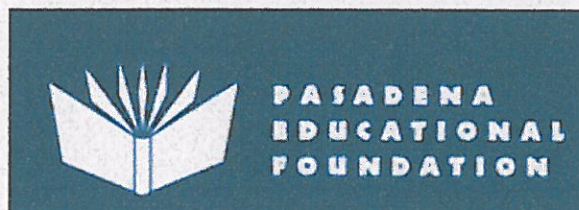


**Audited Financial Statements**



**June 30, 2012**

**Quigley & Miron**

Pasadena Educational Foundation  
Audited Financial Statements  
Table of Contents  
June 30, 2012 and 2011

	<u>Page Number</u>
Independent Auditor's Report.....	1
<b>Audited Financial Statements</b>	
Statements of Financial Position.....	2
Statements of Activities.....	3
Statements of Functional Expenses.....	5
Statements of Cash Flows.....	9
Notes to Financial Statements.....	10

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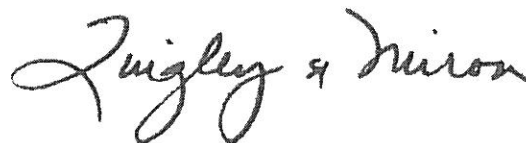
## Independent Auditor's Report

Board of Trustees  
**Pasadena Educational Foundation**  
Pasadena, California

We have audited the accompanying statements of financial position of Pasadena Educational Foundation (Foundation), a nonprofit corporation, as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pasadena Educational Foundation as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Los Angeles, California  
February 7, 2013

Pasadena Educational Foundation  
Statements of Financial Position  
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,507,567	\$ 1,981,027
Certificates of deposit	3,430	3,425
Investments—Note 3	2,817,875	2,084,751
Accounts receivable	38,717	
Contributions receivables	601,249	367,379
Other assets	24,299	
	<hr/>	<hr/>
<b>Total Current Assets</b>	5,993,137	4,436,582
<b>Noncurrent Assets</b>		
Contributions receivables, net of discount of \$1,439 and \$1,439, as of June 30, 2012 and 2011, respectively	45,082	45,082
	<hr/>	<hr/>
<b>Total Noncurrent Assets</b>	45,082	45,082
	<hr/>	<hr/>
<b>Total Assets</b>	<u><u>\$ 6,038,219</u></u>	<u><u>\$ 4,481,664</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,162,375	\$ 249,519
Deferred revenue—summer school	226,151	265,471
	<hr/>	<hr/>
<b>Total Liabilities</b>	1,388,526	514,990
<b>Net Assets</b>		
Unrestricted	25,791	62,170
Temporarily restricted—Note 5	4,346,026	3,626,778
Permanently restricted	277,876	277,726
	<hr/>	<hr/>
<b>Total Net Assets</b>	4,649,693	3,966,674
	<hr/>	<hr/>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 6,038,219</u></u>	<u><u>\$ 4,481,664</u></u>

See notes to financial statements.

Pasadena Educational Foundation  
Statement of Activities  
Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenue</b>				
Contributions—Note 2	\$ 338,163	\$ 4,017,942	\$ 150	\$ 4,356,255
Summer school income	468,510			468,510
Special event income, net	115,667			115,667
Interest income	14,910	2,244		17,154
Investment gains	96,014	573,609		669,623
Net assets released from restrictions and reclassifications	3,874,547	(3,874,547)		
<b>Total Support and Revenue</b>	<b>4,907,811</b>	<b>719,248</b>	<b>150</b>	<b>5,627,209</b>
<b>Expenses</b>				
Educational programs	3,701,162			3,701,162
Summer school	811,165			811,165
Management and general	161,885			161,885
Fundraising	269,978			269,978
<b>Total Expenses</b>	<b>4,944,190</b>			<b>4,944,190</b>
<b>Increase (Decrease) in Net Assets</b>	<b>(36,379)</b>	<b>719,248</b>	<b>150</b>	<b>683,019</b>
<b>Net Assets at Beginning of Year</b>	<b>62,170</b>	<b>3,626,778</b>	<b>277,726</b>	<b>3,966,674</b>
<b>Net Assets at End of Year</b>	<b>\$ 25,791</b>	<b>\$ 4,346,026</b>	<b>\$ 277,876</b>	<b>\$ 4,649,693</b>

See notes to financial statements.



Pasadena Educational Foundation  
Statement of Functional Expenses  
Year Ended June 30, 2012

	<u>Educational Programs</u>	<u>Summer School</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Pasadena Unified School					
District Programs:					
Academies	\$ 5,000	\$	\$	\$	\$ 5,000
Academy-Finance	6,205				6,205
Aim High Scholarships	78,500				78,500
Altadena Elementary	1,934				1,934
Art Materials/Programs	72,060				72,060
Blair Class '70 Scholarships	500				500
Blair High School	18,221				18,221
Blair Performing Arts	5,786				5,786
Burbank K-1 Program	539				539
Burbank School	305				305
CIS	5,768				5,768
Cleveland Elementary	21,412				21,412
College Prep	3,128				3,128
Computer Programming Project	137,207				137,207
Don Benito	23,564				23,564
Early College HS Fed Grant	228				228
Elementary Science	326				326
Eliot Middle School	2,977				2,977
Families in Transition	1,693				1,693
Field Elementary School	20,583				20,583
GATE program	(1,871)				(1,871)
Hamilton Elementary	128,561				128,561
Health Programs	278,692				278,692
Jackson	14,931				14,931
JMHS '65 Scholarship	4,000				4,000
JMHS Bradford Scholarship	3,341				3,341
John Muir High School	46,709				46,709
Literacy-High School	477				477
Loma Alta School	2,643				2,643
Longfellow Elementary	2,318				2,318
Maintenance	9,411				9,411
Marshall Fundamental School	3,196				3,196
Marshall High School	4,061				4,061
Math	1,000				1,000
Math Field Day	4,551				4,551
McKinley School	86,132				86,132
Memorial	1,395				1,395
Middle School Reform	225,000				225,000
Middle/High Science	7,945				7,945
Multiple Pathways 2	97,494				97,494
Multiple Pathways 3	289,423				289,423
Music Education	2,565				2,565
Music Equipment	5,508				5,508
Music Festival	2,465				2,465
Music Repair Fund	8,860				8,860
My Masterpieces	58,432				58,432
No Boundary Student Art Show	8,263				8,263
Norma Coombs	45,000				45,000

Pasadena Educational Foundation  
Statement of Functional Expenses—Continued  
Year Ended June 30, 2012

	<u>Educational Programs</u>	<u>Summer School</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Pasadena Unified School District Programs:					
PAASE	\$ 6,625	\$	\$	\$	\$ 6,625
PALS	277				277
Parent Education	1,011				1,011
Pas Part College Success	49,090				49,090
Pasadena High School	29,438				29,438
Pasadena LEARNs	4,878				4,878
PHS Instrumental Music	3,000				3,000
PHS Scholarship	8,500				8,500
Physical Education	1,105				1,105
Professional Staff Development	106,209				106,209
Coordinated Early Intervention Services	623,011				623,011
Robotics	55,973				55,973
Roosevelt School	5,234				5,234
Rose City	9,791				9,791
San Rafael School	24,786				24,786
Scholarships	12,583				12,583
Sierra Madre	125,352				125,352
Sierra Madre: Auction	504				504
Summer School		46,218			46,218
Teacher Grants	28,875				28,875
Teacher Grants-Field Trips	34,199				34,199
Technology Education	22,722				22,722
Washington Accelerated	4,202				4,202
Washington Elementary	6,010				6,010
Washington Middle	11,395				11,395
Webster Elementary	9,806				9,806
Willard Elementary	66,921				66,921
Wilson Middle	157,419				157,419
Payroll	467,748	677,823	53,077	167,216	1,365,864
Payroll taxes	49,853	55,642	5,657	17,822	128,974
Employee benefits	28,207	31,482	3,201	10,083	72,973
Office expenses			52,332	17,428	69,760
Outside services			34,443	12,796	47,239
Public information				44,633	44,633
Insurance			13,175		13,175
<b>Total Expenses</b>	<b><u>\$ 3,701,162</u></b>	<b><u>\$ 811,165</u></b>	<b><u>\$ 161,885</u></b>	<b><u>\$ 269,978</u></b>	<b><u>\$ 4,944,190</u></b>

See notes to financial statements.

Pasadena Educational Foundation  
Statement of Functional Expenses  
Year Ended June 30, 2011

	<u>Educational Programs</u>	<u>Summer School</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Pasadena Unified School					
District Programs:					
Academies	\$ 2,151	\$	\$	\$	\$ 2,151
Academy-Finance	750				750
Academy-VADA	1,000				1,000
Aim High Scholarships	109,514				109,514
Art Materials/Programs	120,190				120,190
Blair Class '70 Scholarships	500				500
Blair High School	25,111				25,111
Blair Performing Arts	2,500				2,500
Burbank K-1 Program	250				250
Burbank School	3,940				3,940
CIS	865				865
Cleveland Birthday Toys	1,677				1,677
Cleveland Elementary	2,839				2,839
College Prep	1,630				1,630
Computer Programming Project	45,859				45,859
Don Benito	2,106				2,106
Early Childhood	7,000				7,000
Elementary Science	(388)				(388)
Eliot Middle School	2,072				2,072
Families in Transition	4,130				4,130
Field Elementary School	14,107				14,107
GATE program	100,908				100,908
Hamilton Elementary	105,248				105,248
Health Programs	233,759				233,759
Jackson	31,049				31,049
Jefferson Elementary	1,109				1,109
JMHS '65 Scholarship	5,000				5,000
JMHS Bradford Scholarship	2,313				2,313
John Muir High School	584,895				584,895
Libraries	65,000				65,000
Literacy-High School	4,000				4,000
Longfellow Elementary	698				698
Marshall Fundamental School	1,000				1,000
Marshall High School	2,815				2,815
Math	1,848				1,848
Math Field Day	6,392				6,392
McKinley School	59,235				59,235
Memorial	605				605
Middle School Libraries	13,490				13,490
Middle School Reform	125,000				125,000
Middle/High Science	21,712				21,712
Multiple Pathways 2	614,798				614,798
Museum Follow Up	8,000				8,000
Music Equipment	4,424				4,424
Music Festival	2,966				2,966
Music Repair Fund	1,700				1,700
My Masterpieces	66,127				66,127
No Boundary Student Art Show	7,574				7,574



Pasadena Educational Foundation  
Statement of Functional Expenses—Continued  
Year Ended June 30, 2011

	<u>Educational Programs</u>	<u>Summer School</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Pasadena Unified School					
District Programs:					
One City One Story	\$ 800	\$	\$	\$	\$ 800
PAASE	6,915				6,915
Parent Education	200				200
Pasadena High School	8,559				8,559
Pasadena LEARNs	3,985				3,985
PEN	537				537
PESA Training	28				28
PHS Instrumental Music	400				400
PHS Scholarship	440				440
PHS Teacher Wish List	2,000				2,000
Principal for a Day	4,589				4,589
Professional Staff Development	71,990				71,990
PUSD 7-10 Science Program	8,820				8,820
Robotics	98,482				98,482
Roosevelt School	233				233
Rose City	1,154				1,154
San Rafael School	25,653				25,653
Scholarships	20,550				20,550
Sierra Madre	115,370				115,370
Sierra Madre: Auction	616				616
Skills Enrich. Program	10,000				10,000
Special Education	3,871				3,871
Summer School		71,991			71,991
Teacher Grants	50,420				50,420
Teacher Grants-Field Trips	72,329				72,329
Technology Education	27,551				27,551
Washington Accelerated	372				372
Washington Middle	6,498				6,498
Webster Elementary	21,471				21,471
Willard Elementary	82,944				82,944
Wilson Middle	108,237				108,237
Payroll	302,471	343,257	86,294	202,561	934,583
Payroll taxes	16,399	31,955	19,792	18,858	87,004
Employee benefits	19,842	22,518	5,661	13,288	61,309
Office expenses			68,080		68,080
Outside services			44,516	25,538	70,054
Public information	56,254				56,254
Insurance			11,899		11,899
<b>Total Expenses</b>	<b>\$ 3,569,448</b>	<b>\$ 469,721</b>	<b>\$ 236,242</b>	<b>\$ 260,245</b>	<b>\$ 4,535,656</b>

See notes to financial statements.

Pasadena Educational Foundation  
Statements of Cash Flows  
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Operating Activities</b>		
Change in net assets	\$ 683,019	\$ (234,609)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Investment gain, net	(669,623)	(564,609)
(Increase) decrease in operating assets:		
Accounts receivable	(38,717)	21,076
Contributions receivable	(233,870)	651,816
Other assets	(24,299)	
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	912,856	219,260
Deferred revenue	(39,320)	15,934
<b>Net Cash Provided by Operating Activities</b>	<u>590,046</u>	<u>108,868</u>
<b>Investing Activities</b>		
Purchase of certificates of deposit	(3,430)	
Proceeds from certificate of deposit maturities	3,425	100,039
Purchase of investments	(936,321)	(519,743)
Sale of investments	872,820	246,689
<b>Net Cash Used in Investing Activities</b>	<u>(63,506)</u>	<u>(173,015)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<u>526,540</u>	<u>(64,147)</u>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>1,981,027</u>	<u>2,045,174</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u><u>\$ 2,507,567</u></u>	<u><u>\$ 1,981,027</u></u>
<b>Supplementary Disclosures</b>		
Income taxes paid	<u>\$</u>	<u>\$</u>
Interest paid	<u>\$</u>	<u>\$</u>

See notes to financial statements.

Pasadena Educational Foundation  
Notes To Financial Statements  
June 30, 2012 and 2011

**Note 1—Description of Organization**

Pasadena Educational Foundation (Foundation) is a non-profit community-based organization which joins the public and private sectors in a partnership to (1) develop supplementary financial support for Pasadena Unified School District (PUSD) programs, (2) encourage dedicated teachers by funding creative projects, and (3) promote confidence in public schools. The Foundation occupies office space provided by PUSD at no cost.

In addition to contributions directly received by the Foundation from the private and public sectors, the Foundation, in coordination with the PUSD, solicits contributions that go directly from the donor to the PUSD. Such contributions, amounting to approximately \$6,239,000 and \$6,689,000 for the years ended June 30, 2012 and 2011, respectively, are not recorded in the Foundation's financial statements.

**Note 2—Summary of Significant Accounting Policies**

Financial Statement Presentation—The financial statements have been prepared on the accrual basis of accounting.

The net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets—Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the Foundation.

Temporarily restricted net assets—Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.

Permanently restricted net assets—Net assets for which the donor has stipulated that the principal be maintained into perpetuity. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Contributions—Non-reciprocal contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. It is the policy of the Foundation to record restricted support as unrestricted support where the donor-restrictions have been satisfied within the reporting period.

Cash Equivalents—The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Furniture and Equipment—Furniture and equipment are stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, which is five years.

**Pasadena Educational Foundation**  
**Notes To Financial Statements—Continued**

**Note 2—Summary of Significant Accounting Policies—Continued**

Income Taxes—The Foundation is exempt from federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the financial statements. In addition, the Foundation has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code. Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered 'more likely than not' to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at June 30, 2012 and 2011. Generally, the Foundation's information returns remain open for examination for three years from the date of filing.

Concentrations of Credit Risk—Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of cash, certificates of deposit, money market funds and unconditional promises to give. The Foundation places cash and certificates of deposit with high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. The Foundation also places money market funds, certificates of deposit, corporate bonds and common stock with a large securities broker-dealer where the funds are guaranteed by the Securities Investor Protection Corporation (SIPC) up to \$500,000 per institution. At times, cash, money market fund, and certificate of deposit balances may be in excess of the FDIC/SIPC insurance limits.

Use of Estimates—Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support, revenues and expenses. Actual results may differ from those estimates and assumptions.

Reclassifications—Certain amounts in 2011 have been reclassified to conform with the 2012 financial statement presentation.

**Note 3—Investments**

Investments at June 30, 2012 and 2011, recorded at fair market value, consist of the following:

	2012	2011
Government securities	\$ 20,658	\$ 15,656
Corporate bonds	5,137	15,691
Mutual funds	341,480	283,765
Common stock	2,450,600	1,769,639
<b>Totals</b>	<b>\$ 2,817,875</b>	<b>\$ 2,084,751</b>

Included in common stock are shares in a single stock received as gifts from an individual from 2007 through present. The fair market value of this common stock is \$2,118,799 at June 30, 2012,

**Pasadena Educational Foundation**  
**Notes To Financial Statements—Continued**

**Note 3—Investments—Continued**

and \$1,421,376 at June 30, 2011. The Foundation is liquidating the stock in accordance with the wishes of the donor. Due to this restriction, gains or losses related to this common stock are reported as changes in temporarily restricted net assets.

**Note 4—Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy is categorized into three levels based on the inputs as follows:

Level 1—Quoted market prices in active markets for identical assets or liabilities. Level 1 assets include equity securities and mutual funds valued at the closing price reported on the active market on which the individual securities are traded.

Level 2—Observable market-based inputs, either directly or indirectly, but are other than quoted prices in actively traded markets. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable inputs that can be corroborated by observable market data.

Level 3—Unobservable inputs that are supported by little or no market activity which are significant to the fair value of the asset or liability. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination for which category within the fair value hierarchy is appropriate is based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2012 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Government securities	\$ 20,658	\$	\$ 20,658	\$
Corporate bonds	5,137		5,137	
Mutual funds	341,480	341,480		
Common stock	2,450,600	2,450,600		
<b>Totals</b>	<b>\$ 2,817,875</b>	<b>\$ 2,792,080</b>	<b>\$ 25,795</b>	<b>\$</b>

**Pasadena Educational Foundation**  
**Notes To Financial Statements—Continued**

**Note 4—Fair Value Measurements—Continued**

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

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Government securities	\$ 15,656	\$	\$ 15,656	\$
Corporate bonds	15,691		15,691	
Mutual funds	283,765	283,765		
Common stock	1,769,639	1,769,639		
<b>Totals</b>	<b>\$ 2,084,751</b>	<b>\$ 2,053,404</b>	<b>\$ 31,347</b>	<b>\$</b>

**Note 5—Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2012 and 2011 of \$4,346,026 and \$3,626,778, respectively, consist of donor-restricted amounts received which require the payment of specified program service expenses in satisfaction of the restriction.

**Note 6—Permanently Restricted Net Assets**

In January 2009, the State of California adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. The Board is aware that there is an implicit understanding that the market value of the donor-restricted endowment may, from time to time, fall below the fair value of the original gift as of the gift date due to market conditions or continued prudent expenditures by the Board of certain amounts of the endowment. If such a temporary deficit condition occurred, the Board would take all prudent steps, given ongoing market conditions, to restore the fair value of the fund to an amount at or above the amount of the original gift.

The Foundation classifies as permanently restricted net assets (a) the original value of 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.



**Pasadena Educational Foundation**  
**Notes To Financial Statements—Continued**

**Note 6—Permanently Restricted Net Assets—Continued**

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Foundation and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Foundation
- 7) The investment policies of the Foundation

Return objectives and risk parameters—It is the purpose of the Foundation's endowment fund to secure the future of the Foundation and to support its programs and operations as designated by the Board.

The primary long-term financial objective is to preserve and enhance the real (i.e., inflation-adjusted) purchasing power of the endowment through a prudent long-term investment strategy. This objective should be achieved over rolling three- and five-year periods on a total return basis. An additional objective is to provide a relatively predictable, stable, and (in real terms) constant stream of current income for the Foundation's annual operating needs.

The primary investment objective of the endowment is to earn an absolute return of 5% over a three to five year market cycle. The Foundation considers itself a risk-averse investor. That is, among various investment alternatives with comparable expected returns, the preference is for those having the lowest risk.

Strategies employed for achieving objectives—The Foundation manages its endowment on a total rate of return basis consisting of dividends, interest, and any net increase / decrease in market value of securities for the fiscal year, not favoring returns from one source over another.

The Foundation has determined that marketable debt and equity securities traded in the United States are appropriate investments consistent with its return objectives and risk parameters. Cash invested in money market accounts is also an acceptable investment within these guidelines. The investment portfolio is to be sufficiently balanced so that no single security or class of securities will have a disproportionate impact on the risk of the total portfolio.

Spending policy and how the investment objectives relate to spending policy—The Foundation has a policy governing the amount of endowment earnings that can be released annually for spending, consistent with the restrictions, if any, placed on the endowment by donors. The spending policy authorizes an annual distribution equal to 5% of the average market value of the portfolios as of the twelve preceding quarters, subject to the requirement that the portfolios increase by an inflation factor annually.

**Pasadena Educational Foundation**  
**Notes To Financial Statements—Continued**

**Note 6—Permanently Restricted Net Assets—Continued**

Summary of endowment fund balances and activity—Endowment net asset composition by donor-imposed stipulations for the years ended June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Music and education	\$ 64,000	\$ 64,000
Wilson Library	100,920	100,920
General operating purposes	112,956	112,806
<b>Totals</b>	<u><u>\$ 277,876</u></u>	<u><u>\$ 277,726</u></u>

Change in endowment net assets consists of:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment Net Assets at June 30, 2010</b>	<u>\$ (40,502)</u>	<u>\$</u>	<u>\$ 197,391</u>	<u>\$ 156,889</u>
Investment income	3,378			3,378
Investment gains (losses)	14,572			14,572
<b>Total Investment Return</b>	<b>17,950</b>			<b>17,950</b>
Contributions			80,335	80,335
Appropriation of expenditure				
<b>Endowment Net Assets at June 30, 2011</b>	<u>(22,552)</u>		<u>277,726</u>	<u>255,174</u>
Investment income	3,160			3,160
Investment gains	1,052			1,052
<b>Total Investment Return</b>	<b>4,212</b>			<b>4,212</b>
Contributions			150	150
Appropriation of expenditure				
<b>Endowment Net Assets at June 30, 2012</b>	<u><u>\$ (18,340)</u></u>	<u><u>\$</u></u>	<u><u>\$ 277,876</u></u>	<u><u>\$ 259,536</u></u>

**Pasadena Educational Foundation**  
**Notes To Financial Statements—Continued**

**Note 7—Commitments and Contingencies**

Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. Although that is a possibility, the Board deems the contingency remote since, by accepting the gifts and their terms, the Board is acknowledging the requirements of the grantor at the time of receipt of the grant.

**Note 8—Special Event Income, Net**

Net special event income for the years ended June 30, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Special event income	\$ 148,009	\$ 139,646
Special event expenses	<u>(32,342)</u>	<u>(33,830)</u>
Net	<u>\$ 115,667</u>	<u>\$ 105,816</u>

**Note 9—Subsequent Events**

Subsequent events were evaluated through February 7, 2013, which is the date the financial statements were available to be issued, and concluded that no material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.