



SCHOLARSHIP FOUNDATION OF SANTA BARBARA
FINANCIAL STATEMENTS

June 30, 2016

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

June 30, 2016

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-21



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, 2016, 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, 2015, 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 October 28, 2015, 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, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stoltey & Associates

October 28, 2016

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

STATEMENT OF FINANCIAL POSITION
June 30, 2016
(With Comparative Totals for June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
ASSETS					
CURRENT ASSETS					
Cash and equivalents	\$ 4,215,662	\$ 553,007	\$ -	\$ 4,768,669	\$ 4,333,281
Pledges receivable (note 2)	1,840,576	236,678	500	2,077,754	3,060,781
Interest receivable	3	-	-	3	9
Other receivable (note 3)	36,648	-	-	36,648	3,841
Prepaid expenses	42,241	-	-	42,241	24,683
Total Current Assets	6,135,130	789,685	500	6,925,315	7,422,595
INVESTMENTS (NOTE 5)					
Nonmarketable securities	1,249,832	-	3,190,393	4,440,225	7,092,174
Marketable securities	8,089,807	2,412,720	26,839,250	37,341,777	36,398,265
Total Investments	9,339,639	2,412,720	30,029,643	41,782,002	43,490,439
PROPERTY AND EQUIPMENT, NET (NOTE 6)	205,328	-	-	205,328	253,186
OTHER ASSETS					
Pledges receivable - long-term (note 2)	-	87,609	-	87,609	302,674
Other receivable (note 3)	36,000	-	-	36,000	-
Mineral interests, net (note 4)	11,998	-	-	11,998	13,999
Deposits	2,216	-	-	2,216	2,216
Land held for investment	-	-	110,000	110,000	110,000
Contributions receivable from split interest agreements (note 7)	-	395,114	54,033	449,147	726,126
Total Other Assets	50,214	482,723	164,033	696,970	1,155,015
Total Assets	\$ 15,730,311	\$ 3,685,128	\$ 30,194,176	\$ 49,609,615	\$ 52,321,235
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 100,223	\$ -	\$ -	\$ 100,223	\$ 186,497
Scholarship awards payable	7,749,044	-	-	7,749,044	7,871,379
Total Current Liabilities	7,849,267	-	-	7,849,267	8,057,876
NET ASSETS					
Unrestricted - Undesignated	7,881,044	-	-	7,881,044	7,036,377
Temporarily restricted (note 8)	-	3,685,128	-	3,685,128	8,111,419
Permanently restricted (note 9)	-	-	30,194,176	30,194,176	29,115,563
Total Net Assets	7,881,044	3,685,128	30,194,176	41,760,348	44,263,359
Total Liabilities and Net Assets	\$ 15,730,311	\$ 3,685,128	\$ 30,194,176	\$ 49,609,615	\$ 52,321,235

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, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
PUBLIC SUPPORT AND REVENUE					
Public Support					
Fundraising events - gross revenue	\$ -	\$ 247,750	\$ -	\$ 247,750	\$ 262,825
Less costs of direct benefits to donors	-	(93,126)	-	(93,126)	(95,139)
Net revenues from fundraising events	-	154,624	-	154,624	167,686
Donations	1,365,027	4,278,067	625,931	6,269,025	8,353,753
Bequests	1,529,193	-	454,761	1,983,954	88,629
Total Public Support	<u>2,894,220</u>	<u>4,432,691</u>	<u>1,080,692</u>	<u>8,407,603</u>	<u>8,610,068</u>
Revenue					
Grant for student aid support	89,696	-	-	89,696	94,000
Interest and dividends	406,728	1,401,383	-	1,808,111	2,395,148
Realized and unrealized gain on investments	(279,148)	(3,134,734)	-	(3,413,882)	(2,485,037)
Mineral royalties	32,951	-	-	32,951	48,557
Change in value of split interest agreements	-	47,797	8,524	56,321	7,976
Total Revenue	<u>250,227</u>	<u>(1,685,554)</u>	<u>8,524</u>	<u>(1,426,803)</u>	<u>60,644</u>
Total Public Support and Revenue	<u>3,144,447</u>	<u>2,747,137</u>	<u>1,089,216</u>	<u>6,980,800</u>	<u>8,670,712</u>
Net assets released from restrictions (note 10)	<u>7,184,031</u>	<u>(7,173,428)</u>	<u>(10,603)</u>	<u>-</u>	<u>-</u>
EXPENSES					
Program Expenses:					
Scholarship and loan services	8,082,070	-	-	8,082,070	8,371,249
Outreach and financial aid services	485,222	-	-	485,222	351,635
Total Program Services	<u>8,567,292</u>	<u>-</u>	<u>-</u>	<u>8,567,292</u>	<u>8,722,884</u>
Supporting Services:					
General and administrative	419,263	-	-	419,263	423,596
Fundraising	497,256	-	-	497,256	471,647
Total Supporting Services	<u>916,519</u>	<u>-</u>	<u>-</u>	<u>916,519</u>	<u>895,243</u>
Total Expenses	<u>9,483,811</u>	<u>-</u>	<u>-</u>	<u>9,483,811</u>	<u>9,618,127</u>
Change in Net Assets	<u>844,667</u>	<u>(4,426,291)</u>	<u>1,078,613</u>	<u>(2,503,011)</u>	<u>(947,415)</u>
Net Assets, beginning of year	7,036,377	8,111,419	29,115,563	44,263,359	45,210,774
Net Assets, ending of year	<u>\$ 7,881,044</u>	<u>\$ 3,685,128</u>	<u>\$ 30,194,176</u>	<u>\$ 41,760,348</u>	<u>\$ 44,263,359</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, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	Program			Supporting Services		2016	2015
	Student Aid	Outreach & Financial Aid Services	Total	General and Administrative	Fund Raising		
Salaries	\$ 380,562	\$ 277,845	\$ 658,407	\$ 240,324	\$ 259,231	\$ 1,157,962	\$ 1,044,661
Employee benefits	61,747	45,080	106,827	38,992	42,060	187,879	185,912
Payroll taxes	30,793	22,481	53,274	19,445	20,975	93,694	79,801
Professional fees and consulting	3,898	8,400	12,298	16,350	9,295	37,943	95,852
Depreciation and amortization	22,495	18,560	41,055	10,359	9,680	61,094	63,683
Rent	31,380	25,890	57,270	14,450	13,503	85,223	83,445
Telephone and utilities	5,912	4,877	10,789	2,722	2,544	16,055	16,805
Insurance	3,198	2,638	5,836	1,473	1,376	8,685	8,057
Advertising and promotion	2,079	6,046	8,125	397	47,886	56,408	48,109
Printing and graphics	5,403	421	5,824	1,516	5,079	12,419	10,211
Postage	3,745	209	3,954	2,854	7,108	13,916	18,785
Public relations and meetings	8,345	20,098	28,443	13,674	50,476	92,593	109,205
Supplies	6,534	5,390	11,924	3,008	2,811	17,743	17,874
Information technology	20,544	16,950	37,494	9,460	8,840	55,794	33,447
Repairs and maintenance	5,802	4,787	10,589	2,672	2,497	15,758	14,769
Legal and accounting	-	-	-	28,705	-	28,705	13,500
Education and conferences	1,244	834	2,078	2,055	1,439	5,572	5,533
Travel	4,619	9,167	13,786	2,126	4,346	20,258	17,705
Scholarships awarded	7,464,923	-	7,464,923	-	-	7,464,923	7,732,341
Miscellaneous	18,847	15,549	34,396	8,681	8,110	51,187	18,432
2016 Total Functional Expenses	\$ 8,082,070	\$ 485,222	\$ 8,567,292	\$ 419,263	\$ 497,256	\$ 9,483,811	
2015 Total Functional Expenses	\$ 8,371,249	\$ 351,635	\$ 8,722,884	\$ 423,596	\$ 471,647		\$ 9,618,127

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, 2016

(With Comparative Amounts for the Year Ended June 30, 2015)

	2016	2015
Cash Flows From Operating Activities:		
Change in net assets	\$ (2,503,011)	\$ (947,415)
Adjustments to reconcile increase in net assets - unrestricted to cash from (used by) operating activities:		
Depreciation and amortization	61,094	63,683
Realized and unrealized loss (gain) on investments	3,413,882	2,485,037
Loss on disposition of fixed assets	2,682	-
Contributions permanently restricted	(1,080,692)	(1,229,953)
(Gains) losses on split interest agreements	276,979	(7,976)
Decrease/(Increase) in pledges receivable	1,198,092	3,206
Decrease/(Increase) in interest and other receivables	(68,801)	8,177
Decrease/(Increase) in prepaid expenses and deposits	(17,558)	(10,091)
(Decrease)/Increase in student loans and scholarships payable	(122,335)	101,137
(Decrease)/Increase in accounts payable and accrued expenses	(86,274)	68,191
Net cash from operating activities	1,074,058	533,996
Cash Flows From (Used By) Investing Activities:		
Purchase of furniture and equipment and leasehold improvements	(13,917)	(36,428)
Proceeds from sale of investments	2,035,787	949,146
Purchase of marketable securities	(3,741,232)	(2,375,670)
Net cash from (used by) investing activities	(1,719,362)	(1,462,952)
Cash Flows From Financing Activities		
Contributions permanently restricted	1,080,692	1,229,953
Net cash from financing activities	1,080,692	1,229,953
Net increase (decrease) in cash and cash equivalents	435,388	300,997
Cash and cash equivalents at Beginning of Year	4,333,281	4,032,284
Cash and cash equivalents at Ending of Year	\$ 4,768,669	\$ 4,333,281
Supplemental Disclosure of Cash Flow Information		
Noncash transactions consisted of the following:		
In-Kind donation of contributed goods and services	\$ 29,848	\$ 18,601

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 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

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. The Foundation uses a capitalization policy of \$500.

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 Awarded Payable

The Foundation reports scholarship 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 4 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 incorporated exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). The tax years ending 2013, 2014,

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

and 2015 are still open to audit for both federal and state purposes. Contributions to the organization are tax deductible to donors under Section 170 of the IRC. The organization is not classified as a private foundation.

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 2015 in the accompanying financial statements are included to provide a basis for comparison with 2016 and are not intended to present all information necessary for a fair presentation of the 2015 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, 2016 and 2015 pledges receivable totaled \$2,165,363 and \$3,363,455, respectively. Management believes all receivables are collectible and thus no reserve for doubtful pledges has been established. The pledges receivable as of June 30, 2016 are expected to be collected in the following years:

2017	\$ 2,077,754
2018	37,000
2019	23,000
2020	24,500
2021	<u>10,000</u>
Total	2,172,254
Less discount on long term pledges receivable	<u>(6,891)</u>
Pledges receivable, net	<u>\$ 2,165,363</u>

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

NOTE 3 - OTHER RECEIVABLE

Other receivable includes a \$72,000 note receivable from the President and CEO of the Foundation. The proceeds of the note were used to provide

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

housing support. The note is unsecured and carries an interest rate of 1% per annum. The note is to be forgiven as follows:

July 6, 2016	\$36,000
July 6, 2017	24,000
July 6, 2018	12,000

Should the employment of the President and CEO terminate prior to July 6, 2018, any amount that has not been forgiven, including accrued interest, is immediately due.

NOTE 4 - 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, 2016, the cost and accumulated amortization is \$50,000 and \$38,002, respectively.

NOTE 5 - 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. At June 30, 2016 and 2015, investments consist of the following:

June 30, 2016:

	Cost	Market Value	Excess of Market over Cost
Mutual Funds	\$ 41,593,705	\$ 36,866,356	\$ (4,727,349)
Archstone Offshore, LTD	3,100,000	4,041,734	941,734
CommonFund Distressed Investors	55,088	297,125	242,037
EnTrust Capital Diversified	38,925	101,366	62,441
Bonds	500,040	475,421	(24,619)
Total	<u>\$ 42,287,758</u>	<u>\$ 41,782,002</u>	<u>(3,505,756)</u>
Unrealized loss at beginning of year			50,850
Change in unrealized gain on marketable securities			<u>\$ (3,454,906)</u>

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015:

	Cost	Market Value	Excess of Market over Cost
Mutual Funds	\$ 37,852,472	\$ 35,921,960	\$ (1,930,512)
Archstone Offshore, LTD	3,100,000	4,444,096	1,344,096
CommonFund Realty Investors	706,055	-	(706,055)
CommonFund Distressed Investors	88,798	369,423	280,625
EnTrust Capital Diversified	2,000,000	2,278,655	278,655
Bonds	<u>500,019</u>	<u>476,305</u>	<u>(23,714)</u>
Total	<u>\$ 44,247,344</u>	<u>\$ 43,490,439</u>	<u>(756,905)</u>
Unrealized gain at beginning of year			<u>(1,837,739)</u>
Change in unrealized gain on marketable securities			<u>\$ (2,594,644)</u>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2016 consist of the following major classifications:

	<u>Cost/Basis</u>	<u>Estimated Useful Life</u>
Leasehold improvements	\$ 362,106	5-10 years
Furniture and equipment	<u>295,720</u>	3-5 years
Total cost	657,826	
Less accumulated depreciation	<u>(452,498)</u>	
Net property and equipment	<u>\$ 205,328</u>	

For the year ending June 30, 2016, the Foundation recognized depreciation expense of \$59,093.

NOTE 7 - SPLIT INTEREST AGREEMENTS

The Foundation is the remainderman for seven charitable split interest agreements as of June 30, 2016, 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.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

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.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2016 and 2015 are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 3,195,656	\$ 7,322,336
Outreach and financial aid services	70,000	70,000
Alumni donations fund	24,358	38,466
Scholarship Foundation history project	-	-
Split interest agreements	<u>395,114</u>	<u>680,617</u>
Total	<u>\$ 3,685,128</u>	<u>\$ 8,111,419</u>

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2016 and 2015 are restricted to:

	2016	2015
Investments held in perpetuity, with income and appreciation expendable to support scholarships	\$ 30,140,143	\$ 29,070,054
Split interest agreements	54,033	45,509
Total	\$ 30,194,176	\$ 29,115,563

NOTE 10 - ASSETS RELEASED FROM DONOR RESTRICTIONS

During the year ended June 30, 2016 the Foundation released a total of \$7,173,427 of temporarily restricted net assets from donor restrictions by awarding scholarships as specified by donors and fulfilling student aid services. During the year ended June 30, 2015 the Foundation released a total of \$7,699,243 from temporarily restricted net assets from donor restrictions by awarding scholarships as specified by donors and fulfilling student aid services.

NOTE 11 - 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 \$6,075, with minimum annual increases of 3%.

The Foundation also leases facilities located in Santa Maria, California under a month to month lease agreement. The lease agreement calls for a monthly rent payment of \$702 along with common area maintenance expenses of approximately \$296 per month.

The Foundation is obligated under the leases as follows:

Year ended June 30,	
2017	\$ 75,463
2018	77,727
2019	80,059
2020	82,460
2021	70,427
Total	\$ 386,136

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

NOTE 12 - 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, 2016 the Foundation held uninsured deposits of approximately \$2,381,000.

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

NOTE 13 - RETIREMENT PLANS

Since 1996, the Scholarship Foundation of Santa Barbara has maintained a salary deferral arrangement for eligible employees under Section 403(b) of the Internal Revenue Code. 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 year ended June 30, 2016 were \$63,444.

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, 2016.

NOTE 14 - 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:

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

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, 2016:

Level 1

- Mutual fund which consist of the following:
 - TIFF Multi-Asset Fund with a total market value at June 30, 2016 of \$34,848,161,
 - Vanguard Total Stock Fund with a total market value at June 30, 2016 of \$1,326,105,
 - Vanguard Short Term Bond Fund with a total market value at June 30, 2016 of \$692,090.
- Government securities with a reported market value of \$421.

Level 2

- Hedge funds and other alternative investments reporting asset values as of June 30, 2016 on a basis of net asset value (NAV) including:

Archstone, LTD	\$ 4,041,734
CommonFund Global Distressed Investors	297,125
EnTrust Capital Diversified	<u>101,366</u>
Total	<u>\$ 4,440,225</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, 2016 is \$475,000.

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

- 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.

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 and mutual funds	\$ 36,866,356	\$ 36,866,356	\$ -	\$ -
Government securities	421	421	-	-
Hedge funds and other alternative investments	4,440,225	-	4,440,225	-
Nonmarketable foreign corporate bond	475,000	-	-	475,000
Charitable remainder trusts	449,147	-	-	449,147
	<u>\$ 42,231,149</u>	<u>\$36,866,777</u>	<u>\$ 4,440,225</u>	<u>\$ 924,147</u>

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	\$ 7,092,174
Sales, net	(2,036,275)
Total Gains Included	
In Changes in Net Assets	<u>(615,674)</u>
Ending Balance	<u>\$ 4,440,225</u>
The Amount of Total Gains For The Period Included In Changes In Net Assets Still Held At June 30, 2016	<u>\$ (615,674)</u>

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

	Charitable Remainder Trusts	Foreign Corporate Bond
Beginning Balance	\$ 726,126	\$ 475,000
Distributions Received, net	(333,300)	-
Total Gains Included In		
Changes in Net Assets	<u>56,321</u>	<u>-</u>
Ending Balance	<u>\$ 449,147</u>	<u>\$ 475,000</u>
The Amount of Total Gains For The Period Included In Changes In Net Assets Still Held At June 30, 2016	<u>\$ 56,321</u>	<u>\$ -</u>

NOTE 15 - ENDOWMENT

The Foundation's endowment consists of approximately 174 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, 2016 there were 31 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

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

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 4% and 6%, 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, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 1,537,420</u>	<u>\$ 30,194,176</u>	<u>\$31,731,596</u>

SCHOLARSHIP FOUNDATION OF SANTA BARBARA

NOTES TO FINANCIAL STATEMENTS

Changes in Endowment Net Assets for the Year for the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 4,525,383	\$ 29,115,063	\$33,640,446
Investment return:				
Investment income	-	1,401,383	-	1,401,383
Net appreciation (realized and unrealized)	-	<u>(3,216,358)</u>	-	<u>(3,216,358)</u>
Total investment return	-	(1,814,975)	-	(1,814,975)
Contributions	-	-	1,070,089	1,070,089
Appropriation of endowment assets for expenditures	-	(1,384,779)	-	(1,384,779)
Other changes:				
Prior year appropriations returned to funds *	-	211,791	-	211,791
Other increases	-	-	500	500
Change in value, split interest agreements	-	-	<u>8,524</u>	<u>8,524</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,537,420</u>	<u>\$ 30,194,176</u>	<u>\$31,731,596</u>

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

NOTE 16 - SUBSEQUENT EVENTS

Management has evaluated events through October 28, 2016, 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.