

**SANTA MONICA-MALIBU
EDUCATION FOUNDATION**

REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

SANTA MONICA-MALIBU EDUCATION FOUNDATION

INDEX

JUNE 30, 2018 AND 2017

	<u>Page</u>
Independent Auditor's Report	2
Statements of Financial Position, June 30, 2018 and 2017	3
Statements of Activities, for the years ended June 30, 2018 and 2017	4-5
Statements of Functional Expenses, for the years ended June 30, 2018 and 2017	6-7
Statements of Cash Flows, for the years ended June 30, 2018 and 2017	8
Notes to Financial Statements	9-22

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Santa Monica 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, 2018 and 2017, 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

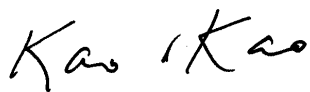
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2018 and 2017, 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
February 28, 2019

SANTA MONICA-MALIBU EDUCATION FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 and 2017

	June 30,	
	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 315,692	\$ 1,303,968
Investments (Note 4)	3,370,451	2,292,681
Contributions receivable, net (Note 5)	136,198	195,469
Prepaid expenses and other assets	19,284	21,348
Equipment, net (Note 6)	18,723	19,973
Investments in readily-marketable securities held for long term purposes (Notes 4 & 7)	6,847,463	6,697,598
Total assets	<u>\$ 10,707,811</u>	<u>\$ 10,531,037</u>
LIABILITIES AND NET ASSETS		
Annual Fund payable	\$ 2,046,015	\$ 2,010,103
Grants and other payable	46,537	6,913
Total liabilities	<u>2,092,552</u>	<u>2,017,016</u>
Net assets (Notes 7, 8 & 9)		
Unrestricted	986,982	994,414
Temporarily restricted	6,857,363	6,748,693
Permanently restricted	770,914	770,914
Total net assets	<u>8,615,259</u>	<u>8,514,021</u>
Total liabilities and net assets	<u>\$ 10,707,811</u>	<u>\$ 10,531,037</u>

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, 2018

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently 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	81,718	-	-	81,718
Total contributions and bequest	81,718	2,893,450	-	2,975,168
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	589	-	-	589
Total revenue	151,099	386,532	-	537,631
Net assets released from restrictions (Note 8)	3,171,312	(3,171,312)	-	-
Total support and revenue	3,404,129	108,670	-	3,512,799
Expenses:				
Program services:				
Grants distributions				
Annual Fund (Note 11)	2,046,015	-	-	2,046,015
Educational grants	695,829	-	-	695,829
Total grants distributions	2,741,844	-	-	2,741,844
Support services:				
General and administrative	134,230	-	-	134,230
Fundraising expenses	535,487	-	-	535,487
Total support services	669,717	-	-	669,717
Total expenses	3,411,561	-	-	3,411,561
Change in net assets	(7,432)	108,670	-	101,238
Net assets at beginning of year	994,414	6,748,693	770,914	8,514,021
Net assets at end of year	\$ 986,982	\$ 6,857,363	\$ 770,914	\$ 8,615,259

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, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Support and revenue:				
Support:				
Contributions	\$ 4,057	\$ 2,563,422	\$ -	\$ 2,567,479
Special events net of direct benefit expense of \$120,111	-	160,267	-	160,267
Contributions - gifts in kind	81,123	-	-	81,123
Total contributions and bequest	85,180	2,723,689	-	2,808,869
Revenue:				
Interest and dividends net of fee of \$43,531	48,481	160,577	-	209,058
Realized losses on investments	55,799	224,514	-	280,313
Unrealized gains on investments	45,732	192,039	-	237,771
Summer school	28,500	-	-	28,500
Total revenue	178,512	577,130	-	755,642
Net assets released from restrictions (Note 8)	3,124,490	(3,124,490)	-	-
Total support and revenue	3,388,182	176,329	-	3,564,511
Expenses:				
Program services:				
Grants distributions				
Annual Fund (Note 11)	2,010,103	-	-	2,010,103
Educational grants	662,244	-	-	662,244
Total grants distributions	2,672,347	-	-	2,672,347
Support services:				
General and administrative	132,840	-	-	132,840
Fundraising expenses	513,544	-	-	513,544
Total support services	646,384	-	-	646,384
Total expenses	3,318,731	-	-	3,318,731
Change in net assets	69,451	176,329	-	245,780
Net assets at beginning of year	924,963	6,572,364	770,914	8,268,241
Net assets at end of year	\$ 994,414	\$ 6,748,693	\$ 770,914	\$ 8,514,021

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, 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 MALIBU EDUCATION FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

	Program services			Support services			
Year ended June 30, 2017:	Annual Fund	Educa- tional grants	Total	General and administrative	Fundraising	Total	Grand Total
Grants	\$ 2,010,103	\$ 565,342	\$ 2,575,445	\$ -	\$ -	\$ -	\$ 2,575,445
Payroll and related	-	86,478	86,478	74,690	366,492	441,182	527,660
Insurance	-	-	-	13,552	-	13,552	13,552
Professional fees	-	-	-	25,884	-	25,884	25,884
Bank charges	-	-	-	-	40,500	40,500	40,500
Marketing and reception	-	-	-	-	20,451	20,451	20,451
Printing	-	-	-	201	26,666	26,867	26,867
Postage	-	-	-	33	6,615	6,648	6,648
Storage and supplies	-	-	-	2,453	-	2,453	2,453
Conference and development	-	-	-	931	1,856	2,787	2,787
Database/website management	-	-	-	-	3,726	3,726	3,726
Rent	-	10,424	10,424	9,121	45,603	54,724	65,148
Depreciation	-	-	-	5,930	-	5,930	5,930
Other	-	-	-	45	-	45	45
Telephone	-	-	-	-	1,635	1,635	1,635
Total Expenses	\$ 2,010,103	\$ 662,244	\$ 2,672,347	\$ 132,840	\$ 513,544	\$ 646,384	\$ 3,318,731

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

SANTA MONICA-MALIBU EDUCATION FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	Year ended June 30,	
	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 101,238	\$ 245,780
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized (gains) on sales of investments	(555,897)	(280,313)
Unrealized losses (gains) on investments	306,751	(237,771)
(Gain) on disposal of fixed asset	(589)	-
Depreciation	6,500	5,930
Change in operating assets and liabilities:		
Contributions receivable, net	59,271	(37,682)
Prepaid expenses and other assets	2,064	(3,698)
Grants and Annual Fund payable	35,912	(20,173)
Other payable	39,624	(36,500)
Net cash (used in) operating activities	(5,126)	(364,427)
Cash flows from investing activities:		
Purchase of investments	(8,440,740)	(3,208,265)
Proceeds from sale of investments	7,462,251	3,267,480
Purchase of equipment	(5,878)	(1,511)
Proceeds from disposal of fixed asset	1,217	-
Net cash (used in) provided by investing activities	(983,150)	57,704
(Decrease) in cash and cash equivalents	(988,276)	(306,723)
Cash and cash equivalents at beginning of year	1,303,968	1,610,691
Cash and cash equivalents at the end of the year	\$ 315,692	\$ 1,303,968
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, 2018 AND 2017

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 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 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, 2018 AND 2017

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. 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-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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, 2012 and no longer subject to state income tax examinations for the years ended prior to June 30, 2014.

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-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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 \$16,570 and \$15,975 met those criteria and are included in contributions – gifts in kind in the statement of activities for the years ended June 30, 2018 and 2017, 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-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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 February 28, 2019, 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-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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, 2018 and 2017.

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>

Assets at Fair Value as of June 30, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual and stable value funds:				
Bond funds	\$3,972,044	-	-	\$3,972,044
Index funds	3,306,410	-	-	3,306,410
Foreign stock funds	512,928	-	-	512,928
Other domestic stock funds	1,198,897	-	-	1,198,897
Total assets at fair value	<u>\$8,990,279</u>			<u>\$8,990,279</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-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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, 2018 and 2017:

	June 30,	
	2018	2017
Mutual and stable value funds:		
Bond funds	\$ 5,106,568	\$ 3,972,044
Index funds	2,223,984	3,306,410
Foreign stock funds	382,344	512,928
Other domestic stock funds	2,505,018	1,198,897
	10,217,914	8,990,279
Less: Investments in readily- marketable securities held for long term purposes	6,847,463	6,697,598
Investments at fair value	\$ 3,370,451	\$ 2,292,681

Activities in the investments during the years were as following:

	June 30,	
	2018	2017
Balance, beginning of year	\$ 8,990,279	\$ 8,531,410
Purchases of investments	8,440,740	3,208,265
Proceeds from sales of investments	(7,462,251)	(3,267,480)
Realized gains on sales of Investments	555,897	280,313
Unrealized (losses) gains on investments	(306,751)	237,771
Balance, end of year	\$ 10,217,914	\$ 8,990,279

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, 2018 AND 2017

NOTE 5 – CONTRIBUTIONS RECEIVABLE:

Contributions receivable are expected to be received as follows at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Due within one year	\$ 110,322	\$ 130,444
Due in one to five years	25,000	67,500
Due in more than five years	<u>2,500</u>	<u>-</u>
	137,822	197,944
Less discount to reflect contributions receivable at present value	<u>(1,624)</u>	<u>(2,475)</u>
	<u>\$ 136,198</u>	<u>\$ 195,469</u>

The Foundation discounted contributions receivable at the rate of 2.47%~2.50% and 1.55% ~1.89% for balances outstanding at June 30, 2018 and 2017, respectively.

NOTE 6 – EQUIPMENT:

Equipment consists of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Property and equipment	\$ 69,514	\$ 65,434
Less accumulated depreciation	<u>(50,791)</u>	<u>(45,461)</u>
	<u>\$ 18,723</u>	<u>\$ 19,973</u>

SANTA MONICA-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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, 2018 AND 2017

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

	2018		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 6,076,549	\$ 770,914	\$ 6,847,463
	2017		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 5,926,684	\$ 770,914	\$ 6,697,598

Changes in endowment net assets during the year ended

	June 30, 2018		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds			
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	\$ 6,076,549	\$ 770,914	\$ 6,847,463

SANTA MONICA-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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

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

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds			
Balance, June 30, 2016	\$ 5,695,480	\$ 770,914	\$ 6,466,394
Investment income	524,002	-	524,002
Contributions	11,175	-	11,175
Appropriation of endowment assets for expenditure	(303,973)	-	(303,973)
Balance, June 30, 2017	<u>\$ 5,926,684</u>	<u>\$ 770,914</u>	<u>\$ 6,697,598</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, 2018 and 2017.

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, 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
	<u>\$ 3,171,312</u>	<u>\$ 6,857,363</u>

SANTA MONICA-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS (continued):

	<u>Net Assets Released from Restrictions</u>	<u>Balance, June 30, 2017</u>
Temporarily restricted endowment		
For The Arts	\$ 153,185	\$ 2,914,816
Peggy Bergmann Music	145,555	2,872,471
For Athletics	-	35,405
For Academics	5,233	103,992
Pledges receivable	86,000	108,525
Annual Funds	2,428,237	-
Other	42,787	14,669
Samohi Scholarship Fund	263,493	698,815
	<u>\$ 3,124,490</u>	<u>\$ 6,748,693</u>

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets at June 30, 2018 and 2017 are follows:

	June 30,	
	2018	2017
Bells & Books of Knowledge	\$ 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-MALIBU EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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, 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.

During the year ended June 30, 2017, the Foundation authorized a total of \$2,010,103 as Annual Fund payable. The \$2,010,103 consists of \$13,252 carried over from prior fiscal year, \$2,501,178 of purpose-restricted funds received in the year ended June 30, 2017 as well as \$115,501 in unrestricted funds allocated by the Board less overhead expenses applied of \$619,828. The entire balance of the Annual Fund Payable of \$2,010,103 was disbursed to the SMMUSD on August 23, 2017.

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, 2018 and 2017, \$12,000 and \$10,708 was allocated as administrative fees, respectively. For the years ended June 30, 2018 and 2017, \$12,000 was distributed to the Samohi Scholarship Funds for each year.