

**SANTA MONICA-MALIBU
EDUCATION FOUNDATION**

REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

SANTA MONICA-MALIBU EDUCATION FOUNDATION

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JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Santa Monica-Malibu Education Foundation

We have audited the accompanying financial statements of Santa Monica-Malibu Education Foundation, which comprise the statements of financial position as of June 30, 2016 and 2015, 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

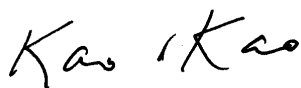
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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-Malibu Education Foundation as of June 30, 2016 and 2015, 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
January 6, 2017

SANTA MONICA-MALIBU EDUCATION FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 and 2015

	June 30,	
ASSETS	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 1,610,691	\$ 329,152
Investments (Note 4)	2,065,016	3,751,562
Contributions receivable, net (Note 5)	157,787	176,708
Prepaid expenses and other assets	17,650	15,613
Equipment, net (Note 6)	24,392	34,099
Investments in readily-marketable securities held for long term purposes (Notes 4 & 7)	6,466,394	6,365,760
Total assets	\$ 10,341,930	\$ 10,672,894
LIABILITIES AND NET ASSETS		
Annual Fund (formerly Vision for Student Success) payable	\$ 2,030,276	\$ 2,365,721
Grants and other payable	43,413	17,129
Total liabilities	2,073,689	2,382,850
Net assets (Notes 7, 8 & 9)		
Unrestricted	924,963	1,012,225
Temporarily restricted	6,572,364	6,506,905
Permanently restricted	770,914	770,914
Total net assets	8,268,241	8,290,044
Total liabilities and net assets	\$ 10,341,930	\$ 10,672,894

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

SANTA MONICA-MALIBU EDUCATION FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Support and revenue:				
Support:				
Bequests	\$ -	\$ 36,226	\$ -	\$ 36,226
Contributions	-	2,508,769	-	2,508,769
Special events net of direct benefit expense of \$71,815	-	166,690	-	166,690
Contributions - gifts in kind	80,129	-	-	80,129
Total contributions and bequest	80,129	2,711,685	-	2,791,814
Revenue:				
Interest and dividends net of fee of \$42,216	41,370	130,756	-	172,126
Realized gains on investments	(6,122)	(13,080)	-	(19,202)
Unrealized gains on investments	35,716	136,097	-	171,813
Summer school	50,000	-	-	50,000
Total revenue	120,964	253,773	-	374,737
Net assets released from restrictions (Note 8)	2,899,999	(2,899,999)	-	-
Total support and revenue	3,101,092	65,459	-	3,166,551
Expenses:				
Program services:				
Grants distributions				
Annual Fund (formerly Vision for Student Success) (Note 11)	2,030,276	-	-	2,030,276
Educational grants	556,361	-	-	556,361
Total grants distributions	2,586,637	-	-	2,586,637
Support services:				
General and administrative	130,241	-	-	130,241
Fundraising expenses	471,476	-	-	471,476
Total support services	601,717	-	-	601,717
Total expenses	3,188,354	-	-	3,188,354
Change in net assets	(87,262)	65,459	-	(21,803)
Net assets at beginning of year	1,012,225	6,506,905	770,914	8,290,044
Net assets at end of year	\$ 924,963	\$ 6,572,364	\$ 770,914	\$ 8,268,241

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

SANTA MONICA-MALIBU EDUCATION FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Support and revenue:				
Support:				
Bequests	\$ -	\$ 450,318	\$ -	\$ 450,318
Contributions	7,875	1,802,034	-	1,809,909
Special events net of direct benefit expense of \$112,496	-	276,893	-	276,893
Contributions – gifts in kind	80,015	-	-	80,015
Total contributions and bequest	87,890	2,529,245	-	2,617,135
Revenue:				
Interest and dividends net of fee of \$40,651	57,669	155,677	-	213,346
Realized gains on investments	104,286	387,793	-	492,079
Unrealized gains on investments	(93,023)	(345,047)	-	(438,070)
Summer school	50,000	-	-	50,000
Total revenue	118,932	198,423	-	317,355
Net assets released from restrictions (Note 8)	2,748,955	(2,748,955)	-	-
Total support and revenue	2,955,777	(21,287)	-	2,934,490
Expenses:				
Program services:				
Grants distributions				
Annual Fund (formerly Vision for Student Success) (Note 11)	2,185,261	-	-	2,185,261
Educational grants	552,549	-	-	552,549
Total grants distributions	2,737,810	-	-	2,737,810
Support services:				
General and administrative	174,967	-	-	174,967
Fundraising expenses	545,731	-	-	545,731
Total support services	720,698	-	-	720,698
Total expenses	3,458,508	-	-	3,458,508
Change in net assets	(502,731)	(21,287)	-	(524,018)
Scholarships Funds transferred from Samohi Alumni Association (Note 12)	-	670,043	-	670,043
Net assets at beginning of year	1,514,956	5,858,149	770,914	8,144,019
Net assets at end of year	\$ 1,012,225	\$ 6,506,905	\$ 770,914	\$ 8,290,044

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

SANTA MONICA MALIBU EDUCATION FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

	Program services			Support services			Grand Total
	Annual Fund (formerly Vision for Student Success)	Educa- tional grants	Total	General and administrative	Fundraising	Total	
Year ended June 30, 2016:							
Grants	\$ 2,030,276	\$ 472,941	\$ 2,503,217	\$ -	\$ -	\$ -	\$ 2,503,217
Payroll and related	-	73,026	73,026	65,416	337,604	403,020	476,046
Insurance	-	-	-	13,300	-	13,300	13,300
Professional fees	-	-	-	24,780	2,000	26,780	26,780
Bank charges	-	-	-	-	30,976	30,976	30,976
Marketing and reception	-	-	-	-	25,358	25,358	25,358
Printing	-	-	-	627	21,610	22,237	22,237
Postage	-	-	-	1,148	2,402	3,550	3,550
Storage and supplies	-	-	-	4,669	-	4,669	4,669
Conference and development	-	-	-	1,473	2,113	3,586	3,586
Database/website management	-	-	-	-	2,595	2,595	2,595
Rent	-	10,394	10,394	9,121	45,604	54,725	65,119
Depreciation	-	-	-	9,707	-	9,707	9,707
Telephone	-	-	-	-	1,214	1,214	1,214
Total Expenses	\$ 2,030,276	\$ 556,361	\$ 2,586,637	\$ 130,241	\$ 471,476	\$ 601,717	\$ 3,188,354

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

SANTA MONICA MALIBU EDUCATION FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

	Program services			Support services			Grand Total
	Annual Fund (formerly Vision for Student Success)	Educa- tional grants	Total	General and administrative	Fundraising	Total	
Year ended June 30, 2015:							
Grants	\$ 2,185,261	\$ 529,679	\$ 2,714,940	-	\$ -	\$ -	\$ 2,714,940
Payroll and related	-	17,800	17,800	104,877	367,759	472,636	490,436
Insurance	-	-	-	12,179	-	12,179	12,179
Professional fees	-	-	-	24,213	38,500	62,713	62,713
Bank charges	-	-	-	-	24,549	24,549	24,549
Marketing and reception	-	-	-	-	18,477	18,477	18,477
Printing	-	-	-	724	34,640	35,364	35,364
Postage	-	-	-	1,955	4,122	6,077	6,077
Storage and supplies	-	-	-	6,820	47	6,867	6,867
Conference and development	-	-	-	2,270	2,406	4,676	4,676
Database/website management	-	-	-	-	4,605	4,605	4,605
Rent	-	5,070	5,070	10,629	49,449	60,078	65,148
Depreciation	-	-	-	11,300	-	11,300	11,300
Telephone	-	-	-	-	1,177	1,177	1,177
Total Expenses	\$ 2,185,261	\$ 552,549	\$ 2,737,810	\$ 174,967	\$ 545,731	\$ 720,698	\$ 3,458,508

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

SANTA MONICA-MALIBU EDUCATION FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	Year ended June 30,	
	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (21,803)	\$ (524,018)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized gains on sales of investments	19,202	(492,079)
Unrealized losses on investments	(171,813)	438,070
Depreciation	9,707	11,300
Change in operating assets and liabilities:		
Contributions receivable, net	18,921	19,332
Prepaid expenses and other assets	(2,037)	5,704
Grants and Annual Fund (formerly Vision for Student Success) payable	(335,445)	(1,018,468)
Other payable	26,284	(82,415)
Net cash (used in) operating activities	(456,984)	(1,642,574)
Cash flows from investing activities:		
Purchase of investments	(2,966,650)	(7,978,952)
Proceeds from sale of investments	4,705,173	9,061,749
Purchase of equipment	-	(13,632)
Net cash provided by investing activities	1,738,523	1,069,165
Cash flows from financing activities:		
Scholarships Funds transferred from Samohi Alumni Association	-	670,043
Net cash provided by financing activities	-	670,043
Increase in cash and cash equivalents	1,281,539	96,634
Cash and cash equivalents at beginning of year	329,152	232,518
Cash and cash equivalents at the end of the year	\$ 1,610,691	\$ 329,152
Cash paid during the year for		
Interest	-	-
Income Taxes	-	-

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

SANTA MONICA-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 1 – NATURE OF OPERATIONS:

Established in 1982, the Santa Monica - Malibu Education Foundation (the 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 and Malibu 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 (formerly Vision for Student Success) 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.

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 reports information regarding its financial position and activities in three classes of net assets: unrestricted, temporarily restricted and permanently restricted based upon the existence or absence of donor-imposed restrictions.

Unrestricted net assets

Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Foundation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Temporarily restricted net assets

Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Foundation's unspent contributions are classified in this class if the donor limited their use, as is the unspent appreciation of its donor-restricted endowment funds.

SANTA MONICA-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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

Basis of presentation (continued)

Temporarily restricted net assets (continued)

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment are reported as temporarily restricted until the specified asset is placed in service by the Foundation, unless the donor provides more specific directions about the period of its use.

Permanently restricted net assets

Permanently restricted net assets are resources whose use by the Foundation is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The portion of the Foundation's donor-restricted endowment funds that must be maintained in perpetuity are classified in this net asset class. Generally, the donors of these assets permit the Foundation to use the income earned on any related investments for general or specific purposes.

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. Actual amounts could differ from those 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.

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.

SANTA MONICA-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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

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

Equipment is being depreciated using 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, 2010 and no longer subject to state income tax examinations for the years ended prior to June 30, 2012.

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.

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.

SANTA MONICA-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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

Gifts-in-kind contributions (continued)

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 \$65,118 and \$65,148 and donated services with an estimated fair value of \$15,011 and \$14,868 met those criteria and are included in contributions – gifts in kind in the statement of activities for the years ended June 30, 2016 and 2015, 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.

Subsequent events

The Foundation has evaluated events subsequent to June 30, 2016, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through January 6, 2017, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

SANTA MONICA-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 3 – FAIR VALUE MEASUREMENTS:

Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Foundation's investments are comprised of mutual and stable value funds. The fair value of these funds is based on quoted net asset values of the shares held by the Foundation at year-end. There has been no change in the methodology used at June 30, 2016 and 2015.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

At June 30, 2016 and 2015, all investments were considered to be level 1.

SANTA MONICA-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 3 – FAIR VALUE MEASUREMENTS (continued):

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

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, 2016 and 2015:

	June 30,	
	2016	2015
Mutual and stable value funds:		
Bond funds	\$ 3,741,261	\$ 5,378,912
Index funds	3,685,280	3,058,307
Foreign stock funds	-	606,537
Other domestic stock funds	1,104,869	1,073,566
	8,531,410	10,117,322
Less: Investments in readily- marketable securities held for long term purposes	6,466,394	6,352,878
Investments at fair value	\$ 2,065,016	\$ 3,764,444

Activities in the investments during the years were as following:

	June 30,	
	2016	2015
Balance, beginning of year	\$ 10,117,322	\$ 11,146,110
Purchases of investments	2,966,650	7,978,952
Proceeds from sales of investments	(4,705,173)	(9,061,749)
Realized gains on sales of investments	(19,202)	492,079
Unrealized losses on investments	171,813	(438,070)
Balance, end of year	\$ 8,531,410	\$ 10,117,322

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-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 5 – CONTRIBUTIONS RECEIVABLE:

Contributions receivable are expected to be received as follows at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Due within one year	\$ 98,301	\$ 93,303
Due after one year	<u>61,000</u>	<u>86,000</u>
	159,301	179,303
Less discount to reflect contributions receivable at present value	<u>(1,514)</u>	<u>(2,595)</u>
	<u>\$ 157,787</u>	<u>\$ 176,708</u>

The Foundation discounted contributions receivable at the rate of 0.99% ~1.3% and 1.23% ~1.7% for balances outstanding at June 30, 2016 and 2015, respectively.

NOTE 6 – EQUIPMENT:

Equipment consists of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Property and equipment	\$ 63,923	\$ 63,923
Less accumulated depreciation	<u>(39,531)</u>	<u>(29,824)</u>
	<u>\$ 24,392</u>	<u>\$ 34,099</u>

SANTA MONICA-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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 three year-end 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

	2016		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 5,695,480	\$ 770,914	\$ 6,466,394
	2015		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 5,594,846	\$ 770,914	\$ 6,365,760

Changes in endowment net assets during the year ended

	June 30, 2016		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds			
Balance, June 30, 2015	\$ 5,594,846	\$ 770,914	\$ 6,365,760
Investment income	230,009	-	230,009
Funds raised	105,595	-	105,595
Appropriation of endowment assets for expenditure	(295,849)	-	(295,849)
Transfers from other programs	60,879	-	60,879
Balance, June 30, 2016	\$ 5,695,480	\$ 770,914	\$ 6,466,394

SANTA MONICA-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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, 2014	\$ 5,631,458	\$ 770,914	\$ 6,402,372
Investment income	206,141	-	206,141
Funds raised	58,041	-	58,041
Appropriation of endowment assets for expenditure	(300,794)	-	(300,794)
Balance, June 30, 2015	<u>\$ 5,594,846</u>	<u>\$ 770,914</u>	<u>\$ 6,365,760</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, 2016 and 2015.

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, 2016
Temporarily restricted endowment		
For The Arts	\$ 151,248	\$ 2,796,058
Peggy Bergmann Music	144,601	2,764,017
For Athletics	-	35,405
For Academics	-	100,000
Pledges receivable	89,803	120,486
Annual Funds (formerly Vision for Student Success)	2,309,339	13,059
Other	42,985	44,754
Samohi Alumni Association Scholarships Funds	162,023	698,585
	<u>\$ 2,899,999</u>	<u>\$ 6,572,364</u>

SANTA MONICA-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS (continued):

	Net Assets Released from Restrictions	Balance, June 30, 2015
Temporarily restricted endowment		
For The Arts	\$ 166,872	\$ 2,769,833
Peggy Bergmann Music	133,923	2,795,203
For Athletics	-	29,809
Pledges receivable	68,500	159,208
Annual Funds (formerly Vision for Student Success)	2,124,435	-
Other	142,868	108,939
Samohi Alumni Association Scholarships Funds	112,357	643,913
	<u>\$ 2,748,955</u>	<u>\$ 6,506,905</u>

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets at June 30, 2016 and 2015 are follows:

	June 30,	
	2016	2015
Bells & Books of Knowledge	\$ <u>770,914</u>	\$ <u>770,914</u>

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-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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 (FORMERLY VISION FOR STUDENT SUCCESS):

The Foundation began its Annual Fund (formerly Vision for Student Success) fundraising drive in the year ended June 30, 2013.

During the year ended June 30, 2016, the Foundation authorized a total of \$2,030,276 as Annual Fund payable. The \$2,030,276 consists of \$2,419,680 of purpose-restricted funds received in the year ended June 30, 2016 as well as \$186,521 in unrestricted funds allocated by the Board less overhead expenses applied of \$562,866 with the remaining amount of \$13,059 to be carried forward towards next fiscal year. The entire balance of the Annual Fund Payable of \$2,030,276 was disbursed to the SMMUSD on August 24, 2016.

During the year ended June 30, 2015, the Foundation authorized a total of \$2,365,721 as Annual Fund payable. The \$2,365,721 consists of \$2,192,935 of purpose-restricted funds received in the year ended June 30, 2015 and \$180,459 received and carried over from the year ended June 30, 2014, as well as \$599,539 in unrestricted funds allocated by the Board less overhead expenses applied of \$607,212. The entire balance of the Annual Fund Payable of \$2,365,721 was disbursed to the SMMUSD on August 26, 2015.

NOTE 12 – 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 its 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 Scholarship Funds to eligible students based on the recommendation of the Scholarship Committee. The Foundation will invest the Scholarship Funds in a manner consistent with the Foundation's investment policies and procedures, and be allocated 50% of the annual realized and unrealized earnings for its provision of management services. The Scholarship Committee would receive the other 50% to be used for additional scholarships. For the year ended June 30, 2016 and 2015, no earnings from the Scholarship Funds were allocated to the Foundation.