

Audited Financial Statements



June 30, 2019 and 2018

Quigley & Miron

**Pasadena Educational Foundation
Audited Financial Statements
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June 30, 2019 and 2018**

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Independent Auditor's Report

Board of Directors
Pasadena Educational Foundation
Pasadena, California

We have audited the accompanying financial statements of Pasadena Educational Foundation, a nonprofit organization, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

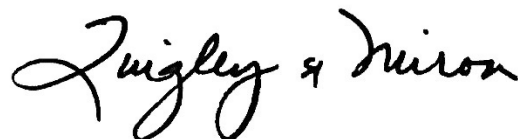
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pasadena Educational Foundation as of June 30, 2019 and 2018 and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Los Angeles, California
February 26, 2020



Pasadena Educational Foundation
Statements of Financial Position
June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,900,788	\$ 31,280	\$ 1,932,068
Investments—Note 3	1,177,140	6,007,702	7,184,842
Beneficial interest in assets held at the Pasadena Community Foundation—Notes 5, 6 and 7		166,124	166,124
Accounts receivable	108,663		108,663
Contributions receivable		55,000	55,000
Other assets	35,942		35,942
Total Current Assets	3,222,533	6,260,106	9,482,639
Noncurrent Assets			
Contributions receivable		30,000	30,000
Total Noncurrent Assets		30,000	30,000
Total Assets	\$ 3,222,533	\$ 6,290,106	\$ 9,512,639
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued expenses	\$ 2,224,619	\$	\$ 2,224,619
Deferred revenue—summer school	266,200		266,200
Total Liabilities	2,490,819		2,490,819
Net Assets			
Without donor restrictions	731,714		731,714
With donor restrictions—Notes 5, 6 and 7		6,290,106	6,290,106
Total Net Assets	731,714	6,290,106	7,021,820
Total Liabilities and Net Assets	\$ 3,222,533	\$ 6,290,106	\$ 9,512,639

See notes to financial statements.

Pasadena Educational Foundation
Statements of Financial Position
June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2018</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,020,090	\$ 780,459	\$ 1,800,549
Investments—Note 3		5,241,764	5,241,764
Beneficial interest in assets held at the Pasadena Community Foundation—Notes 5, 6 and 7		110,996	110,996
Accounts receivable	124,484		124,484
Other assets	31,441		31,441
Total Assets	<u>\$ 1,176,015</u>	<u>\$ 6,133,219</u>	<u>\$ 7,309,234</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued expenses	\$ 941,691	\$	\$ 941,691
Deferred revenue—summer school	223,178		223,178
Total Liabilities	1,164,869		1,164,869
Net Assets			
Without donor restrictions	11,146		11,146
With donor restrictions—Notes 5, 6 and 7		6,133,219	6,133,219
Total Net Assets	11,146	6,133,219	6,144,365
Total Liabilities and Net Assets	<u>\$ 1,176,015</u>	<u>\$ 6,133,219</u>	<u>\$ 7,309,234</u>

See notes to financial statements.

Pasadena Educational Foundation
Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities			
Support and Revenue			
Contributions	\$ 488,878	\$ 4,427,658	\$ 4,916,536
Summer school revenue			
Gross revenue	843,901		843,901
Less cost of scholarships	(195,769)		(195,769)
Summer School, Net	648,132		648,132
Special events revenue			
Gross revenue	526,329		526,329
Less cost of direct benefit to donors	(49,744)		(49,744)
Special Events, Net	476,585		476,585
Fee income	150,000		150,000
Interest income	246,853	6,506	253,359
Net assets released from restrictions and reclassifications	4,302,025	(4,302,025)	
Total Support and Revenue, and Releases from Restrictions	6,312,473	132,139	6,444,612
Expenses			
Program services			
Educational programs	4,052,827		4,052,827
Summer school	1,013,407		1,013,407
Total Program Services	5,066,234		5,066,234
Supporting services			
Management and general	238,412		238,412
Fundraising	523,380		523,380
Total Supporting Services	761,792		761,792
Total Expenses	5,828,026		5,828,026
Change in Net Assets From Operations	484,447	132,139	616,586
Nonoperating Activities			
Investment return, net	236,121	19,870	255,991
Change in value of beneficial interest in assets held at the Pasadena Community Foundation		4,878	4,878
Total Nonoperating Activities	236,121	24,748	260,869
Change in Net Assets	720,568	156,887	877,455
Net Assets at Beginning of Year	11,146	6,133,219	6,144,365
Net Assets at End of Year	\$ 731,714	\$ 6,290,106	\$ 7,021,820

See notes to financial statements.

Pasadena Educational Foundation
Statement of Activities
Year Ended June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Activities			
Support and Revenue			
Contributions	\$ 500,501	\$ 3,622,741	\$ 4,123,242
Summer school revenue			
Gross revenue	733,356		733,356
Less cost of scholarships	(155,038)		(155,038)
Summer School, Net	578,318		578,318
Special events revenue			
Gross revenue	141,536		141,536
Less cost of direct benefit to donors	(63,451)		(63,451)
Special Events, Net	78,085		78,085
Fee income	168,000		168,000
Interest income	221,361	5,604	226,965
Net assets released from restrictions and reclassifications	3,554,543	(3,554,543)	
Total Support and Revenue, and Releases from Restrictions	5,100,808	73,802	5,174,610
Expenses			
Program services			
Educational programs	3,373,836		3,373,836
Summer school	876,890		876,890
Total Program Services	4,250,726		4,250,726
Supporting services			
Management and general	259,311		259,311
Fundraising	565,147		565,147
Total Supporting Services	824,458		824,458
Total Expenses	5,075,184		5,075,184
Change in Net Assets From Operations	25,624	73,802	99,426
Nonoperating Activities			
Investment return, net	(136,825)	20,119	(116,706)
Change in value of beneficial interest in assets held at the Pasadena Community Foundation		8,509	8,509
Total Nonoperating Activities	(136,825)	28,628	(108,197)
Change in Net Assets	(111,201)	102,430	(8,771)
Net Assets at Beginning of Year	122,347	6,030,789	6,153,136
Net Assets at End of Year	\$ 11,146	\$ 6,133,219	\$ 6,144,365

See notes to financial statements.

**Pasadena Educational Foundation
Statement of Functional Expenses
Year Ended June 30, 2019**

	Program Services			Management and General	Fundraising	Special Events	Total
	Educational Programs	Summer School	Total				
Direct Program-Related							
Cost of direct benefit to donors	\$	\$	\$	\$	\$	\$ 49,744	\$ 49,744
District funding	1,588,966		1,588,966				1,588,966
Educator professional development	15,557		15,557				15,557
Equipment, materials, and supplies	453,551		453,551				453,551
Field trips	238,649		238,649				238,649
Investment fees	3,362		3,362				3,362
Meetings and conferences	72,308		72,308				72,308
Merchant and bank fees	31,482		31,482				31,482
Outside contractors	621,242		621,242				621,242
Scholarships	67,300	195,769	263,069				263,069
School events	155,694		155,694				155,694
Stipends	42,363		42,363				42,363
Teacher grants	191,598		191,598				191,598
Travel	35,911		35,911				35,911
Total Direct Program-Related	3,517,983	195,769	3,713,752			49,744	3,763,496
Community engagement					48,155		48,155
Employee benefits	41,061	41,893	82,954	19,266	42,483		144,703
Insurance	800	1,000	1,800	1,008	1,000		3,808
Office expenses	1,821	84,830	86,651	23,036	40,480		150,167
Outside services and professional fees	2,124	67,940	70,064	27,084	20,756		117,904
Payroll	453,707	743,090	1,196,797	156,169	344,377		1,697,343
Payroll taxes	35,331	74,654	109,985	11,849	26,129		147,963
Total Expenses by Function	4,052,827	1,209,176	5,262,003	238,412	523,380	49,744	6,073,539
Less expenses included with revenues on the statement of activities:							
Cost of direct benefits to donors		(195,769)	(195,769)			(49,744)	(245,513)
Total Expenses	\$ 4,052,827	\$ 1,013,407	\$ 5,066,234	\$ 238,412	\$ 523,380	\$	\$ 5,828,026

See notes to financial statements.

**Pasadena Educational Foundation
Statement of Functional Expenses
Year Ended June 30, 2018**

	Program Services			Management and General	Fundraising	Special Events	Total
	Educational Programs	Summer School	Total				
Direct Program-Related							
Cost of direct benefits to donors	\$	\$	\$	\$	\$	\$ 63,451	\$ 63,451
District funding	1,050,505		1,050,505				1,050,505
Educator professional development	28,182		28,182				28,182
Equipment, materials, and supplies	534,439		534,439				534,439
Field trips	155,280		155,280				155,280
Investment fees	2,574		2,574				2,574
Meetings and conferences	50,595		50,595				50,595
Merchant and bank fees	23,971		23,971				23,971
Outside contractors	450,035		450,035				450,035
Scholarships	59,250	155,038	214,288				214,288
School events	147,681		147,681				147,681
Stipends	89,826		89,826				89,826
Teacher grants	194,519		194,519				194,519
Travel	18,260		18,260				18,260
Total Direct Program-Related	2,805,117	155,038	2,960,155			63,451	3,023,606
Community engagement					27,881		27,881
Employee benefits	43,881	37,031	80,912	18,060	43,642		142,614
Insurance	850	1,000	1,850	1,000	1,000		3,850
Office expenses	5,825	62,972	68,797	45,551	39,759		154,107
Outside services and professional fees	2,064	51,135	53,199	27,333	48,434		128,966
Payroll	477,443	658,426	1,135,869	155,054	374,678		1,665,601
Payroll taxes	38,656	66,326	104,982	12,313	29,753		147,048
Total Expenses by Function	3,373,836	1,031,928	4,405,764	259,311	565,147	63,451	5,293,673
Less expenses included with revenues on the statement of activities							
Cost of direct benefits to donors		(155,038)	(155,038)			(63,451)	(218,489)
Total Expenses	\$ 3,373,836	\$ 876,890	\$ 4,250,726	\$ 259,311	\$ 565,147	\$ 63,451	\$ 5,075,184

See notes to financial statements.

**Pasadena Educational Foundation
Statements of Cash Flows
Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 877,455	\$ (8,771)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Investment (gains) losses	(260,869)	116,706
Change in value of beneficial interest in assets held at the Pasadena Community Foundation	(4,878)	(8,509)
(Increase) decrease in operating assets:		
Accounts receivable	15,821	(27,012)
Contributions receivable	(85,000)	
Other assets	(4,501)	(1,441)
Increase in operating liabilities:		
Accounts payable and accrued expenses	1,282,928	437,390
Deferred revenue—summer school	43,022	38,954
	<u>1,863,978</u>	<u>547,317</u>
Net Cash Provided by Operating Activities	1,863,978	547,317
Cash Flows from Investing Activities		
Purchase of investments	(2,609,574)	(1,201,449)
Sale of investments	927,365	661,909
	<u>(1,682,209)</u>	<u>(539,540)</u>
Net Cash Used in Investing Activities	(1,682,209)	(539,540)
Cash Flows from Financing Activities		
Contributions held in perpetuity	(50,250)	(100)
	<u>(50,250)</u>	<u>(100)</u>
Net Cash Provided by Financing Activities	(50,250)	(100)
Increase in Cash and Cash Equivalents	131,519	7,677
Cash and Cash Equivalents at Beginning of Year	<u>1,800,549</u>	<u>1,792,872</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 1,932,068</u></u>	<u><u>\$ 1,800,549</u></u>
Supplementary Disclosures		
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, 2019 and 2018

Note 1—Organization and Summary of Significant Accounting Policies

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 PUSD and public schools in general. The Foundation occupies office space provided by PUSD at no cost.

The Foundation operates a Summer Enrichment Program, that serves area K-12 students, predominantly drawing from the PUSD student population, but also available to private, parochial, and outside of district public school students. The program is sustained through a combination of tuition fees paid by parents and charitable contributions from foundations and individuals; those charitable donations enable the Foundation to keep its costs competitive and offer tuition assistance to those in need.

The Foundation works closely with PUSD in presenting state-of-the-art computer science (CS) instruction at Pasadena High School's App Academy. The Foundation works with district's instructional experts to build next-generation CS curriculum and provides funding for hardware, software, and instructional expenses related to the App Academy.

Other programs operated and/or sustained by the fundraising efforts of the Foundation are a middle school Robotics program, the comprehensive K-6 My Masterpieces arts program, a Teacher Grants program that funds innovative teachers and projects at the classroom level, College & Career Pathways in the PUSD high schools, Principal for a Day community engagement effort, and much more.

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 \$9,055,000 and \$8,546,000 for the years ended June 30, 2019 and 2018, respectively, are not recorded in the Foundation's financial statements.

Financial Statement Presentation—In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adopted ASU 2016-14 for the year ended June 30, 2019 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Foundation's net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of the Foundation and changes therein are presented and reported as follows:

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Net assets without donor restrictions—Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation’s management and the board of directors.

Net assets with donor restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; such restrictions that may or will be met either by actions of the Foundation and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. Generally, the donors of such assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a time restriction expires or a purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Measure of Operations—The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of the Foundation’s program services which are restoration, children’s outreach, and membership, special events which are children’s outreach science fair, patron gala, and garden tour, and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature

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, 2019 and 2018. Generally, the Foundation’s information returns remain open for examination for a period of three years (federal) or four years (state of California) from the date of filing.

Reclassifications—Certain amounts in 2018 have been reclassified to conform with the 2019 financial statement presentation.

Cash and Cash Equivalents—The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash consists of balances in checking and savings accounts.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

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.

Contributions receivable represents amounts due from donors and organizations well known to the Foundation with a history of timely payment. Accounts receivable represents amounts due from the Pasadena Unified School District for administrative services rendered. Management has assessed the credit worthiness of these receivables and determined that an allowance for doubtful accounts is not necessary at June 30, 2019 and 2018.

Revenue recognition—The Foundation’s revenue recognition policies are as follows:

Summer school income—Summer school income is recognized at the time the classes are provided; prepaid summer school income at year end is included in deferred revenue.

Special event income—Special event income is recognized when such income is received.

Fee income—Fee income is recognized at the time the services are provided; unpaid fee income at year end is included in accounts receivable.

Investments—Investments are valued at fair market value. Investment transactions are recorded on the trade date. Investment income and realized and unrealized gains and losses, net of investment management fees, are reported as increases or decreases in the appropriate net asset category.

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.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 2—Availability and Liquidity

The Foundation's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$1,400,000).

The following represents the availability and liquidity of the Foundation's financial assets at June 30, 2019 to cover operating expenses for the next fiscal year:

Cash and cash equivalents	\$ 1,900,788
Investments	1,177,140
Accounts receivable	108,663
	<hr/>
Current Availability of Financial Assets	<u><u>\$ 3,186,591</u></u>

Note 3—Investments

Investments at June 30, 2019 and 2018 recorded at fair market value consist of the following:

	<u>2019</u>	<u>2018</u>
Bonds	\$ 6,114,447	\$ 4,453,327
Common stock	501,392	606,887
Mutual funds	417,723	83,292
Exchange traded funds	151,280	54,560
Government securities		43,698
	<hr/>	<hr/>
Totals	<u><u>\$ 7,184,842</u></u>	<u><u>\$ 5,241,764</u></u>

Note 4—Fair Value Measurements

In determining the fair value of investments, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Foundation determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are characterized in one of the following levels:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the Foundation at the measurement date. The Foundation's Level 1 assets consist of common stocks, mutual funds, and exchange traded funds at June 30, 2019 and 2018.

Level 2—Valuations based on observable inputs (other than Level 1), such as quoted prices for similar assets at the measurement date, quoted prices in markets that are not active, or other inputs that are observable, either directly or indirectly. The Foundation's Level 2 assets consist of fixed income and government securities at June 30, 2019 and 2018.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 4—Fair Value Measurements—Continued

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement and involve management judgment. The Foundation's Level 3 assets consist of a pooled community fund held at the Pasadena Community Foundation (PCF) at June 30, 2019 and 2018.

The Foundation may utilize a practical expedient, Net Asset Value (NAV) per share, for the estimation of the fair value of investments in PCF for which the investment does not have a readily determinable fair value. The Foundation had no assets or liabilities classified at NAV as a practical expedient during the years ended June 30, 2019 and 2018. The estimated fair values of certain investments of PCF, which includes private placements and other securities for which prices are not readily available, are determined by the management of PCF and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. PCF's investments are composed primarily of equities and fixed income securities. The beneficial interest in assets held at PCF is not redeemable by the Foundation, as described in Note 6.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019 and 2018.

Bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Common Stock: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

Exchange Traded Funds: Valued at the closing price reported on the active market on which the funds are traded. These funds are deemed to be actively traded.

Government Securities: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

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, 2019 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Bonds	\$ 6,114,447	\$	\$ 6,114,447	\$
Common stock	501,392	501,392		
Mutual funds	417,723	417,723		
Exchange traded funds	151,280	151,280		
Total Investments	7,184,842	1,070,395	6,114,447	
Beneficial interest in assets held at the Pasadena Communiy Foundation	166,124			166,124
Totals	<u>\$ 7,350,966</u>	<u>\$ 1,070,395</u>	<u>\$ 6,114,447</u>	<u>\$ 166,124</u>

Fair values of assets and liabilities measured on a recurring basis at June 30, 2018 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Bonds	\$ 4,453,327	\$	\$ 4,453,327	\$
Common stock	606,887	606,887		
Mutual funds	83,292	83,292		
Exchange traded funds	54,560	54,560		
Government securities	43,698		43,698	
Total Investments	5,241,764	744,739	4,497,025	
Beneficial interest in assets held at the Pasadena Communiy Foundation	110,996			110,996
Totals	<u>\$ 5,352,760</u>	<u>\$ 744,739</u>	<u>\$ 4,497,025</u>	<u>\$ 110,996</u>

Financial instruments classified as Level 3 in the fair value hierarchy represent the Foundation's investments in financial instruments in which management has used at least one significant unobservable input in the valuation model.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 4—Fair Value Measurements—Continued

The following table represents a reconciliation of the activities for Level 3 financial instruments:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	\$ 110,996	\$ 102,387
Share of appreciation in the beneficial interest in Pasadena Community Foundation	4,878	8,509
Contributions	50,250	100
Balance at End of Year	<u>\$ 166,124</u>	<u>\$ 110,996</u>

Note 5—Beneficial interest in assets held at the Pasadena Community Foundation

In December 2016, the Foundation transferred general endowment assets to PCF which is holding them as an endowed component Fund (“PCF Fund”) for the benefit of the Foundation. The Foundation has granted PCF sole variance power to modify any restrictions or conditions imposed by donors on the PCF Fund or assets if, in the judgment of PCF’s board, such restriction becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable purposes or needs served by PCF. The PCF Fund is subject to the PCF investment and spending policies. PCF and the Foundation jointly intend that the PCF Fund will continue to provide for the charitable purposes of the Foundation and that the assets will continue to be held in perpetuity as intended by the original donors. Distributions out of the PCF Fund may be made annually, as deemed prudent by the PCF board and consistent with applicable law. PCF is entitled to support fees, deductible from the PCF Fund, in accordance with their current fee schedule, which may be amended from time to time. PCF is also entitled to direct expenses, in connection with, the administration of the PCF Fund. Changes in the value of the PCF Fund are reported in the Foundation’s statement of activities. The Foundation reports the fair value of the PCF Fund in the statement of financial position as “Beneficial Interest in Assets Held at the Pasadena Community Foundation.”

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 6—Net Assets with Donor Restrictions

Net assets with donor restrictions for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Arts and music	\$ 503,404	\$ 197,399
Athletics	39,456	56,087
College programs and internship stipends	32,938	19,402
College scholarships	576,469	599,828
Community outreach	7,241	2,353
Elementary programs	1,254,718	1,447,222
Field trips	235,019	197,045
Health programs	173,466	268,361
High School programs	238,435	219,428
Literacy programs	16,021	1,669
Mckinley Library Mural Restoration	11,179	11,179
Middle School programs	305,932	290,486
Muir Ranch	283	(3,586)
PEF Gives Back	1,376	1,377
PUSD leadership development	50,697	60,624
PUSD professional staff development	16,243	14,833
Teacher grants	26,662	2,615
Technology, Robotics & App Academy	2,321,515	2,419,761
Volunteer development		14,587
Subject to time restrictions:		
PEF Summer School	85,000	
Subject to endowment spending policy and appropriation:		
Music and education	25,203	14,653
Wilson Library	37,805	21,980
General operating purposes	34,969	30,091
Held in perpetuity		
Music and education	64,000	64,000
Wilson Library	100,920	100,920
General operating purposes	131,155	80,905
Totals	<u>\$ 6,290,106</u>	<u>\$ 6,133,219</u>

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 6—Net Assets with Donor Restrictions—Continued

Net assets released from donor restrictions for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions:		
Arts and music	\$ 312,007	\$ 430,672
Athletics	30,579	25,196
College programs and internship stipends	51,116	73,596
College scholarships	48,782	61,201
Community outreach	55,207	10,202
Elementary programs	1,825,934	1,198,338
Field trips	79,128	69,847
Health programs	380,752	144,653
High School programs	170,804	92,771
Literacy programs	275	10,461
Middle School programs	258,482	229,245
Muir Ranch	695	68,446
PEF Gives Back		28
PUSD leadership development	59,926	40,358
PUSD professional staff development		17,496
PEF Summer School	366,145	411,530
Technology, Robotics & App Academy	647,416	660,090
Volunteer development	14,777	10,413
	<u> </u>	<u> </u>
Totals	\$ 4,302,025	\$ 3,554,543

Note 7—Endowment Net Assets

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the State of California as requiring 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.

As a result of this interpretation, the Foundation classifies as permanently restricted net assets the following: the corpus of the endowment; the original gift donated to the permanent endowment; the original value of subsequent gifts to the permanent endowment; and the 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.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 7—Endowment Net Assets —Continued

Any remaining portion of the donor-restricted endowment fund not classified as 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.

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 organization 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 organization
- (7) The investment policies of the organization
- (8) The duration and preservation of the fund
- (9) The purposes of the organization and the donor-restricted endowment fund
- (10) General economic conditions
- (11) The possible effect of inflation and deflation
- (12) The expected total return from income and the appreciation of investments
- (13) Other resources of the organization
- (14) The investment policies of the organization

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 annual return of 8% 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.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 7—Endowment Net Assets —Continued

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.

Summary of donor restricted endowment fund balances and activity—Donor restricted endowment net asset composition by donor-imposed stipulations for the years ended June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Wilson Library	\$ 100,920	\$ 100,920
Music and education	64,000	64,000
General operating purposes	131,155	80,905
Totals	<u>\$ 296,075</u>	<u>\$ 245,825</u>

Endowment net assets consist of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash	\$ 31,280	\$ 55,467
Investments	196,648	146,086
Beneficial interest in perpetual trust	166,124	110,996
Totals	<u>\$ 394,052</u>	<u>\$ 312,549</u>

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 7—Endowment Net Assets —Continued

Change in donor restricted endowment net assets consists of:

	Subject to Appropri- ations	Held in Perpetuity	Total
	<u> </u>	<u> </u>	<u> </u>
Endowment Net Assets at June 30, 2017	\$ 43,312	\$ 245,725	\$ 289,037
Investment income	3,128		3,128
Investment gains	11,775		11,775
Increase in beneficial interest in perpetual trust	8,509		8,509
Total Investment Return	23,412		23,412
Contributions		100	100
Endowment Net Assets at June 30, 2018	66,724	245,825	312,549
Investment income	6,506		6,506
Investment gains	19,869		19,869
Increase in beneficial interest in perpetual trust	4,878		4,878
Total Investment Return	31,253		31,253
Contributions		50,250	50,250
Endowment Net Assets at June 30, 2019	<u>\$ 97,977</u>	<u>\$ 296,075</u>	<u>\$ 394,052</u>

Note 8—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.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 9—Retirement Plan

The Foundation has established a defined contribution plan (Plan) whereby eligible employees may contribute to the Plan upon being hired. Employees are eligible if they are age 21 and are employed to work at least 1,000 hours a year. The Foundation makes contributions to the Plan for employees age 21 and over, upon the employee's one-year anniversary, and 1,000 hour of service milestone. Employer contributions vest immediately. The Foundation made contributions to the Plan totaling \$51,162 and \$47,723 during the years ended June 30, 2019 and 2018, respectively.

Note 10—Recent Accounting Pronouncements

Contributions—In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards (ASU) FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 clarifies the definition of an exchange transaction. As a result, not-for-profit entities (NFPs) will account for most federal grants as donor-restricted conditional contributions rather than as exchange transactions (the prevalent practice today). An accommodation (“simultaneous release” option) is provided which, if elected, would allow grants received and used within the same period to be reported in net assets without donor restrictions, consistent with where the grant revenue is reported today. Donors will use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/right of release) to determine whether gifts or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangements and is immediate for unconditional arrangements. No new disclosures are required. ASU No. 2018-08 is effective for resource recipients with fiscal years beginning after December 15, 2018, and for resource providers with fiscal years beginning after December 15, 2019; early adoption is permitted. The Foundation is currently evaluating the impact that the adoption of ASU No. 2018-08 will have on its financial statements.

Revenue Recognition—In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2018; early adoption is permitted for fiscal years beginning after December 15, 2016. The guidance permits the use of either a retrospective or cumulative effect transition method. The Foundation is evaluating whether this will have a material impact on its financial statements.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 11—Subsequent Events

Management evaluated all activities of Pasadena Educational Foundation through February 26, 2020, which is the date the financial statements were available to be issued, and concluded that no additional material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.