

**COLLEGE OF THE DESERT FOUNDATION**

**(A California Nonprofit Corporation)**

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**ANNUAL FINANCIAL REPORT  
WITH  
INDEPENDENT AUDITOR'S REPORT**

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**JUNE 30, 2018 AND 2017**

**COLLEGE OF THE DESERT FOUNDATION  
(A California Nonprofit Corporation)**

**JUNE 30, 2018 AND 2017**

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**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
College of the Desert Foundation  
Palm Desert, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of College of the Desert Foundation (the Foundation) (a California nonprofit corporation), which comprise the statement of financial position as of June 30, 2018 and 2017, 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 from 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 Foundation'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 Foundation'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 the Foundation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Vavinek Tume Day & Co LLP*

Riverside, California  
October 26, 2018

**COLLEGE OF THE DESERT FOUNDATION**  
**(A California Nonprofit Corporation)**

**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30,**

	2018	2017
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,002,257	\$ 3,591,644
Investments	30,593,393	26,659,312
Investments related to deferred gifts	130,692	142,957
Unconditional promises to give	165,905	238,500
Accounts receivable	2,139	300
Accounts receivable - related party	45,000	-
Accrued interest receivable	120,870	66,435
Student emergency funds held by District	5,000	5,000
Other assets	2,500	5,020
Total Current Assets	32,067,756	30,709,168
<b>Noncurrent Assets</b>		
Beneficial interest in assets held by the Foundation for California Community Colleges	394,703	388,801
Unconditional promises to give - net of amortized discount	-	122,785
Equipment (net of accumulated depreciation)	4,057	7,562
Total Noncurrent Assets	398,760	519,148
Total Assets	\$ 32,466,516	\$ 31,228,316
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 159,481	\$ 16,212
Accrued expenses	64,732	52,806
Accounts payable - related party	201,597	425,348
Total Current Liabilities	425,810	494,366
 <b>NET ASSETS</b>		
<b>Unrestricted</b>		
Undesignated	2,202,786	1,590,356
Board designated	500,000	500,000
Total Unrestricted	2,702,786	2,090,356
Temporarily restricted	9,956,553	9,266,056
Permanently restricted	19,381,367	19,377,538
Total Net Assets	32,040,706	30,733,950
Total Liabilities and Net Assets	\$ 32,466,516	\$ 31,228,316

See the accompanying notes to financial statements.

**COLLEGE OF THE DESERT FOUNDATION**  
**(A California Nonprofit Corporation)**

**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30,**

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES</b>				
Contributions	\$ 230,932	\$ 291,056	\$ 10,625	\$ 532,613
Grants	-	40,000	-	40,000
Memberships	189,169	-	-	189,169
Scholarship donations	-	802,431	-	802,431
Donated facilities (in-kind)	64,462	-	-	64,462
Special events	644,598	500	-	645,098
Management services	420,608	(420,608)	-	-
Assets released from restrictions	1,339,965	(1,339,965)	-	-
Total Revenues	<u>2,889,734</u>	<u>(626,586)</u>	<u>10,625</u>	<u>2,273,773</u>
<b>EXPENSES</b>				
Program	1,770,308	-	-	1,770,308
Management and general	479,665	-	-	479,665
Fundraising	349,966	-	-	349,966
Total Expenses	<u>2,599,939</u>	<u>-</u>	<u>-</u>	<u>2,599,939</u>
<b>OTHER INCOME (EXPENSE)</b>				
Net unrealized gain (loss)	(1,700)	49,856	-	48,156
Net realized gain	285,909	804,339	-	1,090,248
Change in value of deferred gifts	-	(12,265)	-	(12,265)
Change in value of beneficial interest in assets held by the Foundation for California Community Colleges	-	5,902	-	5,902
Interest and dividends	220,099	462,781	-	682,880
Investment fees	(181,999)	-	-	(181,999)
Total Other Income (Expense)	<u>322,309</u>	<u>1,310,613</u>	<u>-</u>	<u>1,632,922</u>
TRANSFERS	<u>326</u>	<u>6,470</u>	<u>(6,796)</u>	<u>-</u>
CHANGE IN NET ASSETS	612,430	690,497	3,829	1,306,756
NET ASSETS, BEGINNING OF YEAR	<u>2,090,356</u>	<u>9,266,056</u>	<u>19,377,538</u>	<u>30,733,950</u>
NET ASSETS, END OF YEAR	<u>\$ 2,702,786</u>	<u>\$ 9,956,553</u>	<u>\$ 19,381,367</u>	<u>\$ 32,040,706</u>

See the accompanying notes to financial statements.

2017

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 103,938	\$ 353,252	\$ 1,164,884	\$ 1,622,074
-	75,000	-	75,000
200,322	-	-	200,322
-	688,403	-	688,403
64,269	-	-	64,269
733,225	16,000	-	749,225
381,502	(381,502)	-	-
1,532,357	(1,532,357)	-	-
<u>3,015,613</u>	<u>(781,204)</u>	<u>1,164,884</u>	<u>3,399,293</u>
2,095,901	-	-	2,095,901
661,608	-	-	661,608
275,038	-	-	275,038
<u>3,032,547</u>	<u>-</u>	<u>-</u>	<u>3,032,547</u>
254,031	851,322	-	1,105,353
175,563	574,387	-	749,950
-	8,562	-	8,562
-	25,788	-	25,788
147,630	434,618	-	582,248
(196,672)	-	-	(196,672)
<u>380,552</u>	<u>1,894,677</u>	<u>-</u>	<u>2,275,229</u>
<u>972,617</u>	<u>(344,335)</u>	<u>(628,282)</u>	<u>-</u>
1,336,235	769,138	536,602	2,641,975
754,121	8,496,918	18,840,936	28,091,975
<u>\$ 2,090,356</u>	<u>\$ 9,266,056</u>	<u>\$ 19,377,538</u>	<u>\$ 30,733,950</u>

**COLLEGE OF THE DESERT FOUNDATION**  
**(A California Nonprofit Corporation)**

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30,**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 1,306,756	\$ 2,641,975
Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities		
Depreciation and amortization	3,505	3,526
Unrealized gain	(48,156)	(1,105,353)
Realized gain	(1,090,248)	(749,950)
Contributions restricted for long-term purposes	(301,681)	(1,518,136)
Changes in Assets and Liabilities		
Unconditional promises to give	195,380	433,723
Accounts receivable	(1,839)	(300)
Accounts receivable - related party	(45,000)	(2,192)
Accrued interest receivable	(54,435)	(12,419)
Prepaid expenses	-	5,125
Other assets	2,520	(5,020)
Beneficial interest in assets held by the Foundation for California Community Colleges	(5,902)	(25,788)
Accounts payable	143,269	15,230
Accrued expenses	11,926	(36,956)
Accounts payable - related party	(223,751)	286,693
Net Cash Flows From Operating Activities	(107,656)	(69,842)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net purchase of investments	(2,795,677)	(304,362)
Change in value of deferred gifts	12,265	(8,562)
Net Cash Flows From Investing Activities	(2,783,412)	(312,924)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Collections of contributions restricted for long-term purposes	301,681	1,518,136
Net Cash Flows From Investing Activities	301,681	1,518,136
<b>CHANGE IN UNRESTRICTED CASH AND CASH EQUIVALENTS</b>	(2,589,387)	1,135,370
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	3,591,644	2,456,274
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 1,002,257	\$ 3,591,644

See the accompanying notes to financial statements.



**COLLEGE OF THE DESERT FOUNDATION**  
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**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED JUNE 30,**

	2018			
	Program	Management and General	Fundraising	Total
College support	\$ 514,238	\$ -	\$ -	\$ 514,238
Scholarships	690,693	-	-	690,693
Special event	-	-	100,897	100,897
Salaries and benefits	234,464	294,755	140,678	669,897
Database software manager	-	-	-	-
Bank and credit card charges	-	6,528	-	6,528
Depreciation	-	3,505	-	3,505
Equipment and maintenance	-	15,696	-	15,696
Insurance	-	7,428	-	7,428
Marketing and development	190,139	-	60,155	250,294
Annual report	-	-	-	-
Independent contractors	74,111	26,950	33,687	134,748
Membership	53	2,544	53	2,650
President's fund	48,683	-	-	48,683
Office	-	21,076	452	21,528
Conferences and travel	3,700	6,166	2,466	12,332
Postage and printing	9,984	5,001	6,190	21,175
Professional services	1,953	5,860	1,953	9,766
Recognition	2,290	17,174	3,435	22,899
Donated facilities	-	64,462	-	64,462
Bad debts	-	2,520	-	2,520
Telephone	-	-	-	-
Total Expenses	\$ 1,770,308	\$ 479,665	\$ 349,966	\$ 2,599,939

See the accompanying notes to financial statements.

2017

Program	Management and General	Fundraising	Total
\$ 918,927	\$ -	\$ -	\$ 918,927
684,287	-	-	684,287
-	-	122,995	122,995
174,608	460,963	62,859	698,430
-	10,913	574	11,487
-	8,986	-	8,986
-	3,526	-	3,526
-	13,030	-	13,030
-	7,428	-	7,428
221,683	-	55,421	277,104
-	25,290	-	25,290
65,462	-	16,365	81,827
28	1,320	27	1,375
15,652	-	-	15,652
-	10,435	213	10,648
-	3,681	-	3,681
11,589	5,918	7,150	24,657
-	17,933	3,936	21,869
3,665	27,489	5,498	36,652
-	64,269	-	64,269
-	-	-	-
-	427	-	427
<u>\$ 2,095,901</u>	<u>\$ 661,608</u>	<u>\$ 275,038</u>	<u>\$ 3,032,547</u>

**COLLEGE OF THE DESERT FOUNDATION  
(A California Nonprofit Corporation)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

***NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

**Organization and Nature of Activities**

College of the Desert Foundation (the Foundation) is a non-profit organization that was formed on July 27, 1983. The purpose of the Foundation is to enhance the quality of education by advancing College of the Desert (the College) through building relationships, securing philanthropic support, and stewarding assets. The Foundation operates primarily in the Coachella Valley of Southern California. It receives substantially all of its revenues from residents of this area and is subject to economic factors which may affect charitable giving in Southern California.

**Financial Statement Presentation**

The accompanying financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-210-50. Under ASC 958-210-50, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Foundation is required to present a statement of cash flows. The Foundation does not use fund accounting. Revenues and expenses are recorded when incurred in accordance with the accrual basis of accounting.

The Foundation and the College are financial interrelated organizations as defined by *Transfers of Assets to a Nonprofit or Charitable Trust that Holds Contributions for Others*. The Foundation reflects contributions received for the benefit of the College as revenue in its financial statements. The expenses related to these contributions are accounted for under program and supporting services.

**Net Asset Accounting**

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset types established according to their nature and purpose. Separate accounts are maintained for each net asset type; however, in the accompanying financial statements, net asset types that have similar characteristics have been combined into groups as follows:

The Unrestricted Net Assets represents all resources over which the Board of Directors has discretionary control for use in operating the Foundation, as well as all property, plant, and equipment of the Foundation.

The Temporarily Restricted Net Assets represents the temporarily restricted resources that are received with temporary donor stipulations that limit the use of the donated assets.

The Permanently Restricted Net Assets represents the permanently restricted resources that are subject to permanent restriction by the donor requiring that the principal be invested and only the income be used for general benefit of the College, its students, or a group affiliated with the College.

**COLLEGE OF THE DESERT FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**Public Support and Revenue**

The Foundation receives substantially all of its revenue from direct donations, pledges, and corporate grants. Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Realized gains/losses and unrealized gains/losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as assets released from restriction between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the time of the gift.

**Comparative Financial Information**

Comparative financial information for the prior year has been presented for additional analysis. Certain reclassifications may have been made to conform with the current year presentation.

**Donated Assets, Services, and Facilities**

The Foundation records the value of donated assets and facilities when there is an objective basis available to measure their value. Donated facilities are reflected as support in the accompanying statements at their estimated values at date of donation and fair market value of facilities for the year. Donated assets are capitalized at the stated donated value and depreciated in accordance with Foundation policies, unless they are passed through to the College.

**Use of Estimates**

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the reporting date, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income Taxes**

The Foundation is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b)(A)(vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. The Foundation's Federal informational tax returns for the years ended June 30, 2015, 2016, and 2017, are open to audit by the Federal authorities. California State informational returns for the years ended June 30, 2014, 2015, 2016, and 2017, are open to audit by State authorities.

**COLLEGE OF THE DESERT FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
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The Foundation has adopted FASB ASC Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the financial statements.

**Property and Equipment**

Capital purchases comprise furniture, fixtures and equipment, software, property, and leasehold improvements. The Foundation maintains a unit capitalization threshold of \$2,000 and an estimated useful life of greater than one year. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset or materially extend an asset's life are capitalized. The cost of routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred.

Depreciation of capital assets is computed and recorded utilizing the straight-line method. Estimated useful lives of equipment currently held by the Foundation is five years.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash held in checking, money market accounts, and certificates of deposit with maturities of less than 90 days. The Foundation maintains cash balances in financial institutions which are insured up to \$250,000. At June 30, 2018 and 2017, the Foundation had cash balances held in financial institutions in excess of Federal depository insurance coverage in the amounts of \$289,138 and \$2,860,275, respectively.

For purposes of the statements of cash flows, the Foundation considers all unrestricted highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

**Pledges Receivable**

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the time of the gift. At June 30, 2018 and 2017, unconditional promises to give have been recorded in these financial statements in the amounts of \$165,905 and \$361,285, net of amortized discount, respectively.

**COLLEGE OF THE DESERT FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

The Foundation uses the allowance method to determine uncollectible, unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Management recognized bad debt expenses in the amounts of \$2,520 and \$0 at June 30, 2018 and 2017, respectively.

**Investments**

Investments in marketable securities with readily determinable fair values are presented at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. The adjusted cost of investments is calculated as the prior year ending fair market value, plus any purchases, less any sales during the fiscal year.

**Functional Allocation of Expenses**

The costs of providing various programs and activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, based upon management's estimates, certain costs have been allocated among the programs, support services, and fundraising activities.

**Advertising Costs**

Costs associated with advertising are expensed as incurred. During the 2018 and 2017 fiscal years, total advertising costs were \$250,294 and \$277,104, respectively.

**New Accounting Pronouncements**

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Foundation's financial statements has not yet been determined, the future adoption of this guidance will require the Foundation to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases (see Note 11).

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**NOTES TO FINANCIAL STATEMENTS**  
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In August 2016, the FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14). ASU 2016-14 changes presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Foundation has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Foundation will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

**NOTE 2 - RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following at June 30, 2018:

Deferred gifts	\$ 130,692
Various donor restricted funds	6,255,962
Osher endowment	58,154
Foundation scholarships	<u>3,511,745</u>
Total Temporarily Restricted Net Assets	<u><u>\$ 9,956,553</u></u>

Temporarily restricted net assets consist of the following at June 30, 2017:

Deferred gifts	\$ 142,957
Various donor restricted funds	6,090,755
Osher endowment	52,252
Foundation scholarships	<u>2,980,092</u>
Total Temporarily Restricted Net Assets	<u><u>\$ 9,266,056</u></u>

**COLLEGE OF THE DESERT FOUNDATION  
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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

Permanently restricted net assets consist of the following at June 30, 2018:

Scholarships and programs for the College	\$ 6,697,736
Osher endowment	336,549
General endowments	<u>12,347,082</u>
Total Permanently Restricted Net Assets	<u><u>\$ 19,381,367</u></u>

Permanently restricted net assets consist of the following at June 30, 2017:

Scholarships and programs for the College	\$ 6,693,907
Osher endowment	336,549
General endowments	<u>12,347,082</u>
Total Permanently Restricted Net Assets	<u><u>\$ 19,377,538</u></u>

***NOTE 3 - UNCONDITIONAL PROMISES TO GIVE***

The Foundation's unconditional promises to give consisted of the following at June 30, 2018:

Unconditional promises to give, less than one year	<u>\$ 165,905</u>
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The Foundation's unconditional promises to give consisted of the following at June 30, 2017:

Unconditional promises to give, less than one year	\$ 238,500
Unconditional promises to give, more than one year	<u>135,405</u>
Total	373,905
Less: Unamortized discount	<u>(12,620)</u>
Net Unconditional Promises to Give	<u><u>\$ 361,285</u></u>



**COLLEGE OF THE DESERT FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 4 - INVESTMENTS**

Investments are presented at fair value in the financial statements and are composed of the following at June 30, 2018:

	Adjusted Cost	Fair Value	Unrealized Gain
Equity, Bonds, and Mutual Funds - Foundations	\$ 30,545,237	\$ 30,593,393	\$ 48,156
Beneficiary Remainder Trust	130,692	130,692	-
Investments - cash held by Foundation for Community Colleges Osher Endowment Scholarship Fund	394,703	394,703	-
Total	<u>\$ 31,070,632</u>	<u>\$ 31,118,788</u>	<u>\$ 48,156</u>

Investments are presented at fair value in the financial statements and are composed of the following at June 30, 2017:

	Adjusted Cost	Fair Value	Unrealized Gain
Equity, Bonds, and Mutual Funds - Foundations	\$ 25,553,959	\$ 26,659,312	\$ 1,105,353
Beneficiary Remainder Trust	142,957	142,957	-
Investments - cash held by Foundation for Community Colleges Osher Endowment Scholarship Fund	388,801	388,801	-
Total	<u>\$ 26,085,717</u>	<u>\$ 27,191,070</u>	<u>\$ 1,105,353</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 220,099	\$ 462,781	\$ 682,880
Net realized gain	285,909	804,339	1,090,248
Net unrealized gain (loss)	(1,700)	49,856	48,156
	<u>\$ 504,308</u>	<u>\$ 1,316,976</u>	<u>\$ 1,821,284</u>

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The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 147,630	\$ 434,618	\$ 582,248
Net realized gain	175,563	574,387	749,950
Net unrealized gain	254,031	851,322	1,105,353
	<u>\$ 577,224</u>	<u>\$ 1,860,327</u>	<u>\$ 2,437,551</u>

**NOTE 5 - OSHER ENDOWMENT SCHOLARSHIP**

The Foundation for California Community Colleges (FCCC) has created a permanent endowment fund intended to provide scholarship support to California Community College students in perpetuity. The fund began in May 2008 with a \$25 million lead gift from The Bernard Osher Foundation. The Bernard Osher Foundation will provide scholarship matching funds annually to colleges that participate. In order to take advantage of this opportunity, the College and its donors have contributed \$336,549. As of June 30, 2018 and 2017, the ending balance of the Osher Endowment Scholarship was \$394,703 and \$388,801, respectively. The Foundation receives no additional interest or dividends on the balance held at the FCCC and does not participate in the investment management of the funds. All donations to the FCCC Osher Endowment Scholarship must remain in the fund permanently and cannot be returned or used for other purposes.

**NOTE 6 - INVESTMENT SECURITIES**

**Market Value of Financial Assets and Liabilities**

The Foundation determines the fair market values of certain financial instruments based on the fair value hierarchy established in Statement of Financial Accounting Standards, *Fair Value Measurements*, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

**Assets and Liabilities Recorded at Fair Value on a Recurring Basis**

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2018. The Foundation did not have any liabilities measured at fair value on a recurring basis as of June 30, 2018.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment Assets				
Equity, Bonds, and Mutual Funds - Foundation	\$30,593,393	\$ -	\$ -	\$30,593,393
Beneficiary Remainder Trust	-	-	130,692	130,692
Colleges Osher Endowment Scholarship Fund	-	394,703	-	394,703
Other Assets				
Unconditional promises to give	-	-	165,905	165,905
Total	<u>\$30,593,393</u>	<u>\$ 394,703</u>	<u>\$ 296,597</u>	<u>\$31,284,693</u>

	<u>Level 3</u>
Investments, at Fair Value	
Balance, at June 30, 2017	\$ 504,242
Changes in the value of beneficiary remainder trust	(12,265)
Amounts received for unconditional promises to give, net	<u>(195,380)</u>
Balance, at June 30, 2018	<u>\$ 296,597</u>

The Foundation did not have any assets or liabilities recorded at fair value on a non-recurring basis.

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The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2017. The Foundation did not have any liabilities measured at fair value on a recurring basis as of June 30, 2017.

	Level 1	Level 2	Level 3	Total
Investment Assets				
Equity, Bonds, and Mutual Funds - Foundation	\$26,659,312	\$ -	\$ -	\$26,659,312
Beneficiary Remainder Trust	-	-	142,957	142,957
Colleges Osher Endowment Scholarship Fund	-	388,801	-	388,801
Other Assets				
Unconditional promises to give, net	-	-	361,285	361,285
Total	\$26,659,312	\$ 388,801	\$ 504,242	\$27,552,355

	Level 3
Investments, at Fair Value	
Balance, at June 30, 2016	\$ 929,403
Changes in the value of beneficiary remainder trust	8,562
Amounts received for unconditional promises to give, net	(433,723)
Balance, at June 30, 2017	\$ 504,242

The Foundation did not have any assets or liabilities recorded at fair value on a non-recurring basis.

**NOTE 7 - EQUIPMENT**

Property and equipment are summarized as follows at June 30, 2018:

Assets Being Depreciated	\$ 23,638
Accumulated Depreciation	(19,581)
Total	\$ 4,057

Property and equipment are summarized as follows at June 30, 2017:

Assets Being Depreciated	\$ 29,038
Accumulated Depreciation	(21,476)
Total	\$ 7,562

Depreciation expense was \$3,505 and \$3,526 at June 30, 2018 and 2017, respectively.

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***NOTE 8 - SPLIT INTEREST AGREEMENTS***

The Foundation has a beneficial interest in various irrevocable charitable remainder trusts and pooled income funds including a pooled income fund administered by the Community College League of California. The assets are held in various stocks, bonds, and other assets in the names of the individual donors' trusts, and are accounted for in the temporarily restricted fund. The trusts provide for payments to the grantor or other designated beneficiary over the trust's terms. At the end of the trust's term, the remaining assets are available to the Foundation. Fair value is based on the present value of the estimated future benefits to be received, which take into account required annual distributions to the donor, the donor's life expectancy, and the assumed rate of return on the investments over the years. The trusts are revalued on an annual basis, and the change in the present value of the trusts' assets is recorded as a gain or loss in the statements of activities.

A summary of the changes in split interest agreements is summarized as follows for June 30, 2018:

Balance, June 30, 2017	\$ 142,957
Amounts received during the year	<u>(40,224)</u>
Total	102,733
Net changes in current fair market values	<u>27,959</u>
Balance, June 30, 2018	<u><u>\$ 130,692</u></u>

A summary of the changes in split interest agreements is summarized as follows for June 30, 2017:

Balance, June 30, 2016	\$ 134,395
Amounts received during the year	<u>(40,415)</u>
Total	93,980
Net changes in current fair market values	<u>48,977</u>
Balance, June 30, 2017	<u><u>\$ 142,957</u></u>

***NOTE 9 - QUASI AND DONOR DESIGNATED ENDOWMENT AND NON-ENDOWMENT***

The Foundation's endowment consists of funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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.

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As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted funds that is not classified in permanently restricted net assets may be 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 funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

**Investment Return Objectives, Risk Parameters, and Strategies**

The Foundation has adopted an investment policy, approved by the Board of Directors, for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Therefore, the Foundation expects its endowment assets, over time, to exceed the average annual return of the applicable benchmark index with a lower than benchmark volatility over a three to five year rolling time period. Actual returns in any given year may vary from this expectation. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

**Spending Policy**

The Foundation's Board-approved spending policy was created to protect the values of the endowments. The Board of Directors approved a policy that all endowments are first subject to an annual administrative fee of two percent calculated at the end of each quarter, based on the market value balance that is deposited into the operating fund of the Foundation. The total endowment spending rate of no more than five percent per year is determined by the investment committee at its January meeting using the average market value of the funds on June 30 for each of the three years immediately preceding the fiscal year the payout is to be made.

Changes in endowment net assets as of June 30, 2018, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2017	\$ 500,000	\$ 3,032,344	\$ 19,377,538	\$ 22,909,882
Contributions	-	-	10,625	10,625
Investment income (loss)	-	1,182,281	-	1,182,281
Amounts appropriated for expenditures	-	(644,726)	-	(644,726)
Other transfers/reclassifications	-	-	(6,796)	(6,796)
Balance, June 30, 2018	<u>\$ 500,000</u>	<u>\$ 3,569,899</u>	<u>\$ 19,381,367</u>	<u>\$ 23,451,266</u>

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Changes in endowment net assets as of June 30, 2017, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2016	\$ 500,000	\$ 2,241,307	\$ 18,840,936	\$ 21,582,243
Contributions	-	-	1,164,884	1,164,884
Investment income (loss)	-	1,704,998	-	1,704,998
Amounts appropriated for expenditures	-	(913,961)	-	(913,961)
Other transfers/reclassifications	-	-	(628,282)	(628,282)
Balance, June 30, 2017	<u>\$ 500,000</u>	<u>\$ 3,032,344</u>	<u>\$ 19,377,538</u>	<u>\$ 22,909,882</u>

***NOTE 10 - RELATED PARTY TRANSACTIONS***

**Desert Community College District**

Desert Community College District (the District) charges administrative services to the Foundation. Salaries and benefits for the Executive Director, administrative staff, and other services are paid by the District and reimbursed by the Foundation. Accordingly, at June 30, 2018 and 2017, the Foundation owed the District \$201,597 and \$425,348, respectively, for all services. The Foundation bills the District for various marketing services performed on behalf of the District. Accordingly, at June 30, 2018 and 2017, the District owed the Foundation \$45,000 and \$0, respectively, for all services. The District maintains a balance of Foundation funds for purposes of student emergency awards. The balance of the funds as of June 30, 2018 and 2017, amounted to 5,000.

In addition, the District provides office space for employees who perform services for the Foundation at no charge. The donated facilities for the fiscal years 2018 and 2017 amounted to \$64,462 and \$64,269, respectively, and have been reflected in the financial statements as in-kind revenue.

***NOTE 11 - LEASE COMMITMENTS***

The Foundation leases a copier under a 60-month operating lease agreement that commenced May 2014 and expires April 2019.

For leases as of June 30, 2018, minimum required future rental payments are \$3,489 for the fiscal year ending June 30, 2019.

***NOTE 12 - TRANSFERS BETWEEN FUNDS***

During the year ended June 30, 2018 and 2017, Foundation management performed various transfers to correct fund balances identified during the reconciliation process.

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***NOTE 13 - SUBSEQUENT EVENTS***

The Foundation's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through October 26, 2018, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.