



SCHOLARSHIP FOUNDATION OF SANTA BARBARA
FINANCIAL STATEMENTS

June 30, 2012



Independent Auditors' Report

To the Board of Directors
Scholarship Foundation of Santa Barbara
Santa Barbara, California

We have audited the accompanying statement of financial position of the Scholarship Foundation of Santa Barbara (the Foundation), a non-profit organization, as of June 30, 2012 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended June 30, 2011, is presented for comparative purposes only and was extracted from the financial statements for that year, on which an unqualified opinion dated September 19, 2011 was expressed.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Scholarship Foundation of Santa Barbara as of June 30, 2012 and the changes in net assets and cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Stoltey & Associates

November 16, 2012

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

STATEMENT OF FINANCIAL POSITION
June 30, 2012
(With Comparative Totals for June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
ASSETS					
CURRENT ASSETS					
Cash and equivalents	\$ 1,158,284	\$ 1,476,411	\$ -	\$ 2,634,695	\$ 4,376,433
Pledges receivable (note 2)	1,737,379	510,000	3,500	2,250,879	1,840,566
Interest receivable	46,226	-	-	46,226	23,354
Other receivable	-	-	-	-	240
Prepaid expenses	91,517	-	-	91,517	20,476
Total Current Assets	3,033,406	1,986,411	3,500	5,023,317	6,261,069
INVESTMENTS (NOTE 4)					
Nonmarketable securities	2,473,131	-	5,962,607	8,435,738	8,603,273
Marketable securities	5,315,670	2,789,792	19,541,904	27,647,366	28,596,057
Total Investments	7,788,801	2,789,792	25,504,511	36,083,104	37,199,330
PROPERTY AND EQUIPMENT, NET (NOTE 5)	335,697	-	-	335,697	73,342
OTHER ASSETS					
Mineral interests, net (note 3)	20,000	-	-	20,000	22,000
Deposits	2,216	-	-	2,216	4,216
Land held for investment	-	-	110,000	110,000	110,000
Contributions receivable from split interest agreements (note 6)	-	612,356	28,956	641,312	843,862
Total Other Assets	22,216	612,356	138,956	773,528	980,078
Total Assets	\$ 11,180,120	\$ 5,388,559	\$ 25,646,967	\$ 42,215,646	\$ 44,513,819
 LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 115,529	\$ -	\$ -	\$ 115,529	\$ 103,493
Deferred revenue	94,280	-	-	94,280	-
Scholarship and student loan awards payable	6,575,440	-	-	6,575,440	6,524,848
Total Current Liabilities	6,785,249	-	-	6,785,249	6,628,341
NET ASSETS					
Unrestricted - Undesignated	4,394,871	-	-	4,394,871	5,303,843
Temporarily restricted (note 7)	-	5,388,559	-	5,388,559	7,952,963
Permanently restricted (note 8)	-	-	25,646,967	25,646,967	24,628,672
Total Net Assets	4,394,871	5,388,559	25,646,967	35,430,397	37,885,478
Total Liabilities and Net Assets	\$ 11,180,120	\$ 5,388,559	\$ 25,646,967	\$ 42,215,646	\$ 44,513,819

The accompanying notes are an integral part of this financial statement

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012
(With Comparative Totals for the Year Ended June 30, 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
PUBLIC SUPPORT AND REVENUE					
Public Support					
Fundraising events - gross revenue	\$ -	\$ -	\$ 208,829	\$ 208,829	\$ 207,000
Less costs of direct benefits to donors	-	-	(82,555)	(82,555)	(75,143)
Net revenues from fundraising events	-	-	126,274	126,274	131,857
Donations	1,421,223	5,455,199	581,917	7,458,339	7,553,319
Bequests	35,623	25,000	308,788	369,411	890,054
Total Public Support	<u>1,456,846</u>	<u>5,480,199</u>	<u>1,016,979</u>	<u>7,954,024</u>	<u>8,575,230</u>
Revenue					
Administration fees	200,444	-	-	200,444	194,795
Interest and dividends	98,652	299,410	-	398,062	374,642
Realized and unrealized gain on investments	(694,045)	(1,947,632)	-	(2,641,677)	6,107,821
Mineral royalties	59,342	-	-	59,342	53,052
Change in value of split interest agreements	(7,015)	15,727	1,316	10,028	196,788
Total Revenue	<u>(342,622)</u>	<u>(1,632,495)</u>	<u>1,316</u>	<u>(1,973,801)</u>	<u>6,927,098</u>
Total Public Support and Revenue	<u>1,114,224</u>	<u>3,847,704</u>	<u>1,018,295</u>	<u>5,980,223</u>	<u>15,502,328</u>
Net assets released from restrictions (note 9)	<u>6,412,108</u>	<u>(6,412,108)</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENSES					
Program Expenses:					
Scholarship and loan services	7,314,296	-	-	7,314,296	6,824,062
Outreach and financial aid services	258,948	-	-	258,948	204,926
Total Program Services	<u>7,573,244</u>	<u>-</u>	<u>-</u>	<u>7,573,244</u>	<u>7,028,988</u>
Supporting Services:					
General and administrative	316,489	-	-	316,489	265,963
Fundraising	545,571	-	-	545,571	382,798
Total Supporting Services	<u>862,060</u>	<u>-</u>	<u>-</u>	<u>862,060</u>	<u>648,761</u>
Total Expenses	<u>8,435,304</u>	<u>-</u>	<u>-</u>	<u>8,435,304</u>	<u>7,677,749</u>
Change in Net Assets	<u>(908,972)</u>	<u>(2,564,404)</u>	<u>1,018,295</u>	<u>(2,455,081)</u>	<u>7,824,579</u>
Net Assets, beginning of year	5,303,843	7,952,963	24,628,672	37,885,478	30,060,899
Net Assets, ending of year	<u>\$ 4,394,871</u>	<u>\$ 5,388,559</u>	<u>\$ 25,646,967</u>	<u>\$ 35,430,397</u>	<u>\$ 37,885,478</u>

The accompanying notes are an integral part of this financial statement

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012
(With Comparative Totals for the Year Ended June 30, 2011)

	Program			Supporting Services		2012	2011
	Scholarships and Loans	Outreach & Financial Aid Services	Total	General and Administrative	Fund Raising		
Salaries	\$ 399,820	\$ 150,106	\$ 549,926	\$ 196,393	\$ 219,342	\$ 965,661	\$ 812,820
Employee benefits	33,489	10,185	43,674	25,131	30,525	99,330	79,466
Payroll taxes	32,017	12,020	44,037	15,727	17,564	77,328	63,491
Temporary staff	-	-	-	2,654	10,617	13,271	-
Professional fees and consulting	-	-	-	8,400	37,095	45,495	30,900
Depreciation and amortization	21,678	7,962	29,640	7,088	9,297	46,025	37,919
Rent	30,660	11,261	41,921	10,025	13,149	65,095	48,677
Telephone and utilities	5,797	2,129	7,926	1,895	2,486	12,307	12,705
Insurance	3,466	1,273	4,739	1,133	1,487	7,359	6,571
Advertising and promotion	604	1,031	1,635	-	103,228	104,863	55,083
Printing and graphics	5,869	698	6,567	669	1,759	8,995	15,577
Postage	6,706	1,450	8,156	1,812	8,156	18,124	18,908
Public relations and meetings	1,141	8,221	9,362	12,803	68,255	90,420	58,260
Supplies	8,322	3,057	11,379	2,721	3,568	17,668	16,285
Information technology	20,454	7,513	27,967	6,688	8,771	43,426	28,830
Repairs and maintenance	7,181	2,638	9,819	2,348	3,079	15,246	9,331
Legal and accounting	-	-	-	12,000	-	12,000	13,435
Education and conferences	1,005	550	1,555	2,785	715	5,055	6,585
Travel	2,243	5,784	8,027	3,484	2,894	14,405	11,096
Program grants to others	-	30,000	30,000	-	-	30,000	30,000
Scholarships and loans awarded	6,725,487	-	6,725,487	-	-	6,725,487	6,304,258
Miscellaneous	8,357	3,070	11,427	2,733	3,584	17,744	17,552
2012 Total Functional Expenses	\$ 7,314,296	\$ 258,948	\$ 7,573,244	\$ 316,489	\$ 545,571	\$ 8,435,304	
2011 Total Functional Expenses	\$ 6,824,062	\$ 204,926	\$ 7,028,988	\$ 265,963	\$ 382,798		\$ 7,677,749

The accompanying notes are an integral part of this financial statement

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012

(With Comparative Amounts for the Year Ended June 30, 2011)

	2012	2011
Cash Flows From Operating Activities:		
Change in net assets	\$ (2,455,081)	\$ 7,824,579
Adjustments to reconcile increase in net assets - unrestricted to cash from (used by) operating activities:		
Depreciation and amortization	46,025	37,919
Realized and unrealized loss (gain) on investments	2,641,675	(6,107,821)
Contributions permanently restricted	(1,016,979)	(1,707,511)
(Gains) losses on split interest agreements	(10,028)	(196,788)
Decrease/(Increase) in pledges receivable	(410,313)	1,234,291
Decrease/(Increase) in interest and other receivables	(22,632)	9,054
Decrease/(Increase) in prepaid expenses and deposits	(69,041)	(6,221)
Decrease/(Increase) in receivables from split interest agreements	212,578	-
(Decrease)/Increase in student loans and scholarships payable	50,592	(55,558)
(Decrease)/Increase in deferred revenue	94,280	-
(Decrease)/Increase in accounts payable and accrued expenses	12,033	41,055
Net cash from operating activities	(926,891)	1,072,999
Cash Flows From (Used By) Investing Activities:		
Purchase of furniture and equipment and leasehold improvements	(306,377)	(18,924)
Proceeds from sale of investments	887,639	4,920,123
Purchase of marketable securities	(2,413,088)	(10,916,570)
Net cash from (used by) investing activities	(1,831,826)	(6,015,371)
Cash Flows From Financing Activities		
Contributions permanently restricted	1,016,979	1,707,511
Net cash from financing activities	1,016,979	1,707,511
Net increase (decrease) in cash and cash equivalents	(1,741,738)	(3,234,861)
Cash and cash equivalents at Beginning of Year	4,376,433	7,611,294
Cash and cash equivalents at Ending of Year	\$ 2,634,695	\$ 4,376,433
Supplemental Disclosure of Cash Flow Information		
Noncash transactions consisted of the following:		
In-Kind donation of contributed services	\$ 15,481	\$ 16,629

The accompanying notes are an integral part of this financial statement

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Scholarship Foundation of Santa Barbara (the Foundation) is a non-profit organization that provides scholarships and loans to graduates of high schools in Santa Barbara County, California. The Foundation also provides free outreach and financial aid counseling as a public service.

Basis of Accounting

The accompanying financial statements of the Foundation have been prepared in accordance with Financial Accounting Standards Board ASC 958 (formerly FASB Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*). ASC 958 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions as follows:

Unrestricted Net Assets

The unrestricted group of net assets represents unrestricted resources available for current support of Foundation activities.

Temporarily Restricted Net Assets

Temporarily restricted net assets include charitable remainder trusts and donations that have been restricted by donors for time or certain purposes, generally awarding student aid. When the restrictions have been met, the funds are fully expendable.

Permanently Restricted Net Assets

Permanently restricted net assets represent endowment funds and charitable remainder trusts which by donor restriction require that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

The Foundation includes in cash equivalents all highly liquid investments that can be readily converted to a known amount of cash. These investments are typically savings and money market accounts from which funds may be withdrawn by check.

Marketable Securities

Marketable securities are recorded at fair market value. Changes in unrealized gains or losses are recorded as a change in the appropriate class of net assets.

Donor Restrictions

The Foundation reports donations of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. The Foundation reports donations of property and equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Donations of long-lived assets with explicit restrictions that specify how the donated assets must be used and donations of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Santa Barbara Foundation Loan Program

The Foundation receives a significant grant from the Santa Barbara Foundation each year that is restricted for funding Santa Barbara Foundation Loan Program loans. The Foundation expends a significant amount of effort and resources in recruiting, screening, evaluating and communicating with applicants for the Santa Barbara Foundation Loan Program. Management has determined the grant constitutes a contribution to the Foundation in accordance with generally accepted accounting principles and reports the grant as a contribution in the accompanying financial statements. In addition, the Foundation has determined the loan awards made under the loan program meet the definition of an expense as defined by generally accepted accounting principles. Accordingly, the Foundation reports the amount of loan awards as a program expense in the accompanying financial statements.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

Donated Property and Investments

Donated property and investments are recorded as contributions at their fair market value at date of receipt.

Property and Equipment

The Foundation's investment in equipment and leasehold improvements is stated at cost. Depreciation is calculated using the straight-line method over an estimated useful life of five to ten years. One-half year depreciation is taken in the year of acquisition.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Scholarships and Student Loans Awarded Payable

The Foundation reports scholarship and student loans awarded payable at 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 average of rescissions made in the previous 5 years.

Allocation of Income Between Funds

Income, including gains and losses, earned by permanently restricted net assets is considered expendable for scholarships and is allocated to the temporarily restricted net assets until the scholarships are awarded. The balance of investment income is allocated to the unrestricted net assets.

Income Taxes

The Foundation is a nonprofit organization which is exempt from income taxes under Internal Revenue Code Section number 501(c)(3); therefore, no provision for income taxes is required. The Foundation is not a private foundation for income tax purposes.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

The Foundation has implemented Financial Accounting Standards Board ASC 740-10 (formerly known as FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes), which prescribes a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. There was no impact to the Foundation's financial statements as a result of the implementation of ASC 740-10.

Donated Services

Donated goods and services received by the Foundation are recorded at the estimated fair market value at the time of the donation.

Comparative Amounts

The amounts shown for 2011 in the accompanying financial statements are included to provide a basis for comparison with 2012 and are not intended to present all information necessary for a fair presentation of the 2011 financial statements in conformity with generally accepted accounting principles.

NOTE 2 - PLEDGES RECEIVABLE

Unconditional promises are included in the financial statements as pledges receivable and revenue in the appropriate net asset category. As of June 30, 2012 and 2011 pledges receivable totaled \$2,250,879 and \$1,840,566, respectively. Management believes all receivables are collectible and thus no reserve for doubtful pledges has been established. The pledges receivable as of June 30, 2012 are expected to be collected in the year ended June 30, 2013.

NOTE 3 - MINERAL INTERESTS

The Foundation received a bequest of various mineral interests in Oklahoma which is held in trust. The trustee is the First National Bank of Okmulgee. The trust is revocable by the Foundation. The mineral rights are carried in the balance sheet at the estimated fair market value at the date of donation, less depletion. As of June 30, 2012, the cost and accumulated amortization is \$50,000 and \$30,000, respectively.

NOTE 4 - INVESTMENTS

The Foundation's investments include both marketable securities and nonmarketable securities. Marketable securities are presented in the

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

financial statements at fair market value, while nonmarketable securities are presented at estimated market value.

At June 30, 2012 and 2011, investments consist of the following:

June 30, 2012:

	Cost	Market Value	Excess of Market over Cost
Mutual Funds	\$ 19,681,946	\$ 21,901,907	\$ 2,219,961
Archstone Offshore, LTD	3,100,000	3,465,226	365,226
CommonFund Realty			
Investors	879,996	106,461	(773,535)
CommonFund Distressed			
Investors	842,989	1,054,147	211,158
CommonFund Multi-Strategy Global Hedged			
Partners	2,096,459	1,917,204	(179,255)
EnTrust Capital Diversified	2,000,000	1,892,700	(107,300)
Bonds	<u>5,577,938</u>	<u>5,745,459</u>	<u>167,521</u>
Total	<u>\$ 34,179,328</u>	<u>\$ 36,083,104</u>	\$ 1,903,776
Unrealized gain at beginning of year			<u>(5,264,124)</u>
Change in unrealized gain on marketable securities			<u>\$ (3,360,348)</u>

June 30, 2011:

	Cost	Market Value	Excess of Market over Cost
Mutual Funds	\$ 18,866,316	\$ 24,101,127	\$ 5,234,811
Archstone Offshore, LTD	3,100,000	3,611,238	511,238
CommonFund Realty			
Investors	910,348	7,999	(902,349)
CommonFund Distressed			
Investors	695,831	959,083	263,252
CommonFund Multi-Strategy Global Hedged			
Partners	2,050,181	2,046,273	(3,908)
EnTrust Capital Diversified	2,000,000	1,978,680	(21,320)
Bonds	<u>4,312,530</u>	<u>4,494,930</u>	<u>182,400</u>
Total	<u>\$ 31,935,206</u>	<u>\$ 37,199,330</u>	\$ 5,264,124
Unrealized loss at beginning of year			<u>652,087</u>
Change in unrealized gain on marketable securities			<u>\$ 5,916,211</u>

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2012 consist of the following major classifications:

	<u>Cost/Basis</u>	<u>Estimated Useful Life</u>
Leasehold improvements	\$ 361,749	5-10 years
Furniture and equipment	<u>241,585</u>	4-5 years
Total cost	603,334	
Less accumulated depreciation	<u>(267,637)</u>	
Net property and equipment	<u>\$ 335,697</u>	

For the year ending June 30, 2012, the Foundation recognized depreciation expense of \$44,025.

NOTE 6 - SPLIT INTEREST AGREEMENTS

The Foundation is the remainderman for seven charitable split interest agreements as of June 30, 2012, that have been established by donors to provide income, generally for life, to designated beneficiaries. The remainder of the trusts will be distributed to the Foundation for the purposes designated in the trust agreements, generally for restricted or endowment purposes. Each year, beneficiaries receive a percentage of the trust's fair market 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 Internal Revenue Code, and have a calendar year end as required by the Tax Reform Act of 1986. They are exempt from federal and California income taxes on investment accumulated for future distributions and any net capital gains.

The Foundation does not act as trustee for these trusts, which are included on the financial statements under the caption "contributions receivable from split interest agreements". For financial statement presentation, the interest in these trusts is presented at the net present value of the estimated future benefits to be received when the trust assets are distributed, using a discount rate of 3.4% to 10% based on the terms of the trust agreement. This discount rate is then applied to the estimated future cash flows based on the life expectancy of each trust's income beneficiary.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2012 and 2011 are available for the following purposes:

	2012	2011
Scholarships	\$ 4,496,799	\$ 6,996,414
Outreach and financial aid services	170,000	220,000
Alumni donations fund	75,430	91,602
Scholarship Foundation history project	33,974	48,318
Split interest agreements	<u>612,356</u>	<u>596,629</u>
Total	<u>\$ 5,388,559</u>	<u>\$ 7,952,963</u>

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2012 and 2011 are restricted to:

	2012	2011
Investments held in perpetuity, with income and appreciation expendable to support scholarships	\$ 25,618,011	\$ 24,601,032
Split interest agreements	<u>28,956</u>	<u>27,640</u>
Total	<u>\$ 25,646,967</u>	<u>\$ 24,628,672</u>

NOTE 9 - ASSETS RELEASED FROM DONOR RESTRICTIONS

During the year ended June 30, 2012 the Foundation released a total of \$6,412,108 of temporarily restricted net assets from donor restrictions by awarding scholarships and loans as specified by donors and fulfilling student aid services. During the year ended June 30, 2011 the Foundation released a total of \$6,360,684 from temporarily restricted net assets from donor restrictions by awarding scholarships and loans as specified by donors and fulfilling student aid services.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - LEASE AGREEMENT

The Foundation rents facilities under a lease agreement expiring on April 30, 2021, payable in monthly installments of \$5,560, with minimum annual increases of 3%. The Foundation is obligated under the lease as follows:

Year ended June 30,	
2013	\$ 67,048
2014	69,059
2015	71,131
2016	73,266
2017	75,463
Thereafter (2018-2021)	<u>310,672</u>
Total	<u>\$ 666,639</u>

NOTE 11 - CONCENTRATIONS

The Foundation maintains cash balances in money market funds. Such funds are not fully insured.

The Foundation maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the year the Foundation had an excess of cash over the insured amount.

The Foundation receives a majority of its donations from sources within Santa Barbara County, California.

NOTE 12 - RETIREMENT PLANS

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 January 2007, there are no participants designated by the Board of Directors. There was no expense for the 457(b) plan for the year ended June 30, 2012.

NOTE 13 - ASSETS VALUED AT FAIR VALUE

Fair Value Measurements at June 30, 2012 are summarized as follows:

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

	Quoted Prices In Active Markets For <u>Identical Assets</u>	Significant Other Observable <u>Inputs</u>	Significant Unobservable <u>Inputs</u>
Marketable Securities	\$ 27,647,366	\$ -	\$ -
Alternative Investments	-	8,435,738	-
Split Interest Agreements	<u>-</u>	<u>-</u>	<u>641,312</u>
Total	<u>\$ 27,647,366</u>	<u>\$8,435,738</u>	<u>\$ 641,312</u>

Changes in Fair Value Measurement Using Significant Observable Inputs are summarized as follows:

	Alternative Investments
Beginning Balance	\$ 8,603,273
Purchases, net	163,084
Total Losses Included	
In Changes in Net Assets	<u>(330,619)</u>
Ending Balance	<u>\$ 8,435,738</u>
The Amount of Total Losses For The Period Included In Changes In Net Assets Still Held At June 30, 2012	<u>\$ (330,619)</u>

Changes in Fair Value Measurement Using Significant Unobservable Inputs are summarized as follows:

	Charitable Remainder Trusts
Beginning Balance	\$ 843,862
Distributions Received, net	(212,578)
Total Gains Included In	
Changes in Net Assets	<u>10,028</u>
Ending Balance	<u>\$ 641,312</u>
The Amount of Total Gains For The Period Included In Changes In Net Assets Still Held At June 30, 2012	<u>\$ 10,028</u>

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

NOTE 14 - ENDOWMENT

The Foundation's endowment consists of approximately 155 individual funds established to fund scholarship awards. Its endowment consists of donor-restricted endowment funds. As required by generally accepted accounting principles (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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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

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accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$32,754 as of June 30, 2012. These deficiencies resulted from unfavorable market fluctuations that occurred during the fiscal year July 1, 2011 to June 30, 2012.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for scholarship awards supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity mutual funds investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Board of Directors of the Foundation determines the total dollar amount of funds from the endowment to be appropriated for scholarship awards each year as part of the overall student aid awards budget that is finalized in March. This amount is calculated as a percent of the average fair value of the endowment over the prior 36 months. Generally, the percent may fall between 5% and 7%, depending on the Foundation's student aid goals as well as economic conditions. In extraordinary circumstances, the Board of Directors may approve appropriations outside of this range.

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Endowment Net Asset Composition by Type of Fund as of June 30, 2012

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ (32,754)</u>	<u>\$ 2,095,987</u>	<u>\$ 25,646,967</u>	<u>\$27,710,200</u>

Changes in Endowment Net Assets for the Year for the Year Ended June 30, 2012

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (227)	\$ 4,776,362	\$ 24,628,672	\$29,404,807
Investment return:				
Investment income	-	299,410	-	299,410
Net appreciation (realized and unrealized)	<u>(32,527)</u>	<u>(1,947,632)</u>	<u>-</u>	<u>(1,980,159)</u>
Total investment return	<u>(32,527)</u>	<u>(1,648,222)</u>	<u>-</u>	<u>(1,680,749)</u>
Contributions	-	2,750	1,016,979	1,019,729
Appropriation of endowment assets for expenditures	-	(1,127,500)	-	(1,127,500)
Other changes:				
Prior year appropriations returned to funds *	-	92,597	-	92,597
Change in value, split interest agreements	<u>-</u>	<u>-</u>	<u>1,316</u>	<u>1,316</u>
Endowment net assets, end of year	<u>\$ (32,754)</u>	<u>\$ 2,095,987</u>	<u>\$ 25,646,967</u>	<u>\$27,710,200</u>

* - Prior year appropriations returned to funds relate to scholarships declined by the recipient.

NOTE 14 - SUBSEQUENT EVENTS

Management has evaluated events through November 16, 2012, which is the date the financial statements were available to be issued. Management has determined that no subsequent event requiring disclosure or significantly impacting disclosure has occurred.