

Audited Financial Statements



June 30, 2021 and 2020

Quigley & Miron

Pasadena Educational Foundation
Audited Financial Statements
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June 30, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020 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
April 6, 2022

Pasadena Educational Foundation
Statement of Financial Position
June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 2,439,447	\$	\$ 2,439,447
Investments—Note 3	899,989	6,356,120	7,256,109
Beneficial interest in assets held at the Pasadena Community Foundation—Notes 5 and 8		358,847	358,847
Accounts receivable	469,478		469,478
Contributions receivable		100,000	100,000
Other assets	26,920		26,920
Total Current Assets	3,835,834	6,814,967	10,650,801
Noncurrent Assets			
Contributions receivable		100,000	100,000
Total Noncurrent Assets		100,000	100,000
Total Assets	\$ 3,835,834	\$ 6,914,967	\$ 10,750,801
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued expenses	\$ 2,299,359	\$	\$ 2,299,359
Deferred revenue—summer school	227,597		227,597
PPP advance—Note 6	270,060		270,060
Total Liabilities	2,797,016		2,797,016
Net Assets			
Without donor restrictions	1,038,818		1,038,818
With donor restrictions—Notes 5, 7, and 8		6,914,967	6,914,967
Total Net Assets	1,038,818	6,914,967	7,953,785
Total Liabilities and Net Assets	\$ 3,835,834	\$ 6,914,967	\$ 10,750,801

See notes to financial statements.

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 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 Activities
Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Activities			
Support and Revenue			
Contributions	\$ 739,403	\$ 2,605,405	\$ 3,344,808
Summer school revenue			
Gross revenue	668,910		668,910
	668,910		668,910
Summer School, Net			668,910
PPP grant income	300,000		300,000
Fee income	75,000		75,000
Interest income	238,520	5,765	244,285
Net assets released from restrictions	2,240,730	(2,240,730)	
	4,262,563	370,440	4,633,003
	Total Support and Revenue, and Releases from Restrictions		
Expenses			
Program services			
Educational programs	2,308,082		2,308,082
Summer school	687,724		687,724
	2,995,806		2,995,806
	Total Program Services		
Supporting services			
Management and general	198,573		198,573
Fundraising	609,365		609,365
	807,938		807,938
	Total Supporting Services		
	3,803,744		3,803,744
	Total Expenses		
	458,819	370,440	829,259
	Change in Net Assets From Operations		
Nonoperating Activities			
Investment return, net	195,500	94,415	289,915
Change in value of beneficial interest in assets held at the Pasadena Community Foundation		88,195	88,195
	195,500	182,610	378,110
	Total Nonoperating Activities		
	654,319	553,050	1,207,369
	Change in Net Assets		
Net Assets at Beginning of Year	384,499	6,361,917	6,746,416
	\$ 1,038,818	\$ 6,914,967	\$ 7,953,785
	Net Assets at End of Year		

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 Functional Expenses
Year Ended June 30, 2021

	Program Services			Supporting Services		
	Educational Programs	Summer School	Total	Management and General	Fundraising	Total
Direct Program-Related						
District funding	\$ 1,265,576	\$	\$ 1,265,576	\$	\$	\$ 1,265,576
Educator professional development	8,558		8,558			8,558
Equipment, materials, and supplies	219,567		219,567			219,567
Meetings and conferences	11,569		11,569			11,569
Merchant and bank fees	18,883		18,883			18,883
Outside contractors	144,341		144,341			144,341
Scholarships	79,700		79,700			79,700
School events	14,148		14,148			14,148
Stipends	9,750		9,750			9,750
Teacher grants	114,101		114,101			114,101
Total Direct Program-Related	1,886,193		1,886,193			1,886,193
Community engagement					98,816	98,816
Employee benefits	30,270	51,724	81,994	16,543	41,577	140,114
Insurance	800	1,000	1,800	1,644	1,000	4,444
Office expenses	987	39,676	40,663	13,610	45,356	99,629
Outside services and professional fees	1,524	36,438	37,962	23,955	63,687	125,604
Payroll	360,196	514,462	874,658	132,987	334,230	1,341,875
Payroll taxes	28,112	44,424	72,536	9,834	24,699	107,069
Total Expenses	2,308,082	687,724	2,995,806	198,573	609,365	3,803,744

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							
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				2,836,204
Community engagement					90,162		90,162
Cost of direct benefits to donors						2,429	2,429
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
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,207,369	\$ (275,404)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributions held in perpetuity	(50,200)	(50,250)
Investment gains	(378,110)	(68,142)
Change in value of beneficial interest in assets held at the Pasadena Community Foundation	(88,195)	(8,400)
(Increase) decrease in operating assets:		
Accounts receivable	(449,808)	88,993
Contributions receivable	80,000	(195,000)
Other assets	(23,109)	32,131
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	151,420	(76,680)
Deferred revenue—summer school	227,597	(266,200)
PPP advance	(29,940)	300,000
Net Cash Provided by (Used in) Operating Activities	647,024	(518,952)
Cash Flows from Investing Activities		
Purchase of beneficial interest in assets held at the Pasadena Community Foundation	(50,200)	(50,250)
Amounts withdrawn from beneficial interest in assets held at the Pasadena Community Foundation	4,322	
Purchase of investments	(6,243,577)	(1,449,518)
Sale of investments	5,312,813	2,755,267
Net Cash Provided by (Used in) Investing Activities	(976,642)	1,255,499
Cash Flows from Financing Activities		
Contributions held in perpetuity	50,200	50,250
Net Cash Provided by Financing Activities	50,200	50,250
Increase (Decrease) in Cash and Cash Equivalents	(279,418)	786,797
Cash and Cash Equivalents at Beginning of Year	2,718,865	1,932,068
Cash and Cash Equivalents at End of Year	\$ 2,439,447	\$ 2,718,865
Supplementary Disclosures		
Income taxes paid	<u>\$</u>	<u>\$</u>
Interest paid	<u>\$</u>	<u>\$</u>

Pasadena Educational Foundation
Notes to Financial Statements
June 30, 2021 and 2020

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 \$9,129,000 and \$8,970,000 for the years ended June 30, 2021 and 2020, 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.

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.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 1—Organization and 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, 2021 and 2020. 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 Principles

Contributions—In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 clarifies and improves the scope of the accounting guidance for contributions received and contributions made. The clarifications and improved scope assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal) or as exchange (reciprocal) transactions, and 2) determining whether a contribution is conditional. The clarified guidance applies to all entities that receive or make contributions (grants). ASU No. 2018-08 has been adopted by the Foundation for the year ended June 30, 2020, however, the retrospective approach requires that organizations reflect the effect of the new guidance in the earliest year presented in the financial statements. The Foundation has determined that adopting ASU No. 2018-08 has had no material effect on the financial statements.

Revenue Recognition—In May 2014, FASB issued Accounting Standards Update (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. The Foundation has adopted ASU No. 2014-09 for the year ended June 30, 2021, however, the retrospective approach requires that organizations reflect the effect of the new guidance in the earliest year presented in the financial statements.

Concentrations of Credit Risk—Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of cash and cash equivalents, investments in securities, and receivables. The Foundation places cash and cash equivalents 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 and investments in securities balances may be in excess of the FDIC/SIPC insurance limits.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

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

Accounts receivable represents amounts due from the Pasadena Unified School District for administrative services rendered. Contributions receivable represents amounts due from donors and organizations well known to the Foundation with a history of timely payment. Management has assessed the credit worthiness of these receivables and determined that an allowance for doubtful accounts is not necessary at June 30, 2021 and 2020.

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

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

Special event revenue—Special event revenue 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.

Note 2—Availability and Liquidity

The Foundation's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$900,000).

The following represents the availability and liquidity of the Foundation's financial assets at June 30, 2021 to cover operating expenses for the next fiscal year:

Cash and cash equivalents	\$ 2,439,447
Investments	899,989
Accounts receivable	469,478
	<hr/>
Current Availability of Financial Assets	<u><u>\$ 3,808,914</u></u>

Note 3—Investments

Investments at June 30, 2021 and 2020 recorded at fair market value consist of the following:

	<u>2021</u>	<u>2020</u>
Bonds	\$ 3,519,404	\$ 4,899,672
Common stock	2,829,097	947,507
Mutual funds	907,608	100,056
	<hr/>	<hr/>
Totals	<u><u>\$ 7,256,109</u></u>	<u><u>\$ 5,947,235</u></u>

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 3—Investments—Continued

Investment activity for the years ended June 30, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Investment gains	\$ 312,977	\$ 73,027
Investment advisory fees	<u>(23,062)</u>	<u>(13,285)</u>
Investment Return, Net	289,915	59,742
Investment interest and dividends	<u>244,285</u>	<u>263,904</u>
Total Return on Investment	<u>\$ 534,200</u>	<u>\$ 323,646</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.

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.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement and involve management judgment. .

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, 2021 and 2020. 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, 2021 and 2020.

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, 2021 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Bonds	\$ 3,519,404	\$	\$ 3,519,404	\$
Common stocks	2,829,097	2,829,097		
Mutual funds	907,608	907,608		
Total Investments	7,256,109	3,736,705	3,519,404	
Beneficial interest in assets held at the Pasadena Community Foundation	358,847			358,847
Totals	<u>\$ 7,614,956</u>	<u>\$ 3,736,705</u>	<u>\$ 3,519,404</u>	<u>\$ 358,847</u>

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 stocks	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

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 for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 224,774	\$ 166,124
Amounts withdrawn	(4,322)	
Share of appreciation in the beneficial interest in the Pasadena Community Foundation	88,195	8,400
Contributions	50,200	50,250
Balance at End of Year	<u>\$ 358,847</u>	<u>\$ 224,774</u>

Note 5—Beneficial Interest in Assets Held at the Pasadena Community Foundation

In December 2016, the Foundation transferred general endowment assets to Pasadena Community Foundation (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.”

Note 6—SBA PPP Advance

On May 6, 2020, the Foundation received a \$300,000 advance from the Small Business Administration (SBA) through the Paycheck Protection Program (PPP). The advance 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 Foundation recognized a total of \$300,000 in PPP grant revenue during the year ended June 30, 2021 based on qualifying expenditures incurred, with no outstanding balance at year-end. PPP grant revenue is reported in the statement of activities under PPP grant income. On December 22, 2020, the Foundation received official notice of forgiveness from the SBA for the full advance amount.

On April 15, 2021, the Foundation received a second advance in the amount of \$270,060 from the SBA through the PPP. Qualified payroll, rent, mortgage interest, and/or utilities paid during the twenty-four-week period after loan origination are eligible for forgiveness.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 7—Net Assets with Donor Restrictions

Net assets with donor restrictions for the years ended June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Arts and music	\$ 122,961	\$ 221,313
Athletics	76,500	26,292
College programs and internship stipends	17,139	22,148
College scholarships	714,416	608,724
Community outreach	13,491	6,348
Elementary programs	1,648,763	1,547,064
Field trips	267,354	265,879
Health programs	301,409	339,064
High School programs	237,689	204,664
Literacy programs	1,987	2,004
McKinley Library Mural Restoration	9,736	9,736
Middle School programs	161,425	107,292
PEF Gives Back	1,377	1,377
PEF Summer School	295,734	80,000
PUSD leadership development	24,707	39,073
PUSD professional staff development	63,925	16,243
Teacher grants	168,055	57,847
Technology, Robotics, & App Academy	1,933,109	2,068,448
Subject to time restrictions:		
PEF Summer School		30,000
Teacher grants		50,000
Technology, Robotics, & App Academy	200,000	200,000
Subject to endowment spending policy and appropriation:		
Music and education	78,854	27,483
Wilson Library	52,569	41,224
General operating purposes	127,242	43,369
Held in perpetuity:		
Music and education	64,000	64,000
Wilson Library	100,920	100,920
General operating purposes	231,605	181,405
Totals	<u>\$ 6,914,967</u>	<u>\$ 6,361,917</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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Satisfaction of purpose restrictions:		
Arts and music	\$ 240,017	\$ 358,611
Athletics	3,495	15,077
College programs and internship stipends	8,809	39,892
College scholarships	64,596	52,336
Community outreach	12,421	25,983
Elementary programs	616,991	930,458
Endowment earnings	4,322	3,181
Field trips		104,141
Health programs	259,589	153,088
High School programs	83,567	150,397
Literacy programs	17	19,926
McKinley Library Mural Restoration		1,444
Middle School programs	67,978	701,531
PUSD leadership development	14,367	43,123
PUSD professional staff development	242,319	10,000
PEF Summer School	17,821	41,116
Teacher grants	16,317	
Technology, Robotics & App Academy	588,104	556,852
Totals	<u>\$ 2,240,730</u>	<u>\$ 3,207,156</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 the following as net assets with donor restrictions that are perpetual in nature: 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 net assets with donor restrictions that are perpetual in nature is classified as net assets with donor restrictions that are purpose-restricted, 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, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Wilson Library	\$ 100,920	\$ 100,920
Music and education	64,000	64,000
General operating purposes	231,605	181,405
Totals	<u>\$ 396,525</u>	<u>\$ 346,325</u>

Endowment net assets consist of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash	\$ 14,674	\$ 14,674
Investments	281,669	218,953
Beneficial interest in perpetual trust	358,847	224,774
Totals	<u>\$ 655,190</u>	<u>\$ 458,401</u>

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

	<u>Subject to Appropriations</u>	<u>Held in Perpetuity</u>	<u>Total</u>
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
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)		(3,181)
Endowment Net Assets at June 30, 2020	112,076	346,325	458,401
Investment income	4,068		4,068
Investment gains	58,648		58,648
Beneficial interest in perpetual trust	88,196		88,196
Total Return on Investment	150,912		150,912
Contributions		50,200	50,200
Releases	(4,323)		(4,323)
Endowment Net Assets at June 30, 2021	<u>\$ 258,665</u>	<u>\$ 396,525</u>	<u>\$ 655,190</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 \$51,343 and \$50,394 during the years ended June 30, 2021 and 2020, 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

Gifts-in-Kind—In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires increased transparency around the use and valuation of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit entities. Under the updated guidance, gifts-in-kind are required to be presented as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, and to be disaggregated in the notes to the financial statements by the category that depicts the type of contributed nonfinancial assets. There are additional required disclosures regarding qualitative information denoting whether the gifts-in-kind were monetized or utilized during the reporting period; the entity's policy, if any, about monetizing rather than utilizing contributed nonfinancial assets; and the valuation techniques and inputs used to arrive at a fair value measure. ASU No. 2020-07 is to be applied retrospectively and is effective for annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. Early adoption is permitted. The Foundation is currently evaluating the impact that the adoption of ASU 2020-07 will have on its financial statements.

Pasadena Educational Foundation

Notes to Financial Statements—Continued

Note 13—Subsequent Events

Management has evaluated all activities of Pasadena Educational Foundation through April 6, 2022, 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.