

**FOUNDATION FOR
CALIFORNIA COMMUNITY
COLLEGES**

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

**YEARS ENDED
JUNE 30, 2018 AND 2017**

FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Foundation for California Community Colleges
Sacramento, California**

Report on the Financial Statements

We have audited the accompanying financial statements of Foundation for California Community Colleges (Foundation), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foundation for California Community Colleges as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2018, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

September 25, 2018

FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 15,992,991	\$ 7,677,502
Accounts receivable	6,812,569	6,880,239
Current portion of grants receivable	2,789,049	2,727,548
Prepaid expenses and other assets	633,107	559,805
Total current assets	<u>26,227,716</u>	<u>17,845,094</u>
NONCURRENT ASSETS:		
Investments	58,446,277	57,728,580
Investments held on behalf of others	36,311,414	35,752,568
Grants receivable	319,000	728,000
Property and equipment, net	1,696,441	656,479
Deposits	32,578	32,812
Total noncurrent assets	<u>96,805,710</u>	<u>94,898,439</u>
TOTAL ASSETS	<u>\$ 123,033,426</u>	<u>\$ 112,743,533</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,300,501	\$ 2,174,569
Accrued expenses	1,381,609	1,153,914
Scholarships payable	2,218,335	2,051,500
Current portion of deferred revenue	3,713,179	1,922,141
Funds held on behalf of others	81,070	88,434
Total current liabilities	<u>9,694,694</u>	<u>7,390,558</u>
NONCURRENT LIABILITIES:		
Deferred revenue	5,689,489	893,345
Investments held on behalf of others	36,311,414	35,752,568
Total noncurrent liabilities	<u>42,000,903</u>	<u>36,645,913</u>
TOTAL LIABILITIES	<u>51,695,597</u>	<u>44,036,471</u>
NET ASSETS:		
Unrestricted	5,709,679	4,944,797
Temporarily restricted	25,405,642	23,624,579
Permanently restricted	40,222,508	40,137,686
Total net assets	<u>71,337,829</u>	<u>68,707,062</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 123,033,426</u>	<u>\$ 112,743,533</u>

The accompanying notes are an integral part of these financial statements.

FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, SUPPORT AND INCOME:				
Contracts and fees for service	\$ 30,683,535			\$ 30,683,535
Philanthropic contributions	85,105	\$ 8,444,121	\$ 84,822	8,614,048
Investment income	14,819	3,619,644		3,634,463
Net assets released from restrictions	<u>10,282,702</u>	<u>(10,282,702)</u>		
Total revenues	<u>41,066,161</u>	<u>1,781,063</u>	<u>84,822</u>	<u>42,932,046</u>
EXPENSES:				
Program services:				
Workforce Development	9,449,493			9,449,493
Student Success	9,186,379			9,186,379
Community Impact	5,934,510			5,934,510
System Support and Services	3,917,619			3,917,619
Equity	3,428,780			3,428,780
CollegeBuys	<u>2,030,355</u>			<u>2,030,355</u>
Total program services	33,947,136			33,947,136
Supporting services:				
General and administrative	6,226,210			6,226,210
Fundraising expenses	<u>127,933</u>			<u>127,933</u>
Total supporting services	<u>6,354,143</u>			<u>6,354,143</u>
Total expenses	<u>40,301,279</u>			<u>40,301,279</u>
INCREASE IN NET ASSETS	764,882	1,781,063	84,822	2,630,767
NET ASSETS, Beginning of Year	<u>4,944,797</u>	<u>23,624,579</u>	<u>40,137,686</u>	<u>68,707,062</u>
NET ASSETS, End of Year	<u>\$ 5,709,679</u>	<u>\$ 25,405,642</u>	<u>\$ 40,222,508</u>	<u>\$ 71,337,829</u>

FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, SUPPORT AND INCOME:				
Contracts and fees for service	\$ 25,417,257			\$ 25,417,257
Philanthropic contributions	15,000	\$ 11,028,447	\$ 112,835	11,156,282
Investment income		5,423,518	1,293,883	6,717,401
Net assets released from restrictions	<u>10,692,011</u>	<u>(10,692,011)</u>		
Total revenues	<u>36,124,268</u>	<u>5,759,954</u>	<u>1,406,718</u>	<u>43,290,940</u>
EXPENSES:				
Program services:				
Workforce Development	7,475,738			7,475,738
Student Success	8,326,444			8,326,444
Community Impact	5,087,400			5,087,400
System Support and Services	3,694,679			3,694,679
Equity	2,563,134			2,563,134
CollegeBuys	<u>2,068,094</u>			<u>2,068,094</u>
Total program services	29,215,489			29,215,489
Supporting services:				
General and administrative	5,305,336			5,305,336
Fundraising expenses	<u>130,375</u>			<u>130,375</u>
Total supporting services	<u>5,435,711</u>			<u>5,435,711</u>
Total expenses	<u>34,651,200</u>			<u>34,651,200</u>
INCREASE IN NET ASSETS	1,473,068	5,759,954	1,406,718	8,639,740
NET ASSETS, Beginning of Year	<u>3,471,729</u>	<u>17,864,625</u>	<u>38,730,968</u>	<u>60,067,322</u>
NET ASSETS, End of Year	<u>\$ 4,944,797</u>	<u>\$ 23,624,579</u>	<u>\$ 40,137,686</u>	<u>\$ 68,707,062</u>

FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 2,630,767	\$ 8,639,740
Reconciliation to net cash provided by operating activities:		
Net realized and unrealized gain on investments	(2,662,152)	(5,687,950)
Depreciation and amortization	209,025	167,330
Loss on disposal of property and equipment		186,721
Permanently restricted contributions	(84,822)	(112,835)
Changes in:		
Accounts receivable	67,670	(99,149)
Grants receivable	347,499	(1,448,048)
Prepaid expenses and other assets	(73,302)	283,985
Deposits	234	(29,378)
Accounts payable	125,932	182,739
Accrued expenses	227,695	249,189
Scholarships payable	166,835	(178,201)
Deferred revenue	6,587,182	1,116,347
Funds held on behalf of others	(7,364)	(23,662)
Net cash provided by operating activities	<u>7,535,199</u>	<u>3,246,828</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,042,314)	(1,142,288)
Proceeds from sale of investments	2,986,769	2,425,190
Purchases of property and equipment	(1,248,987)	(40,438)
Net cash provided by investing activities	<u>695,468</u>	<u>1,242,464</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	<u>84,822</u>	<u>112,835</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,315,489	4,602,127
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>7,677,502</u>	<u>3,075,375</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 15,992,991</u>	<u>\$ 7,677,502</u>

FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Foundation for California Community Colleges (Foundation) is a statewide nonprofit supporting the California Community College system. Incorporated in 1998, the Foundation serves as the official foundation to the California Community Colleges' Board of Governors and the system-wide Chancellor's Office and provides effective services and innovative solutions for the largest higher education system in the nation. The Foundation facilitates collaboration, accelerates innovation, and increases system-wide resources through a variety of ways, including entrepreneurial programs, grants and contracts, and philanthropy.

The Foundation's mission is to benefit, support, and enhance the missions of the California Community College system. Foundation programs reach all 115 California Community Colleges and 73 districts, and are designed to benefit students, colleges, college foundations, and the system as a whole.

Basis of accounting and financial statement presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Revenue recognition – The Foundation generates revenue through contracts, fees for service, grants, and contributions. Revenues fund a variety of programs and services that support key California Community College initiatives such as student success, workforce development, equity, and community impact.

Contracts and fees for service

Contracts are awarded and fees for service are earned from public agencies and education partners for the delivery of innovative programs and services that benefit students, colleges, and the system as a whole. Revenues from contracts and fees for service are recognized over the term of the project administered as work is performed and services are provided. Contracts with public agencies and education partners set out the terms, including the work plan and required services to be performed, total contract revenues, a cost budget, and other items. Amounts collected in advance of work performed or services provided are recorded as deferred revenue until earned.

Philanthropic contributions

The Foundation receives contributions from private foundations, organizations, corporations, and individuals. Some of these contributions are temporarily or permanently restricted by the donor; other contributions are received without restriction and can be used for any Foundation purpose. Grants from private foundations are treated as contributions and recognized in full when received or unconditionally promised, in accordance with professional standards. Such contributions are initially reported as an increase in temporarily or permanently restricted net assets. When a restriction expires (generally as payments are made to fulfill the grantor-imposed purpose of the contribution), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. See footnote 5, Net Assets for additional information related to the release of permanently restricted net assets associated with the California Community Colleges Scholarship Endowment.

FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Cash and cash equivalents – For financial statement purposes, the Foundation considers all investments with an initial maturity of three months or less to be cash equivalents, unless held for long-term purposes.

The Foundation minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and management believes the Foundation is not exposed to any significant credit risk related to cash.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Management believes that all accounts are collectible and no allowance is necessary. Accounts receivable includes amounts owed from government and fee for service contracts.

Grants receivable consist of unconditional promises to give from private foundation grants. Long-term grants receivable totaling \$319,000 at June 30, 2018, are expected to be collected by July 2019. No discount was applied to long-term grants receivable as it was considered immaterial.

Investments are stated at fair value.

Investments held on behalf of others – The Foundation holds investments on behalf of various California Community Colleges for the purpose of generating investment income to fund scholarships for their students. These investments are co-invested with funds held by the Foundation and remain permanently restricted net assets of the Colleges. Investments held on behalf of California Community Colleges totaled \$32,382,642 and \$31,853,866 at June 30, 2018 and 2017, respectively.

In August 2015, the Foundation entered into an agreement with the Board of Governors of the California Community Colleges Chancellors Office to hold and take over the administration of the Real Estate Education Endowment, an endowment fund created for the purpose of providing scholarships to California Community College students pursuing education in the field of real estate. The Real Estate Education Endowment investments are co-invested with the funds held by the Foundation and remain the assets of the Board of Governors of the California Community Colleges Chancellors Office. Investments held by the Foundation for the Real Estate Education Endowment totaled \$3,928,772 and \$3,898,702 at June 30, 2018 and 2017, respectively.

Funds held on behalf of others – The Foundation receives and disburses funds on behalf of an organization. The balance of these funds is included as a liability in the Foundation's statements of financial position.

Property and equipment is stated at cost or, if donated, at the estimated fair market value at the date of donation. The Foundation capitalizes all expenditures for property and equipment in excess of \$5,000. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from three to seven years. Software development costs, including costs to acquire software for programs and services provided by the Foundation, are capitalized and amortized over the estimated remaining useful life of the program ending June 30, 2017. Other costs associated with development projects are expensed when incurred.

FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Income taxes – The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation has applied the accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements. With some exceptions, the Foundation is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2014.

Functional allocation of expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated based on employees' time incurred and management's estimates of the usage of resources.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair value measurements – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

- Level 1 Inputs Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 Inputs Inputs other than quoted prices in active markets that are observable either directly or indirectly.
- Level 3 Inputs Unobservable inputs for the asset or liability.

Subsequent events have been evaluated for recognition and disclosure through September 25, 2018, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2018 that require recognition or disclosure in the financial statements.

Reclassification – Certain reclassifications have been made to the 2017 balances to conform to the 2018 presentation.

FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

2. INVESTMENTS

The Foundation's investments and investments held on behalf of others are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

The Foundation's investments consist of the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 2,389,278	\$ 2,538,562
Common stocks:		
US large cap	7,616,813	11,725,566
Mutual funds:		
International equity	20,350,711	16,737,844
Fixed income	15,534,590	17,226,679
US large cap equity	7,569,321	5,658,982
US mid cap equity	3,414,493	3,036,943
US small cap equity	<u>1,571,071</u>	<u>804,004</u>
Total	<u>\$ 58,446,277</u>	<u>\$ 57,728,580</u>

Investment income on the Foundation's investments consists of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 972,311	\$ 1,029,451
Net realized and unrealized gain	<u>2,662,152</u>	<u>5,687,950</u>
Total	<u>\$ 3,634,463</u>	<u>\$ 6,717,401</u>

Investments held on behalf of others consist of the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 1,577,729	\$ 1,597,029
Common stocks:		
US large cap	4,706,518	7,244,643
Mutual funds:		
International equity	12,672,280	10,378,052
Fixed income	9,631,732	10,695,389
US large cap equity	4,630,555	3,455,257
US mid cap equity	2,119,832	1,884,102
US small cap equity	<u>972,768</u>	<u>498,096</u>
Total	<u>\$ 36,311,414</u>	<u>\$ 35,752,568</u>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Furniture and fixtures	\$ 1,533,642	\$ 583,593
Equipment	373,484	229,157
Software	162,520	142,160
Tenant improvements	265,733	131,482
Computers	95,016	95,016
Total	<u>2,430,395</u>	<u>1,181,408</u>
Less accumulated depreciation and amortization	<u>(733,954)</u>	<u>(524,929)</u>
Property and equipment, net	<u>\$ 1,696,441</u>	<u>\$ 656,479</u>

4. LINE OF CREDIT

The Foundation has a \$4,500,000 line of credit agreement with a bank. Interest on borrowings varies based on the balance outstanding and the bank's broker call rates. At June 30, 2018, these rates ranged from 3.3% to 4.55%. Borrowings are collateralized by certain investments of the Foundation. There was no balance owed at June 30, 2018 and 2017.

5. NET ASSETS

Temporarily restricted net assets are to be used for the following programs:

	<u>2018</u>	<u>2017</u>
Nursing Education Investment Fund	\$ 14,031,356	\$ 13,638,389
Student Success	6,844,393	5,661,885
California Community Colleges Scholarship		
Endowment – investment income	2,330,684	1,799,147
Workforce Development	1,305,576	1,660,148
Equity	868,634	754,633
System Support	24,999	96,361
Community Impact		14,016
Total	<u>\$ 25,405,642</u>	<u>\$ 23,624,579</u>

Permanently restricted net assets totaling \$40,222,508 and \$40,137,686 as of June 30, 2018 and 2017, respectively, consist of the donor-restricted funds received from the Bernard Osher Foundation and other private grantors to fund student scholarships through the California Community Colleges Scholarship Endowment. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation classifies as permanently restricted net assets, the original value of all gifts donated to the permanent endowment. All accumulated unrealized appreciation and depreciation of endowment investments are recorded to temporarily restricted net

FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

assets to the extent that the original value of donated principal has not decreased. Accumulated unrealized depreciation of endowment investments is recorded as a decrease to permanently restricted net assets to the extent that there are no offsetting accumulated endowment earnings in temporarily restricted net assets. Accumulated unrealized appreciation of endowment investments is recorded as an increase to permanently restricted net assets to the extent that the principal has been reduced through previous unrealized losses or funding endowment expenditures.

The California Community Colleges Scholarship Endowment funds are to be invested in perpetuity and interest and dividends are to be used per donor intent. The endowment investment policy, approved by the Board of Directors, emphasizes preservation of capital as its primary objective and growth and income as secondary objectives. The principal of the endowment fund may be used to fund expenditures if earnings are not sufficient to meet payout requirements, however, prior consent from the Bernard Osher Foundation is mandatory.

Changes in endowment net assets are as follows:

	<u>2018</u>	<u>2017</u>
Endowment net assets, beginning of year	\$ 41,936,833	\$ 38,730,968
Contributions	84,822	112,835
Investment gain:		
Investment income	722,507	781,348
Realized/unrealized gain	<u>2,017,097</u>	<u>4,363,182</u>
Total investment gain	<u>2,739,604</u>	<u>5,144,530</u>
Approved endowment expenditures	<u>(2,208,068)</u>	<u>(2,051,500)</u>
Endowment net assets, end of year	<u>\$ 42,553,192</u>	<u>\$ 41,936,833</u>
Permanently restricted net assets	<u>\$ 40,222,508</u>	<u>\$ 40,137,686</u>
Temporarily restricted net assets	<u>\$ 2,330,684</u>	<u>\$ 1,799,147</u>

Scholarship awards payable to California Community College students are funded through the endowment and through investments held on behalf of various California Community Colleges. Scholarship awards payable are included in the statements of financial position liability balances as follows:

	<u>2018</u>	<u>2017</u>
Scholarships payable	\$ 2,218,335	\$ 2,051,500
Investments held on behalf of others	<u>1,583,632</u>	<u>1,480,600</u>
Total	<u>\$ 3,801,967</u>	<u>\$ 3,532,100</u>

FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

6. OPERATING LEASE OBLIGATION

The Foundation leases office space, operating space for their Smog Referee Program, and equipment under operating leases expiring in various years through 2024. Total expenses under the operating leases were \$1,043,955 and \$994,788 for the years ended June 30, 2018 and 2017, respectively. Future minimum lease payments are as follows:

Year ending June 30:	
2019	\$ 1,342,398
2020	855,090
2021	860,633
2022	871,993
2023	886,241
Thereafter	<u>603,320</u>
Total	<u>\$ 5,419,705</u>

7. DEFINED BENEFIT PENSION PLAN

Plan Description

Plan name:	California Public Employees' Retirement System (CalPERS)
Plan's EIN:	94-6207465
Plan number:	5260

All full-time employees are covered under a defined benefit pension plan maintained by an agency of the State of California. The Foundation's employees are members of the California Public Employees' Retirement System (CalPERS).

The CalPERS Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. The Foundation participates in the Miscellaneous 3% at 60 Risk Pool, for employees hired on or before December 31, 2012, and the Miscellaneous 2% at 62 Risk Pool, for employee hired on or after January 1, 2013, both of which are part of the Public Agency portion of CalPERS, an agent multiemployer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. Multiemployer plans differ from single-employer plans in that much of the fiduciary responsibilities and risks under a single-employer plan would lie with the Foundation. Under this multiemployer plan, the fiduciary responsibilities and risks lie with CalPERS. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. The Plan selects optional benefit provisions by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office at 400 Q Street, Sacramento, California 95811.

The CalPERS Board of Administration approved structural changes to the risk pools at their May 31, 2014 meeting, which combined all miscellaneous groups into one risk pool (Miscellaneous Risk Pool) effective with the 2013 valuations. The funded status of the Miscellaneous Risk Pool as of

FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

June 30, 2017 (most recent available annual report) was 76.3%, defined as the market value of assets (\$12,162,131,074 at June 30, 2017) divided by the entry age normal accrued liability (\$15,944,026,687 at June 30, 2017). The funded status of the Foundation's 3% at 60 and 2% at 62 plans reported by CalPERS as of June 30, 2016 (most recent available annual report) are as follows:

	<u>3% at 60</u> <u>Risk Pool</u>	<u>2% at 62</u> <u>Risk Pool</u>
Entry age normal accrued liability	\$ 18,260,231	\$ 915,569
Market value of assets	14,590,027	819,424
Funded status	79.9%	89.5%

Funding Policy

Active plan members of the Miscellaneous 3% at 60 Risk Pool and Miscellaneous 2% at 62 Risk Pool are required to contribute 8% and 6.25% of their annual covered salary, respectively. In addition, the Foundation is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates of the Miscellaneous 3% at 60 Risk Pool for the fiscal years ended June 30, 2018, 2017 and 2016 were 12.04%, 11.99%, and 11.07%, respectively, of annual covered payroll. The required employer contribution rates of the Miscellaneous 2% at 62 Risk Pool for the fiscal years ended June 30, 2018, 2017 and 2016 were 6.53%, 6.56%, and 6.24%, respectively, of annual covered payroll. The Foundation's contributions to CalPERS for the Miscellaneous 3% at 60 Risk Pool for the years ending June 30, 2018, 2017 and 2016 were \$650,584, \$591,574, and \$612,427, respectively. The Foundation's contributions to the Miscellaneous Risk Pool for 2018 and 2017 represent less than 5% of the Plan's total contributions for the plan year ending June 30, 2016 (most recent available annual report). The Foundation's contributions to CalPERS for the Miscellaneous 2% at 62 Risk Plan for the years ending June 30, 2018, 2017 and 2016 were \$506,126, \$354,713, and \$212,577, respectively. Future adopted contribution rates for the Miscellaneous 3% at 60 Risk Pool for the year ending June 30, 2019 are \$181,425 plus 12.76% of covered annual payroll. Contribution rates for the Miscellaneous 3% at 60 Risk Pool for the year ended June 30, 2020 are estimated to be \$242,000 plus 13.30% of covered annual payroll. Future adopted contribution rates for the Miscellaneous 2% at 62 Risk Pool for the year ending June 30, 2019 are \$3,230 plus 6.84% of covered annual payroll. Contribution rates for the Miscellaneous 2% at 62 Risk Pool for the year ended June 30, 2020 are estimated to be \$7,000 plus 6.80% of covered annual payroll.

8. DEFERRED COMPENSATION AND OTHER RETIREMENT PLANS

The Foundation offers a defined contribution plan (the "Plan") to employees in accordance with Internal Revenue Code Section 403(b). The Plan is available to all full-time employees of the Foundation. This Plan allows for employee deferrals, employer matching, and elective employer contributions. Participants are immediately 100% vested in all contributions to the Plan. The Foundation also has an IRS Section 457 deferred salary plan for certain employees. The Foundation made no contributions to these plans in 2018 and 2017.

SUPPLEMENTAL SCHEDULES

FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2018

	<u>CFDA Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
National Science Foundation:			
Direct programs:			
Advanced Technology Education	47.076		\$ 60,624
Department of Labor:			
Passed through State of California, Employment Development Department Workforce Accelerator Fund	17.258		299,823
U.S. Department of Agriculture:			
Direct programs:			
Forest Service Watershed Restoration and Enhancement	10.693		89,858
Passed through State of California, Department of Social Services Fresh Success Program	10.561	\$ 558,413	850,547
Corporation for National and Community Service:			
Direct programs:			
AmeriCorps Program	94.006	<u>49,772</u>	<u>132,719</u>
Total expenditures of federal awards		<u>\$ 608,185</u>	<u>\$ 1,433,571</u>

FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2018

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards of Foundation for California Community Colleges (Foundation) is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. INDIRECT COST RATE

The Foundation has elected to use a negotiated federal indirect cost rate instead of the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditor's Report

**Board of Directors
Foundation for California Community Colleges
Sacramento, California**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Foundation for California Community Colleges (Foundation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

September 25, 2018

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

**Board of Directors
Foundation for California Community Colleges
Sacramento, California**

Report on Compliance for Each Major Federal Program

We have audited Foundation for California Community Colleges' (Foundation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended June 30, 2018. The Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Foundation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

Opinion on Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

September 25, 2018

FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ No

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Type of auditor's report issued:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

☐ Yes ☒ No

Identification of major programs:

Name of Federal Program or Cluster

CFDA Number

Fresh Success Program

10.561

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV – STATUS OF PRIOR YEAR AUDIT FINDINGS

None noted.