

Audited Financial Statements



June 30, 2020 and 2019

Quigley & Miron

**Pasadena Educational Foundation
Audited Financial Statements
Table of Contents
June 30, 2020 and 2019**

Page
Number

Independent Auditor's Report	1
Audited Financial Statements	
Statements of Financial Position.....	2
Statements of Activities.....	4
Statements of Functional Expenses	6
Statements of Cash Flows.....	8
Notes to Financial Statements.....	9

Suite 1660
3550 Wilshire Boulevard
Los Angeles, California 90010

Telephone: (213) 639-3550
Facsimile: (213) 639-3555

Suite 700
1999 South Bascom Avenue
Campbell, California 95008

Telephone: (408) 614-0100
Facsimile: (213) 639-3555

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, 2020 and 2019, 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

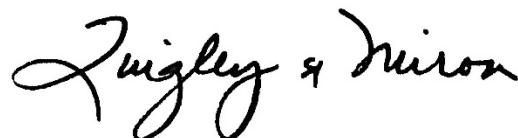
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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, 2020 and 2019 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.



Pasadena Educational Foundation
Statement of Financial Position
June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 2,718,865	\$	\$ 2,718,865
Investments—Note 3	90,092	5,857,143	5,947,235
Beneficial interest in assets held at the Pasadena Community Foundation—Notes 5, 7, and 8		224,774	224,774
Accounts receivable	19,670		19,670
Contributions receivable		180,000	180,000
Other assets	3,811		3,811
Total Current Assets	2,832,438	6,261,917	9,094,355
Noncurrent Assets			
Contributions receivable		100,000	100,000
Total Noncurrent Assets		100,000	100,000
Total Assets	\$ 2,832,438	\$ 6,361,917	\$ 9,194,355
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued expenses	\$ 2,147,939	\$	\$ 2,147,939
PPP advance—Note 6	300,000		300,000
Total Liabilities	2,447,939		2,447,939
Net Assets			
Without donor restrictions	384,499		384,499
With donor restrictions—Notes 5, 7, and 8		6,361,917	6,361,917
Total Net Assets	384,499	6,361,917	6,746,416
Total Liabilities and Net Assets	\$ 2,832,438	\$ 6,361,917	\$ 9,194,355

See notes to financial statements.

Pasadena Educational Foundation
Statement of Financial Position
June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</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, 7, and 8		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, 7, and 8		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
Statement of Activities
Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Activities			
Support and Revenue			
Contributions	\$ 603,775	\$ 3,242,509	\$ 3,846,284
Summer school revenue			
Gross revenue	349,439		349,439
Less cost of scholarships	(74,070)		(74,070)
Summer School, Net	275,369		275,369
Special events			
Gross revenue	9,716		9,716
Less cost of direct benefit to donors	(2,429)		(2,429)
Special Events, Net	7,287		7,287
Fee income	150,000		150,000
Interest income	257,915	5,989	263,904
Net assets released from restrictions	3,207,156	(3,207,156)	
Total Support and Revenue, and Releases from Restrictions	4,501,502	41,342	4,542,844
Expenses			
Program services			
Educational programs	3,310,613		3,310,613
Summer school	647,488		647,488
Total Program Services	3,958,101		3,958,101
Supporting services			
Management and general	245,851		245,851
Fundraising	682,438		682,438
Total Supporting Services	928,289		928,289
Total Expenses	4,886,390		4,886,390
Change in Net Assets From Operations	(384,888)	41,342	(343,546)
Nonoperating Activities			
Investment return, net	37,673	22,069	59,742
Change in value of beneficial interest in assets held at the Pasadena Community Foundation		8,400	8,400
Total Nonoperating Activities	37,673	30,469	68,142
Change in Net Assets	(347,215)	71,811	(275,404)
Net Assets at Beginning of Year	731,714	6,290,106	7,021,820
Net Assets at End of Year	\$ 384,499	\$ 6,361,917	\$ 6,746,416

See notes to financial statements.

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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			
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	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	4,049,465		4,049,465
Summer school	1,013,407		1,013,407
Total Program Services	5,062,872		5,062,872
Supporting services			
Management and general	227,560		227,560
Fundraising	523,380		523,380
Total Supporting Services	750,940		750,940
Total Expenses	5,813,812		5,813,812
Change in Net Assets From Operations	498,661	132,139	630,800
Nonoperating Activities			
Investment return, net	221,907	19,870	241,777
Change in value of beneficial interest in assets held at the Pasadena Community Foundation		4,878	4,878
Total Nonoperating Activities	221,907	24,748	246,655
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 Functional Expenses
Year Ended June 30, 2020**

	Program Services			Supporting Services		Special Events	Total
	Educational Programs	Summer School	Total	Management and General	Fundraising		
Direct Program-Related							
Cost of direct benefits to donors	\$	\$	\$	\$	\$	\$ 2,429	\$ 2,429
District funding	1,083,053		1,083,053				1,083,053
Educator professional development	24,204		24,204				24,204
Equipment, materials, and supplies	394,400		394,400				394,400
Field trips	113,182		113,182				113,182
Meetings and conferences	50,697		50,697				50,697
Merchant and bank fees	25,712		25,712				25,712
Outside contractors	685,693		685,693				685,693
Scholarships	68,000	74,070	142,070				142,070
School events	83,444		83,444				83,444
Stipends	33,837		33,837				33,837
Teacher grants	185,563		185,563				185,563
Travel	14,349		14,349				14,349
Total Direct Program-Related	2,762,134	74,070	2,836,204			2,429	2,838,633
Community engagement					90,162		90,162
Employee benefits	42,091	35,246	77,337	19,591	46,686		143,614
Insurance	800	1,000	1,800	1,278	1,000		4,078
Office expenses	1,662	71,368	73,030	25,365	46,855		145,250
Outside services and professional fees	1,972	53,078	55,050	22,407	75,465		152,922
Payroll	467,192	446,028	913,220	165,002	393,182		1,471,404
Payroll taxes	34,762	40,768	75,530	12,208	29,088		116,826
Total Expenses by Function	3,310,613	721,558	4,032,171	245,851	682,438	2,429	4,962,889
Less expenses included with revenues on the statement of activities							
Cost of direct benefits to donors						(2,429)	(2,429)
Cost of scholarships		(74,070)	(74,070)				(74,070)
Total Expenses	\$ 3,310,613	\$ 647,488	\$ 3,958,101	\$ 245,851	\$ 682,438	\$	\$ 4,886,390

See notes to financial statements.

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

	Program Services			Supporting Services		Special Events	Total
	Educational Programs	Summer School	Total	Management and General	Fundraising		
Direct Program-Related							
Cost of direct benefits 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
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	3,514,621	195,769	3,710,390			49,744	3,760,134
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	16,232	20,756		107,052
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	4,049,465	1,209,176	5,258,641	227,560	523,380	49,744	6,059,325
Less expenses included with revenues on the statement of activities							
Cost of direct benefits to donors						(49,744)	(49,744)
Cost of scholarships		(195,769)	(195,769)				(195,769)
Total Expenses	\$ 4,049,465	\$ 1,013,407	\$ 5,062,872	\$ 227,560	\$ 523,380	\$	\$ 5,813,812

See notes to financial statements.

**Pasadena Educational Foundation
Statements of Cash Flows
Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (275,404)	\$ 877,455
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributions held in perpetuity	(50,250)	(50,250)
Investment gains	(68,142)	(260,869)
Change in value of beneficial interest in assets held at the Pasadena Community Foundation	(8,400)	(4,878)
(Increase) decrease in operating assets:		
Accounts receivable	88,993	15,821
Contributions receivable	(195,000)	(85,000)
Other assets	32,131	(4,501)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(76,680)	1,282,928
Deferred revenue—summer school	(266,200)	43,022
PPP advance	300,000	
Net Cash Provided by (Used in) Operating Activities	(518,952)	1,813,728
Cash Flows from Investing Activities		
Purchase of beneficial interest in perpetual trust	(50,250)	(50,250)
Purchase of investments	(1,449,518)	(2,609,574)
Sale of investments	2,755,267	927,365
Net Cash Provided by (Used in) Investing Activities	1,255,499	(1,732,459)
Cash Flows from Financing Activities		
Contributions held in perpetuity	50,250	50,250
Net Cash Provided by Financing Activities	50,250	50,250
Increase in Cash and Cash Equivalents	786,797	131,519
Cash and Cash Equivalents at Beginning of Year	1,932,068	1,800,549
Cash and Cash Equivalents at End of Year	\$ 2,718,865	\$ 1,932,068
Supplementary Disclosures		
Income taxes paid	\$	\$
Interest paid	\$	\$

See notes to financial statements.

Pasadena Educational Foundation
Notes to Financial Statements
June 30, 2020 and 2019

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 \$8,970,000 and \$9,055,000 for the years ended June 30, 2020 and 2019, respectively, are not recorded in the Foundation's financial statements.

Financial Statement Presentation—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:

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.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

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

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 educational programs, summer school, and special events, 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, 2020 and 2019. 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.

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.

Recently Adopted Accounting Principle—In June 2018, 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. The Foundation elected to adopt ASU No. 2018-08 for the year ended June 30, 2020. The adoption of ASU No. 2018-08 had no material impact on the financial statements.

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, 2020 and 2019.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

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

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.

Reclassifications—Certain amounts have been reclassified in the 2019 financial statement presentation to conform with the 2020 financial statement presentation.

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, 2020 to cover operating expenses for the next fiscal year:

Cash and cash equivalents	\$ 2,718,865
Investments	90,092
Accounts receivable	19,670
	<hr/>
Current Availability of Financial Assets	\$ 2,828,627

Note 3—Investments

Investments at June 30, 2020 and 2019 recorded at fair market value consist of the following:

	<u>2020</u>	<u>2019</u>
Bonds	\$ 4,899,672	\$ 6,114,447
Common stock	947,507	501,392
Mutual funds	100,056	417,723
Exchange traded funds		151,280
	<hr/>	<hr/>
Totals	\$ 5,947,235	\$ 7,184,842

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 3—Investments—Continued

Investment activity for the years ended June 30, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Investment gains	\$ 73,027	\$ 255,990
Investment advisory fees	(13,285)	(14,213)
Investment Return, Net	59,742	241,777
Investment interest and dividends	263,904	253,359
Total Return on Investment	<u>\$ 323,646</u>	<u>\$ 495,136</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, 2020 and 2019.

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, 2020 and 2019.

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, 2020 and 2019.

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, 2020 and 2019. 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 5.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 4—Fair Value Measurements—Continued

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, 2020 and 2019.

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.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2020 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Bonds	\$ 4,899,672	\$	\$ 4,899,672	\$
Common stock	947,507	947,507		
Mutual funds	100,056	100,056		
Total Investments	5,947,235	1,047,563	4,899,672	
Beneficial interest in assets held at the Pasadena Community Foundation	224,774			224,774
Totals	<u>\$ 6,172,009</u>	<u>\$ 1,047,563</u>	<u>\$ 4,899,672</u>	<u>\$ 224,774</u>

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 Community Foundation	166,124			166,124
Totals	\$ 7,350,966	\$ 1,070,395	\$ 6,114,447	\$ 166,124

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.

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

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	\$ 166,124	\$ 110,996
Share of appreciation in the beneficial interest in the Pasadena Community Foundation	8,400	4,878
Contributions	50,250	50,250
Balance at End of Year	\$ 224,774	\$ 166,124

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—SBA PPP Loan

On May 6, 2020, the Foundation received a \$300,000 loan from the Small Business Administration (SBA) through the Paycheck Protection Program (PPP). The loan is designed to provide a direct incentive for non-profit organizations to keep their workers on the payroll due to the COVID-19 pandemic (see Note 11). The loan does not require any payments for six months, carries a 1% interest rate, matures in two years, requires no collateral, and is federally guaranteed. Qualified payroll, rent, mortgage interest, and/or utilities paid during the twenty-four-week period after loan origination are eligible for forgiveness. The \$300,000 loan was subsequently forgiven in December 2020.

Note 7—Net Assets with Donor Restrictions

Net assets with donor restrictions for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Arts and music	\$ 221,313	\$ 503,404
Athletics	26,292	39,456
College programs and internship stipends	22,148	32,938
College scholarships	608,724	576,469
Community outreach	6,348	7,241
Elementary programs	1,547,064	1,254,718
Field trips	265,879	235,019
Health programs	339,064	173,466
High School programs	204,664	238,435
Literacy programs	2,004	16,021
McKinley Library Mural Restoration	9,736	11,179
Middle School programs	107,292	305,932
Muir Ranch		283
PEF Gives Back	1,377	1,376
PUSD leadership development	39,073	50,697
PUSD professional staff development	16,243	16,243
Teacher grants	107,847	26,662
Technology, Robotics, & App Academy	2,268,448	2,321,515
Subject to time restrictions:		
PEF Summer School	110,000	85,000
Subject to endowment spending policy and appropriation:		
Music and education	\$ 27,483	\$ 25,203
Wilson Library	41,224	37,805
General operating purposes	43,369	34,969
Held in perpetuity:		
Music and education	64,000	64,000
Wilson Library	100,920	100,920
General operating purposes	181,405	131,155
Totals	<u>\$ 6,361,917</u>	<u>\$ 6,290,106</u>

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 7—Net Assets with Donor Restrictions—Continued

Net assets released from donor restrictions for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Satisfaction of purpose restrictions:		
Arts and music	\$ 358,611	\$ 312,007
Athletics	15,077	30,579
College programs and internship stipends	39,892	51,116
College scholarships	52,336	48,782
Community outreach	25,983	55,207
Elementary programs	930,458	1,825,934
Endowment Earnings	3,181	
Field trips	104,141	79,128
Health programs	153,088	380,752
High School programs	150,397	170,804
Literacy programs	19,926	275
McKinley Library Mural Restoration	1,444	
Middle School programs	701,531	258,482
Muir Ranch		695
PEF Gives Back		
PUSD leadership development	43,123	59,926
PUSD professional staff development	10,000	
PEF Summer School	41,116	366,145
Technology, Robotics & App Academy	556,852	647,416
Volunteer development		14,777
Totals	<u>\$ 3,207,156</u>	<u>\$ 4,302,025</u>

Note 8—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.

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.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 8—Endowment 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 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

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.

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 8—Endowment Net Assets—Continued

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, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Wilson Library	\$ 100,920	\$ 100,920
Music and education	64,000	64,000
General operating purposes	181,405	131,155
Totals	<u>\$ 346,325</u>	<u>\$ 296,075</u>

Endowment net assets consist of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash	\$ 17,855	\$ 31,280
Investments	218,953	196,648
Beneficial interest in perpetual trust	224,774	166,124
Totals	<u>\$ 461,582</u>	<u>\$ 394,052</u>

Changes in donor-restricted endowment net assets is as follows:

	<u>Subject to Appropriation</u>	<u>Held in Perpetuity</u>	<u>Total</u>
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 Return on Investment	31,253		31,253
Contributions		50,250	50,250
Endowment Net Assets at June 30, 2019	97,977	296,075	394,052
Investment income	4,168		4,168
Investment gains	4,712		4,712
Increase in beneficial interest in perpetual trust	8,400		8,400
Total Return on Investment	17,280		17,280
Contributions		50,250	50,250
Releases	(3,181)		
Endowment Net Assets at June 30, 2020	<u>\$ 112,076</u>	<u>\$ 346,325</u>	<u>\$ 461,582</u>

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 9—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 10—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 \$50,394 and \$51,162 during the years ended June 30, 2020 and 2019, respectively.

Note 11—Risks and Uncertainties

In early March 2020, the COVID-19 virus was declared a global pandemic. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, has been, and continues to be, severely impacted, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. The Foundation has continued to conduct its activities, primarily on a remote basis, and to monitor the ongoing impact of the pandemic response on its overall operations. At the time of this reporting, the cumulative financial impact of the pandemic on the Foundation, if any, cannot be fully determined, therefore no related adjustment has been made to these financial statements.

Note 12—Recent Accounting Pronouncement

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, 2019; 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.

Note 13—Subsequent Events

Management has evaluated all activities of Pasadena Educational Foundation through March 22, 2021, which is the date the financial statements were available to be issued, and concluded that, no material subsequent events other than the Pandemic described in Note 11, have occurred that would require adjustment to the financial statements or disclosure in the notes to the consolidated financial statements.