



SCHOLARSHIP FOUNDATION OF SANTA BARBARA
FINANCIAL STATEMENTS

June 30, 2013

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

June 30, 2013

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Scholarship Foundation of Santa Barbara (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Scholarship Foundation of Santa Barbara as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Scholarship Foundation of Santa Barbara financial statements, and our report dated November 16, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stoltey & Associates

November 15, 2013

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

STATEMENT OF FINANCIAL POSITION
June 30, 2013
(With Comparative Totals for June 30, 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2013 Total</u>	<u>2012 Total</u>
ASSETS					
CURRENT ASSETS					
Cash and equivalents	\$ 2,422,747	\$ 1,180,136	\$ -	\$ 3,602,883	\$ 2,634,695
Pledges receivable (note 2)	1,414,133	761,318	49,798	2,225,249	2,250,879
Interest receivable	16,612	-	-	16,612	46,226
Other receivable	4,887	-	-	4,887	-
Prepaid expenses	23,645	-	-	23,645	91,517
Total Current Assets	<u>3,882,024</u>	<u>1,941,454</u>	<u>49,798</u>	<u>5,873,276</u>	<u>5,023,317</u>
INVESTMENTS (NOTE 4)					
Nonmarketable securities	3,653,619	-	6,240,669	9,894,288	8,435,738
Marketable securities	5,709,333	4,318,631	20,620,755	30,648,719	27,647,366
Total Investments	<u>9,362,952</u>	<u>4,318,631</u>	<u>26,861,424</u>	<u>40,543,007</u>	<u>36,083,104</u>
PROPERTY AND EQUIPMENT, NET (NOTE 5)	<u>325,867</u>	<u>-</u>	<u>-</u>	<u>325,867</u>	<u>335,697</u>
OTHER ASSETS					
Pledges receivable - long-term (note 2)	253,771	1,052,000	114,000	1,419,771	-
Mineral interests, net (note 3)	17,999	-	-	17,999	20,000
Deposits	2,287	-	-	2,287	2,216
Land held for investment	-	-	110,000	110,000	110,000
Contributions receivable from split interest agreements (note 6)	-	652,870	34,676	687,546	641,312
Total Other Assets	<u>274,057</u>	<u>1,704,870</u>	<u>258,676</u>	<u>2,237,603</u>	<u>773,528</u>
Total Assets	<u>\$ 13,844,900</u>	<u>\$ 7,964,955</u>	<u>\$ 27,169,898</u>	<u>\$ 48,979,753</u>	<u>\$ 42,215,646</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 122,111	\$ -	\$ -	\$ 122,111	\$ 115,529
Deferred revenue	-	-	-	-	94,280
Scholarship and student loan awards payable	7,396,551	-	-	7,396,551	6,575,440
Total Current Liabilities	<u>7,518,662</u>	<u>-</u>	<u>-</u>	<u>7,518,662</u>	<u>6,785,249</u>
NET ASSETS					
Unrestricted - Undesignated	6,326,238	-	-	6,326,238	4,394,871
Temporarily restricted (note 7)	-	7,964,955	-	7,964,955	5,388,559
Permanently restricted (note 8)	-	-	27,169,898	27,169,898	25,646,967
Total Net Assets	<u>6,326,238</u>	<u>7,964,955</u>	<u>27,169,898</u>	<u>41,461,091</u>	<u>35,430,397</u>
Total Liabilities and Net Assets	<u>\$ 13,844,900</u>	<u>\$ 7,964,955</u>	<u>\$ 27,169,898</u>	<u>\$ 48,979,753</u>	<u>\$ 42,215,646</u>

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, 2013
(With Comparative Totals for the Year Ended June 30, 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2013 Total</u>	<u>2012 Total</u>
PUBLIC SUPPORT AND REVENUE					
Public Support					
Fundraising events - gross revenue	\$ 331,155	\$ -	\$ 240,828	\$ 571,983	\$ 208,829
Less costs of direct benefits to donors	(172,764)	-	(78,111)	(250,875)	(82,555)
Net revenues from fundraising events	158,391	-	162,717	321,108	126,274
Donations	1,986,012	6,128,523	1,352,316	9,466,851	7,458,339
Bequests	500,111	25,000	2,178	527,289	369,411
Total Public Support	<u>2,644,514</u>	<u>6,153,523</u>	<u>1,517,211</u>	<u>10,315,248</u>	<u>7,954,024</u>
Revenue					
Grant for student aid support	170,200	-	-	170,200	200,444
Interest and dividends	119,425	375,808	-	495,233	398,062
Realized and unrealized gain on investments	1,039,026	3,229,116	-	4,268,142	(2,641,677)
Mineral royalties	54,595	-	-	54,595	59,342
Change in value of split interest agreements	-	40,514	5,720	46,234	10,028
Total Revenue	<u>1,383,246</u>	<u>3,645,438</u>	<u>5,720</u>	<u>5,034,404</u>	<u>(1,973,801)</u>
Total Public Support and Revenue	<u>4,027,760</u>	<u>9,798,961</u>	<u>1,522,931</u>	<u>15,349,652</u>	<u>5,980,223</u>
Net assets released from restrictions (note 9)	<u>7,222,565</u>	<u>(7,222,565)</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENSES					
Program Expenses:					
Scholarship and loan services	8,130,658	-	-	8,130,658	7,314,296
Outreach and financial aid services	317,008	-	-	317,008	258,948
Total Program Services	<u>8,447,666</u>	<u>-</u>	<u>-</u>	<u>8,447,666</u>	<u>7,573,244</u>
Supporting Services:					
General and administrative	334,576	-	-	334,576	316,489
Fundraising	536,716	-	-	536,716	545,571
Total Supporting Services	<u>871,292</u>	<u>-</u>	<u>-</u>	<u>871,292</u>	<u>862,060</u>
Total Expenses	<u>9,318,958</u>	<u>-</u>	<u>-</u>	<u>9,318,958</u>	<u>8,435,304</u>
Change in Net Assets	<u>1,931,367</u>	<u>2,576,396</u>	<u>1,522,931</u>	<u>6,030,694</u>	<u>(2,455,081)</u>
Net Assets, beginning of year	4,394,871	5,388,559	25,646,967	35,430,397	37,885,478
Net Assets, ending of year	<u>\$ 6,326,238</u>	<u>\$ 7,964,955</u>	<u>\$ 27,169,898</u>	<u>\$ 41,461,091</u>	<u>\$ 35,430,397</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, 2013
(With Comparative Totals for the Year Ended June 30, 2012)

	Program			Supporting Services		2013	2012
	Scholarships and Loans	Outreach & Financial Aid Services	Total	General and Administrative	Fund Raising		
Salaries	\$ 434,909	\$ 205,294	\$ 640,203	\$ 208,410	\$ 251,599	\$ 1,100,212	\$ 965,661
Employee benefits	37,489	11,445	48,934	22,943	34,876	106,753	99,330
Payroll taxes	34,766	16,411	51,177	16,660	20,112	87,949	77,328
Temporary staff	-	-	-	-	-	-	13,271
Professional fees and consulting	-	-	-	8,400	16,275	24,675	45,495
Depreciation and amortization	24,030	13,600	37,630	9,451	10,546	57,627	46,025
Rent	31,890	18,048	49,938	12,542	13,995	76,475	65,095
Telephone and utilities	6,139	3,475	9,614	2,415	2,694	14,723	12,307
Insurance	3,378	1,911	5,289	1,328	1,482	8,099	7,359
Advertising and promotion	635	2,347	2,982	-	87,620	90,602	104,863
Printing and graphics	7,739	2,263	10,002	303	303	10,608	8,995
Postage	7,025	1,519	8,544	1,899	8,544	18,987	18,124
Public relations and meetings	2,078	8,051	10,129	18,053	66,348	94,530	90,420
Supplies	9,560	5,410	14,970	3,759	4,195	22,924	17,668
Information technology	17,821	10,085	27,906	7,009	7,820	42,735	43,426
Repairs and maintenance	6,597	3,734	10,331	2,595	2,895	15,821	15,246
Legal and accounting	-	-	-	12,500	-	12,500	12,000
Education and conferences	1,185	1,629	2,814	1,110	1,814	5,738	5,055
Travel	1,642	7,322	8,964	2,097	2,137	13,198	14,405
Program grants to others	-	-	-	-	-	-	30,000
Scholarships and loans awarded	7,495,888	-	7,495,888	-	-	7,495,888	6,725,487
Miscellaneous	7,887	4,464	12,351	3,102	3,461	18,914	17,744
2013 Total Functional Expenses	\$ 8,130,658	\$ 317,008	\$ 8,447,666	\$ 334,576	\$ 536,716	\$ 9,318,958	
2012 Total Functional Expenses	\$ 7,314,296	\$ 258,948	\$ 7,573,244	\$ 316,489	\$ 545,571		\$ 8,435,304

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, 2013

(With Comparative Amounts for the Year Ended June 30, 2012)

	2013	2012
Cash Flows From Operating Activities:		
Change in net assets	\$ 6,030,694	\$ (2,455,081)
Adjustments to reconcile increase in net assets - unrestricted to cash from (used by) operating activities:		
Depreciation and amortization	57,627	46,025
Realized and unrealized loss (gain) on investments	(4,268,142)	2,641,675
Loss on disposition of fixed assets	3,785	-
Contributions permanently restricted	(1,517,211)	(1,016,979)
(Gains) losses on split interest agreements	(46,234)	(10,028)
Decrease/(Increase) in pledges receivable	(1,394,141)	(410,313)
Decrease/(Increase) in interest and other receivables	24,727	(22,632)
Decrease/(Increase) in prepaid expenses and deposits	67,801	(69,041)
Decrease/(Increase) in receivables from split interest agreements	-	212,578
(Decrease)/Increase in student loans and scholarships payable	821,111	50,592
(Decrease)/Increase in deferred revenue	(94,280)	94,280
(Decrease)/Increase in accounts payable and accrued expenses	6,582	12,033
Net cash from operating activities	(307,681)	(926,891)
Cash Flows From (Used By) Investing Activities:		
Purchase of furniture and equipment and leasehold improvements	(49,581)	(306,377)
Proceeds from sale of investments	33,384,271	887,639
Purchase of marketable securities	(33,576,032)	(2,413,088)
Net cash from (used by) investing activities	(241,342)	(1,831,826)
Cash Flows From Financing Activities		
Contributions permanently restricted	1,517,211	1,016,979
Net cash from financing activities	1,517,211	1,016,979
Net increase (decrease) in cash and cash equivalents	968,188	(1,741,738)
Cash and cash equivalents at Beginning of Year	2,634,695	4,376,433
Cash and cash equivalents at Ending of Year	\$ 3,602,883	\$ 2,634,695
Supplemental Disclosure of Cash Flow Information		
Noncash transactions consisted of the following:		
In-Kind donation of contributed goods and services	\$ 21,811	\$ 15,481

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.

Investments

Investments include marketable securities, alternative investments and a nonmarketable fixed income security. Marketable securities are recorded at fair market value based on quoted prices for identical securities. Alternative investments are recorded at estimated fair market value based on the Foundation's share of net asset value as reported by each of the investment managers. The nonmarketable fixed income security is reported at estimated market value based on the discounted value of the anticipated cash flows from the security. Changes in unrealized gains or losses are recorded as a change in the appropriate class of net assets.

Fair Value of Financial Instruments

The estimated fair values of the Foundation's short-term financial instruments, including cash, cash equivalents, and accounts payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. The fair value of the marketable securities is based on quoted market rates, alternative investments based on net asset value and nonmarketable fixed income security on discounted anticipated cash flows.

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.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

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.

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 three 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

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

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.

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 2012 in the accompanying financial statements are included to provide a basis for comparison with 2013 and are not intended to present all information necessary for a fair presentation of the 2012 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, 2013 and 2012 pledges receivable totaled \$3,645,020 and \$2,250,879, respectively. Management believes all receivables are collectible and thus

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

no reserve for doubtful pledges has been established. The pledges receivable as of June 30, 2013 are expected to be collected in the following years:

2014	\$ 2,325,212
2015	572,750
2016	493,750
2017	282,771
2018	23,500
2019	13,500
2020	13,500
2021	10,000
2022	<u>10,000</u>
Total	3,744,983
Less discount on long term pledges receivable	<u>(99,963)</u>
Pledges receivable, net	<u>\$ 3,645,020</u>

Pledges receivable with due dates extending beyond one year are discounted using a discount rate of 2.5%.

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, 2013, the cost and accumulated amortization is \$50,000 and \$32,001, respectively.

NOTE 4 - INVESTMENTS

The Foundation's investments include both marketable securities and nonmarketable securities. Marketable securities are presented in the financial statements at fair market value, while nonmarketable securities are presented at estimated market value.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

At June 30, 2013 and 2012, investments consist of the following:

June 30, 2013:

	Cost	Market Value	Excess of Market over Cost
Mutual Funds	\$ 29,314,254	\$ 29,304,037	\$ (10,217)
Long-Term Certificates			
Of Deposit	247,491	247,491	-
Archstone Offshore, LTD	3,100,000	3,934,518	834,518
CommonFund Realty			
Investors	785,492	8,047	(777,445)
CommonFund Distressed			
Investors	896,443	1,214,714	318,271
CommonFund Multi-			
Strategy Global Hedged			
Partners	2,150,960	2,180,050	29,090
EnTrust Capital Diversified	2,000,000	2,081,959	81,959
Bonds	<u>1,558,589</u>	<u>1,572,191</u>	<u>13,062</u>
Total	<u>\$ 40,053,229</u>	<u>\$ 40,543,007</u>	\$ 489,778
Unrealized gain at beginning of year			<u>1,903,776</u>
Change in unrealized gain on marketable securities			<u>\$ (1,413,998)</u>

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 loss at beginning of year			<u>(5,264,124)</u>
Change in unrealized gain on marketable securities			<u>\$ (3,360,348)</u>

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2013 consist of the following major classifications:

	<u>Cost/Basis</u>	<u>Estimated Useful Life</u>
Leasehold improvements	\$ 367,156	5-10 years
Furniture and equipment	<u>257,012</u>	3-5 years
Total cost	624,168	
Less accumulated depreciation	<u>(298,301)</u>	
Net property and equipment	<u>\$ 325,867</u>	

For the year ending June 30, 2013, the Foundation recognized depreciation expense of \$55,626.

NOTE 6 - SPLIT INTEREST AGREEMENTS

The Foundation is the remainderman for seven charitable split interest agreements as of June 30, 2013, 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, 2013 and 2012 are available for the following purposes:

	2013	2012
Scholarships	\$ 6,901,468	\$ 4,496,799
Outreach and financial aid services	330,000	170,000
Alumni donations fund	64,784	75,430
Scholarship Foundation history project	15,833	33,974
Split interest agreements	<u>652,870</u>	<u>612,356</u>
Total	<u>\$ 7,964,955</u>	<u>\$ 5,388,559</u>

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2013 and 2012 are restricted to:

	2013	2012
Investments held in perpetuity, with income and appreciation expendable to support scholarships	\$ 27,135,222	\$ 25,618,011
Split interest agreements	<u>34,676</u>	<u>28,956</u>
Total	<u>\$ 27,169,898</u>	<u>\$ 25,646,967</u>

NOTE 9 - ASSETS RELEASED FROM DONOR RESTRICTIONS

During the year ended June 30, 2013 the Foundation released a total of \$7,222,564 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, 2012 the Foundation released a total of \$6,412,108 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 AGREEMENTS

The Foundation rents facilities located in Santa Barbara, California under a lease agreement expiring on April 30, 2021, payable in monthly installments of \$5,726, with minimum annual increases of 3%.

The Foundation also leases facilities located in Santa Maria, California under a lease agreement that commenced September 1, 2012 and expires August 31, 2015. The lease agreement calls for a monthly rent payment of \$702 along with common area maintenance expenses of approximately \$289 per month.

The Foundation is obligated under the leases as follows:

Year ended June 30,	
2014	\$ 77,483
2015	79,555
2016	74,670
2017	75,463
2018	77,727
Thereafter (2019-2021)	<u>232,946</u>
Total	<u>\$ 617,844</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. At June 30, 2013 the Foundation held deposits of approximately \$2,478,761.

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

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

the Board of Directors. There was no expense for the 457(b) plan for the year ended June 30, 2013.

NOTE 13 - ASSETS VALUED AT FAIR VALUE

The Financial Accounting Standard Board's authoritative guidance on fair value measurements establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Assets carried at fair value include the following as of June 30, 2013:

Level 1

- Mutual fund which consists entirely of investment in the TIFF Multi-Asset Fund with a total market value at June 30, 2013 of \$29,304,037.
- Long-term certificates of deposit with a reported market value of \$247,492.
- Government securities with a reported market value of \$316,591.
- Corporate bonds with a reported market value of \$571,813.
- Municipal bonds with a reported market value of \$208,786.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

Level 2

- Hedge funds and other alternative investments reporting asset values as of June 30, 2013 on a basis of net asset value (NAV) including:

Archstone, LTD	\$ 3,934,518
CommonFund Realty Investors	8,047
CommonFund Global Distressed Investors	1,214,714
CommonFund Multi-Strategy Global Hedges Partners	2,180,050
EnTrust Capital Diversified	<u>2,081,959</u>
Total	<u>\$ 9,419,288</u>

Level 3

- Foreign corporate bond with no marketable quoted value reported at the discounted present value of the anticipated future cash flows based on the terms of the bond. Anticipated future cash flows discounted at 2% per annum. Estimated fair market value of the foreign bond at June 30, 2013 is \$475,000.
- Charitable remainder trusts reported at the estimated fair market value based on the discounted value of anticipated future cash flows.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

Assets and liabilities measured at fair value are summarized as follows:

	<u>Fair Value</u>	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income mutual funds	\$ 29,304,037	\$ 29,304,037	\$ -	\$ -
Long-term certificates of deposit	247,492	247,492	-	-
Corporate bonds	571,813	571,813	-	-
Government securities	316,591	316,591	-	-
Municipal bonds	208,786	208,786	-	-
Hedge funds and other alternative investments	9,419,288	-	9,419,288	-
Nonmarketable foreign corporate bond	475,000	-	-	475,000
Charitable remainder trusts	687,546	-	-	687,546
	<u>\$ 41,230,553</u>	<u>\$30,648,719</u>	<u>\$ 9,419,288</u>	<u>\$ 1,162,546</u>

During the year ended June 30, 2013, Foundation transferred \$475,000 of foreign corporate bond from level 1 to level 3. The transfer was the result of management performing research on the nature of the investment. No transfers were made from level 2 or level 3 to level 1.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

Changes in Fair Value Measurement Using Significant Observable Inputs (Level 2) are summarized as follows:

	Alternative Investments
Beginning Balance	\$ 8,435,738
Purchases, net	38,600
Total Gains Included	
In Changes in Net Assets	<u>944,950</u>
Ending Balance	<u>\$ 9,419,288</u>
The Amount of Total Gains For The Period Included In Changes In Net Assets Still Held At June 30, 2013	<u>\$ 944,950</u>

Changes in Fair Value Measurement Using Significant Unobservable Inputs (Level 3) are summarized as follows:

	<u>Charitable Remainder Trusts</u>	<u>Foreign Corporate Bond</u>
Beginning Balance	\$ 641,312	\$ -
Transfers from Level 1	-	475,000
Distributions Received, net	-	-
Total Gains Included In		
Changes in Net Assets	<u>46,234</u>	<u>-</u>
Ending Balance	<u>\$ 687,546</u>	<u>\$ 475,000</u>
The Amount of Total Gains For The Period Included In Changes In Net Assets Still Held At June 30, 2013	<u>\$ 46,234</u>	<u>\$ -</u>

NOTE 14 - ENDOWMENT

The Foundation's endowment consists of approximately 163 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.

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 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 accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets. At June 30, 2013 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

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NOTES TO FINANCIAL STATEMENTS

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.

Endowment Net Asset Composition by Type of Fund as of June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 4,179,315</u>	<u>\$ 26,998,842</u>	<u>\$31,178,157</u>

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

Changes in Endowment Net Assets for the Year for the Year Ended June 30, 2013

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (32,754)	\$ 2,095,987	\$ 25,646,967	\$27,710,200
Investment return:				
Investment income	-	375,808	-	375,808
Net appreciation (realized and unrealized)	<u>32,754</u>	<u>3,229,116</u>	<u>-</u>	<u>3,261,870</u>
Total investment return	32,754	3,604,924	-	3,637,678
Contributions	-	47,900	1,346,155	1,394,055
Appropriation of endowment assets for expenditures	-	(1,643,800)	-	(1,643,800)
Other changes:				
Prior year appropriations returned to funds *	-	74,304	-	74,304
Change in value, split interest agreements	<u>-</u>	<u>-</u>	<u>5,720</u>	<u>5,720</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 4,179,315</u>	<u>\$ 26,998,842</u>	<u>\$31,178,157</u>

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

NOTE 15 - SUBSEQUENT EVENTS

Management has evaluated events through November 15, 2013, 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.