

EL SEGUNDO EDUCATION FOUNDATION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
NOTES TO FINANCIAL STATEMENTS	8 - 16



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 financial statements of El Segundo Education Foundation (the "Foundation"), which comprise the statements of financial position as of June 30, 2013 and 2012, 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, 2013 and 2012, 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.

Beech Freeman & O'Leary, LLP

December 17, 2013

EL SEGUNDO EDUCATION FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

ASSETS		
	<u>2013</u>	<u>2012</u>
Current Assets		
Cash and cash equivalents	\$ 476,980	\$ 560,450
Certificates of deposit	103,785	103,010
Other current receivable	11,331	-
Prepaid expenses	<u>3,652</u>	<u>3,252</u>
Total current assets	595,748	666,712
Endowment	<u>1,782,067</u>	<u>1,562,357</u>
Total assets	<u>\$ 2,377,815</u>	<u>\$ 2,229,069</u>

LIABILITIES AND NET ASSETS		
Current Liabilities		
Accrued expenses	\$ 1,412	\$ 4,523
Deferred revenue	169,518	127,687
Grant payable	<u>-</u>	<u>225,000</u>
Total current liabilities	170,930	357,210
Unrestricted net assets	<u>2,206,885</u>	<u>1,871,859</u>
Total liabilities and net assets	<u>\$ 2,377,815</u>	<u>\$ 2,229,069</u>

See accompanying notes to financial statements.

EL SEGUNDO EDUCATION FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Revenues		
Contributions	\$ 1,115,226	\$ 982,410
Program income	171,230	140,845
Fundraising event income	272,690	267,775
Donated goods and services	42,605	41,055
Investment earnings (losses)	138,264	(8,894)
Other income	<u>4,150</u>	<u>-</u>
Total revenues	<u>1,744,165</u>	<u>1,423,191</u>
Expenses		
Program services	1,229,917	1,069,878
Management and general	83,870	66,692
Fundraising	<u>95,352</u>	<u>147,514</u>
Total expenses	<u>1,409,139</u>	<u>1,284,084</u>
Increases (decreases) in net assets	335,026	139,107
Net assets, beginning of year	<u>1,871,859</u>	<u>1,732,752</u>
Net assets, end of year	<u>\$ 2,206,885</u>	<u>\$ 1,871,859</u>

See accompanying notes to financial statements.

EL SEGUNDO EDUCATION FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2013

	Program Services				Management and General	Fundraising	Total
	ESUSD Support	Summer Academy	Seaside Strings	Total Program			
Grants made to ESUSD and its schools	\$ 950,000	\$ -	-	\$ 950,000	\$ -	\$ -	\$ 950,000
Direct expenses	14,999	3,288	271	18,558	-	63,938	82,496
Salaries and related	122,423	90,003	16,219	228,645	22,942	28,551	280,138
Consultants	8,675	-	-	8,675	8,675	-	17,350
Advertising and promotion	3,612	-	-	3,612	903	-	4,515
Office expenses	1,959	-	-	1,959	1,959	-	3,918
Information technology	1,929	1,128	36	3,093	-	450	3,543
Travel and meetings	205	-	-	205	-	205	410
Insurance	-	-	-	-	6,786	-	6,786
Donated goods and services	-	-	-	-	42,605	-	42,605
Credit card fees	9,463	5,532	175	15,170	-	2,208	17,378
	<u>\$ 1,113,265</u>	<u>\$ 99,951</u>	<u>\$ 16,701</u>	<u>\$ 1,229,917</u>	<u>\$ 83,870</u>	<u>\$ 95,352</u>	<u>\$ 1,409,139</u>

See accompanying notes to financial statements.

EL SEGUNDO EDUCATION FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2012

	Program Services			Management and General	Fundraising	Total
	ESUSD Support	Summer Academy	Total Program			
Grants made to ESUSD and its schools	\$ 805,000	\$ -	\$ 805,000	\$ -	\$ -	\$ 805,000
Direct expenses	9,967	1,882	11,849	-	103,551	115,400
Salaries and related	121,265	101,564	222,829	8,777	39,622	271,228
Consultants	7,776	-	7,776	9,376	-	17,152
Advertising and promotion	3,286	-	3,286	822	-	4,108
Office expenses	2,132	-	2,132	2,132	-	4,264
Information technology	2,399	1,222	3,621	-	741	4,362
Travel and meetings	1,057	-	1,057	-	1,056	2,113
Insurance	-	-	-	4,530	-	4,530
Donated goods and services	-	-	-	41,055	-	41,055
Credit card fees	8,106	4,222	12,328	-	2,544	14,872
	<u>\$ 960,988</u>	<u>\$ 108,890</u>	<u>\$ 1,069,878</u>	<u>\$ 66,692</u>	<u>\$ 147,514</u>	<u>\$ 1,284,084</u>

See accompanying notes to financial statements.

EL SEGUNDO EDUCATION FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 335,026	\$ 139,107
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Gains) losses on investments	(84,732)	27,023
Contributed stock	(36,442)	-
(Increase) decrease in operating assets:		
Other current receivable	(11,331)	-
Prepaid expenses	(400)	(3,252)
Increase (decrease) in operating liabilities:		
Accrued expenses	(3,111)	1,792
Deferred revenue	41,831	(7,597)
Grant payable	<u>(225,000)</u>	<u>225,000</u>
Net cash provided by operating activities	<u>15,841</u>	<u>382,073</u>
Cash Flows from Investing Activities		
Certificate of deposit, net	(775)	(75,265)
Purchase of investments	(649,823)	(888,171)
Proceeds from sale of investments	<u>551,287</u>	<u>883,955</u>
Net cash used in investing activities	<u>(99,311)</u>	<u>(79,481)</u>
Net increase (decrease) in cash and cash equivalents	(83,470)	302,592
Cash and cash equivalents, beginning of year	<u>560,450</u>	<u>257,858</u>
Cash and cash equivalents, end of year	<u><u>\$ 476,980</u></u>	<u><u>\$ 560,450</u></u>

See accompanying notes to financial statements.

EL SEGUNDO EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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

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, 2013 AND 2012

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, 2013 and 2012.

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.

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.

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.

EL SEGUNDO EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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 generally accepted accounting principles.

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.

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.

Concentrations of Risk

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

EL SEGUNDO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Risk (Continued)

There were no revenue concentrations for the year ended June 30, 2013. For the year ended June 30, 2012 the Foundation received a grant that constituted approximately 16% of total revenues.

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.

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.

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.

Reclassification

Certain amounts previously reported for 2012 have been reclassified to conform to the classifications used in 2013. Such reclassifications had no effect on net assets or the change in net assets reported as of and for the year ended June 30, 2012.

EL SEGUNDO EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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.

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 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, 2013 AND 2012

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 FASB 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	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, 2013 and 2012.

EL SEGUNDO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 3 - ENDOWMENT (CONTINUED)

Assets at Fair Value as of June 30, 2013				
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and Cash Equivalents	\$ 192,519	\$ -	\$ -	\$ -
Equities	795,233	795,233	-	-
Fixed Income	499,619	499,619	-	-
Alternative Investments	<u>294,696</u>	<u>294,696</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,782,067</u>	<u>\$ 1,589,548</u>	<u>\$ -</u>	<u>\$ -</u>

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	-	-
Alternative Investments	<u>15,872</u>	<u>15,872</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,562,357</u>	<u>\$ 1,436,800</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.

EL SEGUNDO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 3 - ENDOWMENT (CONTINUED)

The composition of and changes in endowment net assets by net asset classification for the years ended June 30, 2012 and 2013, were as follows:

	<u>Unrestricted</u>
Board designated endowment net assets at July 1, 2011	\$ 1,585,164
Contributions	3,000
Appropriations	(22,216)
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	1,562,357
Contributions	136,442
Appropriations	(37,334)
Investment income	53,220
Administration expenses	(17,350)
Net gains (losses) and appreciation (depreciation) of investments	<u>84,732</u>
Board designated endowment net assets at June 30, 2013	<u><u>\$ 1,782,067</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 years ended June 30, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Facilities	\$ 28,105	\$ 28,105
Furniture and equipment	-	2,450
Audit and tax services	<u>14,500</u>	<u>10,500</u>
	<u><u>\$ 42,605</u></u>	<u><u>\$ 41,055</u></u>

EL SEGUNDO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 5 - RELATED PARTIES

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 \$368,299 and \$535,056 for the years ended June 30, 2013 and 2012, respectively. In addition, two Board members (three in 2012) are employed by banking institutions where the Foundation maintains accounts.

NOTE 6 - SUBSEQUENT EVENTS

The Foundation evaluated subsequent events through December 17, 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 statement of financial position date, but prior to December 17, 2013, that would have a material impact on its financial statements.