

EL SEGUNDO EDUCATION FOUNDATION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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beach, freeman, lim & cleland, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
EL SEGUNDO EDUCATION FOUNDATION
El Segundo, California

We have audited the accompanying statement of financial position of El Segundo Education Foundation (the "Foundation") as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Foundation as of June 30, 2011, were audited by other auditors whose report dated October 3, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.


March 31, 2013

EL SEGUNDO EDUCATION FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

ASSETS		
	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 560,450	\$ 257,858
Certificates of deposit	103,010	27,745
Prepaid expenses	<u>3,252</u>	<u>-</u>
Total current assets	666,712	285,603
Endowment	<u>1,562,357</u>	<u>1,585,164</u>
Total assets	<u>\$ 2,229,069</u>	<u>\$ 1,870,767</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accrued expenses	\$ 4,523	\$ 2,731
Deferred revenue	127,687	135,284
Grant payable	<u>225,000</u>	<u>-</u>
Total current liabilities	357,210	138,015
Unrestricted net assets	<u>1,871,859</u>	<u>1,732,752</u>
	<u>\$ 2,229,069</u>	<u>\$ 1,870,767</u>

See accompanying notes to financial statements.

EL SEGUNDO EDUCATION FOUNDATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Revenues		
Contributions	\$ 982,410	\$ 713,564
Program income	140,845	79,559
Fundraising event income	267,775	80,305
Donated goods and services	41,055	-
Net investment earnings (losses)	<u>(8,894)</u>	<u>233,980</u>
Total revenues	<u>1,423,191</u>	<u>1,107,408</u>
Expenses		
Program services	1,069,878	672,898
Management and general	66,692	71,012
Fundraising	<u>147,514</u>	<u>46,193</u>
Total expenses	<u>1,284,084</u>	<u>790,103</u>
Increases (decreases) in net assets	139,107	317,305
Net assets, beginning of year	<u>1,732,752</u>	<u>1,415,447</u>
Net assets, end of year	<u>\$ 1,871,859</u>	<u>\$ 1,732,752</u>

See accompanying notes to financial statements.

EL SEGUNDO EDUCATION FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	Program Services			Management and General	Fundraising	Total 2012	2011
	ESUSD Support	Summer Academy	Total Program				
Grants made to ESUSD and its schools	\$ 805,000	\$ -	\$ 805,000	\$ -	\$ -	\$ 805,000	\$ 467,000
Direct expenses of fundraising events	9,967	1,882	11,849	103,551	103,551	115,400	26,908
Salaries and related	121,265	101,564	222,829	8,777	39,622	271,228	187,780
Consultants - End Use 5050	7,776	-	7,776	9,376	-	17,152	62,113
Advertising and promotion	3,286	-	3,286	822	-	4,108	14,827
Office expenses	2,132	-	2,132	2,132	-	4,264	9,661
Information technology	2,399	1,222	3,621	741	1,056	4,362	3,182
Travel and meetings	1,057	-	1,057	-	-	2,113	621
Insurance	-	-	-	4,530	-	4,530	4,971
Donated goods and services	-	-	-	41,055	-	41,055	-
Credit card fees	8,106	4,222	12,328	-	2,544	14,872	13,040

o/b	\$ 960,988	\$ 108,890	\$ 1,069,878	\$ 66,692	\$ 147,514	\$ 1,284,084	\$ 790,103
2013	83.3%	87.3%	83.3%	5%	11.5%	100%	5%
						1,409,139	106 inc in exp
						125,055	

See accompanying notes to financial statements.

EL SEGUNDO EDUCATION FOUNDATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 139,107	\$ 317,305
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Gains) losses on investments, net of fees	(63,520)	(220,952)
(Increase) decrease in operating assets:		
Prepaid expenses	(3,252)	-
Increase (decrease) in operating liabilities:		
Accrued expenses	1,792	(3,963)
Deferred revenues	(7,597)	60,685
Grant payable	<u>225,000</u>	<u>-</u>
Net cash provided by operating activities	<u>291,530</u>	<u>153,075</u>
Cash Flows from Investing Activities		
Purchase of investments	(892,109)	(27,745)
Proceeds from sale of investments	883,955	-
Disbursements from endowment	19,216	969
Contributions to endowment	<u>-</u>	<u>(81,219)</u>
Net cash provided by (used in) investing activities	<u>11,062</u>	<u>(107,995)</u>
Net increase in cash and cash equivalents	302,592	45,080
Cash and cash equivalents, beginning of year	<u>257,858</u>	<u>212,778</u>
Cash and cash equivalents, end of year	<u>\$ 560,450</u>	<u>\$ 257,858</u>

See accompanying notes to financial statements.

EL SEGUNDO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 1 - NATURE OF OPERATIONS

El Segundo Education Foundation (the "Foundation") was formed as a nonprofit public benefit corporation in the State of California in February 1983. The Foundation's purpose is to support the educational mission of the El Segundo Unified School District ("ESUSD"). The Foundation is supported primarily through donations from the public.

The Foundation, also known as Ed! or ESEF, was founded by concerned parents and community leaders of the South Bay. The Foundation's sole purpose is to narrow the widening gap between the state funds required to maintain excellence in El Segundo schools and the state funds received.

The Foundation's goal is to unite businesses, corporations and residents throughout the community to provide sustainable and consistent funding directly to the public schools of the El Segundo Unified School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounts of the Foundation are maintained on the accrual basis of accounting for financial reporting purposes.

Financial Statement Presentation

In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, the Foundation reports information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to any donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Foundation or the passage of time.

EL SEGUNDO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

Permanently restricted net assets – Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the Foundation.

Generally, the donors permit the Foundation to use all or part of the income earned for either general or donor-specified purposes. There were no temporarily or permanently restricted net assets as of year end.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents

The Foundation considers all highly liquid investments with an initial maturity of three months or less at the date of purchase to be cash equivalents.

Cash Reserve Policy

The Foundation's goal is to maintain cash reserves, exclusive of the Endowment and other restricted funds, at the end of each fiscal year, equal to at least twelve (12) months of operating expenses. The Foundation increases cash reserves by a minimum of \$30,000 each year until the desired level is reached.

EL SEGUNDO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

All contributions and grant support are considered available for the Foundation's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increase those respective net asset classes. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Restricted support with restrictions that are met in the same reporting period are recorded as unrestricted support.

Revenue from cost reimbursable grants and contracts is recorded to the extent of expenses incurred applicable to the grant or contract. Any difference between expenses incurred and the total funds received (not to exceed the grant or contract maximum) is recorded as a receivable or deferred revenue, whichever is applicable.

Contributed Services and Equipment

Contributed services are reported in the financial statements at fair value on the date of the voluntary donation when those services (1) create or enhance non-financial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would typically be purchased if not provided by donation. The ESUSD contributes to the Foundation by providing facilities and equipment.

During the year, many volunteers donated time and services in an effort to advance the programs and objectives of the Foundation. These volunteer services have not been recorded in the financial statements as they do not meet the criteria required by U.S. generally accepted accounting principles.

Functional Expenses

The costs of providing services have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Certain costs and expenditures have been allocated between program and supporting services based on management's estimates.

EL SEGUNDO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Foundation is a not-for-profit corporation that is exempt from the payment of income taxes under Internal Revenue Code ("IRC") Section 501(c)(3) and the California Revenue and Taxation Code Section 23701(d). Accordingly, no provision has been made for income taxes.

The Foundation's federal return Form 990, *Return of Organization Exempt from Income Tax*, for tax years 2009 and beyond remain subject to examination by the Internal Revenue Service. The Foundation's Form 199, *California Exempt Organization Annual Information Return*, remain subject to examination by state taxing authorities for the tax years 2008 and beyond.

Concentrations of Risk

The Foundation's bank balances generally exceed the FDIC-insured limit of \$250,000 for interest-bearing accounts. However, the Organization's total balances are covered due to additional insurance carried at both financial institutions holding the Foundation's funds. The Foundation has not experienced and does not anticipate any losses relating to cash held in these accounts.

The Foundation received a grant that constituted approximately 16% of total revenues for the year ended June 30, 2012. There were no revenue concentrations for the year ended June 30, 2011.

Fair Values of Financial Instruments

ASC 825, *Financial Instruments*, requires disclosure of fair value information about financial instruments when it is practicable to estimate that value. Management believes that the carrying amounts of the Foundation's financial instruments, consisting primarily of certificates of deposit, prepaid expenses, accrued expenses, and deferred revenue approximated their fair values as of year end due to their short-term nature.

EL SEGUNDO EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment

The fair value of investments in the endowment is based on their reported net asset values ("NAV") per share. The NAV is measured using published market prices on a particular date. Endowment assets are invested in a well diversified asset mix, which includes equity, fixed income, and cash investments, that is intended to result in the attainment of a reasonable real rate of return while mitigating market risk.

Reclassification

Certain amounts previously reported for 2011 have been reclassified to conform to the classifications used in 2012. Such reclassifications had no effect on reported income or net assets.

NOTE 3 - ENDOWMENT

Board Designated Endowment

The Foundation maintains a general endowment consisting of board designated investments to support the mission of the Foundation. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

The Foundation's annual appropriation, on a fiscal year basis, is determined by the growth in principal, amount of donations, earnings performance and the endowment's value as of March 31 of each year (end of the 3rd quarter). Once approved, the annual appropriation is funded into the Foundation's account at the end of the next subsequent fiscal year. The amount of the annual appropriation made from the endowment should not exceed 5% of the net value of the endowment as established at the end of the 3rd quarter of the fiscal year; nor, should the annual appropriation equal or exceed the growth of the endowment from all sources in the same time frame. This is consistent with the Foundation's objective to increase the principal balance of the endowment, after all costs are paid and appropriations are made.

EL SEGUNDO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3 - ENDOWMENT (CONTINUED)

Investment Policy

To achieve that objective, the Foundation has adopted an investment policy that attempts to provide for the preservation and safety of the endowment's principal and to provide for a steady stream of interest and/or dividend income to fund the annual appropriation to the Foundation. The Foundation's investment policy objectives also are targeted to create new programs aimed at enhancing alternative methods of giving to the fund by its constituents and to grow the endowment.

Endowment assets are invested in a balanced, conservative growth and income investment strategy of equity, fixed income and cash investments, in a mix which is conducive to the endowment's participation in rising markets while providing adequate protection from falling markets, while growing the endowment's assets if possible. Accordingly, the Foundation expects its endowment assets, over time, to produce a net real rate of return equal or greater than 2% above the consumer price index compounded annually for the aggregate of all investment funds over a full investment cycle (three-year period). Actual returns in any given year may vary from this amount. On a risk-adjusted basis the endowment's total return is expected to have less risk than the Standard & Poor's 500 benchmark. Risk and volatility will be measured by standard deviation. An investment restriction policy is in place and are designed to minimize interference with the Investment Committee's efforts to attain the overall fund objectives.

Investments of the Foundation are held by CitizensTrust Wealth Management.

Fair Value Measurements:

ASC 820, *Fair Value Measurements and Disclosures*, provides the 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).

EL SEGUNDO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3 - ENDOWMENT (CONTINUED)

The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the endowment plan has the ability to access.
Level 2	<p>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.</p> <p>If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.</p>
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset 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.

There have been no changes in the methodologies used at June 30, 2012 and 2011.

EL SEGUNDO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3 - ENDOWMENT (CONTINUED)

Assets at Fair Value as of June 30, 2012				
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and Cash Equivalents	\$ 125,557	\$ -	\$ -	\$ -
Equities	881,969	881,969	-	-
Fixed Income	538,959	538,959	-	-
Miscellaneous	<u>15,872</u>	<u>-</u>	<u>-</u>	<u>15,872</u>
Total	<u>\$ 1,562,357</u>	<u>\$ 1,420,928</u>	<u>\$ -</u>	<u>\$ 15,872</u>

Assets at Fair Value as of June 30, 2011				
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and Cash Equivalents	\$ 126,826	\$ -	\$ -	\$ -
Equities	962,194	962,194	-	-
Fixed Income	<u>496,144</u>	<u>496,144</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,585,164</u>	<u>\$ 1,458,338</u>	<u>\$ -</u>	<u>\$ -</u>

Cash and cash equivalents is not subject to valuation. The fair value of cash and cash equivalents is the carrying value, due to the short maturities on those investments.

The assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) consist of investments in limited partnership interests. During the year ended June 30, 2012, the Foundation purchased these investments for \$17,908.

EL SEGUNDO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3 - ENDOWMENT (CONTINUED)

Composition of and change in endowment net assets by net asset classification for the year ended June 30, 2012 were as follows:

	<u>Unrestricted</u>
Board designated endowment net assets at July 1, 2011	\$ 1,585,164
Distributions	(19,216)
Investment income	38,732
Administration expenses	(15,300)
Net gains (losses) and appreciation (depreciation) of investments	<u>(27,023)</u>
Board designated endowment net assets at June 30, 2012	<u><u>\$ 1,562,357</u></u>

NOTE 4 - DONATED SERVICES AND EQUIPMENT

The value of donated services included as contributions in the financial statements and the corresponding program expenses for the year ended June 30, 2012, are as follows:

Facilities	\$ 28,105
Furniture and equipment	2,450
Audit services	<u>10,500</u>
	<u><u>\$ 41,055</u></u>

NOTE 5 - RELATED PARTIES

The Foundation's primary purpose is to provide support to the programs, students, and educational departments of the El Segundo Unified School District. In exchange, the ESUSD provides office space and administrative support. The cost of the administrative support has not been reflected in the financial statements because a reasonable basis has not been established (See Note 2).

The Foundation awards financial support for various programs and general support to the ESUSD in accordance with the ESUSD's annual grant request and donor restrictions. During the years ended June 30, 2012 and 2011, the Foundation transmitted payments to the ESUSD and its schools totaling \$805,000 and \$467,000, respectively.

EL SEGUNDO EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 5 - RELATED PARTIES (CONTINUED)

Other related parties exist via Board member connections. Several Board members have made significant contributions to the Foundation, either individually or via their corporate affiliations. In total, contributions drawn from Board members or their affiliates total \$535,056 and \$364,798 for the year ended June 30, 2012 and 2011, respectively. In addition, three Board members (two in 2011) are employed by banking institutions where the Foundation maintains accounts and one Board member owns a printing company sometimes used by the Foundation for printing services.

NOTE 6 - SUBSEQUENT EVENTS

The Foundation evaluated subsequent events through March 31, 2013, the date at which the financial statements were available to be issued. The Foundation is not aware of any significant events that occurred subsequent to the balance sheet date, but prior to March 31, 2013, that would have a material impact on its financial statements.