

**SANTA MONICA
EDUCATION FOUNDATION**

REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

SANTA MONICA EDUCATION FOUNDATION

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JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Santa Monica Education Foundation

We have audited the accompanying financial statements of Santa Monica Education Foundation, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 U.S. generally accepted accounting principles; 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

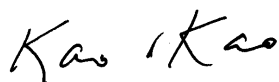
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 Santa Monica Education Foundation as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Kao and Kao
Santa Monica, California
May 5, 2020

SANTA MONICA EDUCATION FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 and 2018

	June 30,	
ASSETS	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 372,498	\$ 315,692
Investments (Note 4)	3,849,600	3,370,451
Contributions receivable, net (Note 5)	128,119	136,198
Prepaid expenses and other assets	23,111	19,284
Equipment, net (Note 6)	13,283	18,723
Investments in readily-marketable securities held for long term purposes (Notes 4 & 7)	6,948,295	6,847,463
Total assets	\$ 11,334,906	\$ 10,707,811
LIABILITIES AND NET ASSETS		
Annual Fund payable	\$ 2,104,564	\$ 2,046,015
Grants and other payable	155,549	46,537
Total liabilities	2,260,113	2,092,552
Net assets (Notes 7, 8 & 9)		
Without donor restrictions	1,007,941	986,982
With donor restrictions	8,066,852	7,628,277
Total net assets	9,074,793	8,615,259
Total liabilities and net assets	\$ 11,334,906	\$ 10,707,811

The accompanying notes are an integral part of these financial statements.

SANTA MONICA EDUCATION FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Support and revenue:			
Support:			
Contributions	\$ -	\$ 2,978,751	\$ 2,978,751
Special events net of direct benefit expense of \$35,155	-	135,803	135,803
Contributions - gifts in kind	<u>82,618</u>	<u>-</u>	<u>82,618</u>
Total contributions and bequest	<u>82,618</u>	<u>3,114,554</u>	<u>3,197,172</u>
Revenue:			
Interest and dividends net of fee of \$45,662	64,186	132,420	196,606
Realized gains on investments	16,219	96,069	112,288
Unrealized gains on investments	61,571	227,874	289,445
Summer school	67,305	-	67,305
Total revenue	<u>209,281</u>	<u>456,363</u>	<u>665,644</u>
Net assets released from restrictions (Note 8)	<u>3,132,342</u>	<u>(3,132,342)</u>	<u>-</u>
Total support and revenue	<u>3,424,241</u>	<u>438,575</u>	<u>3,862,816</u>
Expenses:			
Program services:			
Grants distributions			
Annual Fund (Note 11)	2,104,564	-	2,104,564
Educational grants	<u>610,675</u>	<u>-</u>	<u>610,675</u>
Total grants distributions	<u>2,715,239</u>	<u>-</u>	<u>2,715,239</u>
Support services:			
General and administrative	141,034	-	141,034
Fundraising expenses	<u>547,009</u>	<u>-</u>	<u>547,009</u>
Total support services	<u>688,043</u>	<u>-</u>	<u>688,043</u>
Total expenses	<u>3,403,282</u>	<u>-</u>	<u>3,403,282</u>
Change in net assets	20,959	438,575	459,534
Net assets at beginning of year	<u>986,982</u>	<u>7,628,277</u>	<u>8,615,259</u>
Net assets at end of year	<u>\$ 1,007,941</u>	<u>\$ 8,066,852</u>	<u>\$ 9,074,793</u>

The accompanying notes are an integral part of these financial statements.

SANTA MONICA EDUCATION FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Without Donor restriction</u>	<u>Temporarily restricted</u>	<u>Total</u>
Support and revenue:			
Support:			
Contributions	\$ -	\$ 2,731,917	\$ 2,731,917
Special events net of direct benefit expense of \$89,528	-	161,533	161,533
Contributions - gifts in kind	<u>81,718</u>	<u>-</u>	<u>81,718</u>
Total contributions and bequest	<u>81,718</u>	<u>2,893,450</u>	<u>2,975,168</u>
Revenue:			
Interest and dividends net of fee of \$45,699	59,619	177,922	237,541
Realized gains on investments	103,126	452,771	555,897
Unrealized losses on investments	(62,590)	(244,161)	(306,751)
Summer school	50,355	-	50,355
Other	<u>589</u>	<u>-</u>	<u>589</u>
Total revenue	<u>151,099</u>	<u>386,532</u>	<u>537,631</u>
Net assets released from restrictions (Note 8)	<u>3,171,312</u>	<u>(3,171,312)</u>	<u>-</u>
Total support and revenue	<u>3,404,129</u>	<u>108,670</u>	<u>3,512,799</u>
Expenses:			
Program services:			
Grants distributions			
Annual Fund (Note 11)	2,046,015	-	2,046,015
Educational grants	<u>695,829</u>	<u>-</u>	<u>695,829</u>
Total grants distributions	<u>2,741,844</u>	<u>-</u>	<u>2,741,844</u>
Support services:			
General and administrative	134,230	-	134,230
Fundraising expenses	<u>535,487</u>	<u>-</u>	<u>535,487</u>
Total support services	<u>669,717</u>	<u>-</u>	<u>669,717</u>
Total expenses	<u>3,411,561</u>	<u>-</u>	<u>3,411,561</u>
Change in net assets	(7,432)	108,670	101,238
Net assets at beginning of year	<u>994,414</u>	<u>7,519,607</u>	<u>8,514,021</u>
Net assets at end of year	<u>\$ 986,982</u>	<u>\$ 7,628,277</u>	<u>\$ 8,615,259</u>

The accompanying notes are an integral part of these financial statements.

SANTA MONICA EDUCATION FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

	Program services			Support services			
Year ended June 30, 2019:	Annual Fund	Educa- tional grants	Total	General and administrative	Fundraising	Total	Grand Total
Grants	\$ 2,104,564	\$ 509,929	\$ 2,614,493	\$ -	\$ -	\$ -	\$ 2,614,493
Payroll and related	-	90,322	90,322	78,050	383,113	461,163	551,485
Insurance	-	-	-	14,107	-	14,107	14,107
Professional fees	-	-	-	27,698	-	27,698	27,698
Bank charges	-	-	-	197	47,067	47,264	47,264
Marketing and reception	-	-	-	-	28,309	28,309	28,309
Printing	-	-	-	148	29,577	29,725	29,725
Postage	-	-	-	354	7,879	8,233	8,233
Storage and supplies	-	-	-	2,799	-	2,799	2,799
Conference and development	-	-	-	1,822	733	2,555	2,555
Database/website management	-	-	-	-	3,435	3,435	3,435
Rent	-	10,424	10,424	9,121	45,604	54,725	65,149
Depreciation	-	-	-	6,738	-	6,738	6,738
Telephone	-	-	-	-	1,292	1,292	1,292
Total Expenses	\$ <u>2,104,564</u>	\$ <u>610,675</u>	\$ <u>2,715,239</u>	\$ <u>141,034</u>	\$ <u>547,009</u>	\$ <u>688,043</u>	\$ <u>3,403,282</u>

The accompanying notes are an integral part of these financial statements.

SANTA MONICA EDUCATION FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Program services			Support services			
Year ended June 30, 2018:	<u>Annual Fund</u>	<u>Educa-tional grants</u>	<u>Total</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Grand Total</u>
Grants	\$ 2,046,015	\$ 597,383	\$ 2,643,398	\$ -	\$ -	\$ -	\$ 2,643,398
Payroll and related	-	88,022	88,022	74,399	373,811	448,210	536,232
Insurance	-	-	-	13,632	-	13,632	13,632
Professional fees	-	-	-	26,747	-	26,747	26,747
Bank charges	-	-	-	110	43,797	43,907	43,907
Marketing and reception	-	-	-	-	19,085	19,085	19,085
Printing	-	-	-	125	35,939	36,064	36,064
Postage	-	-	-	38	6,178	6,216	6,216
Storage and supplies	-	-	-	2,662	-	2,662	2,662
Conference and development	-	-	-	896	5,762	6,658	6,658
Database/website management	-	-	-	-	3,663	3,663	3,663
Rent	-	10,424	10,424	9,121	45,603	54,724	65,148
Depreciation	-	-	-	6,500	-	6,500	6,500
Telephone	-	-	-	-	1,649	1,649	1,649
Total Expenses	<u>\$ 2,046,015</u>	<u>\$ 695,829</u>	<u>\$ 2,741,844</u>	<u>\$ 134,230</u>	<u>\$ 535,487</u>	<u>\$ 669,717</u>	<u>\$ 3,411,561</u>

The accompanying notes are an integral part of these financial statements.

SANTA MONICA EDUCATION FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	Year ended June 30,	
	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 459,534	\$ 101,238
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized (gains) on sales of investments	(105,696)	(555,897)
Unrealized losses (gains) on investments	(289,445)	306,751
(Gain) on disposal of fixed asset	-	(589)
Depreciation	6,738	6,500
Change in operating assets and liabilities:		
Contributions receivable, net	8,079	59,271
Prepaid expenses and other assets	(3,827)	2,064
Annual Fund payable	58,549	35,912
Grants and other payable	109,012	39,624
Net cash (used in) operating activities	242,944	(5,126)
Cash flows from investing activities:		
Purchase of investments	(7,930,564)	(8,440,740)
Proceeds from sale of investments	7,745,724	7,462,251
Purchase of equipment	(1,298)	(5,878)
Proceeds from disposal of fixed asset	-	1,217
Net cash (used in) provided by investing activities	(186,138)	(983,150)
(Decrease) in cash and cash equivalents	56,806	(988,276)
Cash and cash equivalents at beginning of year	315,692	1,303,968
Cash and cash equivalents at the end of the year	\$ 372,498	\$ 315,692
Cash paid during the year for		
Interest	-	-
Income Taxes	-	-

The accompanying notes are an integral part of these financial statements.

SANTA MONICA EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 1 – NATURE OF OPERATIONS:

Established in 1982, the Santa Monica Education Foundation (the Foundation), formerly Santa Monica - Malibu Education Foundation, is a California nonprofit corporation. The Foundation is administered by a dedicated group of parents, business people and community leaders. The goal of the Foundation is to raise funds to support curriculum in the Santa Monica public schools in the area of arts, academics and athletics.

In November 2011, the Santa Monica Malibu Unified School District (SMMUSD) approved a centralized fundraising policy which designated the Foundation as its centralized fundraising organization. Prior to this, the Foundation typically raised \$500,000 annually to support programs in the SMMUSD. A comprehensive plan entitled Annual Fund was developed to provide robust and collaborative academic and arts programs for every student at each school in the District starting in the 2014-2015 school year. Since the 2014-15 school year, the Foundation is the sole organization to raise funds for personnel and professional development for every SMMUSD school.

The Foundation filed a Certificate of Amendment with the California Secretary of State to change its name to the “Santa Monica Education Foundation”, and the amendment was accepted on July 5th, 2018. As of that day forward, the Foundation will only raise funds to support curriculum in the Santa Monica public schools in the area of arts, academics and athletics.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

The Foundation implemented Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return.

SANTA MONICA EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Basis of presentation (continued)

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in the general operations and not subject to donor restrictions.

Net Assets with Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of estimates

The preparation of financial statements in conformity with U.S. 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 reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to, contractual allowance for accounts receivable and useful lives for depreciation. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be different from these estimates.

Investments

Investments in debt securities, equity securities with readily determinable market values, are recorded at fair market value. The Foundation records investments at fair value under the provisions of fair value measurement and disclosures codified in Financial Accounting Standards Board Accounting Standards Codification (ASC) 820. The fair value of investments in securities traded on national securities exchanges is valued at the closing price on the last business day of the fiscal year.

Investments are made according to the Investment Policy, Procedures and Objectives adopted by the Foundation's Board of Directors and overseen and implemented by the Investment Committee. These guidelines provide for investment in equities and fixed income securities with performance measured against appropriate indices. A spending policy, adopted by the Foundation, determines funds available for the purpose of funding programs.

SANTA MONICA EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Investments (continued)

Investment purchases and sales are accounted for on a trade-date basis. Interest income is recorded when earned and dividends are recorded on the ex-dividend date.

Contributions receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Grants payable

Grants payable are recorded when a specific grant has been authorized by the Board of Directors.

Equipment

Acquisitions of equipment are recorded at cost. Maintenance and repairs that do not improve or extend the lives of equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statement of activities. Provision for depreciation is computed on the straight-line method over lives of 3 to 5 years.

Income tax status

The Foundation is a California nonprofit corporation, exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and corresponding state provision, and has been determined not to be a private foundation under Section 509(a)(1) of the Code.

The Foundation is no longer subject to federal income tax examinations for the years ended prior to June 30, 2013 and no longer subject to state income tax examinations for the years ended prior to June 30, 2015.

Cash equivalents

Cash and cash equivalents are short-term, interest bearing, highly liquid investments with original maturities of three months or less at the time of purchase.

SANTA MONICA EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor.

Contributions - gifts in kind

The Foundation periodically receives contributions in a form other than cash or investments. Donated use of facilities is reported as contributions and as expenses at the estimated fair value of similar space for rent under similar conditions.

The Foundation benefits from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the Foundation's program operations and in its fund-raising campaigns. However, the majority of the contributed services do not meet the criteria for recognition in financial statements. U.S. generally accepted accounting principles allow recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills.

Donated use of facilities valued at \$65,148 and \$65,148 and donated services with an estimated fair value of \$17,470 and \$16,570 met those criteria and are included in contributions – gifts in kind in the statement of activities for the years ended June 30, 2019 and 2018, respectively.

Expense recognition and allocation

The cost of providing the Foundation's programs and other activities is summarized on a functional basis in the statements of activities and statements of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Foundation.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years.

SANTA MONICA EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Accounting change

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurements (Topic 820); Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (NAV, or its Equivalent). The amendments in the update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share to be practical expedient. Sufficient information must be provided to allow a reconciliation of the fair value of assets categorized with the fair value hierarchy to the amounts shown in the statement of the net assets available for benefits. The ASU is effective for fiscal years beginning after December 15, 2016 with early adoption permitted (See Note 3).

Subsequent events

Subsequent events are events or transactions that occur after the date of the statement of financial position but before financial statements are available to be issued. The Foundation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Foundation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of the financial position but arose after the date of the statement of financial position and before the financial statements are available to be issued. The Foundation has evaluated subsequent events through May 5, 2020, which is the date the financial statements are available to be issued. Based upon the Foundation's evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

NOTE 3 – FAIR VALUE MEASUREMENTS:

The Foundation records its investment in accordance with Accounting Standards Codification(ASC) 820, *Fair Value Measurements and Disclosures*. ASC 820 defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs that may be used to measure fair value are established as follows:

SANTA MONICA EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 3 – FAIR VALUE MEASUREMENTS (continued):

- *Level 1* - Quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- *Level 2* - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuations in which all significant inputs are observable in the market.
- *Level 3* - Valuation is modeled using significant inputs that are unobservable in the market. These unobservable inputs reflect the Foundation's own estimates of assumptions that market participants would use in pricing the asset or liability.

When quoted market prices are available in an active market, securities are classified within Level 1 of the fair value hierarchy. If quoted prices are not available or accessible, then fair values are estimated using pricing models, matrix pricing or discounted cash flow models. The fair value of securities estimated using pricing models or matrix pricing is generally classified within Level 2 of the fair value hierarchy. When discounted cash flow models are used, there is limited activity or less transparency around inputs to the valuation and securities are classified within Level 3 of the fair value hierarchy.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Registered investment companies (mutual funds)

Shares of registered investment company funds (or mutual funds) are valued at the net asset value (NAV) of the shares held by the Foundation and valued at the closing price reported on the active market on which the individual securities are traded.

U.S. Government securities, mortgage-backed securities and other debt and equity securities

Fair value is based on quoted prices from applicable exchange. If quoted market price is not available, fair value is estimated using significant other observable inputs, which include broker quotes or evaluated price quotes received from pricing services.

SANTA MONICA EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 3 – FAIR VALUE MEASUREMENTS (continued):

The following tables set forth by level, within the fair value hierarchy, the Foundation’s assets at fair value as of June 30, 2019 and 2018.

Assets at Fair Value as of June 30, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual and stable value funds:				
Bond funds	\$5,366,792	-	-	\$5,366,792
Index funds	2,516,257	-	-	2,516,257
Foreign stock funds	1,282,001	-	-	1,282,001
Other domestic stock funds	1,632,845	-	-	1,632,845
Total assets at fair value	<u>\$10,797,895</u>			<u>\$10,797,895</u>

Assets at Fair Value as of June 30, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual and stable value funds:				
Bond funds	\$5,106,568	-	-	\$5,106,568
Index funds	2,223,984	-	-	2,223,984
Foreign stock funds	382,344	-	-	382,344
Other domestic stock funds	2,505,018	-	-	2,505,018
Total assets at fair value	<u>\$10,217,914</u>			<u>\$10,217,914</u>

Due to the short-term nature of cash equivalents, receivables, prepaid expense, other assets and other payable, fair value approximates carrying value.

SANTA MONICA EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 4 – INVESTMENTS:

Investments (including those held for long term purposes) are recorded at readily-determinable fair values and consist of the following at June 30, 2019 and 2018:

	June 30,	
	2019	2018
Mutual and stable value funds:		
Bond funds	\$ 5,366,792	\$ 5,106,568
Index funds	2,516,257	2,223,984
Foreign stock funds	1,282,001	382,344
Other domestic stock funds	1,632,845	2,505,018
	10,797,895	10,217,914
Less: Investments in readily- marketable securities held for long term purposes	6,948,295	6,847,463
Investments at fair value	\$ 3,849,600	\$ 3,370,451

Activities in the investments during the years were as following:

	June 30,	
	2019	2018
Balance, beginning of year	\$ 10,217,914	\$ 8,990,279
Purchases of investments	7,930,564	8,440,740
Proceeds from sales of investments	(7,745,724)	(7,462,251)
Realized gains on sales of Investments	105,696	555,897
Unrealized (losses) gains on investments	289,445	(306,751)
Balance, end of year	\$ 10,797,895	\$ 10,217,914

The Foundation's investment portfolio is actively managed by professional investment advisers. The investment advisers sell and purchase investments to achieve the desired portfolio mix and holdings. Their fee is based on a percentage of assets, not the volume of transactions.

SANTA MONICA EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 5 – CONTRIBUTIONS RECEIVABLE:

Contributions receivable are expected to be received as follows at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Due within one year	\$ 63,562	\$ 110,322
Due in one to five years	67,500	25,000
Due in more than five years	<u>-</u>	<u>2,500</u>
	131,062	137,822
Less discount to reflect contributions receivable at present value	<u>(2,943)</u>	<u>(1,624)</u>
	<u>\$ 128,119</u>	<u>\$ 136,198</u>

The Foundation discounted contributions receivable at the rate of 1.71%~1.76% and 2.47%~2.50% for balances outstanding at June 30, 2019 and 2018, respectively.

NOTE 6 – EQUIPMENT:

Equipment consists of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Property and equipment	\$ 70,812	\$ 69,514
Less accumulated depreciation	<u>(57,529)</u>	<u>(50,791)</u>
	<u>\$ 13,283</u>	<u>\$ 18,723</u>

SANTA MONICA EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 7 – ENDOWMENTS AND RESTRICTED NET ASSETS:

Interpretation of relevant law

The Board of Directors of the Foundation has interpreted the California Uniform Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the value 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 (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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. In accordance with the Act, 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.

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 to programs 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 or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a diversified manner that is intended to produce results that exceed inflation and a custom benchmark composed of a benchmark for each asset class, while assuming a moderate level of investment risk.

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-based investments to achieve its long-term return objectives within prudent risk constraints.

SANTA MONICA EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 7 – ENDOWMENTS AND RESTRICTED NET ASSETS (continued):

Spending policy and how investment objectives relate to spending policy

The Foundation has a policy of spending up to 5% of investment assets each year, based on the average of the prior 12 quarter market values of the investment assets, as stated by the Spending Policy in the Investment Policy Statement. At the recommendation of the Finance Committee, the December 31 values are used to accommodate the timing of the budgeting process. In establishing this policy, the Foundation considered the long-term expected return on its endowment, and that over the long term the investment return will exceed 5%, allowing for a steady funding stream and growth of the Funds.

Endowment net asset composition by type of fund

	2019		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 6,177,381	\$ 770,914	\$ 6,948,295
	2018		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 6,076,549	\$ 770,914	\$ 6,847,463

Changes in endowment net assets during the year ended

	June 30, 2019		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds			
Balance, June 30, 2018	\$ 6,076,549	\$ 770,914	\$ 6,847,463
Investment income	389,805	-	389,805
Contributions	-	-	-
Appropriation of endowment assets for expenditure	(288,973)	-	(288,973)
Balance, June 30, 2019	\$ 6,177,381	\$ 770,914	\$ 6,948,295

SANTA MONICA EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 7 – ENDOWMENTS AND RESTRICTED NET ASSETS (continued):

Changes in endowment net assets during the year ended (continued)

Donor-restricted endowment funds	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2017	\$ 5,926,684	\$ 770,914	\$ 6,697,598
Investment income	351,359	-	351,359
Contributions	100,500	-	100,500
Appropriation of endowment assets for expenditure	(301,994)	-	(301,994)
Balance, June 30, 2018	<u>\$ 6,076,549</u>	<u>\$ 770,914</u>	<u>\$ 6,847,463</u>

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 the Act requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. These deficiencies are anticipated to be temporary and can result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There were no such deficiencies as of June 30, 2019 and 2018.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes or periods:

	Net Assets Released from Restrictions	Balance, June 30, 2019
Temporarily restricted endowment		
For The Arts	\$ 133,212	\$ 2,995,763
Peggy Bergmann Music	143,839	2,927,259
For Athletics	-	35,904
For Academics	11,922	218,455
Pledges receivable	-	99,557
Annual Funds	2,563,914	-
Other	65,503	64,136
Samohi Scholarship Fund	213,952	954,865
	<u>\$ 3,132,342</u>	<u>\$ 7,295,939</u>

SANTA MONICA EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS (continued):

	Net Assets Released from Restrictions	Balance, June 30, 2018
Temporarily restricted endowment		
For The Arts	\$ 147,608	\$ 2,937,082
Peggy Bergmann Music	148,386	2,888,388
For Athletics	-	35,904
For Academics	6,000	215,175
Pledges receivable	76,000	50,876
Annual Funds	2,449,210	961
Other	45,652	38,778
Samohi Scholarship Fund	298,456	690,199
	\$ 3,171,312	\$ 6,857,363

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets at June 30, 2019 and 2018 are follows:

	June 30,	
	2019	2018
For Academics	\$ 770,914	\$ 770,914

Permanently restricted net assets are endowment funds restricted in perpetuity to continue the tradition of the Foundation. Income generated by these funds is unrestricted.

NOTE 10 – CONCENTRATIONS OF RISK:

Amounts held in financial institutions occasionally are in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits. The Foundation deposits its cash with high quality financial institutions, and management believes the Foundation is not exposed to significant credit risk on those amounts.

The majority of the Foundation’s contributions and grants are received from corporations, foundations, and individuals located in the greater Los Angeles metropolitan area and from agencies of the City of Santa Monica. As such, the Foundation’s ability to generate resources via contributions and grants is dependent upon the economic health of that area and of the state of California. An economic downturn could cause a decrease in contributions and grants that coincides with an increase in demand for the Foundation’s services.

SANTA MONICA EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 10 – CONCENTRATIONS OF RISK (continued):

The Foundation's investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, because of the significance of the investments to the Foundation's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements.

NOTE 11 – ANNUAL FUND:

The Foundation began its Annual Fund fundraising drive in the year ended June 30, 2013.

During the year ended June 30, 2019, the Foundation authorized a total of \$2,104,564 as Annual Fund payable. The \$2,104,564 consists of \$2,562,953 of purpose-restricted funds received in the year ended June 30, 2019 as well as \$189,149 in restricted and unrestricted funds allocated by the Board less overhead expenses applied of \$647,538. The entire balance of the Annual Fund Payable of \$2,104,564 was disbursed to the SMMUSD on August 29, 2019.

During the year ended June 30, 2018, the Foundation authorized a total of \$2,046,015 as Annual Fund payable. The \$2,046,015 consists of \$2,526,171 of purpose-restricted funds received in the year ended June 30, 2018 as well as \$147,266 in unrestricted funds allocated by the Board less overhead expenses applied of \$627,422. The entire balance of the Annual Fund Payable of \$2,046,015 was disbursed to the SMMUSD on August 24, 2018.

NOTE 12 – SAMOHI SCHOLARSHIP FUNDS TRANSFERRED FROM SAMOHI ALUMNI ASSOCIATION:

On January 5, 2015, the Samohi Alumni Association, a California Nonprofit Public Benefit Corporation (the "Association") entered into an agreement with the Foundation to transfer Samohi Scholarship Funds with the total balance of \$670,043 to the Foundation for an initial period of 30 months. The Foundation agreed to administer and distribute the Samohi Scholarship Funds to eligible students based on the recommendation of the Scholarship Committee. The Foundation invests the Samohi Scholarship Funds in a manner consistent with the Foundation's investment policies and procedures. For the year ended June 30, 2017, the Foundation allocated 2% of 3 year rolling average market value balance for its provision of management services, and the Scholarship Committee received the other 2% to be used for scholarships. Effective July 1, 2017, the Foundation allocates 2% of 12 quarter rolling average market value balance for its provision of management services. For the years ended June 30, 2019 and 2018, \$12,635 and \$12,000 was allocated as administrative fees, respectively. For the years ended June 30, 2019 and 2018, \$12,635 and \$12,000 was distributed to the Samohi Scholarship Funds, respectively.

SANTA MONICA EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 13 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that are without donor or other restrictions limiting their use, within one year of the statement of financial position are comprised as follows:

Total financial assets	
Cash and cash equivalents	\$ 372,498
Investments	10,797,895
Contributions receivable	<u>128,119</u>
Total financial assets at year-end	<u>11,298,512</u>
Less: amounts not available to be used within one year	
Donor-restricted endowment funds	6,948,295
Contributions receivable, long-term	<u>64,557</u>
	<u>7,012,852</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 4,285,660</u>

The Foundation receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Foundation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Further, the Foundation's investment portfolio consists of mostly mutual funds which are not subject to any constraints limiting the Foundation's ability to respond quickly to changes in market conditions.