

**SADDLEBACK COLLEGE FOUNDATION**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS**

**For the Fiscal Year Ended June 30, 2019**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2018**  
**And**  
**Independent Auditors' Report**



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**SADDLEBACK COLLEGE FOUNDATION**

**TABLE OF CONTENTS**  
**June 30, 2019**

<b>INDEPENDENT AUDITORS' REPORT .....</b>	<b>1</b>
Statement of Financial Position .....	3
Statement of Activities.....	4
Statement of Cash Flows .....	5
Statement of Functional Expense.....	6
Notes to the Financial Statements.....	7



## INDEPENDENT AUDITORS' REPORT

Board of Governors  
Saddleback College Foundation  
28000 Marguerite Parkway  
Mission Viejo, CA 92692

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

We have audited the accompanying basic financial statements of the Saddleback College Foundation (the Foundation), a component unit of the South Orange County Community College District, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, cash flows and functional expense 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.

### **Auditors' 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 of material misstatement.

An audit involves performing procedures to obtain 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

Board of Governors  
Saddleback College Foundation

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 on page one present fairly, in all material respects, the respective financial position of the Saddleback College Foundation as of June 30, 2019, and the changes in 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 a matter**

### *Change in Accounting Principles*

As discussed in Note 1 to the financial statement, Saddleback College Foundation adopted the accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for Profit Entities*. Our auditors' opinion was not modified with respect to the implementation.

### *Correction of Error*

As discussed in Note 11 to the financial statements, certain errors resulting in an understatement of amounts reported in the statement of net position as of June 30, 2018 and the statement of activities for the fiscal year then ended, were discovered. Accordingly, beginning net assets have been restated in the June 30, 2018 financial statements now presented. Our opinion is not modified with respect to this matter.

## **Report on Summarized Comparative Information**

We have previously audited the Foundation's June 30, 2018 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated October 29, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived taking into consideration the prior period adjustments noted above.



CliftonLarsonAllen LLP  
Glendora, California  
November 5, 2019

**SADDLEBACK COLLEGE FOUNDATION**

**STATEMENT OF FINANCIAL POSITION**

**June 30, 2019**

*With Comparative Totals at June 30, 2018*

	2019	2018 (as restated)
<b><u>Assets</u></b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 79,702	\$ 309,036
Accounts receivable	39,214	12,559
Contributions receivable - current portion	4,000	4,000
Investments, at fair value	219,942	583,147
Prepays	87,374	50,581
<b>Total Current Assets</b>	<b>430,232</b>	<b>959,323</b>
 <b>Non-Current Assets:</b>		
Contributions receivable, net of discount	1,150,150	1,084,474
Investments, at fair value	8,321,821	7,905,962
Investments with FCCC	940,837	936,808
<b>Total Non-Current Assets</b>	<b>10,412,808</b>	<b>9,927,244</b>
<b>Total Assets</b>	<b>\$ 10,843,040</b>	<b>\$ 10,886,567</b>
 <b><u>Liabilities and Net Assets</u></b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 25,537	\$ 21,603
Accrued liabilities	70,161	198,870
<b>Total Current Liabilities</b>	<b>95,698</b>	<b>220,473</b>
 <b>Net Assets:</b>		
Without donor restrictions	47,981	124,082
With donor restrictions	10,699,361	10,542,012
<b>Total Net Assets</b>	<b>10,747,342</b>	<b>10,666,094</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 10,843,040</b>	<b>\$ 10,886,567</b>

**SADDLEBACK COLLEGE FOUNDATION**

**STATEMENT OF ACTIVITIES**

**For the Fiscal Year Ended June 30, 2019**

*With Comparative Totals for the Fiscal Year Ended June 30, 2018*

	June 30, 2019			June 30, 2018 (as restated)
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Support and Revenue</b>				
Support				
Contributions	\$ 53,963	\$ 679,545	\$ 733,508	\$ 1,729,690
Special event income - fundraisers	-	92,361	92,361	252,226
Campus programs	117,646	131,994	249,640	238,917
In-kind donations	28,133	-	28,133	51,607
Donated services	307,469	-	307,469	431,473
Donated professional fees	10,860	-	10,860	9,000
<b>Total Support</b>	<u>518,071</u>	<u>903,900</u>	<u>1,421,971</u>	<u>2,712,913</u>
Other income, gains and losses				
Investment income	46,301	237,368	283,669	112,023
Realized gain (loss) on investments	52,826	115,026	167,852	591,480
Unrealized gain (loss) on investments	7,154	(152,886)	(145,732)	(311,890)
Change in value of FCCC investments	-	4,029	4,029	14,594
Other income	109,152	123,300	232,452	241,312
<b>Total Other Income, Gains, and Losses</b>	<u>215,433</u>	<u>326,837</u>	<u>542,270</u>	<u>647,519</u>
Total revenues before net				
assets released from restrictions	733,504	1,230,737	1,964,241	3,360,432
<b>Net assets released from restrictions</b>	<u>1,073,388</u>	<u>(1,073,388)</u>	<u>-</u>	<u>-</u>
<b>Total Support and Revenue</b>	<u>1,806,892</u>	<u>157,349</u>	<u>1,964,241</u>	<u>3,360,432</u>
<b>Operating Expenses</b>				
Program services	1,533,872	-	1,533,872	1,901,689
Supporting services				
Management and general	157,817	-	157,817	187,711
Fundraising	191,304	-	191,304	334,956
<b>Total Expenses</b>	<u>1,882,993</u>	<u>-</u>	<u>1,882,993</u>	<u>2,424,356</u>
<b>Change in net assets</b>	<u>(76,101)</u>	<u>157,349</u>	<u>81,248</u>	<u>936,076</u>
<b>Net Assets</b>				
Beginning of year, as restated (see Note 11)	<u>124,082</u>	<u>10,542,012</u>	<u>10,666,094</u>	<u>9,730,018</u>
End of year	<u>\$ 47,981</u>	<u>\$ 10,699,361</u>	<u>\$ 10,747,342</u>	<u>\$ 10,666,094</u>

See the accompanying notes to the financial statements

**SADDLEBACK COLLEGE FOUNDATION**

**STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2019**

*With Comparative Totals for the Fiscal Year Ended June 30, 2018*

	2019	2018 (as restated)
<b>Cash flows from operating activities</b>		
Contributions and special events	\$ 760,193	\$ 1,826,001
Campus programs	222,985	240,967
Investment income	287,698	148,224
Other income	232,452	241,312
Payments to/on behalf of employees	(601,064)	(655,343)
Payments to suppliers	(769,143)	(947,867)
Payments to/on behalf of students	(327,891)	(514,781)
Net cash provided (used) by operating activities	(194,771)	338,513
<b>Cash flows from investing activities</b>		
Purchase of investments	(5,509,878)	(4,865,481)
Proceeds from sale of investments	5,475,315	4,743,623
Net cash used by investing activities	(34,563)	(121,858)
Net increase (decrease) in cash and cash equivalents	(229,334)	216,655
Cash and cash equivalents, beginning of year	309,036	92,381
Cash and cash equivalents, end of year	\$ 79,702	\$ 309,036
<b>Reconciliation of change in net assets to cash provided (used) by operating activities</b>		
Change in net assets	\$ 81,248	\$ 936,076
Adjustment to reconcile change in net assets to cash provided (used) by operating activities		
Realized and unrealized gain on investments	(22,120)	(294,184)
Amortization of discount - present value contributions	98,239	69,796
Change in assets - (increase)/decrease:		
Accounts receivable	(26,655)	2,050
Contributions receivable	(163,915)	(225,711)
Prepays	(36,793)	(13,814)
Change in liabilities - increase/(decrease):		
Accounts payable	3,934	2,321
Accrued liabilities	(128,709)	(138,021)
Net cash provided (used) by operating activities	\$ (194,771)	\$ 338,513

See the accompanying notes to the financial statements

**SADDLEBACK COLLEGE FOUNDATION**

**STATEMENT OF FUNCTIONAL EXPENSE**  
**For the Fiscal Year Ended June 30, 2019**  
*With Comparative Totals for the Fiscal Year Ended June 30, 2018*

	Program Services	Management & General	Fundraising	Total 2019	Total 2018
Salaries and benefits	\$ 331,232	\$ 60,849	\$ 80,273	\$ 472,355	\$ 517,322
Scholarships and grants	327,891	-	-	327,891	514,781
Donated services	178,464	84,962	44,043	307,469	431,473
Donated professional fees	10,860	-	-	10,860	9,000
In-kind donations	28,133	-	-	28,133	51,607
Supplies and printing	20,547	-	-	20,547	22,879
Conferences and meetings	12,536	1,930	-	14,467	18,336
Dues and memberships	7,471	146	-	7,617	8,516
Equipment	80,031	-	-	80,031	36,492
Contract services	138,168	8,064	-	146,232	149,339
Special events	-	-	66,987	66,987	219,937
Program expenses	256,071	-	-	256,071	301,717
Other expenses	142,466	1,866	-	144,333	142,957
<b>Total</b>	<u>\$ 1,533,872</u>	<u>\$ 157,817</u>	<u>\$ 191,304</u>	<u>\$ 1,882,993</u>	<u>\$ 2,424,356</u>

See the accompanying notes to the financial statements



# SADDLEBACK COLLEGE FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

*With Comparative Totals for the Fiscal Year Ended June 30, 2018*

### NOTE 1: ORGANIZATION

#### **Organization and Nature of Activities**

Saddleback College Foundation (the Foundation) is a California, nonprofit public benefit corporation founded on December 5, 2003, for the purpose of receiving contributions to further the educational purposes of Saddleback College which is part of the South Orange County Community College District (the District). The principal sources of revenue for the Foundation include donor contributions and investment related income.

#### **Basis of Accounting**

The Foundation prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned rather than when cash is received and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed. The financial statements include the accounts maintained by, and directly under, the control of the Foundation.

#### **Classification of Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

#### **Net Assets Without Donor Restrictions**

Net assets available for use in general operations and not subject to donor restrictions. The board of governors may designate, from net assets without donor restrictions, net assets for board-directed activities.

#### **Net Assets With Donor Restrictions**

Net assets 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 donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

# SADDLEBACK COLLEGE FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

*With Comparative Totals for the Fiscal Year Ended June 30, 2018*

### NOTE 1: ORGANIZATION

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash held in checking accounts. The Foundation maintains cash balances in financial institutions which are insured up to \$250,000. The Foundation occasionally maintains cash balances in excess of the insured amounts, and has not incurred losses. For purposes of the statement of cash flows, the Foundation considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

#### **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.

#### **Fair Value Measurements**

The fair value of equity and debt securities with readily determinable fair values approximates their respective quoted market prices. The fair value of investments in partnerships and real estate held as investments is estimated using private valuations of the securities or properties held. Because of the inherent uncertainty of valuation methods, those estimated values might differ significantly from those used had a market existed. All other financial instruments' fair values approximate their carrying amounts due to the short maturities of these instruments.

#### **Public Support and Revenue**

The Foundation receives substantially all of its revenue from direct donations and promises to give. Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Realized gains/losses and unrealized gains/losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions 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.

# SADDLEBACK COLLEGE FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

*With Comparative Totals for the Fiscal Year Ended June 30, 2018*

### **NOTE 1: ORGANIZATION**

Contributions of assets other than cash are recorded at their estimated fair value at the time of the gift.

#### **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.

#### **Functional Allocation of Expenses**

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

#### **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.

United States Generally Accepted Accounting Principles (US GAAP) requires management to evaluate tax positions taken by the Foundation and recognize a tax liability (or asset) if an uncertain position has been taken that more likely than not would not be sustained upon examination. Management has analyzed the tax positions taken by the Foundation, and has concluded that as of June 30, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

# SADDLEBACK COLLEGE FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

With Comparative Totals for the Fiscal Year Ended June 30, 2018

### NOTE 1: ORGANIZATION

The primary tax positions evaluated are related to the Foundation's continued qualification as a tax-exempt organization. The statute of limitations for federal and California purposes is generally three and four years, respectively.

#### Comparative Totals

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

#### Reclassifications

Certain reclassifications to the summarized comparative information have been made to conform to the current year presentation. The reclassifications have no effect on the previously reported net assets or change in net assets.

#### Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Saddleback College Foundation has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

### NOTE 2: CONTRIBUTIONS RECEIVABLE

Unconditional pledges at June 30, 2019 and 2018 consist of the following:

	2019	2018
Receivable - less than one year	\$ 4,000	\$ 4,000
Receivable - one to five years	20,000	20,000
Receivable - more than five years	<u>1,595,302</u>	<u>1,597,409</u>
Gross unconditional promises to give	1,619,302	1,621,409
Less discount	<u>(465,152)</u>	<u>(532,935)</u>
Net contributions receivable	<u>\$ 1,154,150</u>	<u>\$ 1,088,474</u>

**SADDLEBACK COLLEGE FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Fiscal Year Ended June 30, 2019**

*With Comparative Totals for the Fiscal Year Ended June 30, 2018*

**NOTE 2: CONTRIBUTIONS RECEIVABLE**

As of June 30, 2019 and 2018, contributions receivable was discounted at a rate of 6% for both years.

**NOTE 3: 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 date, comprise the following:

	2019	2018
Cash and cash equivalents	\$ 79,702	\$ 309,036
Accounts receivable	43,214	16,559
Operating investments	219,942	583,147
Total	\$ 342,858	\$ 908,742

The Foundation's endowment funds consist entirely of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

As part of the liquidity management plan, the Foundation invests cash in excess of daily requirements in short-term investments, certificates of deposit, and money market funds.

**NOTE 4: NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted for the following purposes or periods:

	2019	2018
<b>Subject to expenditure for specific purpose:</b>		
Scholarships and campus programs	\$ 5,206,844	\$ 5,060,575
<b>Not subject to spending policy or appropriations:</b>		
Investments held with FCCC in perpetuity (including amounts above original transfer amount of \$808,440):		
Osher scholarships	940,837	936,808
<b>Subject to spending policy and appropriation:</b>		
Investment in perpetuity (including amounts above original gift amount of \$3,853,427 and \$3,854,569), the income from which is expendable to support:		
Scholarships	4,551,680	4,544,629
Net assets with donor restrictions	\$ 10,699,361	\$ 10,542,012

Net assets of \$1,073,388 and \$1,453,231 were released from donor restrictions by incurring expenses satisfying the restricted purpose of scholarships and campus for the years ended June 30, 2019 and 2018, respectively.

**SADDLEBACK COLLEGE FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Fiscal Year Ended June 30, 2019**

*With Comparative Totals for the Fiscal Year Ended June 30, 2018*

**NOTE 5: DONATED SERVICES**

During the year, many individuals donate significant amounts of time and services to the Foundation to advance the programs and objectives of the Foundation. Donated services and professional fees are reflected in the accompanying statements when the criteria for recognition have been met and are recorded at fair value. Donated services include the value of Foundation services paid for salaries and benefits and professional fees paid by the District.

**NOTE 6: INVESTMENTS**

Investments are recorded at cost at date of acquisition or fair value at date of donation. The cost and fair value of investments at June 30, 2019 are as follows:

Investments	Cost	Fair Value	Level 1	Level 2	Level 3
Stocks	\$ 1,928,715	\$ 1,913,690	\$ 1,913,690	\$ -	\$ -
Equity and fixed income funds	2,267,397	2,318,735	2,318,735	-	-
Mutual funds	747,400	676,873	676,873	-	-
Money market	219,942	219,942	219,942	-	-
Bonds	436,455	447,984	-	447,984	-
Corporate fixed income	856,510	884,404	-	884,404	-
Government securities	956,167	981,543	-	981,543	-
Alternative investments	1,066,519	1,098,592	-	511,097	587,495
	<u>\$ 8,479,105</u>	<u>\$ 8,541,763</u>	<u>\$ 5,129,240</u>	<u>\$ 2,825,028</u>	<u>\$ 587,495</u>

Investments are recorded at cost at date of acquisition or fair value at date of donation. The cost and fair value of investments at June 30, 2018 are as follows:

Investments	Cost	Fair Value	Level 1	Level 2	Level 3
Stocks	\$ 1,225,730	\$ 1,314,260	\$ 1,314,260	\$ -	\$ -
Equity and fixed income funds	1,306,416	1,824,438	1,824,438	-	-
Mutual funds	3,439,248	3,333,174	3,333,174	-	-
Money market	583,147	583,147	583,147	-	-
Alternative investments	1,626,943	1,434,090	-	750,798	683,292
	<u>\$ 8,181,484</u>	<u>\$ 8,489,109</u>	<u>\$ 7,055,019</u>	<u>\$ 750,798</u>	<u>\$ 683,292</u>

Levels 1 through 3 have been assigned to the fair value measurements of investments. The fair value level of measurement is determined as follows:

Level 1 – quoted prices in an active market for identical assets.

Level 2 – quoted prices for similar assets and market-corroborated inputs.

**SADDLEBACK COLLEGE FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Fiscal Year Ended June 30, 2019**

*With Comparative Totals for the Fiscal Year Ended June 30, 2018*

**NOTE 6: INVESTMENTS**

Level 3 – the organization’s own assumptions about market participation, including assumptions about risk, developed based on the best information available in the circumstances.

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30, 2019 and 2018:

	2019	2018
Interest and dividends	\$ 283,669	\$ 112,023
Realized gain on investments, net	167,852	591,480
Unrealized loss on investments, net	(145,732)	(311,890)
Total Investment Income	\$ 305,789	\$ 391,613

The fair value of the Foundation’s investments in certain hedge funds have been reported using the net asset value as reported by the management of the respective alternative investment. Therefore, the amounts reported by the alternative investment fund are classified as Level 3.

The table below presents information about recurring fair value measurements that use significant unobservable inputs (level 3 measurements) for the years ended June 30, 2019 and 2018:

Hedge Funds	2019	2018
Balance at beginning of fiscal year (July 1)	\$ 683,292	\$ 949,923
Total gains or losses for the period	(26,056)	(266,631)
Purchases and sales		
Purchases	-	-
Sales	(69,741)	-
Transfer to level 1	-	-
Balance end of fiscal year (June 30)	\$ 587,495	\$ 683,292
Gains and losses for the period included in the change in net assets without restriction	\$ -	\$ -
Change in unrealized gains and losses for the period included in the change in net assets, for assets held at the end of the reporting period	(26,056)	(266,631)
Total gains (losses) for the period	\$ (26,056)	\$ (266,631)

**NOTE 7: INVESTMENT WITH FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES (FCCC)**

The Foundation has entered into a partnership arrangement with the California Community Colleges Scholarship Endowment (CCCSE) through the Foundation for California Community

**SADDLEBACK COLLEGE FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Fiscal Year Ended June 30, 2019**

*With Comparative Totals for the Fiscal Year Ended June 30, 2018*

**NOTE 7: INVESTMENT WITH FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES (FCCC)**

Colleges (FCCC). The FCCC has an investment advisory committee charged with the responsibility for directing and monitoring the investment management of the CCCSE's assets.

The Foundation has transferred a total of \$803,440 to the FCCC. These funds are invested in a pooled investment fund held by the FCCC. At June 30, 2019, the fair value of this investment was \$940,837 which consisted of cash of \$19,656, equity securities of \$635,890 and fixed income instruments of \$285,291 measured at quoted prices in active markets for identical assets (Level 1). Net investment income of \$51,329 was recognized during the year ended June 30, 2019. Fund distributions from investment returns for the year ended June 30, 2019 were \$47,300. These distributions were not recognized as a decrease in contributions for the year ended June 30, 2019.

At June 30, 2018, the fair value of this investment was \$936,808 which consisted of cash of \$46,840, equity securities of \$646,397 and fixed income instruments of \$243,570 measured at quoted prices in active markets for identical assets (Level 1). Net investment income of \$57,494 was recognized during the year ended June 30, 2018. Fund distributions from investment returns for the year ended June 30, 2018 were \$42,900. These distributions were not recognized as a decrease in contributions for the year ended June 30, 2018.

Changes in FCCC net assets for the fiscal years ended June 30, 2019 and 2018 are as follows:

<u>With Donor Restriction</u>	2019	2018
Investments with FCCC, beginning of year	\$ 936,808	\$ 922,214
Investment return:		
Investment income, net of expenses	20,276	15,139
Net appreciation (realized and unrealized)	31,053	42,355
Total investment return	51,329	57,494
Other changes:		
Distributions	(47,300)	(42,900)
Total other changes	(47,300)	(42,900)
Change in value, FCCC investment	4,029	14,594
Investments with FCCC, end of year	\$ 940,837	\$ 936,808

The CCCSE was set up to provide matching scholarship funds for California community colleges. The CCCSE was formed through a \$50 million matching commitment from the Osher Foundation and a lead contribution of \$25 million. The CCCSE began to distribute scholarship



## SADDLEBACK COLLEGE FOUNDATION

### NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

*With Comparative Totals for the Fiscal Year Ended June 30, 2018*

#### **NOTE 7: INVESTMENT WITH FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES (FCCC)**

funding from the initial \$25 million gift to each participating community college in the 2009-10 year. The allocation is based on each college's full time equivalent students (FTES) and each scholarship will be valued at \$1,100 for a school year. The Foundation received distribution and matching funds from the Osher Foundation totaling \$90,200 and \$81,400 in 2019 and 2018, respectively, to meet the required 5 percent minimum payout for scholarships.

#### **NOTE 8: GIFT ANNUITIES**

The Foundation is a named beneficiary of charitable gift annuities administered by the Community College League of California. The Foundation is entitled to the remaining funds in the annuities designated by the donors at the end of the donors' lifetime. The balance of annuity investments at June 30, 2019 and 2018 is \$35,364 and \$37,985, respectively. The receivable is measured at fair market value as this approximates the estimate of discounted future cash flows. The receivable balance was \$37,584 and \$39,862 as of June 30, 2019 and 2018, respectively.

#### **NOTE 9: ENDOWMENTS**

The Foundation's endowment consists of approximately 79 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by US GAAP, net assets associated with endowment funds, including funds designated by the Board of Governors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### **Interpretation of Relevant Law**

The Board of Governors 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 endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation retains in perpetuity net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Amounts not retained in perpetuity are subject to the appropriation 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 endowment funds:

# SADDLEBACK COLLEGE FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

With Comparative Totals for the Fiscal Year Ended June 30, 2018

### NOTE 9: ENDOWMENTS

- (1) The duration and preservation of the funds
- (2) The purposes of the Foundation and the endowment 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
- (7) The investment policies of the Foundation

Changes in endowment net assets with donor restrictions for the fiscal years ended June 30, 2019 and 2018 are as follows:

With Donor Restriction	2019	2018
Endowment net assets, beginning of year	\$ 4,544,629	\$ 4,190,905
Contributions	<u>168,492</u>	<u>319,467</u>
Investment return:		
Investment income, net of expenses	70,281	36,569
Net appreciation (realized and unrealized)	<u>48,490</u>	<u>136,417</u>
Total investment return	<u>118,771</u>	<u>172,986</u>
Other changes:		
Distributions	(274,296)	(133,117)
Other changes:	<u>(5,916)</u>	<u>(5,612)</u>
Total other changes	<u>(280,212)</u>	<u>(138,729)</u>
Endowment net assets, end of year	<u>\$ 4,551,680</u>	<u>\$ 4,544,629</u>

### Funds with deficiencies

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or UPMIFA required the Foundation to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new restricted contributions and continued appropriation for certain programs that are deemed prudent by the Board of Governors. In accordance with GAAP, there are no funds with deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2019 or 2018, respectively.

### Return objectives and risk parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment

## SADDLEBACK COLLEGE FOUNDATION

### NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

*With Comparative Totals for the Fiscal Year Ended June 30, 2018*

#### **NOTE 9: ENDOWMENTS**

while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Governors, the endowment assets are invested in a manner that is intended to maintain a permanent portfolio with sufficient protection to ensure the continuing ability of the Foundation to meet its changing needs and obligation and to provide the best possible return on investment. The Foundation expects its endowment funds, measured over a full market cycle or spending rate of ten years, to achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve purchasing power of fund assets. Actual returns in any given year may vary from this amount.

#### **Strategies employed for achieving objectives**

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on quality-based investments to achieve its long-term return objectives within prudent risk constraints.

#### **Spending policy and how the investment objectives relate to spending policy**

The Foundation has a policy to annually designate a base spending rate on the principle of the endowment fund. In setting the base spending rate, the Foundation considers the rate of increase in the Consumer Price Index, the average annual investment return, and the operating cost rate for the previous calendar year. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

#### **NOTE 10: FUNCTIONAL EXPENSE**

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. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

**SADDLEBACK COLLEGE FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Fiscal Year Ended June 30, 2019**

*With Comparative Totals for the Fiscal Year Ended June 30, 2018*

**NOTE 11: ADJUSTMENT FOR RESTATEMENT**

The beginning balance of net assets without donor restrictions was decreased by \$1,478,923 and net assets with donor restrictions was increased by \$1,404,528. Management identified certain gift accounts that were not classified appropriately within the general ledger system.

Additionally, net assets with donor restrictions was increased by \$163,915 to add the net effect of recording the present value of contributions receivable that had not been previously reported. The following financial statement line items for fiscal year were affected by the changes:

**Statement of Financial Position - June 30, 2018**

	<u>As Originally Reported</u>	<u>As Restated</u>	<u>Effect of Change</u>
<b><u>Assets</u></b>			
<b>Total Current Assets</b>	\$ 959,323	\$ 959,323	\$ -
<b>Non-Current Assets:</b>			
Contributions receivable, net of discount	920,559	1,084,474	163,915 (1)
Investments, at fair value	7,980,357	7,905,962	(74,395) (2)
Other non-current assets	936,808	936,808	-
<b>Total Non-Current Assets</b>	<u>9,837,724</u>	<u>9,927,244</u>	<u>89,520</u>
<b>Total Assets</b>	<u>\$ 10,797,047</u>	<u>\$ 10,886,567</u>	<u>\$ 89,520</u>
<b><u>Liabilities and Net Assets</u></b>			
<b>Total Current Liabilities</b>	\$ 220,473	\$ 220,473	\$ -
<b>Net Assets:</b>			
Without donor restrictions	1,603,005	124,082	(1,478,923) (3)
With donor restrictions	8,973,569	10,542,012	1,568,443 (4)
<b>Total Net Assets</b>	<u>10,576,574</u>	<u>10,666,094</u>	<u>89,520</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 10,797,047</u>	<u>\$ 10,886,567</u>	<u>\$ 89,520</u>

**SADDLEBACK COLLEGE FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Fiscal Year Ended June 30, 2019**

*With Comparative Totals for the Fiscal Year Ended June 30, 2018*

**NOTE 11: ADJUSTMENT FOR RESTATEMENT**

**Statement of Activities - June 30, 2018**

	As Originally Reported	As Restated	Effect of Change
<b>Support and Revenue</b>			
Support			
Contributions	\$ 1,565,775	\$ 1,729,690	\$ 163,915
Other revenue and support	983,223	983,223	-
<b>Total Support</b>	<u>2,548,998</u>	<u>2,712,913</u>	<u>163,915</u>
Other income, gains and losses			
Realized gain (loss) on investments	665,875	591,480	(74,395)
Investment and other income, gains and losses	56,039	56,039	-
<b>Total Other Income, Gains, and Losses</b>	<u>721,914</u>	<u>647,519</u>	<u>(74,395)</u>
<b>Total Support and Revenue</b>	<u>3,270,912</u>	<u>3,360,432</u>	<u>89,520</u>
<b>Total Expenses</b>	<u>2,424,356</u>	<u>2,424,356</u>	<u>-</u>
<b>Change in net assets</b>	<u>846,556</u>	<u>936,076</u>	<u>89,520</u>
<b>Net Assets</b>			
Beginning of year	<u>9,730,018</u>	<u>9,730,018</u>	<u>-</u>
End of year	<u>\$ 10,576,574</u>	<u>\$ 10,666,094</u>	<u>\$ 89,520</u>

- (1) Correction to properly recognize discount on contributions receivable.
- (2) Correction to reverse adjustment to investment account recorded in error.
- (3) Correction to reclassify net assets with donor restrictions previously recorded as donations without donor restrictions.
- (4) Net effect of above noted adjustments.

**NOTE 12: RELATED PARTIES**

To assist the Foundation in carrying out its purpose, the South Orange County Community College District (the District) provides administrative services to the Foundation. The District pays salaries and benefits of the executive director and the senior accounting specialist. In addition, working space for employees who perform administrative services for the Foundation

**SADDLEBACK COLLEGE FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Fiscal Year Ended June 30, 2019**

*With Comparative Totals for the Fiscal Year Ended June 30, 2018*

**NOTE 12: RELATED PARTIES**

is provided by the District at no charge. The donated services and professional fees for the fiscal year ended June 30, 2019 were valued at \$307,469 and \$10,860, respectively. The donated services and professional fees for the fiscal year ended June 30, 2018 were valued at \$431,473 and \$9,000, respectively. These amounts have been reflected in the financial statements as donated services and facilities revenues and expenses.

**NOTE 13: CONTINGENCIES**

The Foundation may be subject to various claims, legal proceedings, and investigations covering a wide range of matters that arise in the ordinary course of business. In the opinion of management all such matters are adequately covered by insurance or by accruals, and if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the Foundation if disposed of unfavorably.

**NOTE 14: SUBSEQUENT EVENTS**

The Foundation's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through November 5, 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.

