

MANHATTAN BEACH EDUCATION FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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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, 2019 and 2018, 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 auditors consider 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1, during the year ended June 30, 2019, the Foundation adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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
December 17, 2019

MANHATTAN BEACH EDUCATION FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 996,513	\$ 2,985,097
Pledges receivable	86,088	126,956
Other receivables	271,202	289,182
Prepaid expenses	21,424	26,061
Investments	26,249,891	22,572,371
Equipment, net	14,252	6,149
TOTAL ASSETS	\$ 27,639,370	\$ 26,005,816

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and other liabilities	\$ 126,124	\$ 88,089
Grants payable	623,921	464,364
	750,045	552,453

COMMITMENTS AND CONTINGENCIES (Note 9)

NET ASSETS

Without donor restrictions		
Undesignated	6,723,413	6,505,321
Board-designated endowment fund	11,818,412	11,978,602
	18,541,825	18,483,923
With donor restrictions		
Restricted for purpose or time	2,142,203	1,737,704
Perpetually restricted for endowment	6,205,297	5,231,736
	8,347,500	6,969,440
 Total net assets	 26,889,325	 25,453,363

TOTAL LIABILITIES AND NET ASSETS	\$ 27,639,370	\$ 26,005,816
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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, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 5,228,645	\$ 676,466	\$ 5,905,111
Special events revenue, net of expenses	152,820	1,014,977	1,167,797
Net investment return	815,803	319,692	1,135,495
Net assets released from restrictions	<u>633,075</u>	<u>(633,075)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>6,830,343</u>	<u>1,378,060</u>	<u>8,208,403</u>
EXPENSES			
Program Services	<u>6,167,724</u>	<u>-</u>	<u>6,167,724</u>
Supporting Services			
Management and general	182,472	-	182,472
Fund-raising	<u>422,245</u>	<u>-</u>	<u>422,245</u>
	<u>604,717</u>	<u>-</u>	<u>604,717</u>
TOTAL EXPENSES	<u>6,772,441</u>	<u>-</u>	<u>6,772,441</u>
CHANGE IN NET ASSETS	57,902	1,378,060	1,435,962
NET ASSETS AT BEGINNING OF YEAR	<u>18,483,923</u>	<u>6,969,440</u>	<u>25,453,363</u>
NET ASSETS AT END OF YEAR	<u>\$ 18,541,825</u>	<u>\$ 8,347,500</u>	<u>\$ 26,889,325</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, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 5,289,783	\$ 634,902	\$ 5,924,685
Special events revenue, net of expenses	129,269	1,149,451	1,278,720
Net investment return	959,998	312,323	1,272,321
Net assets released from restrictions	<u>529,687</u>	<u>(529,687)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>6,908,737</u>	<u>1,566,989</u>	<u>8,475,726</u>
EXPENSES			
Program Services	<u>6,032,764</u>	<u>-</u>	<u>6,032,764</u>
Supporting Services			
Management and general	221,399	-	221,399
Fund-raising	<u>424,064</u>	<u>-</u>	<u>424,064</u>
	<u>645,463</u>	<u>-</u>	<u>645,463</u>
TOTAL EXPENSES	<u>6,678,227</u>	<u>-</u>	<u>6,678,227</u>
CHANGE IN NET ASSETS	230,510	1,566,989	1,797,499
NET ASSETS AT BEGINNING OF YEAR	<u>18,253,413</u>	<u>5,402,451</u>	<u>23,655,864</u>
NET ASSETS AT END OF YEAR	<u>\$ 18,483,923</u>	<u>\$ 6,969,440</u>	<u>\$ 25,453,363</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, 2019

	Supporting Services				Total Expenses
	Program Services	Management and General	Fund-Raising	Total	
Grants	\$ 6,084,142	\$ -	\$ -	\$ -	\$ 6,084,142
Insurance	-	13,941	-	13,941	13,941
Office expense	-	15,859	-	15,859	15,859
Office personnel	83,582	79,808	231,749	311,557	395,139
Outside services	-	25,900	30,481	56,381	56,381
Printing and publications	-	9,754	21,853	31,607	31,607
Bank and credit card fees	-	42	92,511	92,553	92,553
Computer/database	-	23,597	-	23,597	23,597
Community relations	-	13,571	45,651	59,222	59,222
	<u>\$ 6,167,724</u>	<u>\$ 182,472</u>	<u>\$ 422,245</u>	<u>\$ 604,717</u>	<u>\$ 6,772,441</u>
	91.08%	2.69%	6.23%		100.00%

For the Year Ended June 30, 2018

	Supporting Services				Total Expenses
	Program Services	Management and General	Fund-Raising	Total	
Grants	\$ 5,912,692	\$ -	\$ -	\$ -	\$ 5,912,692
Insurance	-	14,794	-	14,794	14,794
Office expense	-	14,453	-	14,453	14,453
Office personnel	120,072	87,784	242,326	330,110	450,182
Outside services	-	24,200	30,481	54,681	54,681
Printing and publications	-	11,535	14,465	26,000	26,000
Bank and credit card fees	-	132	97,734	97,866	97,866
Computer/database	-	23,694	-	23,694	23,694
Community relations	-	44,807	39,058	83,865	83,865
	<u>\$ 6,032,764</u>	<u>\$ 221,399</u>	<u>\$ 424,064</u>	<u>\$ 645,463</u>	<u>\$ 6,678,227</u>
	90.33%	3.32%	6.35%		100.00%

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>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,435,962	\$ 1,797,499
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Stock donations received	(162,910)	(189,359)
Amortization of bond premiums	103,233	52,049
Net realized and unrealized gain on investments	(552,997)	(826,517)
Depreciation	6,203	5,087
(Increase) decrease in:		
Pledges receivable	40,868	218,386
Other receivables	17,980	(161,210)
Prepaid expenses	4,637	1,563
Increase (decrease) in:		
Accounts payable and other liabilities	38,035	14,319
Grants payable	159,557	(144,796)
Net Cash Provided By Operating Activities	<u>1,090,568</u>	<u>767,021</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(14,306)	-
Purchases of investments	(15,172,846)	(6,999,192)
Proceeds from sale or maturity of investments	12,108,000	5,628,000
Net Cash Used In Investing Activities	<u>(3,079,152)</u>	<u>(1,371,192)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,988,584)	(604,171)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,985,097</u>	<u>3,589,268</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 996,513</u>	<u>\$ 2,985,097</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, 2019 AND 2018

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.

Recently Adopted Accounting Standard

During the year ended June 30, 2019, MBEF adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic): Presentation of Financial Statements of Not-for-Profit Entities* and applied changes retrospectively. The main provisions include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction to net assets with donor restrictions. The guidance also enhances disclosures for board-designated amounts, components of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. With the adoption of the standard, the Organization updated net asset presentation in the financial statements and included additional disclosures as required. No significant reclassifications to prior-year amounts were necessary in order to adopt the new standard.

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation of Financial Statements

MBEF is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Accordingly, the net assets of MBEF are classified as described below:

Without Donor Restrictions – Net assets not subject to donor-imposed restrictions. As reflected in the accompanying statements of financial position, MBEF’s Board of Directors (the Board) has designated a portion of net assets without donor restrictions for long-term investment purposes, referred to as the Board-designated endowment fund.

With Donor Restrictions – Net assets subject to donor-imposed restrictions that may be temporary in nature that may be or will be met by actions of the Foundation or the passage of time. As the restrictions are satisfied, net assets with donor restrictions are reclassified to assets without donor restrictions. Other donor stipulations may be perpetual in nature, where the donor stipulates that the corpus be maintained intact in perpetuity. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law.

Contributions

All contributions are considered to be available for 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 support with donor restrictions and increases that net asset class. When a donor’s stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 support without donor restrictions.

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

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 with donor restrictions in the statements of financial position. Fair value for publicly traded securities is based upon the closing market trading price for such security.

Special Events

MBEF held two special events during the year ended June 30, 2019, which consisted of the following:

	<u>Wine Auction</u>	<u>Golf Event</u>	<u>Total</u>
Event revenue	\$ 1,629,068	\$ 88,000	\$ 1,717,068
Less expenses	<u>(501,239)</u>	<u>(48,032)</u>	<u>(549,271)</u>
	<u>\$ 1,127,829</u>	<u>\$ 39,968</u>	<u>\$ 1,167,797</u>

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Special Events (Continued)

The 2019 Wine Auction was held and marketed as benefitting the endowment fund. As a result, net special event proceeds of \$806,445 were explicitly donor restricted to the endowment and are added to the endowment corpus. For the year ending June 30, 2019, merchandise and services with an estimated value of \$478,017 were contributed for special events. Proceeds from the sale of such items is included in event revenue. MBEF received \$25,429 of donated goods and services related to the production of special events for the year ended June 30, 2019, which are recorded in special events revenue and expense.

MBEF held two special events during the year ended June 30, 2018, which consisted of the following:

	<u>Wine Auction</u>	<u>Golf Event</u>	<u>Total</u>
Event revenue	\$ 1,673,057	\$ 81,375	\$ 1,754,432
Less expenses	<u>(441,726)</u>	<u>(33,986)</u>	<u>(475,712)</u>
	<u>\$ 1,231,331</u>	<u>\$ 47,389</u>	<u>\$ 1,278,720</u>

The 2018 Wine Auction was held and marketed as benefitting the endowment fund. In addition the paddle raise at the event was to benefit the endowment fund. As a result, net special event proceeds and paddle raise fund of \$973,410 were explicitly donor restricted to the endowment and are added to the endowment corpus. For the year ending June 30, 2018, merchandise and services with an estimated value of \$613,969 were contributed for special events. Proceeds from the sale of such items is included in event revenue. MBEF received \$20,363 of donated goods and services related to the production of special events for the year ended June 30, 2018, which are recorded in special events revenue and expense.

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.

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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, 2019 and 2018 and at various times during the years 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 5.)

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 sales proceeds and cost. Unrealized gains and losses are determined based upon the appreciation or depreciation of investments held as of the balance sheet date. Unrealized gains and losses are included in the change in net assets in the consolidated statements of activities.

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 supporting the various programs has been allocated a functional basis among the programs and supporting services deriving benefit. MBEF uses allocation methodologies including time studies and percentage of use estimates to allocate indirect costs.

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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 \$43,750 and \$39,000 of donated goods and services for the years ended June 30, 2019 and 2018, 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.

Recently Issued Accounting Pronouncements

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08), which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. The Foundation is currently evaluating the impact of the adoption of the new standard on the financial statements.

Subsequent Events

MBEF's management has evaluated subsequent events from the statement of position date through December 17, 2019, the date the consolidated financial statements were available to be issued for the year ended June 30, 2019, and determined that there were no other items to disclose.

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 – Financial Assets and Liquidity Resources

The total financial assets held by the Foundation at June 30, 2019 and the amounts of those financial assets that could be made available within one year for general expenditure, such as operating expenses, are as follows:

Financial assets at June 30, 2019:	
Cash and cash equivalents	\$ 996,513
Pledges receivable	86,088
Other receivables	271,202
Investments	<u>26,249,891</u>
	27,603,694
Less amounts not available to be used within one year due to:	
Donor imposed purpose or time restrictions	(2,142,203)
Donor designated endowment	(6,205,297)
Board-designated endowment	<u>(11,818,412)</u>
	<u>(20,165,912)</u>
Financial assets available to meet general expenditures within one year:	<u>\$ 7,437,782</u>

The Foundation maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 3 – Pledges Receivable

Pledges receivable are scheduled to be collected as follows:

	June 30,	
	2019	2018
Due in one year or less	\$ 88,500	\$ 68,500
Due after one year through five years	<u>-</u>	<u>62,500</u>
	88,500	131,000
Less discount to present value	<u>(2,412)</u>	<u>(4,044)</u>
Pledges receivable	<u>\$ 86,088</u>	<u>\$ 126,956</u>

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 3 – Pledges Receivable (Continued)

Pledges receivable are discounted at rates ranging from .11% to 1.31%. Based on management's assessment, all amounts are collectible and no allowance for uncollectible pledges is required.

NOTE 4 – Investments

Investments are summarized as follows:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
US Treasury notes	\$ 7,715,652	\$ 5,366,364
Mutual funds		
Stock funds	12,419,577	11,424,672
Bond funds	3,733,425	3,439,370
REIT index fund	1,301,819	1,160,138
Exchange traded funds	<u>1,079,418</u>	<u>1,181,827</u>
	<u>\$ 26,249,891</u>	<u>\$ 22,572,371</u>

MANHATTAN BEACH EDUCATION FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

NOTE 5 – Fair Value Hierarchy

Investments are carried at fair value, which is determined, presented and disclosed in accordance with FASB ASC 820, Fair Value Measurements and Disclosures. Under FASB ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. FASB ASC 820 established a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of MBEF. Unobservable inputs reflect MBEF’s assumptions about inputs that market participants would use in pricing the investments developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels, based on the inputs, as follows:

- *Level 1* - Unadjusted quoted prices in active markets for identical assets and liabilities that MBEF has the ability to access at the measurement date.
- *Level 2* - Valuations based on quoted prices in markets that are not active, quoted prices for similar investments in active markets or model-based valuations for which all significant assumptions are observable and can be corroborated by observable market data.
- *Level 3* - Valuations based on unobservable inputs that are supported by little or no market activity and are significant to the overall fair value measurement. Values are determined using proprietary pricing models, discounted cash flow models that include the investment entities’ own judgments and estimations, or some other pricing method using unobservable inputs.

MBEF’s investments are measured at fair value on a recurring basis and classified as level 1 in the fair value hierarchy at June 30, 2019 and 2018.

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 6 – 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, 2019 and 2018 were \$623,921 and \$464,364, respectively.

NOTE 7 – Restrictions on Net Assets

The following is a summary of MBEF’s net assets:

Net Assets Without Donor Restrictions

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Undesignated	\$ 6,723,413	\$ 6,505,321
Board-designated endowment fund	<u>11,818,412</u>	<u>11,978,602</u>
	<u>\$ 18,541,825</u>	<u>\$ 18,483,923</u>

Net Assets With Donor Restrictions

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Restricted for Purpose:		
District staffing, purpose restricted	\$ 410,000	\$ 415,000
STEM, purpose restricted	30,000	33,000
Math Challenge – paddle raise, purpose restricted	208,532	-
Teachers Driving Innovation, purpose restricted	63,542	104,299
Visual Art, purpose restricted	93,041	176,041
Social Inclusion grant, purpose restricted	-	970
Teacher of the Year, purpose restricted	11,735	10,177
Restricted for Purpose and Time:		
Annual Appeal, time restricted	19,250	-
Earnings on endowment, pending appropriation	<u>1,306,103</u>	<u>998,217</u>
	<u>\$ 2,142,203</u>	<u>\$ 1,737,704</u>

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 7 – Restrictions on Net Assets (Continued)

Net Assets With Donor Restrictions - Restricted in Perpetuity

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Perpetually Restricted Endowment Fund	\$ 6,205,297	\$ 5,231,736

NOTE 8 – Endowment Funds

Endowment funds include perpetually restricted endowment 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 the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, MBEF classifies as net assets with donor restrictions in perpetuity: (a) the original value of the gifts donated to the perpetually restricted endowment, (b) the original value of subsequent gifts to the perpetually restricted endowment, and (c) accumulations to the perpetually restricted 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 in donor restricted in perpetuity net assets is classified as net assets with donor restriction for time/purpose/spending policy until those amounts are appropriated for expenditure by MBEF in a manner consistent with the standard prudence prescribed by UPMIFA. Board-designated endowment funds are reported as net assets without donor restrictions.

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 8 – Endowment Funds (Continued)

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 trailing three-year average of the calendar year-end values of Endowment Funds. 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, MBEFEF made a grant of \$824,000 and \$760,000 to the Foundation's general fund from its Board-designated endowment for the years ended June 30, 2019 and 2018, respectively.

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, 2019 AND 2018**

NOTE 8 – Endowment Funds (Continued)

Summary of Endowment Funds

Net changes in Endowment Funds for the years ended June 30, 2019 and 2018 were as follows:

	For the Year Ended June 30, 2019			Total
	Without Donor Restrictions	With Donor Restrictions Accumulated Earnings	Perpetual	
Endowment funds, beginning of year	<u>\$ 11,978,602</u>	<u>\$ 998,217</u>	<u>\$ 5,231,736</u>	<u>\$ 18,208,555</u>
Investment return				
Investment income	302,363	140,241	-	442,604
Net gain (realized and unrealized)	<u>361,447</u>	<u>167,645</u>	-	<u>529,092</u>
Total investment return	<u>663,810</u>	<u>307,886</u>	-	<u>971,696</u>
Contributions	-	-	167,116	167,116
Special Event Proceeds	-	-	<u>806,445</u>	<u>806,445</u>
Total contributions	<u>-</u>	<u>-</u>	<u>973,561</u>	<u>973,561</u>
Appropriation by the Board	<u>(824,000)</u>	-	-	<u>(824,000)</u>
Endowment funds, end of year	<u>\$ 11,818,412</u>	<u>\$ 1,306,103</u>	<u>\$ 6,205,297</u>	<u>\$ 19,329,812</u>

MANHATTAN BEACH EDUCATION FOUNDATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 8 – Endowment Funds (Continued)

Summary of Endowment Funds (Continued)

	For the Year Ended June 30, 2018			Total
	Without Donor Restrictions	With Donor Restrictions Accumulated Earnings	Perpetual	
Endowment funds, beginning of year	\$ 11,829,355	\$ 699,284	\$ 4,101,424	\$ 16,630,063
Investment return				
Investment income	290,833	95,617	-	386,450
Net gain (realized and unrealized)	618,414	203,316	-	821,730
Total investment return	909,247	298,933	-	1,208,180
Contributions	-	-	156,902	156,902
Special Event Proceeds	-	-	973,410	973,410
Total contributions	-	-	1,130,312	1,130,312
Appropriation by the Board	(760,000)	-	-	(760,000)
Endowment funds, end of year	\$ 11,978,602	\$ 998,217	\$ 5,231,736	\$ 18,208,555

NOTE 9 – 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, 2019**

	MBEF	MBEFEF	Eliminations	Consolidated
ASSETS				
Cash and equivalents	\$ 888,024	\$ 108,489	\$ -	\$ 996,513
Pledges receivable	-	86,088	-	86,088
Other receivables	271,202	-	-	271,202
Due from MBEFEF/MBEF	65,000	816,395	(881,395)	-
Prepaid expenses	12,464	8,960	-	21,424
Investments	7,715,652	18,534,239	-	26,249,891
Equipment, net	14,032	220	-	14,252
TOTAL ASSETS	\$ 8,966,374	\$ 19,554,391	\$ (881,395)	\$ 27,639,370
LIABILITIES				
Accounts payable and other liabilities	\$ 122,924	\$ 3,200	\$ -	\$ 126,124
Due to MBEFEF/MBEF	816,395	65,000	(881,395)	-
Grants payable	623,921	-	-	623,921
Total Liabilities	1,563,240	68,200	(881,395)	750,045
NET ASSETS				
Net assets without donor restrictions				
Undesignated	6,636,914	86,499	-	6,723,413
Board-designated endowment fund	-	11,818,412	-	11,818,412
	6,636,914	11,904,911	-	18,541,825
Net assets with donor restrictions				
Restricted for purpose or time	766,220	1,375,983	-	2,142,203
Perpetually restricted for endowment	-	6,205,297	-	6,205,297
	766,220	7,581,280	-	8,347,500
Total Net Assets	7,403,134	19,486,191	-	26,889,325
TOTAL LIABILITIES AND NET ASSETS	\$ 8,966,374	\$ 19,554,391	\$ (881,395)	\$ 27,639,370

See Independent Auditors' Report

MANHATTAN BEACH EDUCATION FOUNDATION

**SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>MBEF</u>	<u>MBEFEF</u>	<u>Eliminations</u>	<u>Consolidated</u>
SUPPORT AND REVENUE:				
Contributions	\$ 6,681,595	\$ 167,116	\$ (943,600)	\$ 5,905,111
Special event revenue, net expenses	1,167,797	806,445	(806,445)	1,167,797
Net investment return	<u>151,992</u>	<u>983,503</u>	<u>-</u>	<u>1,135,495</u>
TOTAL SUPPORT AND REVENUE	<u>8,001,384</u>	<u>1,957,064</u>	<u>(1,750,045)</u>	<u>8,208,403</u>
EXPENSES				
Program services	<u>6,974,169</u>	<u>878,600</u>	<u>(1,685,045)</u>	<u>6,167,724</u>
Supporting services				
Management and general	174,628	27,344	(19,500)	182,472
Fund-raising	<u>407,256</u>	<u>60,489</u>	<u>(45,500)</u>	<u>422,245</u>
	<u>581,884</u>	<u>87,833</u>	<u>(65,000)</u>	<u>604,717</u>
 Total Expenses	 <u>7,556,053</u>	 <u>966,433</u>	 <u>(1,750,045)</u>	 <u>6,772,441</u>
 CHANGE IN NET ASSETS	 445,331	 990,631	 -	 1,435,962
 NET ASSETS, BEGINNING OF YEAR	 <u>6,957,803</u>	 <u>18,495,560</u>	 <u>-</u>	 <u>25,453,363</u>
 NET ASSETS, END OF YEAR	 <u>\$ 7,403,134</u>	 <u>\$ 19,486,191</u>	 <u>\$ -</u>	 <u>\$ 26,889,325</u>

See Independent Auditors' Report