

MANHATTAN BEACH EDUCATION FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Manhattan Beach Education Foundation

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Manhattan Beach Education Foundation (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Manhattan Beach Education Foundation as of June 30, 2014 and 2013, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as whole. The supplementary schedules, which include the consolidating statement of financial position and the consolidating statement of activities, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Long Beach, California
January 26, 2015

MANHATTAN BEACH EDUCATION FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2014	2013
ASSETS		
Cash and cash equivalents	\$ 1,963,313	\$ 2,508,314
Pledges receivable	364,705	610,855
Other receivables	184,304	94,123
Prepaid expenses	23,285	21,364
Investments	17,899,562	14,304,686
Equipment	12,849	13,255
TOTAL ASSETS	\$ 20,448,018	\$ 17,552,597

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and other liabilities	\$ 124,016	\$ 101,090
Grants payable	462,830	454,786
Unearned revenue	1,461	7,403
	588,307	563,279
NET ASSETS		
Unrestricted		
Undesignated	6,408,984	5,689,442
Board designated endowment fund	10,708,101	9,168,000
Total unrestricted	17,117,085	14,857,442
Temporarily restricted	759,673	614,461
Permanently restricted endowment fund	1,982,953	1,517,415
	19,859,711	16,989,318
TOTAL LIABILITIES AND NET ASSETS	\$ 20,448,018	\$ 17,552,597

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

MANHATTAN BEACH EDUCATION FOUNDATION

**CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Public Support				
Contributions	\$ 5,424,848	\$ 415,000	\$ 90,603	\$ 5,930,451
Net assets released from restrictions	<u>473,900</u>	<u>(473,900)</u>	<u>90,603</u>	<u>5,930,451</u>
	<u>5,898,748</u>	<u>(58,900)</u>	<u>90,603</u>	<u>5,930,451</u>
Special Events Revenue	1,137,385		374,935	1,512,320
Less related expenses	<u>(321,435)</u>		<u>374,935</u>	<u>(321,435)</u>
	<u>815,950</u>		<u>374,935</u>	<u>1,190,885</u>
Other Revenue				
Interest and dividends	240,580	27,942		268,522
Net realized and unrealized gains on investments	<u>1,334,131</u>	<u>176,170</u>		<u>1,510,301</u>
	<u>1,574,711</u>	<u>204,112</u>		<u>1,778,823</u>
TOTAL SUPPORT AND REVENUE	<u>8,289,409</u>	<u>145,212</u>	<u>465,538</u>	<u>8,900,159</u>
EXPENSES				
Program Services				
Grants	<u>5,333,541</u>			<u>5,333,541</u>
Supporting Services				
Management and general	198,999			198,999
Fund-raising	<u>497,226</u>			<u>497,226</u>
	<u>696,225</u>			<u>696,225</u>
TOTAL EXPENSES	<u>6,029,766</u>			<u>6,029,766</u>
CHANGE IN NET ASSETS	2,259,643	145,212	465,538	2,870,393
NET ASSETS AT BEGINNING OF YEAR	<u>14,857,442</u>	<u>614,461</u>	<u>1,517,415</u>	<u>16,989,318</u>
NET ASSETS AT END OF YEAR	<u>\$ 17,117,085</u>	<u>\$ 759,673</u>	<u>\$ 1,982,953</u>	<u>\$ 19,859,711</u>

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

MANHATTAN BEACH EDUCATION FOUNDATION

**CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Public Support				
Contributions	\$ 5,042,706	\$ 394,000	\$ 301,612	\$ 5,738,318
Net assets released from restrictions	<u>470,324</u>	<u>(470,324)</u>	<u>301,612</u>	<u>5,738,318</u>
	<u>5,513,030</u>	<u>(76,324)</u>	<u>301,612</u>	<u>5,738,318</u>
Special Events Revenue	1,078,129		495,027	1,573,156
Less related expenses	<u>(318,583)</u>		<u>495,027</u>	<u>(318,583)</u>
	<u>759,546</u>		<u>495,027</u>	<u>1,254,573</u>
Other Revenue				
Interest and dividends	217,634	31,162		248,796
Net realized and unrealized gains on investments	<u>649,646</u>	<u>96,199</u>		<u>745,845</u>
	<u>867,280</u>	<u>127,361</u>		<u>994,641</u>
TOTAL SUPPORT AND REVENUE	<u>7,139,856</u>	<u>51,037</u>	<u>796,639</u>	<u>7,987,532</u>
EXPENSES				
Program Services				
Grants	<u>4,883,427</u>			<u>4,883,427</u>
Supporting Services				
Management and general	161,631			161,631
Fund-raising	<u>462,461</u>			<u>462,461</u>
	<u>624,092</u>			<u>624,092</u>
TOTAL EXPENSES	<u>5,507,519</u>			<u>5,507,519</u>
CHANGE IN NET ASSETS	1,632,337	51,037	796,639	2,480,013
NET ASSETS AT BEGINNING OF YEAR	<u>13,225,105</u>	<u>563,424</u>	<u>720,776</u>	<u>14,509,305</u>
NET ASSETS AT END OF YEAR	<u>\$ 14,857,442</u>	<u>\$ 614,461</u>	<u>\$ 1,517,415</u>	<u>\$ 16,989,318</u>

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

MANHATTAN BEACH EDUCATION FOUNDATION

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2014

	Program Services	Supporting Services			Total
		Management and General	Fund-raising	Total	
Grants	\$ 5,333,541				\$ 5,333,541
Insurance		\$ 14,505		\$ 14,505	14,505
Office expense		54,381		54,381	54,381
Office personnel		63,011	\$ 259,988	322,999	322,999
Outside services		16,676	15,080	31,756	31,756
Printing and publications		18,362	55,256	73,618	73,618
Bank and credit card fees		384	91,981	92,365	92,365
Computer/database		21,890	18,018	39,908	39,908
Community relations		9,790	56,903	66,693	66,693
	<u>\$ 5,333,541</u>	<u>\$ 198,999</u>	<u>\$ 497,226</u>	<u>\$ 696,225</u>	<u>\$ 6,029,766</u>

For the Year Ended June 30, 2013

	Program Services	Supporting Services			Total
		Management and General	Fund-raising	Total	
Grants	\$ 4,883,427				\$ 4,883,427
Insurance		\$ 16,843		\$ 16,843	16,843
Office expense		7,215		7,215	7,215
Office personnel		68,069	\$ 272,278	340,347	340,347
Outside services		17,060	17,985	35,045	35,045
Printing and publications		9,510	45,892	55,402	55,402
Bank and credit card fees		13	67,785	67,798	67,798
Computer/database		21,217	15,028	36,245	36,245
Community relations		21,704	43,493	65,197	65,197
	<u>\$ 4,883,427</u>	<u>\$ 161,631</u>	<u>\$ 462,461</u>	<u>\$ 624,092</u>	<u>\$ 5,507,519</u>

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

MANHATTAN BEACH EDUCATION FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended June 30,	
	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,870,393	\$ 2,480,013
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Stock donations received	(151,241)	(152,154)
Amortization of bond premiums	3,156	32,192
Net realized and unrealized gain on investments	(1,510,301)	(745,845)
Depreciation	7,520	7,973
(Increase) decrease in:		
Pledges receivable	246,150	210,145
Other receivables	(90,181)	78,295
Prepaid expenses	(1,921)	(3,407)
Increase (decrease) in:		
Accounts payable and other liabilities	22,926	62,980
Grants payable	8,044	(898,049)
Unearned revenue	(5,942)	7,403
Net Cash Provided By Operating Activities	<u>1,398,603</u>	<u>1,079,546</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(7,114)	(7,632)
Purchases of investments	(8,816,178)	(7,852,783)
Proceeds from sale of investments	6,879,688	6,637,154
Net Cash Used In Investing Activities	<u>(1,943,604)</u>	<u>(1,223,261)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(545,001)	(143,715)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,508,314</u>	<u>2,652,029</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,963,313</u>	<u>\$ 2,508,314</u>

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

MANHATTAN BEACH EDUCATION FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 1 – Summary of Significant Accounting Policies

Organization

Manhattan Beach Education Foundation (the Foundation) was incorporated on July 7, 1983 as a California nonprofit corporation. The Foundation was organized to assist the Manhattan Beach Unified School District (MBUSD) by providing resources for academic and enrichment programs beyond what is provided for by public funding.

Manhattan Beach Education Foundation Endowment Fund (MBEFEF) was incorporated on October 7, 2011 as a California nonprofit corporation. MBEFEF was organized to provide financial support to MBEF and in turn to the academic and enrichment programs of MBUSD. During the year ended June 30, 2014, the Foundation transferred the Board-designated endowment fund, the temporarily restricted endowment fund and the permanently restricted endowment fund to MBEFEF.

Consolidation

The consolidated financial statements include the accounts of the Foundation and MBEFEF (collectively referred to as MBEF). All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation of Financial Statements

MBEF is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Accordingly, the net assets of MBEF are classified as described below:

Unrestricted Net Assets – Net assets not subject to donor-imposed restrictions. As reflected in the accompanying statements of financial position, MBEF's Board of Directors has designated a portion of unrestricted net assets for long-term investment purposes, referred to as the Board-designated endowment fund.

Temporarily Restricted Net Assets – Funds restricted based upon specific donor designations and, as such, are obligations MBEF must fulfill. Included are gifts for which donor-imposed restrictions have not been met and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted. These amounts are not available for unrestricted purposes.

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation of Financial Statements (Continued)

Permanently Restricted Net Assets – Gifts and pledges that require, by donor restriction, the corpus be invested in perpetuity and only the income made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the invested corpus.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor's stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Contributions, including endowment gifts and pledges, are recognized as support in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The cash flows are discounted at a discount rate commensurate with the risks involved, at the date the promise was made. When considered necessary, an allowance is recorded based on management's estimate of uncollectability, including such factors as prior collection history, type of contributions, and nature of fund-raising activities. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Special Events

MBEF has various fund-raising events to help fund program expenditures.

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

Cash and Cash Equivalents and Concentration of Credit Risk

For purposes of the statements of cash flows, MBEF considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

At June 30, 2014 and at various times during the year then ended, MBEF has maintained cash balances in its banks in excess of federally insured limits.

Fair Value of Financial Instruments

Accounting standards define fair value as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards have also established a framework for measuring fair value and expand disclosures about fair value measurements. (See Note 4.)

Investments and Market Risk

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the consolidated statements of financial position. Realized gains and losses are computed as the difference between the beginning-of-year fair value, or cost for current-year acquisitions, and sales proceeds. Unrealized gains and losses are the current-year appreciation and depreciation in investments held at year-end. Unrealized gains and losses are included in the change in net assets in the consolidated statements of activities.

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Investments and Market Risk (Continued)

Investments in marketable securities are subject to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

Allocation of Functional Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated among management and general and supporting services benefited.

Donated Goods and Services

Donated goods and services are recorded at fair value when an unconditional promise to give has been made or when goods or services have been received or performed. Included in revenue are \$10,000 and \$18,500 of donated goods and services for the years ended June 30, 2014 and 2013, respectively. Such in-kind support is offset by like amounts included in expenses. Additionally, MBEF received \$438,479 and \$480,364 of donated goods and services related to the special event for the years ended June 30, 2014 and 2013, respectively, which have been excluded from the presentation of special event revenue and expense in the financial statements.

Income Taxes

MBEF has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code, respectively. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements.

MBEF recognizes the financial statement benefit of tax positions, such as its filing status as tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. MBEF is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal purposes is three years and for California purposes is four years.

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Reclassification

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation.

Subsequent Events

MBEF's management has evaluated subsequent events from the statement of position date through January 26, 2015, the date the consolidated financial statements were available to be issued for the year ended June 30, 2014, and determined that there were no other items to disclose.

NOTE 2 – Pledges Receivable

Pledges receivable are scheduled to be collected as follows:

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Due in one year or less	\$ 147,035	\$ 329,348
Due after one year through five years	<u>219,833</u>	<u>287,000</u>
	366,868	616,348
Less discount to present value	(2,163)	(5,493)
Pledges receivable	<u>\$ 364,705</u>	<u>\$ 610,855</u>

Pledges receivable are discounted at rates ranging from .11% to 2.42%. In management's opinion, all amounts are collectible and no allowance for uncollectible pledges is required.

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 – Investments

Investments are summarized as follows:

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
US Treasury notes	\$ 5,636,588	\$ 4,811,248
Mutual funds		
Stock funds	8,290,337	6,436,584
Bond funds	3,613,536	2,764,752
Exchange traded funds	<u>359,101</u>	<u>292,102</u>
	<u>\$ 17,899,562</u>	<u>\$ 14,304,686</u>

NOTE 4 – Fair Value Hierarchy

MBEF uses fair value measurements to record fair value adjustments of certain assets and liabilities and to determine the fair value disclosures. A financial instrument's fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. MBEF reports the fair value of its assets and liabilities based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that MBEF has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 4 – Fair Value Hierarchy (Continued)

Assets measured at fair value on a recurring basis at June 30, 2014 and 2013:

	June 30, 2014			Total
	Level 1	Level 2	Level 3	
US Treasury notes	\$ 5,636,588			\$ 5,636,588
Mutual funds				
Stock funds	8,290,337			8,290,337
Bond funds	3,613,536			3,613,536
Exchange traded funds	359,101			359,101
Total	<u>\$ 17,899,562</u>	<u>None</u>	<u>None</u>	<u>\$ 17,899,562</u>

	June 30, 2013			Total
	Level 1	Level 2	Level 3	
US Treasury notes	\$ 4,811,248			\$ 4,811,248
Mutual funds				
Stock funds	6,436,584			6,436,584
Bond funds	2,764,752			2,764,752
Exchange traded funds	292,102			292,102
Total	<u>\$ 14,304,686</u>	<u>None</u>	<u>None</u>	<u>\$ 14,304,686</u>

NOTE 5 – Grants Payable

MBEF has committed to funding certain education and enrichment activities for MBUSD on an annual basis. Grants payable as of June 30, 2014 and 2013 were \$462,830 and \$454,786, respectively.

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 6 – Net Assets Released from Restrictions

Net assets were released from donor or time restrictions as follows:

	June 30,	
	2014	2013
District staffing and curriculum support fulfillment	\$ 473,900	\$ 394,000
Release from time restrictions		76,324
	\$ 473,900	\$ 470,324

NOTE 7 – Restrictions on Net Assets

Net assets restricted by donors, time, or designated by MBEF as follows:

	June 30,	
	2014	2013
Unrestricted net assets:		
Undesignated	\$ 6,408,984	\$ 5,689,442
Board designated endowment fund	10,708,101	9,168,000
Total Unrestricted Net Assets	17,117,085	14,857,442
Temporarily restricted net assets:		
District staffing, purpose restricted	415,000	394,000
Pledges receivable, time restricted		79,900
Earnings on endowment, pending appropriation	344,673	140,561
Total Temporarily Restricted Net Assets	759,673	614,461
Permanently Restricted Endowment Fund	1,982,953	1,517,415
Total Net Assets	\$ 19,859,711	\$ 16,989,318

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 – Endowment Funds

Endowment funds include permanently restricted funds and Board-designated funds, collectively referred to as Endowment Funds. The Endowment Funds are intended to generate returns sufficient to meet the current and expected future financial requirements of MBEF. MBEF's management and investment of Endowment Funds is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). MBEF has interpreted California's enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the date of the gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, MBEF classifies as permanently restricted net assets: (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by MBEF's management in a manner consistent with the standard of prudence prescribed by UPMIFA. Board-designated endowment funds are reported as unrestricted net assets.

Spending Policy for Endowment Funds

The Board has established a minimum balance for the Endowment Funds. Funds are not available for use until such time as the Endowment Funds balance exceeds \$10 million. Thereafter, from time-to-time, as approved by the Board, funds may be transferred to MBEF's general fund in order to fund programs for MBUSD. Unless authorized by the Board, transfers in any particular year may not exceed 5% of the net value of the Endowment Funds as of December 31 of the immediately preceding calendar year. The only exception shall be for transfers mandated by gift instruments applicable to specific gifts to the Endowment Funds. In no event shall funds be transferred to MBEF's general fund if the Endowment Funds balance is less than \$10 million, or if the transfer would cause the balance to fall below that level. In accordance with the Board-approved Spending Policy, MBEF made a grant of \$116,000 to the Foundation's general fund for the year ended June 30, 2014.

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 – Endowment Funds (Continued)

Investment Policy for Endowment Funds

The primary long-term objective of the Endowment Funds is to increase its real (i.e., inflation-adjusted) purchasing power, net of distributions for grants and expenses. This objective should be achieved over rolling five- to ten-year periods on a total return basis, after accounting for management fees. An additional objective is to provide a relatively predictable and stable source of income to fund programs for MBUSD. Until such time as the Endowment Funds reach a target size as determined by the Board, all interest, dividends, capital gains, and other proceeds shall be reinvested.

Gift Acceptance Policy for Endowment Funds

MBEFEF will normally accept gifts from any individual or business entity as long as the transaction complies with applicable local, state, and federal laws. Notwithstanding, the Board of MBEFEF reserves the right to reject any gift offer by a majority vote. Types of gifts accepted include, but are not limited to, cash, securities, real estate, remainder interests in property, life insurance beneficiary designations, bequests, various types of trusts administered by others and interests in oil, gas and mineral rights.

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 – Endowment Funds (Continued)

Summary of Endowment Funds

Net changes in Endowment Funds for the years ended June 30, 2014 and 2013 were as follows:

	For the Year Ended June 30, 2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Funds, beginning of year	\$ 9,168,000	\$ 140,561	\$ 1,517,415	\$ 10,825,976
Investment return				
Investment income	235,349	27,942		263,291
Net appreciation (realized and unrealized)	1,333,509	176,170		1,509,679
Total investment return	1,568,858	204,112		1,772,970
Contributions			465,538	465,538
Board-designated transfers	87,243			87,243
Total contributions	87,243		465,538	552,781
Grant to the Foundation	(116,000)			(116,000)
Endowment Funds, end of year	\$ 10,708,101	\$ 344,673	\$ 1,982,953	\$ 13,035,727

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 – Endowment Funds (Continued)

	For the Year Ended June 30, 2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Funds, beginning of year	<u>\$ 7,734,052</u>	<u>\$ 13,200</u>	<u>\$ 720,776</u>	<u>\$ 8,468,028</u>
Investment return				
Investment income	210,158	31,162		241,320
Net appreciation (realized and unrealized)	<u>648,764</u>	<u>96,199</u>		<u>744,963</u>
Total investment return	<u>858,922</u>	<u>127,361</u>		<u>986,283</u>
Contributions			796,639	796,639
Board-designated transfers	<u>575,026</u>			<u>575,026</u>
Total contributions	<u>575,026</u>		<u>796,639</u>	<u>1,371,665</u>
Endowment Funds, end of year	<u>\$ 9,168,000</u>	<u>\$ 140,561</u>	<u>\$ 1,517,415</u>	<u>\$ 10,825,976</u>

MANHATTAN BEACH EDUCATION FOUNDATION

**SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014**

	MBEF	MBEFEF	Eliminations	Consolidated
ASSETS				
Cash and equivalents	\$ 1,845,927	\$ 117,386		\$ 1,963,313
Pledges receivable	27,868	336,837		364,705
Other receivables	132,804	51,500		184,304
Due from MBEFEF/MBEF	21,122	515,072	(\$ 536,194)	
Prepaid expenses	9,411	13,874		23,285
Investments	5,636,588	12,262,974		17,899,562
Equipment	7,475	5,374		12,849
TOTAL ASSETS	\$ 7,681,195	\$ 13,303,017	(\$ 536,194)	\$ 20,448,018
LIABILITIES				
Accounts payable and other liabilities	\$ 121,604	\$ 2,412		\$ 124,016
Due to MBEFEF/MBEF	515,072	21,122	(\$ 536,194)	
Grants payable	462,830			462,830
Unearned revenue	1,461			1,461
Total Liabilities	1,100,967	23,534	(\$ 536,194)	588,307
NET ASSETS				
Undesignated	6,165,228	243,756		6,408,984
Board designated endowment fund		10,708,101		10,708,101
	6,165,228	10,951,857		17,117,085
Temporarily restricted	415,000	344,673		759,673
Permanently restricted endowment fund		1,982,953		1,982,953
	415,000	2,327,626		2,742,626
Total Net Assets	6,580,228	13,279,483		19,859,711
TOTAL LIABILITIES AND NET ASSETS	\$ 7,681,195	\$ 13,303,017	(\$ 536,194)	\$ 20,448,018

See Independent Auditor's Report

MANHATTAN BEACH EDUCATION FOUNDATION

**SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>MBEF</u>	<u>MBEFEF</u>	<u>Eliminations</u>	<u>Consolidated</u>
SUPPORT AND REVENUE:				
Contributions	\$ 5,955,848	\$ 277,846	(\$ 303,243)	\$ 5,930,451
Special Event revenue	1,292,220	632,848	(412,748)	1,512,320
Less related expenses	(315,131)	(6,304)		(321,435)
Total Support and Revenue	<u>6,932,937</u>	<u>904,390</u>	<u>(715,991)</u>	<u>7,121,336</u>
OTHER REVENUE				
Interest and dividends	5,231	263,291		268,522
Net realized and unrealized gains on investments	<u>622</u>	<u>1,509,679</u>		<u>1,510,301</u>
Total Other Revenue	<u>5,853</u>	<u>1,772,970</u>		<u>1,778,823</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>6,938,790</u>	<u>2,677,360</u>	<u>(715,991)</u>	<u>8,900,159</u>
EXPENSES				
Program services				
Grants	5,933,532	116,000	(715,991)	5,333,541
Supporting services				
Management and general	161,062	37,937		198,999
Fund-raising	<u>394,709</u>	<u>102,517</u>		<u>497,226</u>
Total Expenses	<u>6,489,303</u>	<u>256,454</u>	<u>(\$ 715,991)</u>	<u>6,029,766</u>
CHANGE IN NET ASSETS	449,487	2,420,906		2,870,393
NET ASSETS, BEGINNING OF YEAR	<u>6,130,741</u>	<u>10,858,577</u>		<u>16,989,318</u>
NET ASSETS, END OF YEAR	<u>\$ 6,580,228</u>	<u>\$ 13,279,483</u>		<u>\$ 19,859,711</u>

See Independent Auditor's Report