

EL SEGUNDO EDUCATION FOUNDATION

AUDIT REPORT

June 30, 2011

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Directors
El Segundo Education Foundation

We have audited the accompanying statement of financial position of El Segundo Education Foundation (the "Foundation"), as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of El Segundo Education Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 El Segundo Education Foundation as of June 30, 2011, 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.

San Diego, California
October 03, 2011

El Segundo Education Foundation
Statement of Financial Position
June 30, 2011
 (With comparative totals for 2010)

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 257,858	\$ 212,778
Certificates of deposit	27,745	-
Endowment	<u>1,585,164</u>	<u>1,283,962</u>
Total assets	<u>\$ 1,870,767</u>	<u>\$ 1,496,740</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accrued expenses	\$ 2,731	\$ 6,694
Deferred revenues	<u>135,284</u>	<u>74,599</u>
Total current liabilities	<u>138,015</u>	<u>81,293</u>
Net assets		
Unrestricted	<u>1,732,752</u>	<u>1,415,447</u>
Total net assets	<u>1,732,752</u>	<u>1,415,447</u>
Total liabilities and net assets	<u>\$ 1,870,767</u>	<u>\$ 1,496,740</u>

The notes to the financial statements are an integral part of this statement.

El Segundo Education Foundation
Statement of Activities
For the Year Ended June 30, 2011
(With comparative totals for 2010)

	2011	2010
SUPPORT AND REVENUES		
Contributions	\$ 713,564	\$ 646,113
Program income	79,559	16,000
Fundraising event income	80,305	68,751
Net investment earnings	233,980	127,309
Total support and revenues	<u>1,107,408</u>	<u>858,173</u>
 OPERATING EXPENSES		
Program services		
ESUSD support	594,694	462,000
Summer Academy	78,204	6,750
Total program services	<u>672,898</u>	<u>468,750</u>
Supporting services		
Management and general	71,012	130,992
Fundraising	46,193	31,277
Total supporting services	<u>117,205</u>	<u>162,269</u>
Total operating expenses	<u>790,103</u>	<u>631,019</u>
 Change in net assets	<u>317,305</u>	<u>227,154</u>
 Net assets at beginning of year	<u>1,415,447</u>	<u>1,188,293</u>
 Net assets at end of year	<u>\$ 1,732,752</u>	<u>\$ 1,415,447</u>

The notes to the financial statements are an integral part of this statement.

El Segundo Education Foundation
Statement of Functional Expenses
For the Year Ended June 30, 2011

	Program Services				Management and General	Fundraising	Total
	ESUSD Support	Summer Academy	Total				
OPERATING EXPENSES							
Grants made to ESUSD and schools	\$ 467,000	\$ -	\$ 467,000	\$ -	\$ -	\$ 467,000	
Direct expenses of fundraising events	-	-	-	-	26,908	26,908	
Salaries and related	69,110	67,126	136,236	39,230	12,314	187,780	
Consultants	37,268	6,211	43,479	15,528	3,106	62,113	
Advertising and promotion	14,827	-	14,827	-	-	14,827	
Office expenses	-	-	-	9,661	-	9,661	
Information technology	1,273	955	2,228	318	636	3,182	
Travel and meetings	-	-	-	-	621	621	
Insurance	-	-	-	4,971	-	4,971	
Miscellaneous	5,216	3,912	9,128	1,304	2,608	13,040	
Total operating expenses	<u>\$ 594,694</u>	<u>\$ 78,204</u>	<u>\$ 672,898</u>	<u>\$ 71,012</u>	<u>\$ 46,193</u>	<u>\$ 790,103</u>	

The notes to the financial statements are an integral part of this statement.

El Segundo Education Foundation
Statement of Cash Flows
For the Year Ended June 30, 2011
(With comparative totals for 2010)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 317,305	\$ 227,154
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
(Gains) losses on investment, net of fees	(220,952)	(111,053)
Increase (decrease) in operating liabilities		
Accrued expenses	(3,963)	6,694
Deferred revenues	<u>60,685</u>	<u>74,598</u>
Net cash provided by (used in) operating activities	<u>153,075</u>	<u>197,393</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(27,745)	-
Disbursements from endowment	969	-
Contributions to endowment	<u>(81,219)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(107,995)</u>	<u>-</u>
Net increase (decrease) in cash	45,080	197,393
Beginning balance	<u>212,778</u>	<u>15,385</u>
Ending balance	<u><u>\$ 257,858</u></u>	<u><u>\$ 212,778</u></u>

The notes to the financial statements are an integral part of this statement.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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 El Segundo Unified School District (the "District"). The Foundation is supported primarily through donations from the public.

B. 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, such as depreciation expense and the net book value of capital assets. Accordingly, actual results could differ from those estimates.

C. 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.

D. Basis of Accounting

The Foundation's policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenues are recognized when earned rather than when cash is received and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

E. Comparative Totals

The financial statements include certain prior year summarized comparative information in total but not by net asset classification. Such information does not include sufficient detail to constitute a presentation of comparative financial statements in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Financial Statement Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include all resources available for use by the Board of Directors and management's discretion in carrying out the activities of the Foundation in accordance with its Bylaws. Temporarily or permanently restricted net assets are only expendable for the purposes specified by the donor or through the passage of time. 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. Permanently restricted net assets are generally required to be held by the Foundation in perpetuity while the earnings on those assets are available for use by the Foundation to support its activities. Donors can place restrictions on the earnings from permanently restricted contributions at the time the contributions are made or pledged. Fund accounting is not used in the Foundation's financial statement presentation.

G. Contributions

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

Non-cash contributions of goods, materials, and facilities are recorded at fair value at the date of contribution. Contributed services are recorded at fair value at the date of contribution if they are used to create or enhance a non-financial asset or require specialized skills, are provided by someone possessing those skills, and would have to be purchased by the Foundation if not donated.

H. Income Taxes

The Foundation is a 509(a)(1) publicly supported nonprofit organization that is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Foundation is also exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code.

Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Foundation did not have any net unrelated business income for the year ended June 30, 2011. It is management's belief that the Foundation does not hold any uncertain tax positions that would materially impact the financial statements.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capital Assets

The Foundation has adopted a policy to capitalize physical asset purchases over \$5,000. The Foundation has no capital assets because the majority of the property used in its operation is owned by the District. The Foundation has no plans to make significant purchases of property and/or equipment.

J. Deferred Revenue

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.

K. Cash and Cash Equivalents

The Foundation considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents.

L. Investments

The Foundation's method of accounting for investments is the fair value method. Fair value is determined by published quotes when they are readily available. Adjustments to fair values are included in the accompanying statement of financial position and statement of activities.

M. Fair Value Measurements

The Fair Value Measurements Topic of the FASB *Accounting Standards Codification* establishes a fair value hierarchy that prioritizes 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 are described below:

- | | |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. |
| Level 2 | Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

El Segundo Education Foundation
Notes to Financial Statements, continued
June 30, 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Fair Value Measurements (continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

N. Recent Accounting Pronouncements

In January 2010, the FASB issued guidance that clarifies existing disclosures and requires new disclosures about fair value measurements. The clarifications and the requirement to disclose the amounts and reasons for significant transfers between Level 1 and Level 2 and significant transfers into and out of Level 3 of the fair value hierarchy are effective for periods beginning after December 15, 2009.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2011, consist of cash in checking, savings, and money market accounts totaling \$257,858.

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of assets measured on a recurring basis at June 30, 2011 are as follows:

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<u>Cash and cash equivalents</u>					
Cash in checking	\$ 11,843	\$ -	\$ -	\$ -	\$ -
Cash in money market	246,015	-	-	-	-
Total cash and cash equivalents	257,858	-	-	-	-
Certificate of deposit	27,745	-	-	-	-
<u>Endowment</u>					
Cash in money market	126,826	-	-	-	-
Equity securities	962,194	962,194	962,194	-	-
Bonds	496,144	496,144	496,144	-	-
Total endowment	1,585,164	1,458,338	1,458,338	-	-
	<u>\$ 1,870,767</u>	<u>\$ 1,458,338</u>	<u>\$ 1,458,338</u>	<u>\$ -</u>	<u>\$ -</u>

El Segundo Education Foundation
Notes to Financial Statements, continued
June 30, 2011

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Cash and cash equivalents

Cash held in checking and money market accounts is not subject to valuation. For cash equivalents (as defined in Note 1), carrying value approximates fair value because of the short maturities of those investments. At June 30, 2011, the Foundation did not hold any cash equivalents.

Investments

The Foundation classifies certificates of deposit with original maturities of ninety days or more as held-to-maturity investments, which are valued at cost plus accrued earnings, not fair value. The Foundation classifies equity securities and fixed income securities, such as bonds, as trading securities. The fair value of these assets is determined based on quoted market prices.

NOTE 4 – ENDOWMENT

In October 2008 the Board of Directors adopted policies and goals related to the endowment fund created by the Board for the benefit of the Foundation. The endowment policy specifies that the Foundation's goal is to grow the fund to approximately \$10 million through new contributions in order to provide a steady stream of income in perpetuity. As of June 30, 2011, the Foundation's Board designated endowment is valued at \$1,585,164, which includes principal and accumulated earnings. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

The Foundation has adopted an investment policy that focuses on total return with the objective of preserving capital. 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 net real rate of return equal or greater than 2% above the consumer price index. Actual returns in any given year may vary from this amount.

The Foundation's current spending policy is to reinvest earnings because of the focus on long term growth.

Composition of and change in endowment net assets by net asset classification for the year ended June 30, 2011 were as follows:

	<u>Unrestricted</u>
Board designated endowment net assets at July 1, 2010	\$ 1,283,962
Contributions	81,200
Investment income	39,394
Net appr(depr)eciation of investments	180,608
Board designated endowment net assets at June 30, 2011	<u>\$ 1,585,164</u>

El Segundo Education Foundation
Notes to Financial Statements, continued
June 30, 2011

NOTE 5 – PLEDGE RECEIVABLE

In 2007 the Foundation received notification from Plaza El Segundo, of the intention to give \$1 million to the Foundation, to be paid in equal installments of \$200,000 for five years. Plaza El Segundo is a local partnership within which a Board officer has a minority ownership interest (see Note 8).

The Foundation received installment payments in 2007, 2008, and 2009. The installment payments were reduced to \$100,000 by the donor in 2010 and 2011. Because of the donor's diversion from the original installment schedule, and a change in partners, the Foundation's management believes there is a reasonable possibility that the original pledge will not be fulfilled in its entirety. Contributions received as installments on the 2007 pledge are recorded as revenue in the period received.

NOTE 6 – DEFERRED REVENUE

Tuition for 2011 Summer Academy received through June 30, 2011 is deferred because the summer sessions do not begin until late June; therefore, at June 30, 2011 the income has not been earned. Program service fees recognized in these financial statements are attributable to the 2010 Summer Academy.

NOTE 7 – DONATED MATERIALS AND SERVICES

The District contributes to the Foundation by providing facilities and equipment (see Note 1). During the year, many volunteers donated time and services in an effort to advance the programs and objectives of the Foundation. These services have not been recorded in the financial statements because they do not meet the criteria required by generally accepted accounting principles.

NOTE 8 – 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 District provides office space and administrative support. The cost of this support has not been reflected within the financial statements because a reasonable basis has not been established (see Note 7).

The Foundation awards financial support for various programs and general support to the District in accordance with the District's annual grant request and donor instructions. During the year ended June 30, 2011, the Foundation transmitted payments to the District and schools totaling \$467,000.

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 \$364,798 for the year ended June 30, 2011. In addition, two Board members 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 9 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events for the period from June 30, 2011 through October 03, 2011, the date the financial statements were available to be issued. Management did not identify any transactions that require disclosure or that would have an impact on the financial statements.