

Palo Verde College Foundation

**Financial Statements With
Independent Auditors' Report
For the Year Ended
June 30, 2016**

Palo Verde College Foundation
(A Non-Profit Organization)

June 30, 2016

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Palo Verde College Foundation
Blythe, California

We have audited the accompanying financial statements of Palo Verde College Foundation (a nonprofit organization), 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.

Auditors' Responsibility

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

The Board of Trustees
Palo Verde College Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palo Verde 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.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
January 10, 2017

Palo Verde College Foundation
(A Non-Profit Organization)

Statement of Financial Position
June 30, 2016

ASSETS

Current assets:

Cash and cash equivalents \$ 134,239

Total current assets 134,239

Noncurrent assets:

Investments 1,128,770

Beneficial interest in FCCC Endowment 125,452

Total noncurrent assets 1,254,222

TOTAL ASSETS \$ 1,388,461

NET ASSETS

Unrestricted \$ 338,908

Permanently Restricted 1,049,553

Total Net Assets 1,388,461

TOTAL NET ASSETS \$ 1,388,461

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

Palo Verde College Foundation
(A Non-Profit Organization)

Statement of Activities
For the Fiscal Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenues			
Contributions	\$ 32,402	\$ -	\$ 32,402
Special Event Revenue	12,144	-	12,144
Investment Income/Loss, net	34,313	(47,589)	(13,276)
Net Assets Released from Restrictions	34,076	(34,076)	-
	<u>112,935</u>	<u>(81,665)</u>	<u>31,270</u>
Total Support and Revenues			
Expenses			
Program Services	44,177	-	44,177
General and Administration	2,613	-	2,613
Fundraising	2,398	-	2,398
	<u>49,188</u>	<u>-</u>	<u>49,188</u>
Total Expenses			
Change in Net Assets	63,747	(81,665)	(17,918)
Net Assets-Beginning	<u>275,161</u>	<u>1,131,218</u>	<u>1,406,379</u>
Net Assets-Ending	<u>\$ 338,908</u>	<u>\$ 1,049,553</u>	<u>\$ 1,388,461</u>

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

Palo Verde College Foundation
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Statement of Functional Expenses
For the Fiscal Year Ended June 30, 2016

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Fundraising Supplies and Event Expenses	\$ -	\$ -	\$ 2,398	\$ 2,398
Fees	-	265	-	265
Insurance	-	1,190	-	1,190
Legal and Professional	-	500	-	500
Miscellaneous	-	120	-	120
Scholarships and Grants	<u>44,177</u>	<u>538</u>	<u>-</u>	<u>44,715</u>
Total Functional Expenses	<u>\$44,177</u>	<u>\$ 2,613</u>	<u>\$ 2,398</u>	<u>\$49,188</u>

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

Palo Verde College Foundation
(A Non-Profit Organization)

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets \$ (17,918)

Adjustments to Reconcile the Change in Net Assets to Net Cash
Provided by (Used In) Operating Activities:

Net Realized and Unrealized (Gain) Loss on Investments 49,217

Net Cash Provided By (Used In) Operating Activities 31,299

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sale of Investments 246,185

Purchase of Investments (206,920)

Total Cash Provided By (Used In) Investing Activities 39,265

Net Increase (Decrease) in Cash and Cash Equivalents 70,564

Cash and Cash Equivalents-Beginning 63,675

Cash and Cash Equivalents-Ending \$ 134,239

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

Palo Verde College Foundation
(A Non-Profit Organization)

Notes to Financial Statements
June 30, 2016

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Palo Verde College Foundation (the “Foundation”) is a California nonprofit auxiliary organization of Palo Verde College District. The Foundation was organized with the purpose of providing benefit to the educational programs and services of the Palo Verde College District (the District). The Foundation is authorized to operate as an auxiliary organization of the District under the provisions of Article 6 of Chapter 6 of Part 45 of the Education Code.

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 financial statements of the Foundation are presented in accordance with Financial Accounting Standards Board’s (FASB) Accounting Standards Codification (ASC) Topic 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.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and investments that are available for current use with maturity dates of less than 90 days, when purchased and available for current operations.

The Foundation minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balances 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.

Investments

The Foundation’s method of accounting for investments is the fair value method. Fair value is determined by published quotes when they are readily available. Adjustments to fair values are included in the accompanying statement of financial position and statement of activities.

Palo Verde College Foundation
(A Non-Profit Organization)

Notes to Financial Statements
June 30, 2016

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Revenue Recognition

Contributions and bequests are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted, and are reported in the Statement of Activities as net assets released from restrictions, when the time restrictions expire or the contributions are used for the restricted purpose. Permanently restricted net assets are those net assets whose use by the Foundation is restricted by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by the actions of the Foundation, and consist of contributions to the Foundation's endowment fund.

Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) and is classified as a public charity with the meaning of Internal Revenue Code Section 509(a). 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 examination 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.

Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements*, provides a framework for measuring fair value. FASB ASC Topic 820 also establishes a fair value hierarchy that distinguishes between inputs based on market data from independent sources (observable inputs) and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs).

The fair value hierarchy in FASB ASC Topic 820 prioritizes fair value measurements into three levels based on the nature of the inputs. The three levels of the fair value hierarchy under FASB ASC Topic 820 are as follows:

Level 1 – Investments in this category are valued based on quoted prices in active markets for identical assets that are accessible at the measurement date. An active market is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Palo Verde College Foundation
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Notes to Financial Statements
June 30, 2016

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Level 2 – Investments in this category are valued based on inputs, in the absence of activity quoted market prices, which are observable for the asset, either directly or indirectly. Level 2 inputs include: (a) quoted prices for similar assets in active markets; (b) quoted prices for identical or similar assets in markets that are not active; (c) inputs other than quoted prices that are observable for the asset such as interest rates and yield curves observable at commonly quoted intervals; and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Investments in this category are valued based on unobservable inputs for asset. Unobservable inputs are used to the extent observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date.

Functional Expenses

The costs of providing services have been summarized on a functional basis in the statement of activities. Certain costs and expenditures have been allocated between program, fundraising, and supporting services based on management's estimates.

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 period. Actual results could differ from those estimates.

NOTE 2 INVESTMENTS

The table below sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value on June 30, 2016:

	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Cash	\$ 15,814	\$ 15,814	\$ -	\$ 15,814
Equities	608,094	608,094	-	608,094
Fixed income securities	504,859	504,859	-	1,514,577
Beneficial interest in FCCC endowment	125,452	-	125,452	125,452
Total	<u>\$ 1,254,219</u>	<u>\$ 1,128,767</u>	<u>\$ 125,452</u>	<u>\$ 2,263,937</u>

Palo Verde College Foundation
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Notes to Financial Statements
June 30, 2016

NOTE 2 INVESTMENTS (continued)

The following table summarizes the investment returns which are recorded in the statement of activities:

Realized gains (losses) on investments	\$ 22,242
Unrealized gains (losses) on investments	(71,459)
Interest and dividend earnings	<u>45,153</u>
Total investment income	(4,064)
Investment expenses	<u>(9,212)</u>
Total	<u>\$ (13,276)</u>

NOTE 3 – BENEFICIAL INTEREST IN FCCC ENDOWMENT

FCCC Endowment is a pooled investment fund held by the Foundation for California Community Colleges (FCCC) and is permanently restricted for community college scholarships. Management and investment oversight is the responsibility of the Foundation for California Community Colleges (FCCC) as directed by the donor, Bernard Osher from the Osher Foundation.

The initial gift from the Osher Foundation of \$25 million and any match from the Osher Foundation are considered gifts to the FCCC and remain assets of the FCCC per grant agreement. Subsequent fundraising by the Foundation that results in monies transferred to FCCC may remain permanently restricted assets of the Foundation and will be reflected as such on all financial reporting. However, all donations to the endowment must be left in the fund permanently and cannot be returned or used for other purposes.

The Osher Endowed Scholarship campaign ended on June 30, 2011 which was the final date contributions to this fund were eligible for the 1 to 2 match. Total assets that were transferred by the Foundation prior to June 30, 2011 were matched, and the total investment in the fund was permanently established. Contributions are permanently restricted and may only be used for scholarships. According to the terms of the donor agreement between the Osher Foundation and the Foundation for California Community Colleges (FCCC), a minimum of 5 percent will be distributed annually from the endowment earnings (in the event earnings are below 5 percent, distributions will be from the corpus) to the colleges. Distributions will occur bi-annually for the Fall and Spring semesters and will be based upon the total investment for each college. Distributions to the Foundation from the Osher Foundation are classified as contributions and assets on the financial statements.

The Foundation classifies its investments in FCCC as Level 2.

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Notes to Financial Statements
June 30, 2016

NOTE 4 – DONATED SERVICES, GOODS AND FACILITIES

The Foundation receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. The District contributes to the Foundation by providing various administrative functions. To date, the Foundation has not had a policy of recording these values in the financial statements in accordance with generally accepted accounting principles.

NOTE 5 – RELATED PARTIES

As described in Note 1, the Foundation is a supporting organization of the District; therefore, transactions between the Foundation and the District, District personnel, students at the District, and programs of the District are expected.

During the year ended June 30, 2016, the Foundation indirectly supported the District by providing grants to students of the District, paying programmatic expenditures, and/or reimbursing District personnel and departments for programmatic costs. The Foundation's total support totaled \$44,177.

The Foundation was further supported by the involvement of District personnel in the Foundation's events and programs. The total of these contributions has not been segregated from the non-District affiliated contributions.

NOTE 6 – NET ASSETS

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

Unrestricted net assets:

Unrestricted	<u>\$ 338,908</u>
Permanently restricted for:	
Endowments for scholarships	924,101
Assets held at Foundation for CA Community Colleges	<u>125,452</u>
	<u>1,049,553</u>
Total net assets	<u><u>\$ 1,388,461</u></u>

Permanently Restricted Net Assets

The Foundation's endowment consists of approximately 2 individual funds established primarily for scholarships. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Palo Verde College Foundation
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Notes to Financial Statements
June 30, 2016

NOTE 6 – NET ASSETS (continued)

Endowment Funds

Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted the Uniform 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 Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment 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 investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt 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. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return of approximately 5-7% annually. Actual returns in any given year may vary from this amount. 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 has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 2% annually, which is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Palo Verde College Foundation
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Notes to Financial Statements
June 30, 2016

NOTE 6 – NET ASSETS (continued)

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

	<u>Permanently Restricted</u>
Endowment net assets, July 1, 2015	\$ 1,131,218
Contributions	-
Investment income	50,538
Net appreciation (depreciation)	(98,127)
Amounts appropriated for expenditure	<u>(34,076)</u>
Endowment net assets, June 30, 2016	<u>\$ 1,049,553</u>

NOTE 7 – CONTINGENCIES

The Foundation may be subject to various claims, legal proceedings, and investigations covering a wide range of matters that arise in the ordinary course of business. In the opinion of management all such matters are adequately covered by insurance or by accruals, and if not so covered, are without merit or are of such kind or involve such amounts, as would not have a significant effect on the financial position or results of operations of the Foundation if disposed of unfavorably.

NOTE 8 – SUBSEQUENT EVENTS

In compliance with ASC 855, “*Subsequent Events*”, the Foundation has evaluated subsequent events through January 10, 2017, the date the financial statements were available to be issued and, in the opinion of management, there are no subsequent events which need to be disclosed.