

	2023	2022
Subject to expenditure when a specific event occurs		
Scholarships	\$ 1,376,959	\$ 1,097,454
Endowment earnings	10,649,081	8,009,961
Outreach and financial aid services	71,700	71,500
Future years operational expense	425,000	545,719
Capital expenses	25,000	25,000
Split-interest agreements	88,778	88,465
Total net assets restricted by time or purpose	12,636,518	9,838,099
Amounts required to be maintained in perpetuity		
Investments held in perpetuity, with income and appreciation expendable to support scholarships	44,453,638	41,628,461
Split-interest agreements	52,863	52,863
Total net assets with perpetual restrictions	44,506,501	41,681,324
Total net assets with donor restrictions	\$ 57,143,019	\$ 51,519,423

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 8 – Assets Released from Donor Restrictions

During the year ended June 30, 2023, the Foundation released a total of \$6,650,352 of net assets with donor restrictions by awarding scholarships as specified by donors and fulfilling student aid services.

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.

Note 9 – 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.

	2023	2022
Cash and cash equivalents	\$ 6,594,442	\$ 8,402,612
Pledges receivables	1,707,276	1,905,585
Interest and other receivables	55,123	73,214
Investments	59,700,867	53,598,433
Beneficial interest in charitable remainder trust	141,641	141,328
Total financial assets	68,199,349	64,121,172
Less:		
Pledges receivables scheduled to be collected within one year but have donor restriction	(1,248,476)	(1,353,285)
Investments held in perpetuity	(44,506,501)	(41,681,324)
Financial assets available to meet cash needs for general expenditures within one year	\$ 22,444,372	\$ 21,086,563

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 10 – Contingencies

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.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 11 – Concentrations

A significant portion of the Foundation's public support comes from the Santa Barbara Foundation. At June 30, 2023 and 2022, \$797,508 and \$868,008 is receivable from the Santa Barbara Foundation, respectively. Revenues from the Santa Barbara Foundation for years ended June 30, 2023 and 2022, consisted of \$986,650 and \$953,400, 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 12 – 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, 2023 and 2022, were \$88,011 and \$66,210, 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 30, 2023 and 2022, 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, 2023 and 2022.

Note 13 – 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.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

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, 2023 and 2022, 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.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

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, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 55,155,582</u>	<u>\$ 55,155,582</u>

Changes in endowment net assets for the year ended June 30, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ -</u>	<u>\$ 49,691,285</u>	<u>\$ 49,691,285</u>
Investment return			
Investment income	-	1,333,182	1,333,182
Net gain (realized and unrealized)	<u>-</u>	<u>3,313,365</u>	<u>3,313,365</u>
Total investment return	-	4,646,547	4,646,547
Contributions		2,825,177	2,825,177
Appropriation of endowment for expenditures	-	(2,267,100)	(2,267,100)
Other changes			
Prior year appropriations returned to funds *	<u>-</u>	<u>259,673</u>	<u>259,673</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 55,155,582</u>	<u>\$ 55,155,582</u>

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

Endowment net asset composition by type of fund as of June 30, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 49,691,285</u>	<u>\$ 49,691,285</u>

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

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 loss (realized and unrealized)	-	(8,432,492)	(8,432,492)
Total investment return	-	(7,111,630)	(7,111,630)
Contributions		1,414,764	1,414,764
Appropriation of endowment assets 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.*

Note 14 – Scholarships Awarded

Scholarships awarded for the years ended June 30, 2023 and 2022, consist of the following:

	2023	2022
Scholarships awarded	\$ 7,193,258	\$ 7,725,997
Estimated scholarship rescissions	(791,258)	(849,860)
Scholarship awards payable, net	6,402,000	6,876,137
Prior year rescission true-up	44,009	(111,745)
Total scholarship award expense (per statement of functional expense)	\$ 6,446,009	\$ 6,764,392

Note 15 – Leases

The Foundation rents facilities located in Santa Barbara, California, under a lease agreement expiring on April 30, 2031. Lease expense for these leases totaled \$103,786 and \$81,163 for the years ended June 30, 2023 and 2022, respectively.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

At June 30, 2023, supplemental schedule of financial position information related to leases was as follows:

	2023
Operating leases	
Operating lease ROU assets	\$ 608,122
Current portion of operating lease liabilities	\$ 62,964
Operating lease liabilities, net of current portion	555,060
Total operating lease liabilities	\$ 618,024

For the year ended June 30, 2023, components of lease expenses were as follows:

	2023
Operating lease expense	\$ 87,516
Short-term lease expense	16,270
Total lease expense	103,786

For the year ended June 30, 2023, supplemental cash flow information related to leases was as follows:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows used for operating leases (including short-term leases)	\$ 77,613
ROU assets obtained in exchange for lease obligations (non-cash)	
Operating leases	\$ -
Weighted-average remaining lease terms (years)	
Operating leases	7.83
Weighted-average discount rate	
Operating leases	2.88%

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

The following table presents minimum lease payments under the terms of the leases at June 30, 2023:

2023	\$ 79,942
2024	82,340
2025	84,810
2026	87,354
2027	89,975
Thereafter	<u>269,653</u>
Total lease payments	694,074
Less: imputed interest	<u>(76,050)</u>
Total lease liability	<u><u>\$ 618,024</u></u>