

EL SEGUNDO EDUCATION FOUNDATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

DRAFT: FOR DISCUSSION PURPOSES ONLY

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of El Segundo Education Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 El Segundo Education Foundation as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

El Segundo, California
November 30, 2015

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EL SEGUNDO EDUCATION FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

ASSETS		
	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and cash equivalents	\$ 616,245	\$ 388,183
Certificates of deposit	105,143	104,567
Other current receivable	-	5,900
Prepaid expenses	<u>2,865</u>	<u>2,218</u>
Total current assets	724,253	500,868
Endowment	<u>2,355,143</u>	<u>2,290,264</u>
Total assets	<u>\$ 3,079,396</u>	<u>\$ 2,791,132</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Deferred revenue	<u>\$ 265,146</u>	<u>\$ 224,260</u>
Total current liabilities	265,146	224,260
Unrestricted net assets	<u>2,814,250</u>	<u>2,566,872</u>
Total liabilities and net assets	<u>\$ 3,079,396</u>	<u>\$ 2,791,132</u>

See accompanying notes to financial statements.

EL SEGUNDO EDUCATION FOUNDATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Revenues		
Contributions	\$ 996,318	\$ 947,477
Program income	266,067	234,393
Fundraising event income	356,527	286,070
Donated goods and services	47,605	42,605
Investment earnings	<u>84,974</u>	<u>321,733</u>
Total revenues	<u>1,751,491</u>	<u>1,832,278</u>
Expenses		
Program services	1,351,955	1,323,909
Management and general	84,626	78,720
Fundraising	<u>67,532</u>	<u>69,662</u>
Total expenses	<u>1,504,113</u>	<u>1,472,291</u>
Increases in net assets	247,378	359,987
Net assets, beginning of year	<u>2,566,872</u>	<u>2,206,885</u>
Net assets, end of year	<u>\$ 2,814,250</u>	<u>\$ 2,566,872</u>

See accompanying notes to financial statements.

EL SEGUNDO EDUCATION FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Program Services</u>					
	<u>ESUSD Support</u>	<u>Summer Academy</u>	<u>Seaside Strings</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Fundraising</u>
						<u>Total</u>
Grants made to ESUSD and its schools	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ -	\$ -
Direct expenses	19,473	4,525	4,637	28,635	-	30,436
Salaries and related costs	126,300	146,592	15,859	288,751	16,317	33,706
Consultants	9,663	-	-	9,663	9,663	-
Advertising and promotion	1,435	-	-	1,435	359	-
Office expenses	1,290	-	-	1,290	1,290	-
Information technology	2,486	2,043	169	4,698	-	691
Travel and meetings	149	-	-	149	-	149
Insurance	-	-	-	-	9,392	-
Donated goods and services	-	-	-	-	47,605	-
Credit card fees	9,172	7,538	624	17,334	-	2,550
	<u>\$ 1,169,968</u>	<u>\$ 160,698</u>	<u>\$ 21,289</u>	<u>\$ 1,351,955</u>	<u>\$ 84,626</u>	<u>\$ 67,532</u>
						<u>\$ 1,504,113</u>

See accompanying notes to financial statements.

EL SEGUNDO EDUCATION FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Program Services</u>					
	<u>ESUSD Support</u>	<u>Summer Academy</u>	<u>Seaside Strings</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Fundraising</u>
						<u>Total</u>
Grants made to ESUSD and its schools	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ -	\$ -
Direct expenses	7,277	5,510	1,879	14,666	-	34,456
Salaries and related costs	126,121	131,154	18,909	276,184	16,977	32,228
Consultants	9,654	-	-	9,654	9,654	-
Advertising and promotion	964	-	-	964	241	-
Office expenses	1,210	-	-	1,210	1,210	-
Information technology	2,070	1,610	23	3,703	-	477
Travel and meetings	276	-	-	276	-	276
Insurance	-	-	-	-	8,033	-
Donated goods and services	-	-	-	-	42,605	-
Credit card fees	9,647	7,504	101	17,252	-	2,225
	<u>\$ 1,157,219</u>	<u>\$ 145,778</u>	<u>\$ 20,912</u>	<u>\$ 1,323,909</u>	<u>\$ 78,720</u>	<u>\$ 69,662</u>
						<u>\$ 1,472,291</u>

See accompanying notes to financial statements.

EL SEGUNDO EDUCATION FOUNDATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 247,378	\$ 359,987
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gains on investments in endowment	(16,109)	(252,323)
Accrued interest income on certificate of deposit	(576)	(782)
Contributed stock	(28,360)	(39,274)
(Increase) decrease in operating assets:		
Other current receivable	5,900	5,431
Prepaid expenses	(647)	1,434
Increase (decrease) in operating liabilities:		
Accrued expenses	-	(1,412)
Deferred revenue	40,886	54,742
Net cash provided by operating activities	<u>248,472</u>	<u>127,803</u>
Cash Flows from Investing Activities		
Purchase of investments in endowment	(750,595)	(1,736,021)
Proceeds from sale of investments in endowment	<u>730,185</u>	<u>1,519,421</u>
Net cash used in investing activities	<u>(20,410)</u>	<u>(216,600)</u>
Net decrease in cash and cash equivalents	228,062	(88,797)
Cash and cash equivalents, beginning of year	<u>388,183</u>	<u>476,980</u>
Cash and cash equivalents, end of year	<u>\$ 616,245</u>	<u>\$ 388,183</u>

See accompanying notes to financial statements.

EL SEGUNDO EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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 in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Financial Statement Presentation

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.

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

EL SEGUNDO EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

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 June 30, 2015 and 2014.

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 and 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.

Certificate of Deposit

The Foundation considers certificates of deposits with an original maturity of less than one year at the time of purchase to be short-term investments. The Foundation currently holds one certificate of deposit, which bears interest at .400% and matures in June 2016. Interest on the certificate of deposit is recognized when earned. The certificate of deposit is reported at cost, which approximates its fair value.

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. According to management, the Foundation is meeting their cash reserve levels.

EL SEGUNDO EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment

The Endowment reported on the statements of financial position consists of the Foundation's investments in marketable securities which are reported at fair value. Investment transactions are recorded on the trade date and investment income is recognized as revenue in the period earned. Realized and unrealized gains and losses are recognized as changes in net assets in the period in which they occur.

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.

Contributions are also recognized when a donor makes a promise to give that is in substance unconditional. Conditional promises to give are recorded when the condition set by the donor is met. During the year ended June 30, 2012, the Foundation received a conditional grant of \$1,000,000, with annual payments of up to \$250,000. The grant required the Foundation to raise matching funds that were composed of new money as defined by the donor. In the years ended June 30, 2015 and 2014, the Foundation met the grant conditions and, as a result, recognized \$250,000 of contributions each year. As of June 30, 2015, the grant has been fully recognized.

Deferred revenue arises when potential revenue does not meet the criteria for recognition in the current period and when resources are received by the Foundation prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the Foundation has a legal claim to the resources, the liability for deferred revenue is removed from the statement of financial position and revenue is recognized. For the year ended June 30, 2015 and 2014, deferred revenue was \$265,145 and \$224,260, respectively.

EL SEGUNDO EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. GAAP.

Functional Expenses

The costs of providing services have been summarized on a functional basis in the statements of activities and detailed in the statements of functional expenses. Certain costs and expenditures have been allocated between program and supporting services by management.

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 evaluates uncertain tax positions whereby the effect of the uncertainty would be recorded if the tax positions were more likely than not to be sustained upon examination. As of year-end, the Foundation had no uncertain tax positions requiring accrual or disclosure.

By statute, the Foundation's federal and state income tax returns generally remain subject to examination by taxing authorities for three and four years, respectively.

EL SEGUNDO EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Risk

The Foundation's cash and investment balances held at financial institutions generally exceed federally insured limits or exceed amounts insured by Securities Investor Protection Corporation ("SIPC"). The Foundation's total investment balances are covered due to additional insurance carried at the financial institutions holding the Foundation's funds. The Foundation has not experienced and does not anticipate any losses as a result of the nonperformance of custodians and investment managers of its cash or investments.

Investments in marketable securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments in marketable securities, it is reasonably possible that changes in the value of investments could materially change and that such change could materially affect the amounts reported in the statements of financial position. The Foundation has not experienced any loss in such accounts and management believes it is not exposed to any significant risk on these accounts.

For the years ended June 30, 2015, and 2014, the Foundation received a grant from one donor that constituted approximately 14% of total revenues for each year.

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.

EL SEGUNDO EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 3 - ENDOWMENT (CONTINUED)

Board Designated Endowment (Continued)

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.

Investment Policy

To achieve the endowment objectives, 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.

According to the investment policy, endowment assets are invested in a balanced, conservative growth and income investment strategy of equity, fixed income, alternative, 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 is designed to minimize interference with the Investment Committee's efforts to attain the overall fund objectives.

EL SEGUNDO EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 3 - ENDOWMENT (CONTINUED)

Fair Value Measurements

The framework for measuring fair value 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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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 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.

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. |
| 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, 2015 and 2014.

EL SEGUNDO EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 3 - ENDOWMENT (CONTINUED)

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, 2015 and 2014:

**Assets at Fair Value as of
June 30, 2015**

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 91,670	\$ 91,670	\$ -	\$ -
Equities	1,200,583	1,200,583	-	-
Fixed income	816,773	816,773	-	-
Alternative investments	<u>246,117</u>	<u>246,117</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,355,143</u>	<u>\$ 2,355,143</u>	<u>\$ -</u>	<u>\$ -</u>

**Assets at Fair Value as of
June 30, 2014**

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 602,200	\$ 602,200	\$ -	\$ -
Equities	1,002,378	1,002,378	-	-
Fixed income	302,846	302,846	-	-
Alternative investments	<u>382,840</u>	<u>382,840</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,290,264</u>	<u>\$ 2,290,264</u>	<u>\$ -</u>	<u>\$ -</u>

EL SEGUNDO EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 3 - ENDOWMENT (CONTINUED)

Endowment Activity

The composition of and changes in endowment net assets by net asset classification for the years ended June 30, 2014 and 2015, were as follows:

	<u>Unrestricted</u>
Board designated endowment net assets at July 1, 2013	\$ 1,782,067
Contributions	239,284
Appropriations	(32,537)
Investment income	68,435
Administration expenses	(19,308)
Net gains (losses) and appreciation (depreciation) of investments	<u>252,323</u>
Board designated endowment net assets at June 30, 2014	2,290,264
Contributions	28,360
Appropriations	(28,481)
Investment income	68,217
Administration expenses	(19,326)
Net gains (losses) and appreciation (depreciation) of investments	<u>16,109</u>
Board designated endowment net assets at June 30, 2015	<u>\$ 2,355,143</u>

EL SEGUNDO EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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 years ended June 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Facilities	\$ 28,105	\$ 28,105
Audit and tax services	<u>19,500</u>	<u>14,500</u>
	<u>\$ 47,605</u>	<u>\$ 42,605</u>

Additionally, the Foundation received \$307,663 and \$- of donated goods related to a special event for the years ended June 30, 2015 and 2014, which have been excluded from the presentation of fundraising event income, and expense, in the financial statements.

NOTE 5 - RELATED PARTIES

Related parties exist as a result of Board member connections. Several Board members have made significant contributions to the Foundation, either individually or via their corporate affiliations. Contributions received from Board members or their affiliates totaled \$788,393 and \$496,228 for the years ended June 30, 2015 and 2014, respectively. In addition, two Board members are employed by banking institutions where the Foundation maintains accounts.

NOTE 6 - SUBSEQUENT EVENTS

The Foundation evaluated subsequent events through November 30, 2015, 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 statement of financial position date, but prior to November 30, 2015, that would have a material impact on its financial statements.