

MANHATTAN BEACH EDUCATION FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Manhattan Beach Education Foundation

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Manhattan Beach Education Foundation (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, 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 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 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, 2017 and 2016, and the changes in their net assets and their 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 16, 2018

MANHATTAN BEACH EDUCATION FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 3,589,268	\$ 2,136,970
Pledges receivable	345,342	498,548
Other receivables	127,972	253,557
Prepaid expenses	27,624	25,922
Investments	20,237,352	18,490,230
Equipment	11,236	6,715
TOTAL ASSETS	<u>\$ 24,338,794</u>	<u>\$ 21,411,942</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and other liabilities	\$ 73,770	\$ 149,035
Grants payable	609,160	195,875
	<u>682,930</u>	<u>344,910</u>

COMMITMENTS AND CONTINGENCIES (Note 8)

NET ASSETS

Unrestricted		
Undesignated	6,424,058	6,432,474
Board-designated endowment fund	11,829,355	11,045,675
Total unrestricted	18,253,413	17,478,149
Temporarily restricted	1,301,027	1,110,010
Permanently restricted endowment fund	4,101,424	2,478,873
	<u>23,655,864</u>	<u>21,067,032</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,338,794</u>	<u>\$ 21,411,942</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, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 4,986,669	\$ 558,000	\$ 74,038	\$ 5,618,707
Special events revenue, net of expenses	207,546	-	1,548,513	1,756,059
Interest and dividends	299,779	69,251	-	369,030
Net realized and unrealized gains on investments	1,004,103	258,094	-	1,262,197
Net assets released from restrictions	<u>694,328</u>	<u>(694,328)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>7,192,425</u>	<u>191,017</u>	<u>1,622,551</u>	<u>9,005,993</u>
EXPENSES				
Program Services	<u>5,822,269</u>	<u>-</u>	<u>-</u>	<u>5,822,269</u>
Supporting Services				
Management and general	165,855	-	-	165,855
Fund-raising	<u>429,037</u>	<u>-</u>	<u>-</u>	<u>429,037</u>
	<u>594,892</u>	<u>-</u>	<u>-</u>	<u>594,892</u>
TOTAL EXPENSES	<u>6,417,161</u>	<u>-</u>	<u>-</u>	<u>6,417,161</u>
CHANGE IN NET ASSETS	775,264	191,017	1,622,551	2,588,832
NET ASSETS AT BEGINNING OF YEAR	<u>17,478,149</u>	<u>1,110,010</u>	<u>2,478,873</u>	<u>21,067,032</u>
NET ASSETS AT END OF YEAR	<u>\$ 18,253,413</u>	<u>\$ 1,301,027</u>	<u>\$ 4,101,424</u>	<u>\$ 23,655,864</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, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 4,995,546	\$ 450,000	\$ 411,040	\$ 5,856,586
Special events revenue, net of expenses	896,899	142,075	-	1,038,974
Interest and dividends	253,217	57,326	-	310,543
Net realized and unrealized losses on investments	(246,249)	(59,540)	-	(305,789)
Net assets released from restrictions	<u>554,368</u>	<u>(554,368)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>6,453,781</u>	<u>35,493</u>	<u>411,040</u>	<u>6,900,314</u>
EXPENSES				
Program Services	<u>5,879,612</u>	<u>-</u>	<u>-</u>	<u>5,879,612</u>
Supporting Services				
Management and general	164,118	-	-	164,118
Fund-raising	<u>441,329</u>	<u>-</u>	<u>-</u>	<u>441,329</u>
	<u>605,447</u>	<u>-</u>	<u>-</u>	<u>605,447</u>
TOTAL EXPENSES	<u>6,485,059</u>	<u>-</u>	<u>-</u>	<u>6,485,059</u>
CHANGE IN NET ASSETS	(31,278)	35,493	411,040	415,255
NET ASSETS AT BEGINNING OF YEAR	<u>17,509,427</u>	<u>1,074,517</u>	<u>2,067,833</u>	<u>20,651,777</u>
NET ASSETS AT END OF YEAR	<u>\$ 17,478,149</u>	<u>\$ 1,110,010</u>	<u>\$ 2,478,873</u>	<u>\$ 21,067,032</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, 2017					
Program Services	Supporting Services			Total	Total Expenses
	Management and General	Fund- raising			
Grants	\$ 5,702,269	\$ -	\$ -	\$ -	\$ 5,702,269
Insurance	-	14,434	-	14,434	14,434
Office expense	-	11,488	-	11,488	11,488
Office personnel	120,000	75,000	241,137	316,137	436,137
Outside services	-	24,200	29,987	54,187	54,187
Printing and publications	-	10,548	17,598	28,146	28,146
Bank and credit card fees	-	313	90,735	91,048	91,048
Computer/database	-	21,349	-	21,349	21,349
Community relations	-	8,523	49,580	58,103	58,103
Total Expenses	\$ 5,822,269	\$ 165,855	\$ 429,037	\$ 594,892	\$ 6,417,161
Percentage of Total Expenses	90.7%	2.6%	6.7%	9.3%	100%

For the Year Ended June 30, 2016					
Program Services	Supporting Services			Total	Total Expenses
	Management and General	Fund- raising			
Grants	\$ 5,797,908	\$ -	\$ -	\$ -	\$ 5,797,908
Insurance	-	19,073	-	19,073	19,073
Office expense	-	7,835	-	7,835	7,835
Office personnel	81,704	73,678	265,538	339,216	420,920
Outside services	-	25,181	15,362	40,543	40,543
Printing and publications	-	9,560	16,489	26,049	26,049
Bank and credit card fees	-	287	86,409	86,696	86,696
Computer/database	-	18,520	-	18,520	18,520
Community relations	-	9,984	57,531	67,515	67,515
Total Expenses	\$ 5,879,612	\$ 164,118	\$ 441,329	\$ 605,447	\$ 6,485,059
Percentage of Total Expenses	90.7%	2.5%	6.8%	9.3%	100%

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,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,588,832	\$ 415,255
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Stock donations received	(258,923)	(243,673)
Amortization of bond premiums	27,941	21,493
Net realized and unrealized (gain) loss on investments	(1,262,197)	305,789
Depreciation	5,840	3,462
(Increase) decrease in:		
Pledges receivable	153,206	121,132
Other receivables	125,585	(13,435)
Prepaid expenses	(1,702)	617
Increase (decrease) in:		
Accounts payable and other liabilities	(75,265)	(18,374)
Grants payable	413,285	(284,141)
Net Cash Provided By Operating Activities	<u>1,716,602</u>	<u>308,125</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(10,361)	(4,429)
Purchases of investments	(5,838,943)	(11,313,049)
Proceeds from sale of investments	<u>5,585,000</u>	<u>11,130,401</u>
Net Cash Used In Investing Activities	<u>(264,304)</u>	<u>(187,077)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,452,298	121,048
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,136,970</u>	<u>2,015,922</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 3,589,268</u></u>	<u><u>\$ 2,136,970</u></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, 2017 AND 2016

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.

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.

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.

MANHATTAN BEACH EDUCATION FOUNDATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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.

Donated Stock

MBEF received stocks as contributions from donors with the objective to use proceeds from sales of these investments for its program and supporting services. The Foundation records investment contributions received at fair value at grant date. Investments with donor-imposed restrictions related to purpose or time are classified as temporarily restricted in the statements of financial position. Fair value for publicly traded securities is based upon the closing market trading price for such security.

MANHATTAN BEACH EDUCATION FOUNDATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Special Events

MBEF held two special events during the year ended June 30, 2017, which consisted of the following:

	<u>Wine Auction</u>	<u>Golf Event</u>	<u>Total</u>
Event revenue	\$ 2,064,922	\$ 76,577	\$ 2,141,499
Less expenses	<u>(352,261)</u>	<u>(33,179)</u>	<u>(385,440)</u>
	<u>\$ 1,712,661</u>	<u>\$ 43,398</u>	<u>\$ 1,756,059</u>

For the year ending June 30, 2017, merchandise and services with an estimated value of \$474,799 were contributed for special events. Proceeds from the sale of such items is included in event revenue. MBEF received \$12,190 of donated goods and services related to the production of special events for the year ended June 30, 2017, which are recorded in special events revenue and expense.

MBEF held one special event during the year ended June 30, 2016, which consisted of the following:

	<u>Wine Auction</u>
Event revenue	\$ 1,389,917
Less expenses	<u>(350,943)</u>
	<u>\$ 1,038,974</u>

For the year ending June 30, 2016, merchandise and services with an estimated value of \$358,555 were contributed for auction at the wine auction event. Proceeds from the sale of such items is included in event revenue. MBEF received \$8,854 of donated goods and services related to the production of special events for the year ended June 30, 2016, which are recorded in special events revenue and expense.

MANHATTAN BEACH EDUCATION FOUNDATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017 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 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, 2017 AND 2016

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 program 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 \$41,250 and \$52,121 of donated goods and services for the years ended June 30, 2017 and 2016, respectively.

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, 2017 AND 2016

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements

In August 2016, the FASB released ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The update amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes relate to: (a) presentation of classes of net assets, (b) the presentation of underwater endowment funds and related disclosures, (c) recognition of the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) statement of functional expense, (e) disclosure of quantitative and qualitative information regarding liquidity and availability of resources; and a few smaller items. The ASU is effective for fiscal years beginning after December 15, 2017. The Organization is currently evaluating the impact of the adoption of the new standard on the consolidated financial statements.

Subsequent Events

MBEF's management has evaluated subsequent events from the statement of position date through January 16, 2018, the date the consolidated financial statements were available to be issued for the year ended June 30, 2017, and determined that there were no other items to disclose.

NOTE 2 – Pledges Receivable

Pledges receivable are scheduled to be collected as follows:

	June 30,	
	2017	2016
Due in one year or less	\$ 199,593	\$ 462,666
Due after one year through five years	<u>151,000</u>	<u>36,000</u>
	350,593	498,666
Less discount to present value	<u>(5,251)</u>	<u>(118)</u>
Pledges receivable	<u>\$ 345,342</u>	<u>\$ 498,548</u>

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

MANHATTAN BEACH EDUCATION FOUNDATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 3 – Investments

Investments are summarized as follows:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
US Treasury notes	\$ 4,955,259	\$ 4,774,590
Mutual funds		
Stock funds	10,086,523	9,084,446
Bond funds	3,296,769	2,752,915
REIT index fund	1,036,548	968,586
Exchange traded funds	<u>862,253</u>	<u>909,693</u>
	<u>\$ 20,237,352</u>	<u>\$ 18,490,230</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, 2017 AND 2016

NOTE 4 – Fair Value Hierarchy (Continued)

Assets measured at fair value on a recurring basis at June 30, 2017 and 2016:

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
US Treasury notes	\$ 4,955,259	-	-	\$ 4,955,259
Mutual funds				
Stock funds	10,086,523	-	-	10,086,523
Bond funds	3,296,769	-	-	3,296,769
REIT index fund	1,036,548	-	-	1,036,548
Exchange traded funds	<u>862,253</u>	<u>-</u>	<u>-</u>	<u>862,253</u>
Total	<u>\$ 20,237,352</u>	<u>None</u>	<u>None</u>	<u>\$ 20,237,352</u>

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
US Treasury notes	\$ 4,774,590	-	-	\$ 4,774,590
Mutual funds				
Stock funds	9,084,446	-	-	9,084,446
Bond funds	2,752,915	-	-	2,752,915
REIT index fund	968,586	-	-	968,586
Exchange traded funds	<u>909,693</u>	<u>-</u>	<u>-</u>	<u>909,693</u>
Total	<u>\$ 18,490,230</u>	<u>None</u>	<u>None</u>	<u>\$ 18,490,230</u>

NOTE 5 – Grants Payable

MBEF has committed to funding certain education and enrichment activities for MBUSD on an annual basis. Grants authorized but not yet disbursed as of June 30, 2017 and 2016 were \$609,160 and \$195,875, respectively.

MANHATTAN BEACH EDUCATION FOUNDATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 6 – Restrictions on Net Assets

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

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Unrestricted net assets:		
Undesignated	\$ 6,424,058	\$ 6,432,474
Board-designated endowment fund	<u>11,829,355</u>	<u>11,045,675</u>
Total Unrestricted Net Assets	<u>18,253,413</u>	<u>17,478,149</u>
Temporarily restricted net assets:		
District staffing, purpose restricted	415,000	415,000
Project Lead the Way, purpose restricted	29,787	129,787
STEM, purpose restricted	10,000	35,000
Teachers Driving Innovation, purpose restricted	123,753	142,075
Social Inclusion grant, purpose restricted	16,604	-
Teacher of the Year, purpose restricted	6,599	-
Earnings on endowment, pending appropriation	<u>699,284</u>	<u>388,148</u>
Total Temporarily Restricted Net Assets	<u>1,301,027</u>	<u>1,110,010</u>
Permanently Restricted Endowment Fund	<u>4,101,424</u>	<u>2,478,873</u>
Total Net Assets	<u>\$ 23,655,864</u>	<u>\$ 21,067,032</u>

MANHATTAN BEACH EDUCATION FOUNDATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 7 – 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 \$500,000 and \$300,000 to the Foundation's general fund from its Board-designated endowment for the years ended June 30, 2017 and 2016, respectively.

MANHATTAN BEACH EDUCATION FOUNDATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 7 – 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, 2017 AND 2016

NOTE 7 – Endowment Funds (Continued)

Summary of Endowment Funds

Net changes in Endowment Funds for the years ended June 30, 2017 and 2016 were as follows:

	For the Year Ended June 30, 2017			
	<u>Board- Designated Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	<u>\$ 11,045,675</u>	<u>\$ 388,148</u>	<u>\$ 2,478,873</u>	<u>\$ 13,912,696</u>
Investment return				
Investment income	271,566	65,822	-	337,388
Net gain (realized and unrealized)	<u>1,012,114</u>	<u>245,314</u>	<u>-</u>	<u>1,257,428</u>
Total investment return	<u>1,283,680</u>	<u>311,136</u>	<u>-</u>	<u>1,594,816</u>
Contributions	-	-	74,038	74,038
Special Event Proceeds	-	-	1,548,513	1,548,513
Total contributions	<u>-</u>	<u>-</u>	<u>1,622,551</u>	<u>1,622,551</u>
Appropriation by the Board	<u>(500,000)</u>	<u>-</u>	<u>-</u>	<u>(500,000)</u>
Endowment funds, end of year	<u>\$ 11,829,355</u>	<u>\$ 699,284</u>	<u>\$ 4,101,424</u>	<u>\$ 16,630,063</u>

MANHATTAN BEACH EDUCATION FOUNDATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 7 – Endowment Funds (Continued)

Summary of Endowment Funds (Continued)

	For the Year Ended June 30, 2016			
	Board- Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds, beginning of year	<u>\$ 10,999,916</u>	<u>\$ 394,362</u>	<u>\$ 2,067,833</u>	<u>\$ 13,462,111</u>
Investment return				
Investment income	239,329	57,326	-	296,655
Net loss (realized and unrealized)	<u>(248,570)</u>	<u>(59,540)</u>	<u>-</u>	<u>(308,110)</u>
Total investment return	<u>(9,241)</u>	<u>(2,214)</u>	<u>-</u>	<u>(11,455)</u>
Contributions	-	-	411,040	411,040
Board-designated transfers	<u>355,000</u>	<u>-</u>	<u>-</u>	<u>355,000</u>
Total contributions	<u>355,000</u>	<u>-</u>	<u>411,040</u>	<u>766,040</u>
Appropriation by the Board	<u>(300,000)</u>	<u>(4,000)</u>	<u>-</u>	<u>(304,000)</u>
Endowment funds, end of year	<u>\$ 11,045,675</u>	<u>\$ 388,148</u>	<u>\$ 2,478,873</u>	<u>\$ 13,912,696</u>

NOTE 8 – Commitments and Contingencies

Legal

MBEF may be involved in various claims and lawsuits arising in the normal course of its operations. MBEF's management believes it has adequate defenses and insurance coverage for these actions.

SUPPLEMENTARY INFORMATION

MANHATTAN BEACH EDUCATION FOUNDATION

SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

	<u>MBEF</u>	<u>MBEFEF</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS				
Cash and equivalents	\$ 3,305,499	\$ 283,769	\$ -	\$ 3,589,268
Pledges receivable	-	345,342	-	345,342
Other receivables	127,972	-	-	127,972
Due from MBEFEF/MBEF	65,000	1,121,151	(1,186,151)	-
Prepaid expenses	13,750	13,874	-	27,624
Investments	4,955,259	15,282,093	-	20,237,352
Equipment	<u>10,612</u>	<u>624</u>	<u>-</u>	<u>11,236</u>
TOTAL ASSETS	<u>\$ 8,478,092</u>	<u>\$ 17,046,853</u>	<u>\$ (1,186,151)</u>	<u>\$ 24,338,794</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 73,770	\$ -	\$ -	\$ 73,770
Due to MBEFEF/MBEF	1,121,151	65,000	(1,186,151)	-
Grants payable	<u>609,160</u>	<u>-</u>	<u>-</u>	<u>609,160</u>
Total Liabilities	<u>1,804,081</u>	<u>65,000</u>	<u>(1,186,151)</u>	<u>682,930</u>
NET ASSETS				
Unrestricted				
Undesignated	6,176,052	248,006	-	6,424,058
Board-designated endowment fund	<u>-</u>	<u>11,829,355</u>	<u>-</u>	<u>11,829,355</u>
	<u>6,176,052</u>	<u>12,077,361</u>	<u>-</u>	<u>18,253,413</u>
Temporarily restricted	497,959	803,068	-	1,301,027
Permanently restricted endowment fund	<u>-</u>	<u>4,101,424</u>	<u>-</u>	<u>4,101,424</u>
	<u>497,959</u>	<u>4,904,492</u>	<u>-</u>	<u>5,402,451</u>
Total Net Assets	<u>6,674,011</u>	<u>16,981,853</u>	<u>-</u>	<u>23,655,864</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,478,092</u>	<u>\$ 17,046,853</u>	<u>\$ (1,186,151)</u>	<u>\$ 24,338,794</u>

See Independent Auditors' Report

MANHATTAN BEACH EDUCATION FOUNDATION

**SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>MBEF</u>	<u>MBEFEF</u>	<u>Eliminations</u>	<u>Consolidated</u>
SUPPORT AND REVENUE:				
Contributions	\$ 6,114,169	\$ 74,038	\$ (569,500)	\$ 5,618,707
Special event revenue, net expenses	1,006,281	1,548,513	(798,735)	1,756,059
Interest and dividends	28,213	340,817	-	369,030
Net realized and unrealized (losses) gains on investments	(8,011)	1,270,208	-	1,262,197
TOTAL SUPPORT AND REVENUE	<u>7,140,652</u>	<u>3,233,576</u>	<u>(1,368,235)</u>	<u>9,005,993</u>
EXPENSES				
Program services	<u>6,621,004</u>	<u>504,500</u>	<u>(1,303,235)</u>	<u>5,822,269</u>
Supporting services				
Management and general	157,920	27,435	(19,500)	165,855
Fund-raising	<u>420,434</u>	<u>54,103</u>	<u>(45,500)</u>	<u>429,037</u>
	<u>578,354</u>	<u>81,538</u>	<u>(65,000)</u>	<u>594,892</u>
 Total Expenses	 <u>7,199,358</u>	 <u>586,038</u>	 <u>(1,368,235)</u>	 <u>6,417,161</u>
CHANGE IN NET ASSETS	(58,706)	2,647,538	-	2,588,832
NET ASSETS, BEGINNING OF YEAR	<u>6,732,717</u>	<u>14,334,315</u>	<u>-</u>	<u>21,067,032</u>
NET ASSETS, END OF YEAR	<u>\$ 6,674,011</u>	<u>\$ 16,981,853</u>	<u>\$ -</u>	<u>\$ 23,655,864</u>

See Independent Auditors' Report