

**SAN BERNARDINO VALLEY
COLLEGE FOUNDATION
(A California Nonprofit Public Benefit Corporation)**

**Financial Statements
with
Independent Auditors' Report**

**For the Year Ended
June 30, 2016**

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Independent Auditors' Report

To the Board of Directors
San Bernardino Valley College Foundation
San Bernardino, CA

We have audited the accompanying financial statements of San Bernardino Valley College Foundation (a California nonprofit public benefit corporation) (the Foundation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 San Bernardino Valley College Foundation as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Adjustment

As discussed in Note 7 to the financial statements the prior year financial statements were adjusted to correct certain accounting errors. Our opinion is not modified with respect to the prior period adjustment.

A handwritten signature in cursive script that reads "Lowell & Spafford".

November 3, 2016

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
(A California Nonprofit Public Benefit Corporation)

Statement of Financial Position

June 30, 2016

ASSETS

Current Assets

Unrestricted cash and cash equivalents	\$ 243,322
Restricted cash and cash equivalents	1,007,189
Promise to give	<u>15,000</u>
 Total current assets	 <u>1,265,511</u>

Noncurrent Assets

Investments - restricted	2,184,605
Beneficial interest in assets held at the Foundation for CA Community Colleges	<u>328,086</u>
	<u>2,512,691</u>

Total assets	<u>\$ 3,778,202</u>
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LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 25,719
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Net assets

Unrestricted	232,603
Temporarily restricted	1,892,285
Permanently restricted	<u>1,627,595</u>

Total net assets	<u>3,752,483</u>
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Total liabilities and net assets	<u>\$ 3,778,202</u>
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The accompanying notes are an integral part of these financial statements.

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
(A California Nonprofit Public Benefit Corporation)

Statement of Activities

For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenues				
Contributions	\$ 49,583	\$ 455,105	\$ 177,000	\$ 681,688
Contributions - San Bernardino Community College	105,526	-	-	105,526
Investment income/loss, net	(31,683)	(57,263)	-	(88,946)
Net assets released from restrictions				
Satisfaction of purpose restrictions	<u>442,419</u>	<u>(442,419)</u>	<u>-</u>	<u>-</u>
 Total support and revenues	 <u>565,845</u>	 <u>(44,577)</u>	 <u>177,000</u>	 <u>698,268</u>
 Expenses				
Program services	399,974	-	-	399,974
Management and general	141,603	-	-	141,603
Fundraising	<u>18,786</u>	<u>-</u>	<u>-</u>	<u>18,786</u>
 Total expenses	 <u>560,363</u>	 <u>-</u>	 <u>-</u>	 <u>560,363</u>
 Change in net assets	 5,482	 (44,577)	 177,000	 137,905
 Net assets				
Balance, beginning of year as previously stated	177,484	1,991,301	1,519,884	3,688,669
Prior period adjustment	<u>49,637</u>	<u>(54,439)</u>	<u>(69,289)</u>	<u>(74,091)</u>
Balance, beginning of year as restated	<u>227,121</u>	<u>1,936,862</u>	<u>1,450,595</u>	<u>3,614,578</u>
 Balance, end of year	 <u>\$ 232,603</u>	 <u>\$ 1,892,285</u>	 <u>\$ 1,627,595</u>	 <u>\$ 3,752,483</u>

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

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
(A California Nonprofit Public Benefit Corporation)

Statement of Functional Expenses

For the Year Ended June 30, 2016

	Program Services	Management and General	Fundraising	Total
Scholarships	\$ 148,866	\$ -	\$ -	\$ 148,866
Valley Bound books and tuition	235,564	-	-	235,564
In-kind salaries and benefits	10,553	94,973	-	105,526
Supplies for community relations	4,991	-	-	4,991
Administrative supplies and expenses	-	46,630	-	46,630
Fundraising supplies and event expenses	-	-	18,786	18,786
	-	-	18,786	18,786
 Total functional expenses	 <u>\$ 399,974</u>	 <u>\$ 141,603</u>	 <u>\$ 18,786</u>	 <u>\$ 560,363</u>

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

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
(A California Nonprofit Public Benefit Corporation)

Statement of Cash Flows

For the Year Ended June 30, 2016

Cash flows from operating activities	
Change in net assets	\$ 137,905
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Contributions restricted for long-term purposes	(177,000)
Donation of artwork	(50,000)
Net realized/unrealized (gain) loss on investments	121,424
(Increase) decrease in:	
Increase (decrease) in:	
Accounts payable	<u>(9,514)</u>
Net cash provided by operating activities	<u>22,815</u>
 Cash flows from investing activities	
Proceeds from sale of investments	1,507,635
Purchase of investments	<u>(499,335)</u>
 Net cash provided by investing activities	<u>1,008,300</u>
 Cash flows from financing activities	
Collections of contributions restricted for long-term purposes	<u>177,000</u>
Net cash provided by (used in) financing activities	<u>177,000</u>
 Net increase in cash and cash equivalents	1,208,115
 Cash and cash equivalents	
Balance, beginning of year	<u>42,396</u>
Balance, end of year	<u>\$ 1,250,511</u>
 Supplemental cash flow information	
Donation of artwork held for investment	<u>\$ 50,000</u>

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

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
(A California Nonprofit Public Benefit Corporation)

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Organization

San Bernardino Valley College Foundation (the Foundation), located in San Bernardino County, was formed as a California nonprofit public benefit corporation on March 6, 1973. The Foundation supports the San Bernardino Community College District (the District) by fundraising for and administering the payment of student scholarships and support for other educational programs of San Bernardino Valley College (the College). In addition, the Foundation oversees the Valley Bound Commitment program, which serves to remove economic barriers and improve achievement for low income students from the San Bernardino Valley area. The Foundation is supported primarily through public donations, grants, and investment income.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The accompanying financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-210-50. Under ASC 958-210-50, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Foundation is required to present a statement of cash flows. Revenues are recognized when earned, and expenses are recognized when incurred in accordance with the accrual basis of accounting.

The Foundation and the District are financially interrelated organizations as defined by ASC Topic 958-605 *Transfers of Assets to a Nonprofit or Charitable Trust that Holds Contributions for Others*. The Foundation reflects contributions received for the benefit of the District as revenue in its financial statements. The expenses related to these contributions are accounted for under program and supporting services.

Support and Expenses

Contributions are measured at their fair value at the date of contribution and are reported as an increase in net assets. The Foundation reports gifts of cash or other assets in the category designated by the donor. The Foundation reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Absent explicit donor stipulation about where the contributions are to be spent, the Foundation reports these contributions as unrestricted.

Cash and Cash Equivalents

Cash and cash equivalents for the purposes of the statement of cash flows consist of cash held in checking and money market accounts and certificates of deposit with maturities of less than 90 days, when purchased and available for current operations.

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents (Continued)

The Foundation maintains cash balances in financial institutions which are insured up to \$250,000. At June 30, 2016, \$947,720 of the cash balances was in excess of the FDIC insurance limit.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are recorded in the appropriate classification of net assets. Investments are classified as short or long term based upon the Foundation's intent to use for current operations.

Contributions and Promises to Give

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in the appropriate classification of net assets as temporarily or permanently restricted. When a restriction expires through either the passage of time or use, the assets are reclassified as assets released from restrictions in the statement of activities.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Foundation's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services. The Foundation utilizes certain employees employed by the District and District office space; the cost of the facilities has not been determined and is not reflected in these financial statements.

Income Taxes

The Foundation is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and classified by the Internal Revenue Service (IRS) as other than a private organization. Contributions received qualify as tax deductible gifts as provided in Section 170(b)(1)(A)(vi). The Foundation is also exempt from California State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements.

SAN BERNARDINO VALLEY COLLEGE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

The Foundation's Federal Form 990, *Return of Organization Exempt From Income Tax*, and State Form 109, *California Exempt Organization Business Income Tax Return*, are subject to examination by the IRS for three years, and by the State Franchise Tax Board for four years, after they were filed. The Foundation is not aware of any such examinations at this time. The Foundation has adopted FASB ASC Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Allocation of Functional Expenses

The costs of providing the various programs, fundraising, and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program, operating, and fundraising activities benefited.

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 the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. Investments

Investments are recorded at fair value on the statement of financial position. The following table summarizes the investment returns which are recorded in the statement of activities:

Realized gains (losses) on investments	\$ (33,861)
Unrealized gains (losses) on investments	(87,563)
Interest and dividends	<u>55,195</u>
Total investment income	(66,229)
Investment expenses	<u>(22,717)</u>
Total	<u>\$ (88,946)</u>

SAN BERNARDINO VALLEY COLLEGE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

Notes to Financial Statements

2. Investments (Continued)

Investment Policies

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 for programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. In order to meet its needs, the investment strategy of the Foundation is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested to meet or exceed the market index, or blended market index, selected and agreed upon by the Finance Committee that most closely corresponds to the style of investment management.

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 return is achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-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 may not exceed five percent of the average net assets over the past three years ending June 30 of the preceding fiscal year. In establishing this policy, the Foundation considered the long-term expected return on its endowment and the need to maintain some investment income in reserve to plan for the potential of scholarship awards exceeding investment income.

3. Market Value of Financial Assets and Liabilities

The Foundation determines the fair market values of certain financial instruments based on the fair value hierarchy established in FASB ASC 820-10-50, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

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

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

SAN BERNARDINO VALLEY COLLEGE FOUNDATION

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Notes to Financial Statements

3. Market Value of Financial Assets and Liabilities (Continued)

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

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

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2016. The Foundation did not have any liabilities measured at fair value on a recurring basis as of June 30, 2016.

	<u>Level I</u>	<u>Level III</u>	<u>Total</u>
Investment Assets			
Common stock	\$ 1,972,621	\$ -	\$ 1,972,621
Certificates of deposit	161,984	-	161,984
Artwork		50,000	50,000
Funds held with the Foundation for CA Community Colleges	<u>-</u>	<u>328,086</u>	<u>328,086</u>
Total investments	<u>\$ 2,134,605</u>	<u>\$ 378,086</u>	<u>\$ 2,512,691</u>

The following table summarizes the Foundation's Level III reconciliation as of June 30, 2016:

	<u>Level III</u>
Investments, at Fair Value	
Balance, at June 30, 2015	\$ 328,086
Donation of artwork	50,000
Changes in the value of the investments	<u>-</u>
Balance, at June 30, 2016	<u>\$ 378,086</u>

SAN BERNARDINO VALLEY COLLEGE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

Notes to Financial Statements

3. Market Value of Financial Assets and Liabilities (Continued)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis (Continued)

The Foundation's promise to give in the amount of \$15,000 was recorded at fair value on a non-recurring basis on the date received. The Foundation has no liabilities recorded at fair value on a non-recurring basis.

4. Beneficial Interest in Assets Held by the Foundation for California Community Colleges

The Foundation participated in The Foundation for California Community Colleges (The FCCC) Osher Scholarship Challenge. This program challenged community colleges and their related foundations to raise additional contributions to be designated as part of a permanent endowment for The FCCC's Osher Scholarship Endowment. Foundations participating in this challenge campaign are guaranteed scholarship monies for qualifying students of their community college districts. The funds are held by The FCCC and are included as permanently restricted net assets of the Foundation.

The Foundation receives no additional interest or dividends on the balance held at The FCCC, and the Foundation does not participate in the investment management of the funds.

5. Net Assets

At June 30, 2016, net assets are categorized as follows:

Unrestricted net assets:	
Board designated - operating reserves	\$ 77,492
Unrestricted	<u>155,111</u>
	<u>232,603</u>
Temporarily restricted for:	
Scholarships	179,717
Programs	279,071
Endowment earnings	<u>1,433,497</u>
	<u>1,892,285</u>
Permanently restricted for:	
Endowments for scholarships	1,299,509
Assets held at Foundation for CA Community Colleges	<u>328,086</u>
	<u>1,627,595</u>
Total net assets	<u>\$ 3,752,483</u>

SAN BERNARDINO VALLEY COLLEGE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

Notes to Financial Statements

5. Net Assets (Continued)

Permanently Restricted Net Assets

The Foundation's permanently restricted net assets consist of individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment Funds

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) the duration and preservation of the fund,
- (2) the purposes of the organization and the donor-restricted endowment fund,
- (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 organization and,
- (7) the investment policies of the organization.

The changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,499,793	\$ 1,450,595	\$ 2,950,388
Contributions		177,000	177,000
Investment return:			
Investment income (loss)	(57,263)	-	(57,263)
Appropriation of endowment assets for expenditure	<u>(9,033)</u>	<u>-</u>	<u>(9,033)</u>
	<u>\$ 1,433,497</u>	<u>\$ 1,627,595</u>	<u>\$ 3,061,092</u>

SAN BERNARDINO VALLEY COLLEGE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

Notes to Financial Statements

5. Net Assets (Continued)

Endowment Funds (Continued)

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA is \$1,627,595 as of June 30, 2016. The portion of perpetual endowment funds subject to a time restriction with a purpose under SPMIFA is \$1,433,497 as of June 30, 2016.

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 SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets, when applicable.

6. Related Party Transactions

As discussed in Note 1, the San Bernardino Community College District provides administrative services to the Foundation. These services consist of salaries and benefits for the Executive Director, administrative staff, and other services. For the year ended June 30, 2016, these services were valued at \$105,526.

7. Prior Period Adjustment

During the year ended June 30, 2016 the Foundation corrected certain errors for prior years as follows:

Misclassification of net assets:	
Temporarily restricted net assets to permanent	\$ 5,836
Temporarily restricted net assets to unrestricted	<u>49,637</u>
	<u>\$ 55,473</u>
Incorrect accounting treatment for the CCCS Endowment fund	
Understatement in temporarily restricted funds	\$ 6,506
Overstatement in permanently restricted funds	(75,115)
Understatement of stock investment in temporarily restricted funds	14,751
Promise to give not properly reported during the prior year end	15,000
Accounts payable not properly reported during the prior year end	<u>(35,233)</u>
	<u>\$ (74,091)</u>

The effect of the above prior period adjustments was to reduce change in net assets by \$20,233 on the statement of activities for the year ended June 30, 2015.

SAN BERNARDINO VALLEY COLLEGE FOUNDATION

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Notes to Financial Statements

8. Subsequent Events

The Foundation's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through November 3, 2016 which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

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