



Report of Independent Auditors and Financial Statements

Scholarship Foundation of Santa Barbara

June 30, 2024 and 2023

Table of Contents

	Page
Report of Independent Auditors	1
Financial Statements	
Statements of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statements of Cash Flows	7
Notes to Financial Statements	8

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 statements of financial position as of June 30, 2024 and 2023, and the related statements of activities, functional expenses, and cash flows for the years 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, 2024 and 2023, and the changes in net assets and its cash flows for the years 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.

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.



Los Angeles, California
October 17, 2024

Financial Statements

Scholarship Foundation of Santa Barbara
Statements of Financial Position
June 30, 2024 and 2023

	2024	2023
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,949,191	\$ 6,594,442
Pledges receivable	1,445,718	1,707,276
Interest receivable	66,349	52,978
Other receivables	12,495	2,145
Prepaid expenses	74,580	38,859
Total current assets	9,548,333	8,395,700
INVESTMENTS	65,714,590	59,700,867
PROPERTY AND EQUIPMENT, net	6,768	14,053
OPERATING RIGHT-OF-USE ASSET	545,173	608,122
OTHER ASSETS		
Deposits	2,216	2,216
Land held for investment	-	110,000
Beneficial interest in charitable remainder trust	144,668	141,641
Total other assets	146,884	253,857
Total assets	\$ 75,961,748	\$ 68,972,599
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 288,994	\$ 236,982
Scholarship awards payable, net	6,416,046	6,402,000
Operating right-of-use liability, short term	67,232	62,964
Total current liabilities	6,772,272	6,701,946
RIGHT-OF-USE LIABILITY, LONG TERM	487,827	555,060
Total long term liabilities	487,827	555,060
Total liabilities	7,260,099	7,257,006
NET ASSETS		
Without donor restrictions	4,667,555	4,572,574
With donor restrictions	64,034,094	57,143,019
Total net assets	68,701,649	61,715,593
Total liabilities and net assets	\$ 75,961,748	\$ 68,972,599

See accompanying notes.

Scholarship Foundation of Santa Barbara
Statement of Activities
Years Ended June 30, 2024

(With Summarized Comparative Financial Information for the Year Ended June 30, 2023)

	Without Donor Restrictions	With Donor Restrictions	2024 Total	2023 Total
PUBLIC SUPPORT AND REVENUE				
Public support				
Fundraising events – net revenue	\$ -	\$ 162,128	\$ 162,128	\$ 165,469
Donations	775,057	6,465,056	7,240,113	6,924,713
Bequests	234,971	177,353	412,324	1,159,935
Total public support	<u>1,010,028</u>	<u>6,804,537</u>	<u>7,814,565</u>	<u>8,250,117</u>
Revenue and gain				
Grant for student aid support	85,392	-	85,392	85,392
Interest and dividends	131,010	1,413,479	1,544,489	1,494,052
Realized and unrealized gain on investments	350,507	6,261,424	6,611,931	3,603,884
Mineral royalties	42,924	-	42,924	63,675
Other Income	31,517	-	31,517	-
Change in value of split interest agreements	-	3,027	3,027	313
Total revenue and gain	<u>641,350</u>	<u>7,677,930</u>	<u>8,319,280</u>	<u>5,247,316</u>
Total public support and revenue	<u>1,651,378</u>	<u>14,482,467</u>	<u>16,133,845</u>	<u>13,497,433</u>
Net assets released from restriction and redesignations	<u>7,591,392</u>	<u>(7,591,392)</u>	<u>-</u>	<u>-</u>
EXPENSES				
Program expenses				
Scholarship and student aid	7,387,621	-	7,387,621	7,276,263
Outreach and financial aid services	631,910	-	631,910	505,911
Total program expenses	<u>8,019,531</u>	<u>-</u>	<u>8,019,531</u>	<u>7,782,174</u>
Supporting services				
General and administrative	550,599	-	550,599	676,327
Fundraising	577,659	-	577,659	550,184
Total supporting services	<u>1,128,258</u>	<u>-</u>	<u>1,128,258</u>	<u>1,226,511</u>
Total expenses	<u>9,147,789</u>	<u>-</u>	<u>9,147,789</u>	<u>9,008,685</u>
CHANGE IN NET ASSETS	94,981	6,891,075	6,986,056	4,488,748
NET ASSETS, beginning of year	<u>4,572,574</u>	<u>57,143,019</u>	<u>61,715,593</u>	<u>57,226,845</u>
NET ASSETS, ending of year	<u>\$ 4,667,555</u>	<u>\$ 64,034,094</u>	<u>\$ 68,701,649</u>	<u>\$ 61,715,593</u>

See accompanying notes.

Scholarship Foundation of Santa Barbara
Statement of Functional Expenses
June 30, 2024

(With Summarized Comparative Financial Information for the Year Ended June 30, 2023)

	Program			Supporting Services		2024	2023
	Scholarship and Student Aid	Outreach and Financial Aid Services	Total	General and Administrative	Fundraising		
Salaries	\$ 560,112	\$ 418,792	\$ 978,904	\$ 297,507	\$ 403,163	\$ 1,679,574	\$1,481,446
Employee benefits	70,816	52,948	123,764	37,614	35,985	197,363	181,280
Payroll taxes	42,635	31,878	74,513	22,646	21,665	118,824	108,005
Professional fees and consulting	11,112	11,112	22,224	11,112	11,112	44,448	205,985
Depreciation and amortization	2,614	1,954	4,568	1,389	1,328	7,285	11,746
Rent	35,365	26,442	61,807	18,785	17,971	98,563	103,786
Telephone and utilities	11,621	8,689	20,310	6,172	5,905	32,387	28,608
Insurance	9,300	6,954	16,254	4,940	4,726	25,920	18,793
Advertising and promotion	5,659	3,773	9,432	-	28,294	37,726	30,833
Printing and graphics	5,552	5,552	11,104	5,552	5,552	22,208	18,587
Postage	2,336	131	2,467	1,781	4,436	8,684	7,979
Public relations and meetings	-	-	-	58,136	-	58,136	132,055
Supplies	9,888	7,393	17,281	5,249	5,025	27,555	21,228
Information technology	49,123	36,729	85,852	26,092	24,962	136,906	108,160
Repairs and maintenance	6,313	4,720	11,033	3,353	3,208	17,594	16,567
Legal and accounting	-	-	-	45,748	-	45,748	51,081
Education and conferences	4,824	-	4,824	-	-	4,824	5,561
Travel	-	8,476	8,476	-	-	8,476	12,334
Scholarships awarded	6,551,836	-	6,551,836	-	-	6,551,836	6,446,009
Miscellaneous	8,515	6,367	14,882	4,523	4,327	23,732	18,642
2024 total functional expenses	<u>\$ 7,387,621</u>	<u>\$ 631,910</u>	<u>\$ 8,019,531</u>	<u>\$ 550,599</u>	<u>\$ 577,659</u>	<u>\$ 9,147,789</u>	
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>

See accompanying notes.

Scholarship Foundation of Santa Barbara
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 6,986,056	\$ 4,488,748
Adjustments to reconcile change in net assets to cash (used in) operating activities		
Depreciation and amortization	7,285	11,746
Net realized and unrealized (gains) losses on investments	(6,497,053)	(3,603,884)
Donated securities	(112,747)	(598,373)
Change in value of split interest agreements	(3,027)	(313)
Contributions perpetually restricted	(1,968,625)	(2,825,177)
Change in right-of-use asset and lease liability	(16)	9,902
Changes in operating assets and liabilities		
Pledges receivable	261,558	198,309
Interest and other receivables	(23,721)	18,091
Prepaid expenses	(35,721)	(12,023)
Deposits	-	5,300
Accounts payable and accrued expenses	52,012	48,641
Scholarship awards payable	14,046	(474,137)
	<u>(1,319,953)</u>	<u>(2,733,170)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	18,572,457	25,961,403
Purchase of investments	(17,866,380)	(27,861,580)
	<u>706,077</u>	<u>(1,900,177)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions perpetually restricted	1,968,625	2,825,177
	<u>1,968,625</u>	<u>2,825,177</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,354,749	(1,808,170)
CASH AND CASH EQUIVALENTS, beginning of year	<u>6,594,442</u>	<u>8,402,612</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 7,949,191</u>	<u>\$ 6,594,442</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Noncash transactions consisted of the following		
In-kind donation of securities	<u>\$ 112,747</u>	<u>\$ 598,373</u>

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, 2023, 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 apply to more than one functional category have been allocated between program and supporting services based on their activity as determined by management. Certain expenses such as salaries, wages, and benefits are allocated based on time and effort of employees, and associated costs such as insurance and telephone, rent, and supplies are allocated based on the personnel costs noted above.

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 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% to 10% based on the terms of the trust agreement. The value of the receivable from split-interest agreements is adjusted annually for changes in the value of the assets, accretion of the discount, and other changes.

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. Land investment was sold in July 2023 with proceeds of \$394,000. This was reflected as a \$284,000 of realized gains in the endowment fund.

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, 2024, the Foundation awarded scholarships totaling \$7,128,940 and estimates \$712,894 of the awarded scholarships will be rescinded. 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.

Leases – The Foundation recognizes an operating lease liability and a right-of-use (ROU) asset for its building lease. Operating lease ROU asset and liability are recognized on the consolidated statements of financial position. The lease liability is determined based on the present value of the minimum rental payments using the risk-free incremental borrowing rate in effect at the time of the lease commencement or adoption date.

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, 2024 and 2023.

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. Donated goods and services totaled \$0 and \$13,642 for years ended June 30, 2024 and 2023, respectively.

Recently adopted accounting standards – In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (CECL)*, which requires the establishment of an allowance for estimated credit losses on financial assets, including trade and other receivables and contract assets, at each reporting date. The Foundation adopted the new standard on July 1, 2023, using the modified-retrospective approach, which did not have a significant effect on the financial statements as of and for the year ended June 30, 2024.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

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, 2024, 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, 2024 and 2023. As of June 30, 2024 and 2023, pledges receivable totaled \$1,445,718 and \$1,707,276, respectively. Management believes all receivables are collectible and thus no reserve for doubtful pledges has been established. The pledges receivable as of June 30, 2024, 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, 2024 and 2023, investments consist of the following, stated at fair value:

	<u>2024</u>	<u>2023</u>
Exchange-traded funds	\$ 62,901,886	\$ 57,026,099
Alternative equity funds	<u>2,812,704</u>	<u>2,674,768</u>
Total	<u>\$ 65,714,590</u>	<u>\$ 59,700,867</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, 2024:

	June 30, 2024	Level 1	Level 2	Level 3	Net Asset Value (or Equivalent)
Exchange-traded funds	\$ 62,901,886	\$ 62,901,886	\$ -	\$ -	\$ -
Alternative equity funds	2,812,704	-	2,812,704	-	-
Total investments	<u>\$ 65,714,590</u>	<u>\$ 62,901,886</u>	<u>\$ 2,812,704</u>	<u>\$ -</u>	<u>\$ -</u>
	June 30, 2024	Level 1	Level 2	Level 3	Assets Held at Net Asset Value (or Equivalent)
Beneficial interest in charitable remainder trusts	\$ 144,668	\$ -	\$ -	\$ 144,668	\$ -
Total other financial assets	<u>\$ 144,668</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 144,668</u>	<u>\$ -</u>

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>

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

The following table includes a roll forward of the amounts for assets classified within Level 3 at June 30, 2024 and 2023:

	<u>Beneficial Interest in Charitable Remainder Trusts</u>
Balance at June 30, 2022	\$ 141,328
Actuarial adjustment	<u>313</u>
Balance at June 30, 2023	141,641
Actuarial adjustment	<u>3,027</u>
Balance at June 30, 2024	<u><u>\$ 144,668</u></u>

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, 2024, 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	\$ 144,668	Income approach	Discount rate based on mortality tables	3.4% to 10%

Scholarship Foundation of Santa Barbara
Notes to Financial Statements

Note 5 – Property and Equipment

Property and equipment at June 30, 2024 and 2023, consist of the following major classifications:

	<u>2024</u>	<u>2023</u>
Leasehold improvements	\$ 362,106	\$ 362,106
Furniture and equipment	<u>356,789</u>	<u>356,789</u>
Total cost	718,895	718,895
Less accumulated depreciation	<u>(712,127)</u>	<u>(704,842)</u>
Net property and equipment	<u>\$ 6,768</u>	<u>\$ 14,053</u>

For the years ended June 30, 2024 and 2023, the Foundation recognized depreciation expense of \$7,285 and \$11,746, respectively.

Note 6 – Net Assets

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

	<u>2024</u>	<u>2023</u>
Unrestricted	<u>\$ 4,667,555</u>	<u>\$ 4,572,574</u>

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

	<u>2024</u>	<u>2023</u>
Subject to expenditure when a specific event occurs		
Scholarships	\$ 1,173,404	\$ 1,376,959
Endowment earnings	15,773,509	10,649,081
Outreach and financial aid services	70,000	71,700
Future years operational expense	425,250	425,000
Capital expenses	25,000	25,000
Split-interest agreements	<u>91,805</u>	<u>88,778</u>
Total net assets restricted by time or purpose	<u>17,558,968</u>	<u>12,636,518</u>
Amounts required to be maintained in perpetuity		
Investments held in perpetuity, with income and appreciation expendable to support scholarships	46,422,263	44,453,638
Split-interest agreements	<u>52,863</u>	<u>52,863</u>
Total net assets with perpetual restrictions	<u>46,475,126</u>	<u>44,506,501</u>
Total net assets with donor restrictions	<u>\$ 64,034,094</u>	<u>\$ 57,143,019</u>

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

Note 7 – Assets Released from Donor Restrictions

During the year ended June 30, 2024, the Foundation released a total of \$7,591,392 of net assets with donor restrictions by awarding scholarships as specified by donors and fulfilling student aid services.

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.

Note 8 – 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.

	2024	2023
Cash and cash equivalents	\$ 7,949,191	\$ 6,594,442
Pledges receivables	1,445,718	1,707,276
Interest and other receivables	78,844	55,123
Investments	65,714,590	59,700,867
Beneficial interest in charitable remainder trust	144,668	141,641
Total financial assets	75,333,011	68,199,349
Less		
Pledges receivables scheduled to be collected within one year but have donor restriction	(993,383)	(1,248,476)
Investments held in perpetuity	(46,475,126)	(44,506,501)
Financial assets available to meet cash needs for general expenditures within one year	\$ 27,864,502	\$ 22,444,372

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 9 – 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 10 – Concentrations

A significant portion of the Foundation's public support comes from the Santa Barbara Foundation. At June 30, 2024 and 2023, \$904,000 and \$797,508 is receivable from the Santa Barbara Foundation, respectively. Revenues from the Santa Barbara Foundation for years ended June 30, 2024 and 2023, consisted of \$1,290,400 and \$986,650, 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 11 – 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% for the first 5% of deferred salary. After one year of service, the Foundation also contributes an additional 2% of the employee's salary. Contributions and expenses for the years ended June 30, 2024 and 2023, were \$82,515 and \$88,011, 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, 2024 and 2023, 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, 2024 and 2023.

Note 12 – 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, 2024 and 2023, 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 its 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. The approved spending rate for endowed funds shall be 4.5%. 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, 2024:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 62,248,635</u>	<u>\$ 62,248,635</u>

Changes in endowment net assets for the year ended June 30, 2024:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ -</u>	<u>\$ 55,155,582</u>	<u>\$ 55,155,582</u>
Investment return			
Investment income	-	1,413,479	1,413,479
Net gain (realized and unrealized)	<u>-</u>	<u>5,977,393</u>	<u>5,977,393</u>
Total investment return	-	7,390,872	7,390,872
Contributions		1,968,625	1,968,625
Appropriation of endowment for expenditures	-	(2,490,496)	(2,490,496)
Other changes			
Prior year appropriations returned to funds *	<u>-</u>	<u>224,052</u>	<u>224,052</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 62,248,635</u>	<u>\$ 62,248,635</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, 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>

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

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

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

* 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 13 – Scholarships Awarded

Scholarships awarded for the years ended June 30, 2024 and 2023, consist of the following:

	2024	2023
Scholarships awarded	\$ 7,128,940	\$ 7,193,258
Estimated scholarship rescissions	(712,894)	(791,258)
Scholarship awards payable, net	6,416,046	6,402,000
Prior year rescission true-up	135,790	44,009
Total scholarship award expense (per statement of functional expense)	\$ 6,551,836	\$ 6,446,009

Note 14 – 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 \$98,563 and \$103,786 for the years ended June 30, 2024 and 2023, respectively.

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

At June 30, 2024 and 2023, the supplemental schedule of financial position information related to leases was as follows:

	2024	2023
Operating leases		
Operating lease ROU assets	\$ 545,173	\$ 608,122
Current portion of operating lease liabilities	\$ 67,232	\$ 62,964
Operating lease liabilities, net of current portion	487,827	555,060
Total operating lease liabilities	\$ 555,059	\$ 618,024

For the years ended June 30, 2024 and 2023, components of lease expenses were as follows:

	2024	2023
Operating lease expense	\$ 93,792	\$ 87,516
Short-term lease expense	4,771	16,270
Total lease expense	\$ 98,563	103,786

For the year ended June 30, 2024, 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)	\$ 79,942
Weighted-average remaining lease terms (years)	
Operating leases	6.83
Weighted-average discount rate	
Operating leases	2.88%

Scholarship Foundation of Santa Barbara

Notes to Financial Statements

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
Weighted-average remaining lease terms (years)		
Operating leases		7.83
Weighted-average discount rate		
Operating leases		2.88%

The following table presents minimum lease payments under the terms of the leases at June 30, 2024:

2025		\$	82,340
2026			84,810
2027			87,354
2028			89,975
2029			92,674
Thereafter			176,978
Total lease payments			614,131
Less imputed interest			(59,072)
Total lease liability		\$	555,059

