



Report of Independent Auditors  
and Financial Statements

**Scholarship Foundation of Santa Barbara**

June 30, 2025 and 2024

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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, 2025, 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, 2025, 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 available to be 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.

### ***Report on Summarized Comparative Information***

We have previously audited the Scholarship Foundation of Santa Barbara's 2024 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 17, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Baker Tilly US, LLP*

Yakima, Washington  
November 20, 2025

## **Financial Statements**

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**Scholarship Foundation of Santa Barbara**  
**Statements of Financial Position**  
**June 30, 2025 and 2024**

	<u>2025</u>	<u>2024</u>
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,607,235	\$ 7,949,191
Pledges receivable	4,088,458	1,445,718
Interest receivable	285	66,349
Other receivables	2,444	12,495
Prepaid expenses	78,376	74,580
Total current assets	<u>13,776,798</u>	<u>9,548,333</u>
INVESTMENTS	<u>74,334,061</u>	<u>65,714,590</u>
PROPERTY AND EQUIPMENT, net	<u>12,810</u>	<u>6,768</u>
OPERATING RIGHT-OF-USE ASSET	<u>472,920</u>	<u>545,173</u>
OTHER ASSETS		
Deposits	2,216	2,216
Beneficial interest in charitable remainder trust	<u>149,980</u>	<u>144,668</u>
Total other assets	<u>152,196</u>	<u>146,884</u>
Total assets	<u><u>\$ 88,748,785</u></u>	<u><u>\$ 75,961,748</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 293,418	\$ 288,994
Scholarship awards payable, net	7,328,923	6,416,046
Operating right-of-use liability, short term	<u>84,810</u>	<u>67,232</u>
Total current liabilities	<u>7,707,151</u>	<u>6,772,272</u>
RIGHT-OF-USE LIABILITY, LONG TERM	<u>388,110</u>	<u>487,827</u>
Total long-term liabilities	<u>388,110</u>	<u>487,827</u>
Total liabilities	<u>8,095,261</u>	<u>7,260,099</u>
NET ASSETS		
Without donor restrictions	8,271,412	4,667,555
With donor restrictions	<u>72,382,112</u>	<u>64,034,094</u>
Total net assets	<u>80,653,524</u>	<u>68,701,649</u>
Total liabilities and net assets	<u><u>\$ 88,748,785</u></u>	<u><u>\$ 75,961,748</u></u>

See accompanying notes.

**Scholarship Foundation of Santa Barbara**  
**Statement of Activities**  
**Year Ended June 30, 2025**

*(With Summarized Comparative Financial Information for the Year Ended June 30, 2024)*

	Without Donor Restrictions	With Donor Restrictions	2025 Total	2024 Total
<b>PUBLIC SUPPORT AND REVENUE</b>				
Public support				
Fundraising events – net revenue	\$ -	\$ 183,817	\$ 183,817	\$ 162,128
Donations	606,559	6,698,395	7,304,954	7,240,113
Bequests	4,736,210	1,710,085	6,446,295	412,324
Total public support	5,342,769	8,592,297	13,935,066	7,814,565
Revenue and gain				
Grant for student aid support	85,392	-	85,392	85,392
Interest and dividends	148,889	2,196,142	2,345,031	1,544,489
Realized and unrealized gain on investments, net	413,178	5,278,205	5,691,383	6,611,931
Mineral royalties	30,307	-	30,307	42,924
Other income	-	-	-	31,517
Change in value of split interest agreements	-	5,312	5,312	3,027
Total revenue and gain	677,766	7,479,659	8,157,425	8,319,280
Total public support and revenue	6,020,535	16,071,956	22,092,491	16,133,845
Net assets released from restriction and redesignations	7,723,938	(7,723,938)	-	-
<b>EXPENSES</b>				
Program expenses				
Scholarship and student aid	8,281,682	-	8,281,682	7,387,621
Outreach and financial aid services	486,233	-	486,233	631,910
Total program expenses	8,767,915	-	8,767,915	8,019,531
Supporting services				
General and administrative	705,491	-	705,491	550,599
Fundraising	667,210	-	667,210	577,659
Total supporting services	1,372,701	-	1,372,701	1,128,258
Total expenses	10,140,616	-	10,140,616	9,147,789
CHANGE IN NET ASSETS	3,603,857	8,348,018	11,951,875	6,986,056
NET ASSETS, beginning of year	4,667,555	64,034,094	68,701,649	61,715,593
NET ASSETS, ending of year	\$ 8,271,412	\$ 72,382,112	\$ 80,653,524	\$ 68,701,649

See accompanying notes.

**Scholarship Foundation of Santa Barbara**  
**Statement of Functional Expenses**  
**June 30, 2025**

*(With Summarized Comparative Financial Information for the Year Ended June 30, 2024)*

	Program			Supporting Services		Total 2025	Total 2024
	Scholarship and Student Aid	Outreach and Financial Aid Services	Total	General and Administrative	Fundraising		
Salaries	\$ 513,707	\$ 298,548	\$ 812,255	\$ 388,478	\$ 446,278	\$ 1,647,011	\$ 1,679,574
Employee benefits	73,390	42,652	116,042	55,499	63,757	235,298	197,363
Payroll taxes	34,082	19,807	53,889	25,774	29,608	109,271	118,824
Professional fees and consulting	12,088	12,088	24,176	12,088	12,088	48,352	44,448
Depreciation	1,452	1,201	2,653	904	998	4,555	7,285
Rent	32,772	27,106	59,878	20,387	22,503	102,768	98,563
Telephone and utilities	10,170	8,412	18,582	6,327	6,983	31,892	32,387
Insurance	3,535	2,924	6,459	2,199	2,427	11,085	25,920
Advertising and promotion	6,007	4,005	10,012	-	30,034	40,046	37,726
Printing and graphics	5,978	5,978	11,956	5,978	5,978	23,912	22,208
Postage	1,927	108	2,035	1,470	3,660	7,165	8,684
Public relations and meetings	-	-	-	89,338	-	89,338	58,136
Supplies	7,103	5,875	12,978	4,418	4,877	22,273	27,555
Information technology	43,972	36,369	80,341	27,354	30,193	137,888	136,906
Repairs and maintenance	3,437	2,843	6,280	2,138	2,360	10,778	17,594
Legal and accounting	-	-	-	58,190	-	58,190	45,748
Education and conferences	14,845	-	14,845	-	-	14,845	4,824
Travel	-	11,737	11,737	-	-	11,737	8,476
Scholarships awarded	7,509,261	-	7,509,261	-	-	7,509,261	6,551,836
Miscellaneous	7,956	6,580	14,536	4,949	5,466	24,951	23,732
2025 total functional expenses	<u>\$ 8,281,682</u>	<u>\$ 486,233</u>	<u>\$ 8,767,915</u>	<u>\$ 705,491</u>	<u>\$ 667,210</u>	<u>\$ 10,140,616</u>	
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>

See accompanying notes.

**Scholarship Foundation of Santa Barbara**  
**Statements of Cash Flows**  
**Years Ended June 30, 2025 and 2024**

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 11,951,875	\$ 6,986,056
Adjustments to reconcile change in net assets to cash used in operating activities		
Depreciation	4,555	7,285
Net realized and unrealized gains on investments	(5,691,383)	(6,497,053)
Donated securities	(1,319,610)	(112,747)
Change in value of split interest agreements	(5,312)	(3,027)
Contributions perpetually restricted	(3,367,587)	(1,968,625)
Change in right-of-use asset	72,253	62,949
Change in lease liability	(82,139)	(62,965)
Changes in operating assets and liabilities		
Pledges receivable	(2,642,740)	261,558
Interest and other receivables	76,115	(23,721)
Prepaid expenses	(3,796)	(35,721)
Accounts payable and accrued expenses	4,424	52,012
Scholarship awards payable	912,877	14,046
Net cash used in operating activities	<u>(90,468)</u>	<u>(1,319,953)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	7,267,522	18,572,457
Purchase of investments	(8,876,000)	(17,866,380)
Purchase of equipment	<u>(10,597)</u>	<u>-</u>
Net cash (used in) provided by investing activities	<u>(1,619,075)</u>	<u>706,077</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions perpetually restricted	<u>3,367,587</u>	<u>1,968,625</u>
Net cash provided by financing activities	<u>3,367,587</u>	<u>1,968,625</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,658,044	1,354,749
CASH AND CASH EQUIVALENTS, beginning of year	<u>7,949,191</u>	<u>6,594,442</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 9,607,235</u></u>	<u><u>\$ 7,949,191</u></u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES		
Noncash transactions consisted of the following		
In-kind donation of securities	<u><u>\$ 1,319,610</u></u>	<u><u>\$ 112,747</u></u>

See accompanying notes.

# Scholarship Foundation of Santa Barbara

## Notes to Financial Statements

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### 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, 2024, 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 from 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 entered into in the course of its operations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors. As of June 30, 2025, and 2024, Board of Directors designated net assets without donor restrictions were \$1,500,000 and \$0, respectively. (see Note 6)

*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

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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. 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, 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

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**Pledges 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. Mutual funds are typically traded on major stock exchanges. The Foundations mutual fund investments are invested primarily in fixed-income and equity securities. 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. The Foundation invests in certain private investment pools (private funds) such as private equity funds that are organized as limited liability companies (LLC). 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.

## Scholarship Foundation of Santa Barbara

### Notes to Financial Statements

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

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

The 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.

The investments in private equity funds are valued at net asset value (NAV), and therefore classified under NAV per share (or equivalent). The Foundation's determination of fair value is based upon the best available information provided by the investment manager and may incorporate management assumptions and best estimates after considering a variety of internal and external factors. For these investments, the Foundation has determined, through its monitoring activities, to rely on the fair value as determined by the investment managers.

**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 of more than one year when acquired. 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 to 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.

## Scholarship Foundation of Santa Barbara

### Notes to Financial Statements

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**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 of 5% and 10% for the years ended June 30, 2025 and 2024, respectively. For the year ended June 30, 2025, the Foundation awarded scholarships totaling \$7,714,655 and estimates that \$385,732 of the awarded scholarships will be rescinded. 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.

**Leases** – The Foundation recognizes an operating lease liability and a right-of-use (ROU) asset for its building lease. The operating lease ROU asset and liability are recognized on the 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, 2025 and 2024.

**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 nonfinancial 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 \$5,000 and \$0 as of years ended June 30, 2025 and 2024, respectively.

**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.

## Scholarship Foundation of Santa Barbara

### Notes to Financial Statements

The Foundation has evaluated subsequent events through November 20, 2025, 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, 2025 and 2024. As of June 30, 2025 and 2024, pledges receivable totaled \$4,088,458 and \$1,445,718, respectively. Management believes all receivables are collectible and thus no reserve for doubtful pledges has been established. The pledges receivable as of June 30, 2025 and 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, 2025 and 2024, investments consist of the following, stated at fair value:

	2025	2024
Mutual funds	\$ 67,304,802	\$ -
Exchange-traded funds	3,561,206	62,901,886
Private equity funds	3,468,053	-
Alternative equity funds	-	2,812,704
	<u>-</u>	<u>2,812,704</u>
Total	<u>\$ 74,334,061</u>	<u>\$ 65,714,590</u>

The following table summarizes the Foundation's financial assets by the fair value hierarchy levels as of June 30, 2025:

	June 30, 2025	Level 1	Level 2	Level 3	Net Asset Value (or Equivalent)
Exchange-traded funds	\$ 3,561,206	\$ 3,561,206	\$ -	\$ -	\$ -
Mutual funds	67,304,802	67,304,802	-	-	-
Private equity	3,468,053	-	-	-	3,468,053
Total investments	<u>\$ 74,334,061</u>	<u>\$ 70,866,008</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,468,053</u>

  

	June 30, 2025	Level 1	Level 2	Level 3	Assets Held at Net Asset Value (or Equivalent)
Beneficial interest in charitable remainder trusts	\$ 149,980	\$ -	\$ -	\$ 149,980	\$ -
Total other financial assets	<u>\$ 149,980</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 149,980</u>	<u>\$ -</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 includes a roll forward of the amounts for assets classified within Level 3 at June 30, 2025 and 2024:

	Beneficial Interest in Charitable Remainder Trusts
Balance at June 30, 2023	\$ 141,641
Actuarial adjustment	<u>3,027</u>
Balance at June 30, 2024	144,668
Actuarial adjustment	<u>5,312</u>
Balance at June 30, 2025	<u>\$ 149,980</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 transfers 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."

## Scholarship Foundation of Santa Barbara

### Notes to Financial Statements

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The following table represents the Foundation's Level 3 financial instruments for the year ended June 30, 2025, 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	\$ 149,980	Income approach	Discount rate based on mortality tables	3.4% to 10%

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%

The valuation method for alternative investments in private equity is based on the investment's NAV per share (or its equivalent), provided by the investment managers. Investments measured at NAV for fair value are not subject to level classification. Investments measured at NAV per share (or its equivalent) are presented in the following table at June 30, 2025:

Alternative Investments	Fair Value June 30, 2025	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments measured at NAV				
Private equity	\$1,433,037	\$ -	Quarterly	1-10 days
Private equity	2,035,016	-	Monthly	90 days

## Scholarship Foundation of Santa Barbara

### Notes to Financial Statements

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#### Note 5 – Property and Equipment

Property and equipment at June 30, 2025 and 2024, consist of the following major classifications:

	<u>2025</u>	<u>2024</u>
Leasehold improvements	\$ 362,106	\$ 362,106
Furniture and equipment	<u>367,386</u>	<u>356,789</u>
Total cost	729,492	718,895
Less accumulated depreciation	<u>(716,682)</u>	<u>(712,127)</u>
Net property and equipment	<u><u>\$ 12,810</u></u>	<u><u>\$ 6,768</u></u>

For the years ended June 30, 2025 and 2024, the Foundation recognized depreciation expense of \$4,555 and \$7,285, respectively.

#### Note 6 – Net Assets

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

	<u>2025</u>	<u>2024</u>
Board designated for operations	\$ 1,500,000	\$ -
Unrestricted	<u>6,771,412</u>	<u>4,667,555</u>
Total unrestricted	<u><u>\$ 8,271,412</u></u>	<u><u>\$ 4,667,555</u></u>

## Scholarship Foundation of Santa Barbara

### Notes to Financial Statements

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

	2025	2024
Subject to expenditure when a specific event occurs		
Scholarships	\$ 1,022,560	\$ 1,173,404
Endowment earnings	20,879,969	15,773,509
Outreach and financial aid services	70,000	70,000
Future years operational expense	455,350	425,250
Capital expenses	14,403	25,000
Split-interest agreements	97,117	91,805
	<u>22,539,399</u>	<u>17,558,968</u>
Amounts required to be maintained in perpetuity		
Investments held in perpetuity, with income and appreciation expendable to support scholarships	49,789,850	46,422,263
Split-interest agreements	52,863	52,863
	<u>49,842,713</u>	<u>46,475,126</u>
Total net assets with perpetual restrictions	<u>49,842,713</u>	<u>46,475,126</u>
Total net assets with donor restrictions	<u><u>\$ 72,382,112</u></u>	<u><u>\$ 64,034,094</u></u>

#### Note 7 – Assets Released from Donor Restrictions

During the year ended June 30, 2025, the Foundation released a total of \$7,723,938 of net assets with donor restrictions by awarding scholarships as specified by donors and by fulfilling student aid services.

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 by fulfilling student aid services.

## Scholarship Foundation of Santa Barbara

### Notes to Financial Statements

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#### 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.

	2025	2024
Cash and cash equivalents	\$ 9,607,235	\$ 7,949,191
Pledges receivables	4,088,458	1,445,718
Interest and other receivables	2,729	78,844
Investments	74,334,061	65,714,590
Deposits	2,216	2,216
Beneficial interest in charitable remainder trust	149,980	144,668
	<hr/>	<hr/>
Total financial assets	88,184,679	75,335,227
Less		
Pledges receivables scheduled to be collected within one year but have donor restriction	(1,661,258)	(993,383)
Beneficial interest in charitable remainder trust	(149,980)	(144,668)
Investments held in perpetuity	(49,842,713)	(46,475,126)
	<hr/>	<hr/>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 36,530,728</u>	<u>\$ 27,722,050</u>

The Foundation anticipates the 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.

#### Note 10 – Concentrations

A significant portion of the Foundation's public support comes from the Santa Barbara Foundation. At June 30, 2025 and 2024, \$949,908 and \$904,000 are receivable from the Santa Barbara Foundation, respectively. Revenues from the Santa Barbara Foundation for years ended June 30, 2025 and 2024, consisted of \$1,136,750 and \$1,290,400, respectively.

## **Scholarship Foundation of Santa Barbara**

### **Notes to Financial Statements**

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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, 2025 and 2024, were \$95,667 and \$82,515, 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, 2025 and 2024, 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, 2025 and 2024.

#### **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.

**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

## Scholarship Foundation of Santa Barbara

### Notes to Financial Statements

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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, 2025 and 2024, 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.

**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, 2025:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 70,722,682	\$ 70,722,682

## Scholarship Foundation of Santa Barbara

### Notes to Financial Statements

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Changes in endowment net assets for the year ended June 30, 2025:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 62,248,635	\$ 62,248,635
Investment return			
Investment income	-	2,196,142	2,196,142
Net gain (realized and unrealized)	-	5,278,205	5,278,205
Total investment return	-	7,474,347	7,474,347
Contributions	-	3,367,587	3,367,587
Appropriation of endowment for expenditures	-	(2,560,400)	(2,560,400)
Other changes			
Prior year appropriations returned to funds *	-	192,513	192,513
Endowment net assets, end of year	\$ -	\$ 70,722,682	\$ 70,722,682

*\* 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, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 62,248,635	\$ 62,248,635

## Scholarship Foundation of Santa Barbara

### Notes to Financial Statements

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

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

\* 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, 2025 and 2024, consist of the following:

	2025	2024
Scholarships awarded	\$ 7,714,655	\$ 7,128,940
Estimated scholarship rescissions	(385,732)	(712,894)
Scholarship awards payable, net	7,328,923	6,416,046
Prior year rescission true-up	180,338	135,790
Total scholarship award expense (per statement of functional expense)	\$ 7,509,261	\$ 6,551,836

#### 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 \$102,768 and \$98,563 for the years ended June 30, 2025 and 2024, respectively.

## Scholarship Foundation of Santa Barbara

### Notes to Financial Statements

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At June 30, 2025 and 2024, the supplemental schedule of financial position information related to leases was as follows:

	2025	2024
Operating leases		
Operating lease ROU assets	\$ 472,920	\$ 545,173
	<u>                    </u>	<u>                    </u>
Current portion of operating lease liabilities	\$ 84,810	\$ 67,232
Operating lease liabilities, net of current portion	388,110	487,827
	<u>                    </u>	<u>                    </u>
Total operating lease liabilities	\$ 472,920	\$ 555,059
	<u>                    </u>	<u>                    </u>

For the years ended June 30, 2025 and 2024, components of lease expenses were as follows:

	2025	2024
Operating lease expense	\$ 93,792	\$ 93,792
Short-term lease expense	8,976	4,771
	<u>                    </u>	<u>                    </u>
Total lease expense	\$ 102,768	\$ 98,563
	<u>                    </u>	<u>                    </u>

For the year ended June 30, 2025, 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)	\$ 82,340
Weighted-average remaining lease terms (years)	
Operating leases	5.83
Weighted-average discount rate	
Operating leases	2.88%

The following table presents minimum lease payments under the terms of the leases at June 30, 2025:

2026	\$ 84,810
2027	87,354
2028	89,975
2029	92,674
2030	95,454
Thereafter	81,524
	<u>                    </u>
Total lease payments	532,083
Less imputed interest	(59,163)
	<u>                    </u>
Total lease liability	\$ 472,920
	<u>                    </u>

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