

ORANGE COAST COLLEGE FOUNDATION

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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ORANGE COAST COLLEGE FOUNDATION

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June 30, 2019

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange Coast College Foundation
2701 Fairview Road
Costa Mesa, CA 92626

We have audited the accompanying financial statements of the Orange Coast College Foundation (the Foundation), a component unit of the Coast 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 expenses 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 auditors' 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 Orange Coast 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.

Report on Summarized Comparative Information

We have previously audited the Foundation's June 30, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 13, 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.

Emphasis of a Matter

Change in Accounting Principles

As discussed in Note 2 to the financial statements, Orange Coast 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 that matter to the implementation.

Correction of Error

As described in Note 18, the Foundation restated their beginning net asset to record funds held record designated scholarships as a liability. Our opinion is not modified with respect to this matter.



CliftonLarsonAllen LLP
Glendora, California
November 13, 2019

ORANGE COAST COLLEGE FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2019

With Comparative Totals as of June 30, 2018

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 458,488	\$ 620,654
Accounts receivable	6,200	2,200
Notes receivable - current portion		13,930
Pledges receivable	110,000	100,000
Prepaid expenses	25,000	25,000
Total Current Assets	<u>599,688</u>	<u>761,784</u>
Non-Current Assets:		
Pledges receivable, net of discount	235,759	83,040
Receivable for split-interest agreement	508,386	438,186
Operating investments, at fair value	1,144,064	1,096,314
Investments, at fair value	22,173,840	21,243,057
Investments held with FCCC	22,972	23,191
Assets held for sale	11,750	1,850
Property and equipment, net	6,923,003	8,933,838
Total Non-Current Assets	<u>31,019,774</u>	<u>31,819,476</u>
Total Assets	<u>\$ 31,619,462</u>	<u>\$ 32,581,260</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities:		
Accounts payable	\$ 21,785	\$ 76,004
Designated scholarships	325,524	234,262
Charter deposits	1,920	201,920
Due to Coast Community College District	46,012	75,082
Total Current Liabilities	<u>395,241</u>	<u>587,268</u>
Net Assets:		
Net assets without donor restrictions	986,823	1,032,815
Net assets with donor restrictions	30,237,398	30,961,177
Total Net Assets	<u>31,224,221</u>	<u>31,993,992</u>
Total Liabilities and Net Assets	<u>\$ 31,619,462</u>	<u>\$ 32,581,260</u>

See the accompanying notes to the financial statements

ORANGE COAST 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
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and Revenues				
Support				
Contributions	\$ 55,807	\$ 586,092	\$ 641,899	\$ 2,507,063
Fundraising for college programs		1,253,974	1,253,974	3,682,272
Program related sales		113,910	113,910	60,252
Management fees	128,455		128,455	121,442
Miscellaneous revenue	20,814	38,340	59,154	55,835
In-kind contributions		39,630	39,630	270,970
Donated vessels		1,644,815	1,644,815	3,886,425
Donated services	659,897		659,897	618,827
Donated facilities	19,898		19,898	1,658
Total Support	884,871	3,676,761	4,561,632	11,204,744
Other income, gains and losses				
Charter fees	745,714		745,714	759,081
Loss on sale of donated assets		(821,506)	(821,506)	(306,658)
Investment income, net of expenses	23,182	456,113	479,295	427,051
Realized gain (loss) on investments	16,057	294,192	310,249	744,248
Unrealized gain (loss) on investments	8,569	200,025	208,594	339,365
Change in value for split-interest agreements		70,200	70,200	41,175
Change in value for investments held with FCCC		(219)	(219)	705
Total Other Income, Gains, and Losses	793,522	198,805	992,327	2,004,967
Total revenues before net assets released from restrictions	1,678,393	3,875,566	5,553,959	13,209,711
Net assets released from restrictions	4,599,345	(4,599,345)	-	-
Total Support and Revenues	6,277,738	(723,779)	5,553,959	13,209,711
Operating Expenses				
Program services				
Student and college support	2,276,126		2,276,126	4,425,543
Sailing program	3,467,438		3,467,438	3,856,580
Supporting services				
Management and general	441,588		441,588	450,507
Fundraising	138,578		138,578	129,954
Total Expenses	6,323,730	-	6,323,730	8,862,584
Change in net assets	(45,992)	(723,779)	(769,771)	4,347,127
Net Assets				
Beginning of year, before restatement	1,032,815	30,961,177	31,993,992	27,873,618
Restatement (Note 18)			-	(226,753)
Beginning of year, after restatement	1,032,815	30,961,177	31,993,992	27,646,865
End of year	\$ 986,823	\$ 30,237,398	\$ 31,224,221	\$ 31,993,992

See the accompanying notes to the financial statements

ORANGE COAST 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

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Cash flows from operating activities		
Contributions and special events	\$ 379,280	\$ 2,365,153
Fundraising for college programs	1,253,974	3,682,272
Interest	479,295	427,051
Other operating activities and charter fees	918,778	875,168
Payments to/on behalf of employees	(584,843)	(481,769)
Payments to suppliers	(1,833,333)	(4,379,118)
Payments to/on behalf of students for scholarships	(720,110)	(710,062)
Net cash provided by operating activities	<u>(106,959)</u>	<u>1,778,695</u>
 Cash flows from investing activities		
Proceeds from sale of boats and equipment	247,253	288,323
Acquisitions of boats and equipment	10,524	(79,800)
Purchase of investments	(4,607,456)	(5,417,869)
Proceeds from sale of investments	4,294,472	2,684,072
Net cash provided (used) by investing activities	<u>(55,207)</u>	<u>(2,525,274)</u>
 Net increase (decrease) in cash and cash equivalents	(162,166)	(746,579)
Cash and cash equivalents, beginning of year	620,654	1,367,233
Cash and cash equivalents, end of year	<u>\$ 458,488</u>	<u>\$ 620,654</u>
 Reconciliation of change in net assets to cash provided (used) by operating activities		
Change in net assets	\$ (769,771)	\$ 4,347,127
Adjustments to reconcile change in net assets to cash provided (used) by operating activities		
Depreciation expense	2,620,853	2,324,554
Realized and unrealized (gain) on investments	(518,843)	(1,083,613)
Non-cash contributions and donated vessels received	(1,684,445)	(4,157,395)
Loss on sale of donated items	821,506	306,658
Change in value for split-interest agreements	(70,200)	(41,175)
Change in value for investments held with FCCC	219	(705)
Change in assets - (increase)/decrease:		
Accounts receivable	(4,000)	(1,500)
Pledge receivable	(162,719)	62,534
Contribution receivable from split-interest agreement	(70,200)	41,175
Notes receivable	13,930	26,851
Change in liabilities - increase/(decrease):		
Accounts payable	(54,219)	21,044
Charter deposits	(200,000)	(47,446)
Due to Coast Community College District	(29,070)	(19,414)
Net cash provided (used) by operating activities	<u>\$ (106,959)</u>	<u>\$ 1,778,695</u>
 Non-cash investment activities include:		
Equipment and vessels	\$ 1,644,815	\$ 3,883,845
Stock donations	-	2,580
Net non-cash investment activities	<u>\$ 1,644,815</u>	<u>\$ 3,886,425</u>

See the accompanying notes to the financial statements

ORANGE COAST 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

	June 30, 2019					June 30, 2018	
	Student and College Support	Sailing Program	Total Program Services	Management & Services	Fundraising	Total	Total
Donated services	\$ 237,563	\$	\$ 237,563	\$ 283,756	\$ 138,578	\$ 659,897	\$ 618,827
Donated facilities	19,898		19,898			19,898	1,658
In-kind contributions	39,630		39,630			39,630	270,970
Scholarships and grants	720,110		720,110			720,110	710,062
Salaries and benefits	330,904	224,869	555,773			555,773	462,355
Services - legal	1,056		1,056			1,056	943
Services - other	1,550		1,550			1,550	2,863
Advertising and promotion	30,904	4,282	35,186	1,500		36,686	18,993
Office expenses	68,241	364	68,605	33,439		102,044	128,025
Occupancy	22,146	102,866	125,012	573		125,585	83,535
Travel	53,563	3,783	57,346	52		57,398	59,881
Conference and meetings	2,924		2,924	4,812		7,736	14,398
Depreciation		2,620,853	2,620,853			2,620,853	2,324,554
Insurance			-	16,297		16,297	13,204
Equipment	106,960	183,260	290,220			290,220	1,076,394
Hospitality	48,634	127	48,761	17,265		66,026	62,621
Management fees	118,455	10,000	128,455			128,455	121,442
Bank charges and fees	10,055	382	10,437	1,719		12,156	9,034
Contract services	255,248	88,173	343,421	16,842		360,263	110,985
Program expenses	155,902	209,000	364,902	19,561		384,463	730,316
Construction, Repairs & Maintenance			-			-	1,913,875
Permit, Licenses, Taxes & Penalties	4,775	14,217	18,992	279		19,271	33,233
Subscriptions & dues	200	4,532	4,732	32,471		37,203	28,260
Other expenses	47,408	730	48,138	13,022		61,160	66,156
Total	<u>\$ 2,276,126</u>	<u>\$ 3,467,438</u>	<u>\$ 5,743,564</u>	<u>\$ 441,588</u>	<u>\$ 138,578</u>	<u>\$ 6,323,730</u>	<u>\$ 8,862,584</u>

See the accompanying notes to the financial statements

ORANGE COAST 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 Orange Coast College Foundation (the Foundation) is a non-profit public benefit corporation organized under the Non-profit Public Corporation Law of the State of California. The Foundation was incorporated on August 7, 1984 with the express purpose of promoting and assisting the educational programs of Orange Coast College (the College) in accordance with the mission, policies and priorities of the College as administered by its President. The Foundation conducts its operations in conformity with general regulations established by the Coast Community College District (the District) as required by the Education Code Section 72672(c). The members of the Foundation's Board of Directors are composed of members from the local community. The Foundation maintains boats, many of which were donated, to use in the educational programs at the College.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and liabilities.

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 (or certain grantor) restrictions.

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. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and release from restrictions when the assets are placed in service. 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.

ORANGE COAST 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: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be all cash available for immediate use. Cash and cash equivalents consist of cash in interest bearing bank accounts and money market funds. Cash held temporarily in the long-term investment portfolio (until suitable investments are identified) is excluded from cash and cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Investment income (interest and dividends) is included in the change in net assets from operations unless the income or loss is restricted by donor or law.

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are greater than \$50,000 and due in more than one year are recognized at fair value using present value discount rate of 2.25%. Amortization of the discount is included in contribution revenue.

Management has reviewed the collectability of these pledges and determines the balances to be fully collectable. A plan to regularly evaluate pledges receivable and the potential collectability is in place and reviewed throughout the year.

Split-Interest Agreement

The Foundation is the beneficiary of a charitable remainder trust. The terms and discount rates for this agreement is based upon the life expectancy of the donor(s) and present value tables provided by the Internal Revenue Service for determining the amount of the charitable contribution. The charitable remainder trust is administered by a third-party. Assets associated with the split-interest agreement are recognized at the present value of the estimated future benefits of the agreement.

ORANGE COAST 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: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property and Equipment

Property and equipment are stated at cost. Donated property is recorded at its estimated fair value at the date of receipt, which is then treated as cost. The Foundation maintains a capitalization threshold of \$500. The costs of normal maintenance and repairs that do not add to the value of an asset or significantly extend an asset's life are not capitalized.

Depreciation is computed on the straight-line basis over the estimated useful life of the assets. The estimated useful life for property and equipment is 5-10 years.

Accounts Payable

Accounts payable consists of amounts due to vendors, but not yet disbursed during the fiscal year.

Designated Scholarships

The Foundation acts as an intermediary to other organizations to distributed scholarships to students that the other organization has identified. Since the Foundation does not chose the recipient of the scholarship, it does not receive a contribution when they receive the assets, nor do they recognize the scholarship expense when the funds are disbursed. Designated scholarships are recognized on the statement of financial position as a liability.

Contributions and Contributions Recognition

Contributions, including unconditional promises to give, are recorded when made. All contributions are available for use for operations unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Donations, other than cash are recorded at estimated fair value at the time of the donation.

Donated Property and Equipment

Donated property and equipment are reflected as contributions in the accompanying statements at their estimated value at date of donation. For donated items with estimated values of \$5,000 or higher an appraisal is provided by the donor. This appraised value prepared by a third party is the basis for the value recognized for the in-kind contribution.

ORANGE COAST 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: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, salaries and benefit costs are allocated based on management's estimate of time and effort among the programs and supporting services benefited.

Management Fee

The Foundation serves the Orange Coast College campus clubs, departments, and organizations by managing funds for scholarships and other purposes to promote education. These funds are assessed an annual management fee to cover the stewardship and administrative expenses. This fee is recognized as income without donor-imposed restrictions.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Totals

The financial statements and notes include certain prior-year summarized comparative information in total, but not by net assets class. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the fiscal year ended June 30, 2018.

Reclassifications

Certain reclassification 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.

Income Taxes

The Foundation qualifies as a tax exempt organization under the Internal Revenue Code Section 501 (c)(3) and California Revenue and Taxation Code 23701d.

The Foundation has evaluated its tax positions and the certainty as to whether those positions will be sustained in the event or any audit by taxing authorities at the federal and state levels.

ORANGE COAST 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: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The primary tax positions evaluated relate to the Foundation's continued qualification as a tax exempt organization and whether there are unrelated business income activities that would be taxable. Management has determined that all income tax positions will more likely than not be sustained upon potential audit or examination, therefore, no disclosures of uncertain income tax positions are required.

The Foundation is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purposes. The Foundation files and exempt informational return and applicable unrelated business income tax return in the U.S. federal jurisdiction and with the California Franchise Tax Board.

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 update 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. The Foundation has implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly.

Subsequent Events

The Foundation has evaluated subsequent events through November 13, 2019, which is the date these financial statements were available to be issued. There were no subsequent events requiring recognition as of June 30, 2019.

NOTE 3: LIQUIDITY AND AVAILABILITY

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

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Cash and cash equivalents	\$ 61,543	\$ 157,927
Short term operating investments	11,697	9,002
	<u>\$ 73,240</u>	<u>\$ 166,929</u>

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

ORANGE COAST 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 3: LIQUIDITY AND AVAILABILITY

Our endowment fund consist of a donor-restricted endowment. Income from the donor-restricted endowment is restricted for its specific purpose. Donor-restricted endowment funds are not available for general expenditure.

NOTE 4: CONCENTRATION OF CREDIT RISK

The Foundation manages deposit concentration risk by placing cash and money market accounts, with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Foundation has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due organizations supportive of our mission. Investments are made by diversified investment managers whose performance is monitored by the Finance Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Finance Committee believes that the investment policies and guidelines are prudent for the long-term welfare of the organizations.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. The Foundation occasionally has a need to maintain cash balances in excess of \$250,000, the amount insured by the Federal Deposit Insurance Corporation (FDIC). The Foundation's deposits in excess of the FDIC are insured. The collateral is held by the pledging bank's trust department, not in the Foundation's name.

Investments

Investments with brokers are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000 of which \$250,000 may be cash. Insurance protects assets in the case of broker-dealer insolvency and not against declines in market valuation. As of June 30, 2019 the Foundation had investments in excess of the SIPC insurance amount. The Foundation followed established policies in directing and monitoring the investment management of the Foundation's investments during the year.

Notes receivable

The credit risk for notes receivable is concentrated to one borrower with an acceptable credit rating. Realization of the notes receivable is dependent on various individual economic conditions. The notes receivable was secured by the vessel Torea and carried at the estimated net realizable value. As of June 30, 2019 there was no notes receivable.

ORANGE COAST 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: NOTES RECEIVABLE

The Foundation held a promissory note from Adaptive Development LLC, dated October 15, 2015 in the amount of \$78,666 for the sale of the vessel Torea. Interest on the note is calculated at 5 percent. The principal and interest was due on a quarterly basis with the final payment due on or before October 15, 2018. At June 30, 2019, there is no outstanding principal due. Interest included in investment income is \$255. At June 30, 2018, the outstanding principal due is \$13,930. Interest included in investment income is \$1,519.

Management has determined that the notes receivable are fully collectible; therefore, no allowance for uncollectible accounts was considered necessary at June 30, 2018.

NOTE 6: PLEDGES RECEIVABLE

Unconditional promises to give at June 30, 2019 and 2018 are as follows:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Receivable - less than one year	\$ 110,000	\$ 100,000
Receivable - one to five years	250,000	90,000
Gross unconditional pledges	360,000	190,000
Less: discount	(14,241)	(6,960)
Net pledge receivable	<u>\$ 345,759</u>	<u>\$ 183,040</u>

Pledges receivable have been discounted to present value using a discount rate of 2.25%.

NOTE 7: INVESTMENTS

Investment return for the years ended June 30, 2019 and 2018 are as follows:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Investment income, net of expense	\$ 479,295	\$ 427,051
Realized gains on investments	310,249	744,248
Unrealized gains on investments	208,594	339,365
Net investment return	<u>\$ 998,138</u>	<u>\$ 1,510,664</u>

Investments are recorded at cost at date of acquisition or fair value at date of donation. As of June 30, 2019 and 2018, investments are reported at fair value. Cost and fair values at June 30, 2019 and 2018 are as follows:

ORANGE COAST 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: INVESTMENTS

	<u>June 30, 2019</u>		<u>June 30, 2018</u>	
	Cost	Fair Value	Cost	Fair Value
Money market	\$ 278,415	\$ 278,415	\$ 220,958	\$ 220,958
Fixed income (Level 1)	5,823,631	5,852,768	6,113,054	5,953,430
Marketable equity (Level 1)	12,505,521	14,647,404	11,394,927	13,643,632
Real estate (Level 1)	479,829	550,018	766,331	866,914
Venture capital/partnership (Level 1)	749,563	935,317	485,813	587,428
Hedge fund (Level 1)	<u>1,032,381</u>	<u>1,053,982</u>	<u>1,032,873</u>	<u>1,067,009</u>
Total	<u>\$ 20,869,340</u>	<u>\$ 23,317,904</u>	<u>\$ 20,013,956</u>	<u>\$ 22,339,371</u>

Levels 1 through 3 have been assigned to the fair value measurement 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.

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

NOTE 8: 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 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 \$22,486 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 \$22,972, which consisted of cash of \$480, equity mutual funds of \$15,526 and fixed income mutual funds of \$6,966 measured at quoted prices for similar assets and market-corroborated inputs (Level 2). At June 30, 2018 the fair value of this investment was \$23,191, which consisted of cash of \$1,161, equity mutual funds of \$16,002 and fixed income mutual funds of \$6,030 measured at quoted prices for similar assets and market-corroborated inputs (Level 2). The investment and related net change in value by investment class and fund distributions from investment returns are reflected in the financial statements as change in value for investments held with FCCC.

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NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

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NOTE 8: INVESTMENT WITH FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES (FCCC)

Changes in investments held with FCCC for the fiscal year ended June 30, 2019 and 2018 are presented herein:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Investments with FCCC, beginning of year	\$ 23,191	\$ 23,218
Investment return:		
Investment income, net of expenses	498	377
Net appreciation (realized and unrealized)	750	1,063
Total investment return	<u>1,248</u>	<u>1,440</u>
Disbursements		
Fund distribution	(1,467)	(1,467)
Total disbursements	<u>(1,467)</u>	<u>(1,467)</u>
Change in value, FCCC investments	<u>(219)</u>	<u>(27)</u>
Investments with FCCC, end of year	<u>\$ 22,972</u>	<u>\$ 23,191</u>

The CCCSE was set up to provide matching scholarships funds for California community colleges. The CCCSE was formed through a generous \$50 million matching commitment from the Osher Foundation and an initial contribution of \$25 million. The CCCSE began to distribute scholarship 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 \$1,000 for a school year.

NOTE 9: SPLIT-INTEREST AGREEMENT

The Foundation is the beneficiary of two split-interest agreement for which the Foundation is not the administrator. The Foundation recognized the present value of the estimated future benefits of the agreement to be received as temporarily restricted contribution revenue and as a receivable when notified of the agreement. At June 30, 2019 and 2018, the Foundation's estimated net present value of their share was \$508,386 and \$438,186, respectively.

NOTE 10: PROPERTY AND EQUIPMENT

As of June 30, 2019 and 2018, property and equipment at consisted of the following:

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NOTE 10: PROPERTY AND EQUIPMENT

	Balance July 1, 2018	Additions	Transfers and Deletions	Balance June 30, 2019
Depreciable capital assets				
Equipment	\$ 627,268	\$ 54,205	\$	\$ 681,473
Boats	13,834,910	1,620,272	(3,724,650)	11,730,532
Total costs and donated assets	<u>14,462,178</u>	<u>1,674,477</u>	<u>(3,724,650)</u>	<u>12,412,005</u>
Accumulated depreciation				
Equipment	(121,186)	(21,660)		(142,846)
Boats	(5,407,154)	(2,599,193)	2,660,191	(5,346,156)
Total accumulated depreciation	<u>(5,528,340)</u>	<u>(2,620,853)</u>	<u>2,660,191</u>	<u>(5,489,002)</u>
Net property and equipment	<u>\$ 8,933,838</u>	<u>\$ (946,376)</u>	<u>\$ (1,064,459)</u>	<u>\$ 6,923,003</u>

The costs of certain California Department of Boating and Waterways (DBW) owned boats, which are used by the Foundation in connection with the College's educational programs, are not reflected in the statement of financial position because asset titles remain with the DBW.

NOTE 11: ASSETS HELD FOR SALE

The Foundation accepts boats and marine equipment to support the College's School of Sailing and Seamanship (the School). Gifts made to the Foundation support 30% of the School's budget. Boats and marine equipment not used in the program are held for sale. As of June 30, 2019 and 2018, the carrying value is \$11,750 and \$1,850, respectively.

The boats and equipment are recorded at fair market value at the date of donation. Because the items in inventory are typically held for a very short time, this carrying value is not adjusted. Management has chosen to recognize any change in value when realized due to economic uncertainties.

NOTE 12: SALE OF DONATED ASSETS

The Foundation records donated assets at their fair value on the date of the donation. For donated items used for instructional purposes, these items are recognized as property and equipment and depreciated as described in Note 2. Upon the disposal or sale of the property and equipment, the Foundation recognizes either a gain or loss from the disposal or sale of the donated assets.

Sale of donated assets of boats and marine equipment for the years ended June 30, 2019 and 2018 is as follows:

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NOTE 12: SALE OF DONATED ASSETS

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Net proceeds from sale	\$ 247,253	\$ 288,323
Original donated value	3,728,550	1,294,498
Accumulated depreciation	<u>(2,659,791)</u>	<u>(699,517)</u>
Less net value	<u>1,068,759</u>	<u>594,981</u>
Net loss on sale	<u>\$ (821,506)</u>	<u>\$ (306,658)</u>

NOTE 13: CHARTER FEES

Certain boats donated to the Foundation may be leased for a period of approximately two years, with an option to purchase. Income is recognized in the year received. During the fiscal year 2018-19, charter fees and depreciation expenses were \$745,714 and \$1,389,782, respectively. During the fiscal year 2017-18, charter fees and depreciation expenses were \$759,081 and \$1,581,282, respectively.

NOTE 14: ENDOWMENT

The Foundation's endowment consists of a donor-restricted endowment funds established for Instructional Excellence. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with the endowment fund, 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.

Interpretation of Relevant Law

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. As a result of this interpretation, the Foundation retains in perpetuity (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. Donor restricted amounts not retained in perpetuity are subject to appropriations 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 endowment funds:

- 1) The duration and preservation of the funds
- 2) The purposes of the Foundation and the donor-restricted endowment funds

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NOTE 14: ENDOWMENT

- 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

Endowment Composition and Changes in Endowment Net Assets

Endowment net asset composition by type of fund as of June 30, 2019 and 2018 consisted of donor restricted endowment funds subject to purpose and time restrictions of \$106,525 and \$104,114, respectively. Changes in endowment net assets for the fiscal year ended June 30, 2019 and 2018 are reported in the statement of activities as investment income with donor restrictions restricted activities as appropriate.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted 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 Directors. In accordance with GAAP, there are no funds with deficiencies of this nature that are reported in net assets without donor restrictions as of June 30, 2019 and 2018.

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 while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted 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 Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent annually. 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

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NOTE 14: ENDOWMENT

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 of appropriating for distribution each year 5 percent of the original contribution (corpus) which will be considered the floor and 5 percent of the total value (corpus plus income and any realized gains) which will be the ceiling. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow. Spending is reviewed annually and allocations are determined to allow continued growth. 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 15: FUNCTIONAL EXPENSES

The financial statements 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 salaries and benefits, which are allocated on the basis of estimates of time and effort.

NOTE 16: NET ASSETS WITH DONOR RESTRICTIONS

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes as follows the fiscal years ended June 30, 2019 and 2018:

ORANGE COAST COLLEGE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

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NOTE 16: NET ASSETS WITH DONOR RESTRICTIONS

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Satisfaction of Purpose Restrictions		
Scholarships and grants	\$ 720,110	\$ 710,062
College support	101,373	840,030
Sailing program	3,467,438	3,280,245
Construction, Repairs & Maintenance:		
Baseball field improvements		1,456,618
Astronomy		454,764
Capital projects:		
Art pavilion	28,194	5,217
Recycling center	29,240	242,545
Planetarium	245,143	257,184
Sailing center expansion	7,847	14,229
Total net assets released from donor restrictions	<u>\$ 4,599,345</u>	<u>\$ 7,260,894</u>

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

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Subject to expenditure for specific purpose:		
Scholarships and grants	\$ 7,553,055	\$ 7,508,450
College and student assistance	14,060,794	13,287,691
Sailing program	5,862,791	7,504,998
Capital projects:		
Art pavilion	11,243	61,842
Recycling center	141,369	168,213
Planetarium	533,115	648,620
Sailing center expansion	1,091,389	1,032,832
Subject to spending policy and appropriation:		
Investment in perpetuity (including amounts above original gift amount of \$93,861), the income from which is expendable to support:		
Scholarships	106,525	104,114
Subject to Passage of Time:		
Pledges receivable, net of discount	345,759	183,040
Receivable for split-interest agreement	508,386	438,186
Not subject to spending policy or appropriations:		
Investments held with FCCC in perpetuity (including amounts above original gift amount of \$22,486):		
Osher scholarships	22,972	23,191
Net assets with donor restrictions	<u>\$ 30,237,398</u>	<u>\$ 30,961,177</u>

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NOTES TO THE FINANCIAL STATEMENTS

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NOTE 17: RELATED PARTIES

The primary purpose of the Foundation is to assist in the institutional development and encourage community support to the College. The Foundation receives gifts, property and funds to be used for the benefit of the College, its programs, and any person or organization having an official relationship with the College.

The Foundation was organized as an Auxiliary organization under California Education Code and has a signed master agreement with the District. The agreement allows the District to provide administrative services to assist the Foundation in carrying out its purpose. The District pays salaries and benefits of the executive director, administrative assistants and accountants. In addition, working space for the employees who perform administrative services for the Foundation is provided by the District at no charge. In return, the Foundation provides various levels of monetary support and service to Orange Coast College and Coast Community College District. These transactions are recorded within the financial statements as distributions, student programs, and scholarship expense. The current master agreement is effective July 1, 2016 to June 30, 2021.

The donated services for the fiscal years ended June 30, 2019 and 2018 were valued at \$659,897 and \$618,827, respectively, and have been reflected in the financial statements as donated services. The donated facilities for the fiscal years ended June 30, 2019 and 2018 were valued at \$19,878 and \$1,658, respectively, and have been reflected in the financial statements as donated facilities.

NOTE 18: RESTATEMENT

In accordance with generally accepted accounting principles, designated scholarships should be classified as an agency transaction as the Foundation acts as an intermediary for another party. In the past, designated scholarships had been recognized as contributions when received and as scholarship expenses when disbursed. During the fiscal year 2017-18, the Foundation researched designated scholarships and returned and disbursed undistributed scholarships held for more than two years. New procedures for tracking designated scholarship fund have been implemented and designated scholarships are now recognized as a liability only and are no longer included in statement of activities and the ending net assets.

A restatement of \$226,753 is recognized as a decrease the beginning net assets for net assets with donor restrictions for the fiscal year ended June 30, 2017. In addition, scholarships and grant expenditures, for the fiscal year ended June 30, 2018 were increased \$7,509 for the net change of \$234,262 to the designated scholarships liability for the fiscal year ended June 30, 2018.

