



Annual Financial Report
June 30, 2019 and 2018

College of the Desert Foundation
(A California Nonprofit Corporation)

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

JUNE 30, 2019 AND 2018

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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, 2019 and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Foundation has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. Accordingly, the June 30, 2018, financial statements have been adjusted to adopt this standard. Our opinion is not modified with respect to this matter.

Other Matter

The financial statements of College of the Desert Foundation as of and for the year ended June 30, 2018, were audited by Vavrinek, Trine, Day & Co., LLP, who joined Eide Bailly LLP on July 22, 2019, and whose report dated October 26, 2018, expressed an unmodified opinion on those statements.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the printed name and date.

Rancho Cucamonga, California
October 17, 2019

COLLEGE OF THE DESERT FOUNDATION
(A California Nonprofit Corporation)

STATEMENTS OF FINANCIAL POSITION
JUNE 30,

| | 2019 | 2018 |
|---|---------------|---------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 2,320,351 | \$ 1,002,257 |
| Investments | 30,439,202 | 30,593,393 |
| Investments related to deferred gifts | 147,051 | 130,692 |
| Unconditional promises to give | 210,000 | 165,905 |
| Accounts receivable | - | 2,139 |
| Accounts receivable - related party | - | 45,000 |
| Accrued interest receivable | 114,040 | 120,870 |
| Student emergency funds held by District | 5,000 | 5,000 |
| Other assets | 2,500 | 2,500 |
| Total Current Assets | 33,238,144 | 32,067,756 |
| Noncurrent Assets | | |
| Beneficial interest in assets held by the Foundation for California Community Colleges | 397,330 | 394,703 |
| Unconditional promises to give - net of amortized discount | 4,808 | - |
| Equipment (net of accumulated depreciation) | 1,784 | 4,057 |
| Total Noncurrent Assets | 403,922 | 398,760 |
| Total Assets | \$ 33,642,066 | \$ 32,466,516 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable | \$ 156,120 | \$ 159,481 |
| Accrued expenses | 26,051 | 64,732 |
| Accounts payable - related party | 208,092 | 201,597 |
| Total Current Liabilities | 390,263 | 425,810 |
| NET ASSETS | | |
| Without donor restrictions | | |
| Undesignated | 2,354,594 | 2,202,786 |
| Board designated | 500,000 | 500,000 |
| Total without donor restrictions | 2,854,594 | 2,702,786 |
| With donor restrictions | | |
| Total Net Assets | 33,251,803 | 32,040,706 |
| Total Liabilities and Net Assets | \$ 33,642,066 | \$ 32,466,516 |

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,

| | 2019 | | |
|---|-------------------------------|----------------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| REVENUES | | | |
| Grants | \$ - | \$ 372,500 | \$ 372,500 |
| Scholarship donations | - | 582,935 | 582,935 |
| Special events revenue | 672,559 | 25,000 | 697,559 |
| Donated facilities (in-kind) | 65,283 | - | 65,283 |
| Annual Giving | 24,530 | 16,251 | 40,781 |
| Leadership Giving | 175,537 | 43,490 | 219,027 |
| Business Engagement Giving | 3,075 | 83,070 | 86,145 |
| Major Gifts | - | 63,500 | 63,500 |
| Planned Giving | 125,771 | 464,634 | 590,405 |
| Management services | 423,446 | (423,446) | - |
| Assets released from restrictions | 1,591,129 | (1,591,129) | - |
| Total Revenues | <u>3,081,330</u> | <u>(363,195)</u> | <u>2,718,135</u> |
| EXPENSES | | | |
| Program | 2,166,819 | - | 2,166,819 |
| Management and general | 531,739 | - | 531,739 |
| Fundraising | 572,302 | - | 572,302 |
| Total Expenses | <u>3,270,860</u> | <u>-</u> | <u>3,270,860</u> |
| OTHER INCOME (EXPENSE) | | | |
| Net unrealized gain (loss) | 9,084 | 87,334 | 96,418 |
| Net realized gain | 288,390 | 729,942 | 1,018,332 |
| Interest and dividends | 205,553 | 564,126 | 769,679 |
| Investment fees | (158,660) | - | (158,660) |
| Subtotal Investment Income | <u>344,367</u> | <u>1,381,402</u> | <u>1,725,769</u> |
| Change in value of deferred gifts | - | 16,359 | 16,359 |
| Change in value of beneficial interest in assets held by the Foundation for California Community Colleges | - | 21,694 | 21,694 |
| Total Other Income (Expense) | <u>344,367</u> | <u>1,419,455</u> | <u>1,763,822</u> |
| TRANSFERS | <u>(3,029)</u> | <u>3,029</u> | <u>-</u> |
| CHANGE IN NET ASSETS | 151,808 | 1,059,289 | 1,211,097 |
| NET ASSETS, BEGINNING OF YEAR | 2,702,786 | 29,337,920 | 32,040,706 |
| NET ASSETS, END OF YEAR | <u>\$ 2,854,594</u> | <u>\$ 30,397,209</u> | <u>\$ 33,251,803</u> |

See the accompanying notes to financial statements.

2018

| Without Donor Restrictions | With Donor Restrictions | Total |
|-------------------------------|----------------------------|----------------------|
| \$ - | \$ 40,000 | \$ 40,000 |
| - | 802,431 | 802,431 |
| 644,598 | 500 | 645,098 |
| 64,462 | - | 64,462 |
| 49,222 | 17,465 | 66,687 |
| 341,760 | 102,892 | 444,652 |
| 4,119 | 98,959 | 103,078 |
| - | 64,032 | 64,032 |
| 25,000 | - | 25,000 |
| 420,608 | (420,608) | - |
| 1,339,965 | (1,339,965) | - |
| <u>2,889,734</u> | <u>(634,294)</u> | <u>2,255,440</u> |
| 1,770,308 | - | 1,770,308 |
| 479,665 | - | 479,665 |
| 349,966 | - | 349,966 |
| <u>2,599,939</u> | <u>-</u> | <u>2,599,939</u> |
| (1,700) | 49,856 | 48,156 |
| 285,909 | 804,339 | 1,090,248 |
| 220,099 | 462,781 | 682,880 |
| (181,999) | - | (181,999) |
| <u>322,309</u> | <u>1,316,976</u> | <u>1,639,285</u> |
| - | (12,265) | (12,265) |
| - | 24,235 | 24,235 |
| <u>322,309</u> | <u>1,328,946</u> | <u>1,651,255</u> |
| 326 | (326) | - |
| 612,430 | 694,326 | 1,306,756 |
| 2,090,356 | 28,643,594 | 30,733,950 |
| <u>\$ 2,702,786</u> | <u>\$ 29,337,920</u> | <u>\$ 32,040,706</u> |

COLLEGE OF THE DESERT FOUNDATION
(A California Nonprofit Corporation)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

| | 2019 | 2018 |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ 1,211,097 | \$ 1,306,756 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Flows From (Used For) Operating Activities | | |
| Depreciation and amortization | 2,273 | 3,505 |
| Unrealized gain | (96,418) | (48,156) |
| Realized gain | (1,018,332) | (1,090,248) |
| Change in value of deferred gifts | (16,359) | 12,265 |
| Contributions restricted for long-term purposes | (670,945) | (283,348) |
| Distributions from beneficial interest in assets held by the Foundation for California Community Colleges | 19,067 | 18,333 |
| Change in beneficial interest in assets held by the Foundation for California Community Colleges | (21,694) | (24,235) |
| Changes in Assets and Liabilities | | |
| Unconditional promises to give | (48,903) | 195,380 |
| Accounts receivable | 2,139 | (1,839) |
| Accounts receivable - related party | 45,000 | (45,000) |
| Accrued interest receivable | 6,830 | (54,435) |
| Other assets | - | 2,520 |
| Accounts payable | (3,361) | 143,269 |
| Accrued expenses | (38,681) | 11,926 |
| Accounts payable - related party | 6,495 | (223,751) |
| Net Cash Flows From Operating Activities | (621,792) | (77,058) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Sale (purchase) of investments | 1,268,941 | (2,795,677) |
| Net Cash Flows From Investing Activities | 1,268,941 | (2,795,677) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Collections of contributions restricted for long-term purposes | 670,945 | 283,348 |
| Net Cash Flows From Investing Activities | 670,945 | 283,348 |
| CHANGE IN UNRESTRICTED CASH AND CASH EQUIVALENTS | 1,318,094 | (2,589,387) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 1,002,257 | 3,591,644 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 2,320,351 | \$ 1,002,257 |

See the accompanying notes to financial statements.

COLLEGE OF THE DESERT FOUNDATION
(A California Nonprofit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30,

| | 2019 | | | |
|------------------------------|--------------|---------------------------|-------------|--------------|
| | Program | Management and General | Fundraising | Total |
| College support | \$ 608,997 | \$ - | \$ - | \$ 608,997 |
| Scholarships | 847,714 | - | - | 847,714 |
| Special event | - | - | 247,610 | 247,610 |
| Salaries and benefits | 214,430 | 269,569 | 128,658 | 612,657 |
| Bank and credit card charges | - | 6,988 | - | 6,988 |
| Depreciation | - | 2,273 | - | 2,273 |
| Equipment and maintenance | - | 16,506 | - | 16,506 |
| Insurance | - | 555 | - | 555 |
| Marketing and development | 228,565 | - | 98,749 | 327,314 |
| Independent contractors | 164,296 | 59,744 | 74,680 | 298,720 |
| Membership | 73 | 3,504 | 73 | 3,650 |
| President's fund | 72,967 | - | - | 72,967 |
| Office | - | 28,351 | 697 | 29,048 |
| Conferences and travel | 11,174 | 18,623 | 7,449 | 37,246 |
| Postage and printing | 12,834 | 6,429 | 7,957 | 27,220 |
| Professional services | 4,450 | 13,349 | 4,450 | 22,249 |
| Recognition | 1,319 | 9,896 | 1,979 | 13,194 |
| Donated facilities | - | 65,283 | - | 65,283 |
| Bad debts | - | 28,905 | - | 28,905 |
| Telephone | - | 1,764 | - | 1,764 |
| Total Expenses | \$ 2,166,819 | \$ 531,739 | \$ 572,302 | \$ 3,270,860 |

See the accompanying notes to financial statements.

2018

| Program | Management and General | Fundraising | Total |
|---------------------|---------------------------|-------------------|---------------------|
| \$ 514,238 | \$ - | \$ - | \$ 514,238 |
| 690,693 | - | - | 690,693 |
| - | - | 100,897 | 100,897 |
| 234,464 | 294,755 | 140,678 | 669,897 |
| - | 6,528 | - | 6,528 |
| - | 3,505 | - | 3,505 |
| - | 15,696 | - | 15,696 |
| - | 7,428 | - | 7,428 |
| 190,139 | - | 60,155 | 250,294 |
| 74,111 | 26,950 | 33,687 | 134,748 |
| 53 | 2,544 | 53 | 2,650 |
| 48,683 | - | - | 48,683 |
| - | 21,076 | 452 | 21,528 |
| 3,700 | 6,166 | 2,466 | 12,332 |
| 9,984 | 5,001 | 6,190 | 21,175 |
| 1,953 | 5,860 | 1,953 | 9,766 |
| 2,290 | 17,174 | 3,435 | 22,899 |
| - | 64,462 | - | 64,462 |
| - | 2,520 | - | 2,520 |
| - | - | - | - |
| <u>\$ 1,770,308</u> | <u>\$ 479,665</u> | <u>\$ 349,966</u> | <u>\$ 2,599,939</u> |

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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 two classes of net assets: without donor restrictions and with donor restrictions. 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:

Net Assets Without Donor Restrictions - Net assets available for general use and not subject to donor restrictions. Net assets without donor restrictions 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. In addition, the Foundation's Board has also designated various balances of net assets without donor restrictions for certain uses as described in Note 11.

COLLEGE OF THE DESERT FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Net Assets With Donor Restrictions - Net assets that are contributions and endowment investment earnings subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity. The Foundation reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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 net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions

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 and Reclassifications

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. During the year, management had a change in the general ledger structure for revenues. For comparability purposes, management decided to reclassify prior year revenues for presentation purposes to align with the current year revenue structure. For prior year revenues that were readily identifiable as belonging to specific current year revenue classes, management has classified these accordingly. For prior year revenues that were not readily identifiable as to which current year revenue class they would have belonged, management has analyzed current year activity and applied a percentage to allocate the revenues across each revenue class and restriction accordingly.

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.

COLLEGE OF THE DESERT FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 are no longer subject to tax examinations for the years before June 30, 2016. California State informational returns are no longer subject to tax examinations for the years before June 30, 2015.

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 original maturities of less than 90 days. The Foundation maintains cash balances in financial institutions which are insured up to \$250,000. At June 30, 2019 and 2018, the Foundation had cash balances held in financial institutions in excess of Federal depository insurance coverage in the amounts of \$1,554,803 and \$289,138, respectively.

COLLEGE OF THE DESERT FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Promises to Give

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 net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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, 2019 and 2018, unconditional promises to give have been recorded in these financial statements in the amounts of \$214,808 and \$165,905, net of amortized discount, respectively.

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 \$28,905 and \$2,520 at June 30, 2019 and 2018, respectively.

Beneficial Interest in Assets Held by Community Foundation

During 2008, the Foundation established an endowment fund that is perpetual in nature (the Fund) under a community foundation's (the CF) Osher Endowment Scholarship program and named the Foundation as a beneficiary. Variance power was granted to the CF which allows the CF to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of the CF's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The Fund is held and invested by the CF for the Foundation's benefit and is reported at fair value in the consolidated statements of financial position, with distributions and changes in fair value recognized in the statements of activities.

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 net assets without donor restrictions 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.

COLLEGE OF THE DESERT FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Accordingly, based upon management's estimates, certain costs have been allocated among the programs, support services, and fundraising activities.

Management Fee

Endowments received by the Foundation are subject to a two percent annual administrative fee of the value of the endowed asset. The fee will come from the interest earned off the endowment. The Foundation also assesses a five percent gift fee on all restricted and endowed donations. Revenues received from management fees are used by the Foundation to further advancement efforts on behalf of College of the Desert.

Advertising Costs

Costs associated with advertising are expensed as incurred. During the 2019 and 2018 fiscal years, total advertising costs were \$327,314 and \$250,294, respectively.

Change in Accounting Principle

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. 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 previously required three classes (unrestricted, temporarily restricted, and permanently restricted). The Foundation has implemented the provisions of this ASU as of June 30, 2019.

COLLEGE OF THE DESERT FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) ASC 842, *Leases* (ASU ASC 842). ASU ASC 842 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 ASC 842 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. 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 13).

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). ASU 2018-08 clarifies how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution, helps an entity to evaluate whether contributions are considered conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation, and modifies the simultaneous release option currently in GAAP, which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is met in the same period that revenue is recognized. Accounting for contributions is an issue primarily for not-for-profit entities because contributions are a significant source of revenue. However, the amendments in the Update apply to all organizations that receive or make contributions of cash and other assets, including business enterprises. The amendments do not apply to transfers of assets from governments to businesses. For contributions received, ASU 2018-08 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For contributions made, ASU 2018-08 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020.

COLLEGE OF THE DESERT FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position sheet date, comprise the following:

| | 2019 | 2018 |
|--|--------------|--------------|
| Cash and Cash Equivalents | \$ 2,320,351 | \$ 1,002,257 |
| Investments | 30,439,202 | 30,593,393 |
| Unconditional promises to give, current (pledges) | 210,000 | 165,905 |
| Total Financial Assets Available Within One Year | 32,969,553 | 31,761,555 |
| Less: | | |
| Amounts unavailable for general expenditures within one year, due to restriction by donors: | | |
| Unconditional promises to give (restricted pledges) | 29,867,757 | 28,763,606 |
| Total Financial Assets Unavailable Within One Year | 159,808 | 90,708 |
| Total Financial Assets Available to Management for General Expenditure Within One Year | \$ 2,941,988 | \$ 2,907,241 |

Liquidity Management

To manage liquidity, the Foundation structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To ensure the stability of its mission, programs, employment, and ongoing operations, the Foundation maintains a Board Designated Reserve Fund. The Foundation has an Investment Policy Statement that establishes investment objectives for short-term and long-term investments. The short-term investments include assets with donor restrictions, as well as assets without donor restrictions. Since these funds are maintained for current operating expenses, as well as near-term funding commitments, they are managed with little or no risk to principle. They include cash and cash equivalents and short-term fixed income securities with an average maturity of three years and a maximum maturity of five years. The Endowed Assets are invested to emphasize long-term investment fundamentals. The objective is to maximize long-term returns consistent with prudent levels of risk. Investment returns are expected to provide adequate funds to sufficiently support designated needs and preserve or enhance the real value of the Foundation.

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**NOTES TO FINANCIAL STATEMENTS
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NOTE 3 - RESTRICTIONS ON NET ASSET BALANCES

Donor restricted net assets with time and/or purpose restrictions consist of the following at June 30, 2019:

| | |
|-----------------------------------|-----------------------------|
| Deferred gifts | \$ 147,051 |
| Various donor restricted funds | 6,503,495 |
| Osher endowment | 60,781 |
| Foundation scholarships | 4,271,076 |
| Total Donor Restricted Net Assets | <u><u>\$ 10,982,403</u></u> |

Donor restricted net assets with time and/or purpose restrictions 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 | 3,511,745 |
| Total Donor Restricted Net Assets | <u><u>\$ 9,956,553</u></u> |

Donor restricted net assets with perpetual restrictions consist of the following at June 30, 2019:

| | |
|---|-----------------------------|
| Scholarships and programs for the College | \$ 6,731,175 |
| Osher endowment | 336,549 |
| General endowments | 12,347,082 |
| Total Donor Restricted Net Assets | <u><u>\$ 19,414,806</u></u> |

Donor restricted net assets with perpetual restrictions consist of the following at June 30, 2018:

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

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NOTE 4 - UNCONDITIONAL PROMISES TO GIVE

The Foundation's unconditional promises to give consisted of the following at June 30, 2019:

| | |
|--|------------|
| Unconditional promises to give, less than one year | \$ 210,000 |
| Unconditional promises to give, more than one year | 5,000 |
| Total | 215,000 |
| Less: Unamortized discount | (192) |
| Net Unconditional Promises to Give | \$ 214,808 |

The discount rate utilized for the year ended June 30, 2019, was four percent.

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

| | |
|--|------------|
| Unconditional promises to give, less than one year | \$ 165,905 |
|--|------------|

NOTE 5 - INVESTMENTS

Investments are presented at fair value in the financial statements and are composed of the following at June 30, 2019:

| | <u>Adjusted Cost</u> | <u>Fair Value</u> | <u>Net Unrealized Gain</u> |
|--|--------------------------|-------------------|------------------------------------|
| Equity, Bonds, and Mutual Funds - Foundations | \$ 30,342,784 | \$ 30,439,202 | \$ 96,418 |
| Beneficiary Remainder Trust | 147,051 | 147,051 | - |
| Investments - cash held by Foundation for Community Colleges Osher Endowment Scholarship Fund | 397,330 | 397,330 | - |
| Total | \$ 30,887,165 | \$ 30,983,583 | \$ 96,418 |

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

| | <u>Adjusted Cost</u> | <u>Fair Value</u> | <u>Net Unrealized Gain</u> |
|--|--------------------------|-------------------|------------------------------------|
| 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 | \$ 31,070,632 | \$ 31,118,788 | \$ 48,156 |

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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, 2019:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|------------------------|-------------------------------|----------------------------|---------------------|
| Interest and dividends | \$ 205,553 | \$ 564,126 | \$ 769,679 |
| Net realized gain | 288,390 | 729,942 | 1,018,332 |
| Net unrealized gain | 9,084 | 87,334 | 96,418 |
| | <u>\$ 503,027</u> | <u>\$ 1,381,402</u> | <u>\$ 1,884,429</u> |

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

| | Without Donor Restrictions | With Donor Restrictions | 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> |

NOTE 6 - 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, 2019 and 2018, the ending balance of the Osher Endowment Scholarship was \$397,330 and \$394,703, 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 7 - 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.

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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.

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, 2019. The Foundation did not have any liabilities measured at fair value on a recurring basis as of June 30, 2019.

| | Level 1 | Level 2 | Level 3 | Total |
|---|----------------------|---------------------|-------------------|----------------------|
| Investment Assets | | | | |
| Equity | \$ 10,302,877 | \$ 5,902,836 | \$ - | \$ 16,205,713 |
| Bonds | 11,501,283 | - | - | 11,501,283 |
| Mutual Funds | 1,896,274 | - | - | 1,896,274 |
| Exchange Traded Funds | 731,898 | - | - | 731,898 |
| Other Assets | 104,034 | - | - | 104,034 |
| Beneficiary Remainder Trust | - | - | 147,051 | 147,051 |
| Colleges Osher Endowment Scholarship Fund | 397,330 | - | - | 397,330 |
| Total | <u>\$ 24,933,696</u> | <u>\$ 5,902,836</u> | <u>\$ 147,051</u> | <u>\$ 30,983,583</u> |

| | |
|---|-----------------------------------|
| | Beneficiary Remainder Trust |
| Investments, at Fair Value | |
| Balance, at June 30, 2018 | \$ 130,692 |
| Changes in the value of beneficiary remainder trust | <u>16,359</u> |
| Balance, at June 30, 2019 | <u>\$ 147,051</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, 2018. The Foundation did not have any liabilities measured at fair value on a recurring basis as of June 30, 2018.

| | Level 1 | Level 2 | Level 3 | Total |
|---|----------------------|-------------|-------------------|----------------------|
| Investment Assets | | | | |
| Equity | \$ 9,737,535 | \$ - | \$ - | \$ 9,737,535 |
| Bonds | 17,682,391 | - | - | 17,682,391 |
| Mutual Funds | 2,272,504 | - | - | 2,272,504 |
| Exchange Traded Funds | 751,713 | - | - | 751,713 |
| Other Assets | 149,250 | - | - | 149,250 |
| Beneficiary Remainder Trust | - | - | 130,692 | 130,692 |
| Colleges Osher Endowment Scholarship Fund | 394,703 | - | - | 394,703 |
| Total | <u>\$ 30,988,096</u> | <u>\$ -</u> | <u>\$ 130,692</u> | <u>\$ 31,118,788</u> |

| | Beneficiary Remainder Trust |
|---|-----------------------------------|
| Investments, at Fair Value | |
| Balance, at June 30, 2017 | \$ 142,957 |
| Changes in the value of beneficiary remainder trust | (12,265) |
| Balance, at June 30, 2018 | <u>\$ 130,692</u> |

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

NOTE 8 - EQUIPMENT

Property and equipment are summarized as follows at June 30, 2019:

| | |
|--------------------------|-----------------|
| Assets Being Depreciated | 23,638 |
| Accumulated Depreciation | (21,854) |
| Total | <u>\$ 1,784</u> |

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

| | |
|--------------------------|-----------------|
| Assets Being Depreciated | \$ 23,638 |
| Accumulated Depreciation | (19,581) |
| Total | <u>\$ 4,057</u> |

Depreciation expense was \$2,273 and \$3,505 at June 30, 2019 and 2018, respectively.

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NOTE 9 - 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 net assets with donor restrictions. 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, 2019:

| | |
|---|------------|
| Balance, June 30, 2018 | \$ 130,692 |
| Amounts received during the year | (38,560) |
| Total | 92,132 |
| Net changes in current fair market values | 54,919 |
| Balance, June 30, 2019 | \$ 147,051 |

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 | (40,224) |
| Total | 102,733 |
| Net changes in current fair market values | 27,959 |
| Balance, June 30, 2018 | \$ 130,692 |

NOTE 10 - DONOR DESIGNATED ENDOWMENT

The Foundation's endowment consists of funds established for a variety of purposes. Its endowment includes donor-restricted funds. 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 retains in perpetuity (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 held in perpetuity is classified as net assets with donor restrictions and may be 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 month, 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, 2019, are as follows:

| | With Donor Restrictions |
|---------------------------------------|----------------------------|
| Balance, June 30, 2018 | \$ 22,951,266 |
| Contributions | 39,739 |
| Investment income | 1,423,370 |
| Amounts appropriated for expenditures | (653,245) |
| Other transfers/reclassifications | (14,467) |
| Balance, June 30, 2019 | \$ 23,746,663 |

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

| | With Donor Restrictions |
|---------------------------------------|----------------------------|
| Balance, June 30, 2017 | \$ 22,409,882 |
| Contributions | 10,625 |
| Investment income | 1,182,281 |
| Amounts appropriated for expenditures | (644,726) |
| Other transfers/reclassifications | (6,796) |
| Balance, June 30, 2018 | \$ 22,951,266 |

NOTE 11 - BOARD DESIGNATED NET ASSETS

Net assets without donor restrictions that have been Board designated consist of the following at June 30,:

| | 2019 | 2018 |
|------------------|------------|------------|
| General Reserves | \$ 500,000 | \$ 500,000 |

NOTE 12 - 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, 2019 and 2018, the Foundation owed the District \$208,092 and \$201,597, respectively, for all services. The Foundation bills the District for various marketing services performed on behalf of the District. Accordingly, at June 30, 2019 and 2018, the District owed the Foundation \$0 and \$45,000, respectively, for all services. The District maintains a balance of Foundation funds for purposes of student emergency awards. The balances of the funds as of June 30, 2019 and 2018, amounted to \$5,000 and \$5,000, respectively.

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 2019 and 2018 amounted to \$65,283 and \$64,462, respectively, and have been reflected in the financial statements as in-kind revenue.

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NOTE 13 - LEASE COMMITMENTS

The Foundation leases a copier under a 48-month operating lease agreement that commenced April 2019 and expires March 2023.

For leases as of June 30, 2019, minimum required future rental payments are as follows:

| Year Ending June 30, | Total Payments |
|-------------------------|-------------------|
| 2020 | \$ 7,183 |
| 2021 | 7,183 |
| 2022 | 7,183 |
| 2023 | 5,388 |
| Total | <u>\$ 26,937</u> |

NOTE 14 - TRANSFERS BETWEEN FUNDS

During the years ended June 30, 2019 and 2018, Foundation management performed various transfers to correct fund balances identified during the reconciliation process and to transfer a donation without donor restriction to a scholarship account with donor restrictions per donor request.

NOTE 15 - ADJUSTMENT RESULTING FROM CHANGE IN ACCOUNTING PRINCIPLE

As disclosed in Note 1, the Foundation adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*, as of June 30, 2018. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Foundation's June 30, 2018, net assets.

The effect on the Foundation's statement of financial position as of June 30, 2018, is as follows:

| | As Previously Reported | Adoption of ASU 2016-14 | As Adjusted |
|---------------------------------------|---------------------------|----------------------------|-------------|
| Unrestricted | \$ 2,702,786 | \$ (2,702,786) | \$ - |
| Temporarily restricted net assets | 9,956,553 | (9,956,553) | - |
| Permanently restricted net assets | 19,381,367 | (19,381,367) | - |
| Net assets without donor restrictions | - | 2,702,786 | 2,702,786 |
| Net assets with donor restrictions | - | 29,337,920 | 29,337,920 |

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The effect on the Foundation's statement of activities as of June 30, 2018, is as follows:

| | <u>As Previously Reported</u> | <u>Adoption of ASU 2016-14</u> | <u>As Adjusted</u> |
|---------------------------------------|-----------------------------------|------------------------------------|--------------------|
| Net Assets, Beginning of the Year | | | |
| Unrestricted | \$ 2,090,356 | \$ (2,090,356) | \$ - |
| Temporarily restricted net assets | 9,266,056 | (9,266,056) | - |
| Permanently restricted net assets | 19,377,538 | (19,377,538) | - |
| Net assets without donor restrictions | - | 2,090,356 | 2,090,356 |
| Net assets with donor restrictions | - | 28,643,594 | 28,643,594 |
| | | | |
| Net Assets, End of the Year | | | |
| Unrestricted | \$ 2,702,786 | \$ (2,702,786) | \$ - |
| Temporarily restricted net assets | 9,956,553 | (9,956,553) | - |
| Permanently restricted net assets | 19,381,367 | (19,381,367) | - |
| Net assets without donor restrictions | - | 2,702,786 | 2,702,786 |
| Net assets with donor restrictions | - | 29,337,920 | 29,337,920 |

NOTE 16 - 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 17, 2019, 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.