

COLLEGE OF THE DESERT FOUNDATION

(A California Nonprofit Corporation)

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

JUNE 30, 2017 AND 2016

**COLLEGE OF THE DESERT FOUNDATION
(A California Nonprofit Corporation)**

JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
College of the Desert Foundation
Palm Desert, California

Report on the Financial Statements

We have audited the accompanying financial statements of College of the Desert Foundation (the Foundation) (a California nonprofit corporation), which comprise the statement of financial position as of June 30, 2017, 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 Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2017, 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 Financial Statements

The financial statements of the Foundation as of June 30, 2016, were audited by other auditors whose report dated October 11, 2016, expressed an unmodified opinion on those statements.

Vavineck Tume Day & Co LLP

Riverside, California
November 16, 2017

COLLEGE OF THE DESERT FOUNDATION
(A California Nonprofit Corporation)

STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,591,644	\$ 2,456,274
Investments	26,659,312	24,499,647
Investments related to deferred gifts	142,957	134,395
Unconditional promises to give	238,500	644,500
Accounts receivable	300	-
Accounts receivable - related party	5,000	2,808
Accrued interest receivable	66,435	54,016
Prepaid expenses	-	5,125
Other assets	5,020	-
Total Current Assets	30,709,168	27,796,765
Noncurrent Assets		
Beneficial interest in assets held by the Foundation for California Community Colleges	388,801	363,013
Unconditional promises to give - net of amortized discount	122,785	150,508
Equipment (net of accumulated depreciation)	7,562	11,088
Total Noncurrent Assets	519,148	524,609
Total Assets	\$ 31,228,316	\$ 28,321,374
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 16,212	\$ 982
Accrued expenses	52,806	89,762
Accounts payable - related party	425,348	138,655
Total Current Liabilities	494,366	229,399
NET ASSETS		
Unrestricted		
Undesignated	1,590,356	254,121
Board designated	500,000	500,000
Total Unrestricted	2,090,356	754,121
Temporarily restricted	9,266,056	8,496,918
Permanently restricted	19,377,538	18,840,936
Total Net Assets	30,733,950	28,091,975
Total Liabilities and Net Assets	\$ 31,228,316	\$ 28,321,374

See the accompanying notes to financial statements.

COLLEGE OF THE DESERT FOUNDATION
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STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Contributions	\$ 103,938	\$ 353,252	\$ 1,164,884	\$ 1,622,074
Grants	-	75,000	-	75,000
Memberships	200,322	-	-	200,322
Scholarship donations	-	688,403	-	688,403
Donated facilities (in-kind)	64,269	-	-	64,269
Special events	733,225	16,000	-	749,225
Management services	381,502	(381,502)	-	-
Assets released from restrictions	1,532,357	(1,532,357)	-	-
Total Revenues	3,015,613	(781,204)	1,164,884	3,399,293
EXPENSES				
Program expenses	2,095,901	-	-	2,095,901
Operating expenses	661,608	-	-	661,608
Fundraising expenses	275,038	-	-	275,038
Total Expenses	3,032,547	-	-	3,032,547
OTHER INCOME (EXPENSE)				
Net unrealized gain (loss)	254,031	851,322	-	1,105,353
Net realized gain (loss)	175,563	574,387	-	749,950
Change in value of deferred gifts	-	8,562	-	8,562
Change in value of beneficial interest in assets held by the Foundation for California Community Colleges	-	25,788	-	25,788
Interest and dividends	147,630	434,618	-	582,248
Investment fees	(196,672)	-	-	(196,672)
Total Other Income (Expense)	380,552	1,894,677	-	2,275,229
TRANSFERS	972,617	(344,335)	(628,282)	-
CHANGE IN NET ASSETS	1,336,235	769,138	536,602	2,641,975
NET ASSETS, BEGINNING OF YEAR	754,121	8,496,918	18,840,936	28,091,975
NET ASSETS, END OF YEAR	\$ 2,090,356	\$ 9,266,056	\$ 19,377,538	\$ 30,733,950

See the accompanying notes to financial statements.

2016

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 479,751	\$ 161,850	\$ -	\$ 641,601
-	35,000	-	35,000
172,493	-	-	172,493
-	587,332	36,590	623,922
68,000	-	-	68,000
352,902	147,383	-	500,285
410,399	(410,399)	-	-
1,544,782	(1,544,782)	-	-
<u>3,028,327</u>	<u>(1,023,616)</u>	<u>36,590</u>	<u>2,041,301</u>
2,077,422	-	-	2,077,422
555,237	-	-	555,237
322,913	-	-	322,913
<u>2,955,572</u>	<u>-</u>	<u>-</u>	<u>2,955,572</u>
(75,501)	(373,604)	-	(449,105)
(21,769)	(79,253)	-	(101,022)
-	(6,761)	-	(6,761)
-	-	-	-
154,609	524,630	-	679,239
(181,201)	-	-	(181,201)
<u>(123,862)</u>	<u>65,012</u>	<u>-</u>	<u>(58,850)</u>
-	-	-	-
(51,107)	(958,604)	36,590	(973,121)
805,228	9,455,522	18,804,346	29,065,096
<u>\$ 754,121</u>	<u>\$ 8,496,918</u>	<u>\$ 18,840,936</u>	<u>\$ 28,091,975</u>

COLLEGE OF THE DESERT FOUNDATION
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STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,641,975	\$ (973,121)
Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities		
Depreciation and amortization	3,526	3,780
Unrealized (gain) loss	(1,105,353)	449,105
Realized (gain) loss	(749,950)	101,022
Contributions restricted for long-term purposes	(1,518,136)	(36,590)
Changes in Assets and Liabilities		
Unconditional promises to give	433,723	695,770
Accounts receivable	(300)	102,192
Accounts receivable - related party	(2,192)	-
Accrued interest receivable	(12,419)	2,009
Prepaid expenses	5,125	7,296
Other assets	(5,020)	29,612
Beneficial interest in assets held by the Foundation for California Community Colleges	(25,788)	-
Accounts payable	15,230	(159,281)
Accrued expenses	(36,956)	(48,266)
Accounts payable - related party	286,693	-
Net Cash Flows From Operating Activities	(69,842)	173,528
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchase (sale) of investments	(304,362)	34,702
Purchase of property and equipment	-	(8,719)
Change in value of deferred gifts	(8,562)	367,121
Net Cash Flows From Investing Activities	(312,924)	393,104
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections of contributions restricted for long-term purposes	1,518,136	36,590
Net Cash Flows From Investing Activities	1,518,136	36,590
CHANGE IN CASH AND CASH EQUIVALENTS	1,135,370	603,222
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,456,274	1,853,052
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,591,644	\$ 2,456,274

See the accompanying notes to financial statements.

COLLEGE OF THE DESERT FOUNDATION
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STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30,

	2017			
	Program	Operating	Fundraising	Total
College support	\$ 918,927	\$ -	\$ -	\$ 918,927
Scholarships	684,287	-	-	684,287
Special event	-	-	122,995	122,995
Salaries and benefits	174,608	460,963	62,859	698,430
Database software manager	-	10,913	574	11,487
Bank and credit card charges	-	8,986	-	8,986
Depreciation	-	3,526	-	3,526
Equipment and maintenance	-	13,030	-	13,030
Insurance	-	7,428	-	7,428
Marketing and development	221,683	-	55,421	277,104
Annual report	-	25,290	-	25,290
Independent contractors	65,462	-	16,365	81,827
Membership	28	1,320	27	1,375
President's fund	15,652	-	-	15,652
Office	-	10,435	213	10,648
Conferences and travel	-	3,681	-	3,681
Postage and printing	11,589	5,918	7,150	24,657
Professional services	-	17,933	3,936	21,869
Recognition	3,665	27,489	5,498	36,652
Donated facilities	-	64,269	-	64,269
Telephone	-	427	-	427
Total Expenses	<u>\$ 2,095,901</u>	<u>\$ 661,608</u>	<u>\$ 275,038</u>	<u>\$ 3,032,547</u>

See the accompanying notes to financial statements.

2016

Program	Operating	Fundraising	Total
\$ 824,874	\$ -	\$ -	\$ 824,874
616,971	-	-	616,971
-	-	-	-
263,926	296,917	98,972	659,815
-	-	-	-
-	8,062	-	8,062
-	3,780	-	3,780
-	17,466	-	17,466
-	7,391	-	7,391
299,395	-	184,215	483,610
-	-	-	-
-	-	-	-
33,845	645	819	35,309
-	-	-	-
-	28,839	698	29,537
-	-	-	-
24,430	12,237	15,145	51,812
-	106,021	22,806	128,827
13,981	4,678	258	18,917
-	68,000	-	68,000
-	1,201	-	1,201
<u>\$ 2,077,422</u>	<u>\$ 555,237</u>	<u>\$ 322,913</u>	<u>\$ 2,955,572</u>

COLLEGE OF THE DESERT FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

College of the Desert Foundation (the Foundation) is a non-profit organization that was formed on July 27, 1983. The purpose of the Foundation is to enhance the quality of education by advancing College of the Desert (the College) through building relationships, securing philanthropic support, and stewarding assets. The Foundation operates primarily in the Coachella Valley of Southern California. It receives substantially all of its revenues from residents of this area and is subject to economic factors which may affect charitable giving in Southern California.

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 and expenses are recorded when incurred in accordance with the accrual basis of accounting.

The Foundation and the College are financial 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 College as revenue in its financial statements. The expenses related to these contributions are accounted for under program and supporting services.

Net Asset Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset types established according to their nature and purpose. Separate accounts are maintained for each net asset type; however, in the accompanying financial statements, net asset types that have similar characteristics have been combined into groups as follows:

The Unrestricted Net Assets represents all resources over which the Board of Directors has discretionary control for use in operating the Foundation, as well as all property, plant, and equipment of the Foundation.

The Temporarily Restricted Net Assets represents the temporarily restricted resources that are received with temporary donor stipulations that limit the use of the donated assets.

The Permanently Restricted Net Assets represents the permanently restricted resources that are subject to permanent restriction by the donor requiring that the principal be invested and only the income be used for general benefit of the College, its students, or a group affiliated with the College.

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NOTES TO FINANCIAL STATEMENTS
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Public Support and Revenue

The Foundation receives substantially all of its revenue from direct donations, pledges, and corporate grants. Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Realized gains/losses and unrealized gains/losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as assets released from restriction between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the time of the gift.

Comparative Financial Information

Comparative financial information for the prior year has been presented for additional analysis. Certain reclassifications may have been made to conform with the current year presentation.

Donated Assets, Services, and Facilities

The Foundation records the value of donated assets and facilities when there is an objective basis available to measure their value. Donated facilities are reflected as support in the accompanying statements at their estimated values at date of donation and fair market value of facilities for the year. Donated assets are capitalized at the stated donated value and depreciated in accordance with Foundation policies, unless they are passed through to the College.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the reporting date, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Foundation is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b)(A)(vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. The Foundation's Federal informational tax returns for the years ended June 30, 2014, 2015, and 2016, are open to audit by the Federal authorities. California State informational returns for the years ended June 30, 2013, 2014, 2015, and 2016, are open to audit by State authorities.

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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.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking, money market accounts, and certificates of deposit with maturities of less than 90 days. The Foundation maintains cash balances in financial institutions which are insured up to \$250,000. At June 30, 2017 and 2016, the Foundation had cash balances held in financial institutions in excess of Federal depository insurance coverage in the amounts of \$2,860,275 and \$1,790,526, respectively.

For purposes of the statements of cash flows, the Foundation considers all unrestricted highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

Pledges Receivable

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the time of the gift. At June 30, 2017 and 2016, unconditional promises to give have been recorded in these financial statements in the amounts of \$361,285 and \$795,008, respectively, net of amortized discount.

The Foundation uses the allowance method to determine uncollectible, unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Management has determined that all balances are collectable as of at June 30, 2017 and 2016.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Investments

Investments in marketable securities with readily determinable fair values are presented at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted 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 adjusted cost of investments is calculated as the prior year ending fair market value, plus any purchases, less any sales during the fiscal year.

Functional Allocation of Expenses

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

Advertising Costs

Costs associated with advertising are expensed as incurred. During the 2017 and 2016 fiscal years, total advertising costs were \$277,104 and \$483,610, respectively.

NOTE 2 - RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2017:

Split interest agreements	\$ 142,957
Various donor restricted funds	6,090,755
Osher endowment	52,252
Foundation scholarships	2,980,092
Total Temporarily Restricted Net Assets	\$ 9,266,056

Temporarily restricted net assets consist of the following at June 30, 2016:

Split interest agreements	\$ 134,395
Various donor restricted funds	6,121,216
Osher endowment	26,464
Foundation scholarships	2,214,843
Total Temporarily Restricted Net Assets	\$ 8,496,918

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Permanently restricted net assets consist of the following at June 30, 2017:

Scholarships and programs for the College	\$ 6,693,907
Osher endowment	336,549
General endowments	<u>12,347,082</u>
Total Permanently Restricted Net Assets	<u><u>\$ 19,377,538</u></u>

Permanently restricted net assets consist of the following at June 30, 2016:

Scholarships and programs for the College	\$ 6,157,305
Osher endowment	336,549
General endowments	<u>12,347,082</u>
Total Permanently Restricted Net Assets	<u><u>\$ 18,840,936</u></u>

NOTE 3 - UNCONDITIONAL PROMISES TO GIVE

The Foundation's unconditional promises to give consisted of the following at June 30, 2017:

Unconditional promises to give, less than one year	\$ 238,500
Unconditional promises to give, more than one year	<u>135,405</u>
Total	373,905
Less: Unamortized discount	<u>(12,620)</u>
Net Unconditional Promises to Give	<u><u>\$ 361,285</u></u>

The Foundation's unconditional promises to give consisted of the following at June 30, 2016:

Unconditional promises to give, less than one year	\$ 644,500
Unconditional promises to give, more than one year	<u>157,905</u>
Total	802,405
Less: Unamortized discount	<u>(7,397)</u>
Net Unconditional Promises to Give	<u><u>\$ 795,008</u></u>

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 4 - INVESTMENTS

Investments are presented at fair value in the financial statements and are composed of the following at June 30, 2017:

	Adjusted Cost	Fair Value	Unrealized Gain
Equity, Bonds, and Mutual Funds - Foundations	\$ 25,553,959	\$ 26,659,312	\$ 1,105,353
Charitable Remainder Trust	142,957	142,957	-
Investments - cash held by Foundation for Community Colleges Osher Endowment Scholarship Fund	388,801	388,801	-
Total	<u>\$ 26,085,717</u>	<u>\$ 27,191,070</u>	<u>\$ 1,105,353</u>

Investments are presented at fair value in the financial statements and are composed of the following at June 30, 2016:

	Adjusted Cost	Fair Value	Unrealized Loss
Equity, Bonds, and Mutual Funds - Foundations	\$ 24,948,752	\$ 24,499,647	\$ (449,105)
Charitable Remainder Trust	134,395	134,395	-
Investments - cash held by Foundation for Community Colleges Osher Endowment Scholarship Fund	363,013	363,013	-
Total	<u>\$ 25,446,160</u>	<u>\$ 24,997,055</u>	<u>\$ (449,105)</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 147,630	\$ 434,618	\$ 582,248
Net realized gain	175,563	574,387	749,950
Net unrealized gain	254,031	851,322	1,105,353
	<u>\$ 577,224</u>	<u>\$ 1,860,327</u>	<u>\$ 2,437,551</u>

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 154,609	\$ 524,630	\$ 679,239
Net realized loss	(21,769)	(79,253)	(101,022)
Net unrealized loss	(75,501)	(373,604)	(449,105)
	\$ 57,339	\$ 71,773	\$ 129,112

NOTE 5 - OSHER ENDOWMENT SCHOLARSHIP

The Foundation for California Community Colleges (FCCC) has created a permanent endowment fund intended to provide scholarship support to California Community College students in perpetuity. The fund began in May 2008 with a \$25 million lead gift from The Bernard Osher Foundation. The Bernard Osher Foundation will provide scholarship matching funds annually to colleges that participate. In order to take advantage of this opportunity, the College and its donors have contributed \$336,579. As of June 30, 2017 and 2016, the ending balance of the Osher Endowment Scholarship was \$388,801 and \$363,013, respectively. 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 Endowment Scholarship must remain in the fund permanently and cannot be returned or used for other purposes.

NOTE 6 - INVESTMENT SECURITIES

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 Statement of Financial Accounting Standards, *Fair Value Measurements*, 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.

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.

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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, 2017. The Foundation did not have any liabilities measured at fair value on a recurring basis as of June 30, 2017.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment Assets				
Equity, Bonds, and Mutual Funds - Foundation	\$ 26,659,312	\$ -	\$ -	\$ 26,659,312
Beneficiary Remainder Trust	-	-	142,957	142,957
Colleges Osher Endowment Scholarship Fund	-	388,801	-	388,801
Other Assets				
Unconditional promises to give, net	-	-	361,285	361,285
Total	<u>\$ 26,659,312</u>	<u>\$ 388,801</u>	<u>\$ 504,242</u>	<u>\$ 27,552,355</u>

	<u>Level 3</u>
Investments, at Fair Value	
Balance, at June 30, 2016	\$ 929,403
Changes in the value of beneficiary remainder trust	8,562
Unconditional promises to give, net	(433,723)
Balance, at June 30, 2017	<u>\$ 504,242</u>

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The following table presents changes in the Foundation's Level 3 investment assets measured at fair value on a recurring basis for the year ending June 30, 2016.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment Assets				
Equity, Bonds, and Mutual Funds - Foundation	\$ 24,499,647	\$ -	\$ -	\$ 24,499,647
Beneficiary Remainder Trust	-	-	134,395	134,395
Colleges Osher Endowment Scholarship Fund	-	363,013	-	363,013
Other Assets				
Unconditional promises to give, net	-	-	795,008	795,008
Total	<u>\$ 24,499,647</u>	<u>\$ 363,013</u>	<u>\$ 929,403</u>	<u>\$ 25,792,063</u>

	<u>Level 3</u>
Investments, at Fair Value	
Balance, at June 30, 2015	\$ 1,992,294
Changes in the value of beneficiary remainder trust	(367,121)
Unconditional promises to give, net	(695,770)
Balance, at June 30, 2016	<u>\$ 929,403</u>

The Foundation did not have any assets or liabilities recorded at fair value on a non-recurring basis.

NOTE 7 - CAPITAL ASSETS

Property and equipment are summarized as follows at June 30, 2017:

Assets Being Depreciated	\$ 29,038
Accumulated Depreciation	(21,476)
Total	<u>\$ 7,562</u>

Property and equipment are summarized as follows at June 30, 2016:

Assets Being Depreciated	\$ 29,038
Accumulated Depreciation	(17,950)
Total	<u>\$ 11,088</u>

Depreciation expense was \$3,526 and \$3,780 at June 30, 2017 and 2016, respectively.

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NOTE 8 - SPLIT INTEREST AGREEMENTS

The Foundation has a beneficial interest in various irrevocable charitable remainder trusts and pooled income funds including a pooled income fund administered by the Community College League of California. The assets are held in various stocks, bonds, and other assets in the names of the individual donors' trusts, and are accounted for in the endowment fund. The trusts provide for payments to the granter or other designated beneficiary over the trust's terms. At the end of the trust's term, the remaining assets are available to the Foundation. Fair value is based on the present value of the estimated future benefits to be received, which take into account required annual distributions to the donor, the donor's life expectancy, and the assumed rate of return on the investments over the years. The trusts are revalued on an annual basis, and the change in the present value of the trusts' assets is recorded as a gain or loss in the statements of activities.

A summary of the changes in split interest agreements is summarized as follows for June 30, 2017:

Balance, June 30, 2016	\$ 134,395
Amount received during the year	<u>(40,415)</u>
Total	93,980
Net changes in current fair market values	<u>48,977</u>
Balance, June 30, 2017	<u><u>\$ 142,957</u></u>

A summary of the changes in split interest agreements is summarized as follows for June 30, 2016:

Balance, June 30, 2015	\$ 501,516
Amount received during the year	<u>(369,972)</u>
Total	131,544
Net changes in current fair market values	<u>2,851</u>
Balance, June 30, 2016	<u><u>\$ 134,395</u></u>

NOTE 9 - QUASI AND DONOR DESIGNATED ENDOWMENT AND NON-ENDOWMENT

The Foundation's endowment consists of funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

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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 funds that is not classified in permanently restricted net assets may be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Investment Return Objectives, Risk Parameters, and Strategies

The Foundation has adopted an investment policy, approved by the Board of Directors, for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Therefore, the Foundation expects its endowment assets, over time, to exceed the average annual return of the applicable benchmark index with a lower than benchmark volatility over a three to five year rolling time period. Actual returns in any given year may vary from this expectation. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Foundation's Board-approved spending policy was created to protect the values of the endowments. The Board of Directors approved a policy that all endowments are first subject to an annual administrative fee of two percent calculated at the end of each quarter, based on the market value balance that is deposited into the operating fund of the Foundation. The total endowment spending rate of no more than five percent per year is determined by the investment committee at its January meeting using the average market value of the funds on June 30 for each of the three years immediately preceding the fiscal year the payout is to be made.

Changes in endowment net assets as of June 30, 2017, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2016	\$ 500,000	\$ 2,241,307	\$ 18,840,936	\$ 21,582,243
Contributions	-	-	1,164,884	1,164,884
Investment income (loss)	-	1,704,998	-	1,704,998
Amounts appropriated for expenditures	-	(913,961)	-	(913,961)
Other transfers/reclassifications	-	-	(628,282)	(628,282)
Balance, June 30, 2017	<u>\$ 500,000</u>	<u>\$ 3,032,344</u>	<u>\$ 19,377,538</u>	<u>\$ 22,909,882</u>

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Changes in endowment net assets as of June 30, 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2015	\$ 500,000	\$ 3,001,900	\$ 18,804,346	\$ 22,306,246
Contributions	-	115,848	36,590	152,438
Investment income (loss)	-	200,662	-	200,662
Amounts appropriated for expenditures	-	(1,077,103)	-	(1,077,103)
Balance, June 30, 2016	<u>\$ 500,000</u>	<u>\$ 2,241,307</u>	<u>\$ 18,840,936</u>	<u>\$ 21,582,243</u>

NOTE 10 - RELATED PARTY TRANSACTIONS

Desert Community College District

Desert 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, 2017 and 2016, the Foundation owed the District \$425,348 and \$138,655, respectively, for all services. The District will keep an amount of money for the Foundation at the College for Foundation purposes. The receivable for the fiscal years 2017 and 2016 amounted to \$5,000 and \$2,808, respectively.

In addition, the District provides office space for employees who perform services for the Foundation at no charge. The donated facilities for the fiscal years 2017 and 2016 amounted to \$64,269 and \$68,000, respectively, and have been reflected in the financial statements as in-kind revenue.

NOTE 11 - LEASE COMMITMENTS

The Foundation leases a copier under a 60-month operating lease agreement that commenced May 2014 and expires April 2019.

Minimum required future rental payments under leases as of June 30, 2017, are as follows:

Year Ending June 30,	Total Payments
2018	\$ 3,806
2019	3,489
Total	<u>\$ 7,295</u>

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NOTE 12 - TRANSFERS BETWEEN FUNDS

During the year ended June 30, 2017, Foundation management reviewed the original donor documentation for certain endowment funds held in the permanently restricted and temporarily restricted net assets. The review of the documentation revealed that the donor intent for certain earnings and contributions were not properly classified in the Foundation's accounts. As such, the Foundation has reclassified the endowment balances into the appropriate net asset class.

NOTE 13 - 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 16, 2017, 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.