

SAN BERNARDINO VALLEY COLLEGE FOUNDATION

(A California Nonprofit Public Corporation)

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

JUNE 30, 2014

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

June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
San Bernardino Valley College Foundation
San Bernardino, California

We have audited the accompanying financial statements of San Bernardino Valley College Foundation (a California nonprofit public corporation) (the Foundation), which comprise the statement of financial position as of June 30, 2014, 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.

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, 2014, 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.

Maureen J. Day, CPA Co. LLP

Rancho Cucamonga, California
March 27, 2015

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

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS

CURRENT ASSETS

Unrestricted cash and cash equivalents \$ 42,396

NONCURRENT ASSETS

Investments - unrestricted 66,407

Investments - restricted 3,111,504

Beneficial interest in assets held at the Foundation for CA Community Colleges 327,895

Total Noncurrent Assets 3,505,806

TOTAL ASSETS \$ 3,548,202

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses \$ 33,804

Total Current Liabilities 33,804

NET ASSETS

Unrestricted 108,803

Temporarily restricted 1,926,504

Permanently restricted 1,479,091

Total Net Assets 3,514,398

TOTAL LIABILITIES AND NET ASSETS \$ 3,548,202

See the accompanying notes to financial statements.

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Contributions	\$ 18,226	\$ 299,999	\$ 26,701	\$ 344,926
Contributions - San Bernardino Community College	98,673	-	-	98,673
Net assets released from restrictions	445,283	(445,283)	-	-
Total Support and Revenues	<u>562,182</u>	<u>(145,284)</u>	<u>26,701</u>	<u>443,599</u>
Expenses				
Program services	427,741	-	-	427,741
Management and general operating	119,998	-	-	119,998
Fundraising	7,085	-	-	7,085
Total Expenses	<u>554,824</u>	<u>-</u>	<u>-</u>	<u>554,824</u>
Total Revenues in Excess of Expenses	<u>7,358</u>	<u>(145,284)</u>	<u>26,701</u>	<u>(111,225)</u>
Other Revenues				
Interest and dividends	5	55,052	-	55,057
Realized gain on investments	1,572	149,151	-	150,723
Unrealized gain on investments	2,620	235,429	-	238,049
Total Other Revenues	<u>4,197</u>	<u>439,632</u>	<u>-</u>	<u>443,829</u>
CHANGE IN NET ASSETS	<u>11,555</u>	<u>294,348</u>	<u>26,701</u>	<u>332,604</u>
NET ASSETS, BEGINNING OF YEAR	499,136	1,233,890	1,494,768	3,227,794
RESTATEMENT OF BEGINNING BALANCE	97,248	1,632,156	1,452,390	3,181,794
NET ASSETS, END OF YEAR	<u>\$ 108,803</u>	<u>\$1,926,504</u>	<u>\$1,479,091</u>	<u>\$3,514,398</u>

See the accompanying notes to financial statements.

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 332,604
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Contributions restricted for long-term purposes	(326,700)
Net unrealized and realized gain on investments	(388,772)
Change in operating assets and liabilities	
Decrease in accounts receivable	17,000
Decrease in beneficiary interest in assets held	28,574
Increase in accounts payable and accrued expenses	33,804
Net Cash Flows From Operating Activities	<u>(303,490)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net purchases of investments	<u>(27,960)</u>
Net Cash Flows From Investing Activities	<u>(27,960)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Collections of contributions restricted for long-term purposes	<u>326,700</u>
Net Cash Flows From Financing Activities	<u>326,700</u>

NET CHANGE IN UNRESTRICTED CASH AND CASH EQUIVALENTS	(4,750)
UNRESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>47,146</u>
UNRESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 42,396</u></u>

See the accompanying notes to financial statements.

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
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STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Program</u>	<u>Operating</u>	<u>Fundraising</u>	<u>Total</u>
Scholarships	\$ 162,582	\$ -	\$ -	\$ 162,582
Valley Bound	207,222	-	-	207,222
Other programs	5,133	-	-	5,133
Professional fees	6,917	-	-	6,917
Investment expenses	-	20,961	-	20,961
Board expenses	-	364	-	364
Management and general	45,887	98,673	-	144,560
Fundraising	-	-	7,085	7,085
Total Expenses	<u>\$ 427,741</u>	<u>\$ 119,998</u>	<u>\$ 7,085</u>	<u>\$ 554,824</u>

See the accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 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 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.

Financial Statement Presentation

The accompanying financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-210-50. Under ASC 958-210-50, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Foundation is required to present a statement of cash flows. The Foundation does not use fund accounting. 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 *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.

Fair Value Measurements

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

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.

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 and available for current operations. The Foundation maintains cash balances in financial institutions which are insured up to \$250,000. At June 30, 2014, the cash balance of \$42,396 was fully insured.

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. If the restrictions are met either by passage of time or by use in the reporting period in which the income and gains are recognized, the income is recorded as increases in the unrestricted 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.

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. Significant estimates include the value of the beneficial interest in a charitable remainder trust.

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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. 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 programs and fundraising activities benefited.

NOTE 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 on investments	\$ 150,723
Unrealized gains on investments	238,049
Interest and dividends	<u>55,057</u>
Total Investment Income	443,829
Investment expenses	<u>(20,961)</u>
Net Investment Income	<u><u>\$ 422,868</u></u>

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 to 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 returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on 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.

NOTE 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 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

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Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, residential mortgages, and loans held for sale.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2014. The Foundation did not have any Level 2 or Level 3 assets, nor did the Foundation have any liabilities measured at fair value on a recurring basis as of June 30, 2014.

	<u>Level 1</u>
Assets	
Common stock	\$ 2,141,392
Liquidity funds	180,382
Fixed income	765,830
CDs and money market accounts	90,307
Total	<u>\$ 3,177,911</u>

NOTE 4 - BENEFICIAL INTEREST IN ASSETS HELD BY THE FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

The Foundation participated in the Foundation for California Community Colleges (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 the community college district. The funds are held as permanently restricted within the Foundation net assets and are held with the FCCC. The Foundation receives no additional interest or dividends on the balance held at the FCCC, and does not participate in the investment management of the funds. All donations to the FCCC Osher Scholarship Endowment must be left in the fund permanently, and cannot be returned or used for other purposes. The total amount held within the Osher Scholarship Challenge fund at June 30, 2014, was \$327,895.

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5 - NET ASSETS

Unrestricted Net Assets

The Foundation's unrestricted net assets of \$108,803 consisted of cash and investments.

Temporarily Restricted Net Assets

The Foundation's temporarily restricted net assets of \$1,926,504 as of June 30, 2014, carried the following restrictions:

Scholarships	\$ 1,916,752
Programs	9,752
Total	<u>\$ 1,926,504</u>

Permanently Restricted Net Assets

The Foundation's permanently restricted net assets of \$1,479,091 consisted of the following restrictions:

Endowments for scholarships	\$ 1,151,196
Assets held at Foundation for CA Community Colleges	327,895
Total	<u>\$ 1,479,091</u>

NOTE 6 - SUBSEQUENT EVENTS

The Foundation's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through March 27, 2015, 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.

NOTE 7 - RELATED PARTY TRANSACTIONS

San Bernardino Community College District

The District charges administrative services to the Foundation. Salaries and benefits for the Executive Director, administrative staff, and other services are paid by the District and reimbursed by the Foundation. Accordingly, at June 30, 2014, the Foundation salaries paid to the District were \$98,673. In addition, the District provides office space for employees who perform services for the Foundation at no charge.

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8 - PRIOR PERIOD RESTATEMENT

Beginning Balance Adjustment

Adjustments and reclassifications to the prior period ending balances were required to reconcile audited beginning balances back to the Foundation's financial statements. Adjustments were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
NET ASSETS, BEGINNING OF YEAR	\$ 499,136	\$ 1,233,890	\$ 1,494,768	\$ 3,227,794
RECLASSIFICATIONS	(355,888)	398,266	(42,378)	-
ADJUSTMENTS TO RECONCILE CASH AND OTHER ASSETS	<u>(46,000)</u>	<u>-</u>	<u>-</u>	<u>(46,000)</u>
RESTATEMENT OF BEGINNING BALANCE	<u>\$ 97,248</u>	<u>\$ 1,632,156</u>	<u>\$ 1,452,390</u>	<u>\$ 3,181,794</u>