

**MIRACOSTA COLLEGE FOUNDATION**

**(A California Nonprofit Corporation)**

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**ANNUAL FINANCIAL REPORT**

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**JUNE 30, 2017 AND 2016**

**MIRACOSTA COLLEGE FOUNDATION**  
**(A California Nonprofit Corporation)**

**JUNE 30, 2017 AND 2016**

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**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
MiraCosta College Foundation  
Oceanside, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of MiraCosta College Foundation (the Foundation) (a California nonprofit corporation), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 MiraCosta College Foundation as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Vavinek, Tunc, Day & Co. LLP*

Rancho Cucamonga, California  
February 13, 2018

**MIRACOSTA COLLEGE FOUNDATION**  
**(A California Nonprofit Corporation)**

**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30,**

	2017	2016
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents		
Unrestricted	\$ 642,041	\$ 489,993
Restricted	1,809,885	1,753,100
Investments	7,204,059	6,517,977
Investments related to deferred gifts	540,203	526,363
Accounts receivable	17,640	10,555
Unconditional promises to give - net of allowance	47,319	46,500
Total Current Assets	10,261,147	9,344,488
Noncurrent Assets		
Beneficial interest in assets held by the Foundation for CA Community Colleges	778,091	725,928
Cash surrender value of life insurance	26,467	25,996
Unconditional promises to give - net of amortized discount	-	29,809
Total Assets	\$ 11,065,705	\$ 10,126,221
 <b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	\$ 13,069	\$ 18,704
Due to MiraCosta Community College District	77,457	19,811
Total Liabilities	90,526	38,515
 <b>NET ASSETS</b>		
Unrestricted	997,417	839,764
Temporarily restricted	3,925,143	3,373,646
Permanently restricted	6,052,619	5,874,296
Total Net Assets	10,975,179	10,087,706
Total Liabilities and Net Assets	\$ 11,065,705	\$ 10,126,221

See the accompanying notes to financial statements.

**MIRACOSTA COLLEGE FOUNDATION**  
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**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30,**

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>PUBLIC SUPPORT AND REVENUES</b>				
Contributions, gifts, and grants	\$ 53,134	\$ 1,093,495	\$ 140,024	\$ 1,286,653
Contributions - deferred gifts	-	7,712	-	7,712
Donated asset contributions	-	100,450	-	100,450
Management fees	119,324	(119,324)	-	-
Net assets released from restrictions	1,497,813	(1,497,813)	-	-
Total Public Support and Revenues	<u>1,670,271</u>	<u>(415,480)</u>	<u>140,024</u>	<u>1,394,815</u>
<b>EXPENSES</b>				
Program services	1,530,922	-	-	1,530,922
General and administrative	156,889	-	-	156,889
Total Expenses	<u>1,687,811</u>	<u>-</u>	<u>-</u>	<u>1,687,811</u>
<b>OTHER INCOME AND (LOSSES)</b>				
Unrealized gain (loss) on investments	159,063	844,864	-	1,003,927
Change in value of deferred gifts	-	6,128	-	6,128
Change in cash surrender value of life insurance	-	471	-	471
Change in value of beneficial interest in assets held by Foundation for CA				
Community Colleges	-	77,205	-	77,205
Interest and dividends	3,690	89,048	-	92,738
Total Other Income and (Losses)	<u>162,753</u>	<u>1,017,716</u>	<u>-</u>	<u>1,180,469</u>
<b>TRANSFERS</b>	<u>12,440</u>	<u>(50,739)</u>	<u>38,299</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	157,653	551,497	178,323	887,473
<b>NET ASSETS, BEGINNING OF YEAR</b>	839,764	3,373,646	5,874,296	10,087,706
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 997,417</u>	<u>\$ 3,925,143</u>	<u>\$ 6,052,619</u>	<u>\$ 10,975,179</u>

See the accompanying notes to financial statements.

## 2016

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 39,317	\$ 874,369	\$ 189,292	\$ 1,102,978
-	39,492	-	39,492
-	104,517	-	104,517
106,064	(106,064)	-	-
994,660	(994,660)	-	-
1,140,041	(82,346)	189,292	1,246,987
1,153,451	-	-	1,153,451
132,447	-	-	132,447
1,285,898	-	-	1,285,898
60,040	(23,675)	-	36,365
-	63,295	-	63,295
-	464	-	464
-	(31,481)	-	(31,481)
5,185	91,364	-	96,549
65,225	99,967	-	165,192
42,534	(53,764)	11,230	-
(38,098)	(36,143)	200,522	126,281
877,862	3,409,789	5,673,774	9,961,425
\$ 839,764	\$ 3,373,646	\$ 5,874,296	\$ 10,087,706

**MIRACOSTA COLLEGE FOUNDATION**  
**(A California Nonprofit Corporation)**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30,**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 887,473	\$ 126,281
Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities		
Contributions restricted for long-term purposes	(1,241,231)	(1,103,153)
Net unrealized gain on investments	(1,003,927)	(36,365)
Change in Assets and Liabilities		
Accounts receivable	(7,085)	69,646
Unconditional promises to give	28,990	56,359
Beneficial interest in assets held by the Foundation for CA Community Colleges	(52,163)	56,759
Cash surrender value of life insurance	(471)	(464)
Accounts payable	(5,635)	7,874
Due to MiraCosta Community College District	57,646	(31,920)
Net Cash Flows From Operating Activities	(1,336,403)	(854,983)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net purchase of investments	310,133	22,429
Change in value of deferred gifts	(6,128)	(63,295)
Change in restricted cash and cash equivalents	(56,785)	(227,062)
Net Cash Flows From Investing Activities	247,220	(267,928)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Collections of contributions restricted for long-term purposes	1,241,231	1,103,153
 <b>NET CHANGE IN UNRESTRICTED CASH AND CASH EQUIVALENTS</b>	152,048	(19,758)
 <b>UNRESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	489,993	509,751
 <b>UNRESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 642,041	\$ 489,993

See the accompanying notes to financial statements.

**MIRACOSTA COLLEGE FOUNDATION**  
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**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30,**

	2017		
	Program Services	General and Administrative	Total
Scholarships and grants	\$ 442,141	\$ -	\$ 442,141
MiraCosta Community College Bond Campaign Donation	-	-	-
MiraCosta College programs	910,823	-	910,823
Direct student aid	77,508	-	77,508
Support staff salaries and wages	-	97,872	97,872
Donated assets	100,450	-	100,450
Professional fees	-	35,853	35,853
Donor cultivation and goodwill	-	8,191	8,191
Other administrative expenses	-	14,973	14,973
TOTAL	\$ 1,530,922	\$ 156,889	\$ 1,687,811

See the accompanying notes to financial statements.

2016

Program Services	General and Administrative	Total
\$ 446,829	\$ -	\$ 446,829
150,000	-	150,000
367,919	-	367,919
84,186	-	84,186
-	78,078	78,078
104,517	-	104,517
-	14,910	14,910
-	17,414	17,414
-	22,045	22,045
<u>\$ 1,153,451</u>	<u>\$ 132,447</u>	<u>\$ 1,285,898</u>

**MIRACOSTA COLLEGE FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

**Organization**

The MiraCosta College Foundation (the Foundation) is a non-profit public benefit corporation organized under the Non-profit Public Benefit Corporation Law of the State of California. The Foundation was incorporated on April 26, 1967, with the express purpose of promoting the interest and welfare of MiraCosta College (the College) and securing resources that will transform student lives. The Foundation is an independent foundation established under the laws of the State of California. The members of the Foundation's Board of Directors are composed of members from the local community. In addition, the College president and two members of the College management staff are Advisors to the Board.

**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 financial statements have been prepared on the accrual basis of accounting.

The Foundation and the College are financial interrelated organizations as defined by *Transfers of Assets to a Nonprofit of 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.

**Method of Accounting**

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America utilizing the accrual basis of accounting, have been prepared to focus on the Foundation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of equity and transactions into three classes of net assets - permanently restricted, temporarily restricted, or unrestricted as follows:

**Permanently restricted net assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

**Temporarily restricted net assets** - Net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or the passage of time.

**Unrestricted net assets** - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and 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 temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Fair Value Measurements**

The fair value of equity and debt securities with readily determinable fair values approximates their respective quoted market prices. 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.

**Investments**

Short-term investments are valued at amortized cost, which approximates market value. Investment transactions are recorded on trade date. Realized gain and losses on sales of investments are determined on the specific identification basis.

**Donated Assets**

The Foundation records the value of donated assets when there is an objective basis available to measure their value. 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 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.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash held in checking and money market accounts 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 uninsured cash deposits of \$1,965,343 and \$1,835,226, respectively. Cash and cash equivalents reported on the statement of cash flows are unrestricted.

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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**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 the financial statements in the amounts of \$47,319, net of allowance for uncollectible pledges, and \$76,309 net of amortized discount, respectively.

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 the amounts of allowance for uncollectible promises to give at June 30, 2017 and 2016, to be \$181 and \$0, respectively.

**Income Taxes**

The Foundation is a charitable, not-for-profit, tax-exempt organization qualified under provisions of Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. Accordingly, no provision for income taxes has been provided in the financial statements. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(A)(vi). The Foundation annually files information returns, Forms 990, 199, and RRF-1, with the appropriate agencies. There was no unrelated business activity income.

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.

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.

**MIRACOSTA COLLEGE FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Accounts Payable and Current Liabilities**

Accounts payable balance consists of expenditures incurred prior to fiscal year end, but not yet paid. Due to MiraCosta Community College District balance consists of payroll processed by the District on behalf of the Foundation and other miscellaneous expenditures owed to the District.

**Allocation of Functional Expenses**

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

**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.

**NOTE 2 - UNCONDITIONAL PROMISES TO GIVE**

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

	2017	2016
Unconditional promises to give	\$ 47,500	\$ 76,500
Less: Unamortized discount	-	(191)
Subtotal	47,500	76,309
Less: Allowance for doubtful accounts	(181)	-
Net Unconditional Promises to Give	\$ 47,319	\$ 76,309

Unconditional promises to give are either unrestricted or restricted by donor instruction. Management has determined the amounts of allowance for uncollectible promises to give at June 30, 2017 and 2016, to be \$181 and \$0, respectively.

The discount rate used was 0.25 percent for 2016. The amortization of the discounts at June 30, 2016, was \$191.

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**NOTES TO FINANCIAL STATEMENTS**  
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The Foundation has been promised unconditional promises to give, which were classified as follows at June 30:

	2017 Scholarship Funds	2016 Scholarship Funds
Due within one year	\$ 47,500	\$ 46,500
Less: Allowance for uncollectible promises to give	(181)	-
Subtotal current portion of unconditional promises to give less allowance	<u>47,319</u>	<u>46,500</u>
Due within one to five years	-	30,000
Less: Unamortized discount	-	(191)
Subtotal long-term portion of unconditional promises to give	<u>-</u>	<u>29,809</u>
Total	<u><u>\$ 47,319</u></u>	<u><u>\$ 76,309</u></u>

**NOTE 3 - INVESTMENTS**

Investments are stated at fair value and are summarized as of June 30, 2017:

Investments	Adjusted Cost	Fair Value	Unrealized Gain
Vanguard - Inv Grade Fixed Income	\$ 1,530,019	\$ 1,777,761	\$ 247,742
Vanguard - U.S. Equity	2,804,439	3,258,534	454,095
Vanguard - International Equity	1,865,674	2,167,764	302,090
Total Investments	<u><u>\$ 6,200,132</u></u>	<u><u>\$ 7,204,059</u></u>	<u><u>\$ 1,003,927</u></u>

Investments are stated at fair value and are summarized as of June 30, 2016:

Investments	Adjusted Cost	Fair Value	Unrealized Gain
Vanguard - Inv Grade Fixed Income	\$ 1,740,354	\$ 1,750,118	\$ 9,764
Vanguard - U.S. Equity	2,991,110	3,007,892	16,782
Vanguard - International Equity	1,750,148	1,759,967	9,819
Total Investments	<u><u>\$ 6,481,612</u></u>	<u><u>\$ 6,517,977</u></u>	<u><u>\$ 36,365</u></u>

The investment return consists of the following at June 30:

	2017	2016
Interest and dividend income	\$ 92,738	\$ 96,549
Unrealized gain on investments	1,003,927	36,365
Total Investment Return	<u><u>\$ 1,096,665</u></u>	<u><u>\$ 132,914</u></u>

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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 4 - FAIR VALUE DISCLOSURES**

The Foundation determines the fair market values of certain financial instruments based on the fair value hierarchy established in U.S. GAAP under *Fair Value Measurements and Disclosures*, 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 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 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 I</u>	<u>Level III</u>	<u>Total</u>
Assets			
Fixed income	\$ 1,777,761	\$ -	\$ 1,777,761
U.S. equity	3,258,534	-	3,258,534
International equity	2,167,764	-	2,167,764
Deferred gifts	-	540,203	540,203
Total	<u>\$ 7,204,059</u>	<u>\$ 540,203</u>	<u>\$ 7,744,262</u>

The following table presents changes in the Foundation's investment assets measured at fair value on a recurring basis for the year ending June 30, 2017.

	<u>Level III</u>
Investments, at Fair Value	
Balance, at June 30, 2016	\$ 526,363
New deferred gifts	7,712
Net change in value of investments	6,128
Balance, at June 30, 2017	<u>\$ 540,203</u>

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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.

	Level I	Level III	Total
Assets			
Fixed income	\$ 1,750,118	\$ -	\$ 1,750,118
U.S. equity	3,007,892	-	3,007,892
International equity	1,759,967	-	1,759,967
Deferred gifts	-	526,363	526,363
Total	\$ 6,517,977	\$ 526,363	\$ 7,044,340

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

	Level III
Investments, at Fair Value	
Balance, at June 30, 2015	\$ 423,576
New deferred gifts	39,492
Net change in value of investments	63,295
Balance, at June 30, 2016	\$ 526,363

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

**NOTE 5 - DEFERRED GIFTS**

The Foundation is the beneficiary of various charitable remainder trusts, administered by the Community College League of California and one individual trustor, which provide for the payment of distributions to the grantor or other designated beneficiary over the trust's term (generally the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available to the Foundation. The Foundation recognizes the fair value of its interest in the trust at the time the trust is established as a contribution. Fair value is based on the present value of the estimated future benefits to be received using discount rates ranging from 6.0 percent to 9.2 percent. Assets held in the charitable remainder trusts totaled \$540,203 and \$526,363 at June 30, 2017 and 2016, respectively, and are reported at fair value or cost, depending on the nature of the assets in the statement of financial position. The Foundation revalues its liability to make distributions to the other designated beneficiaries annually based on mortality tables and other applicable factors. The revision of this liability together with the amortization of the discount associated with the contribution is reported as changes in the value of deferred gifts in the statement of activities.

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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

***NOTE 6 - BENEFICIAL INTEREST IN ASSETS HELD BY THE FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES***

In May 2008, the California Community Colleges Scholarship Endowment (the CCCS Endowment) was launched via a gift of \$25 million from the Bernard Osher Foundation (the Osher Foundation) to the Foundation for California Community Colleges (the FCCC). The FCCC and California's community colleges were challenged with raising an additional \$50 million through June 2011, for which the Osher Foundation agreed to provide a 50 percent match of up to \$25 million. The purpose of the CCCS Endowment is to provide scholarships for students in California's community college system based on the terms of the agreement between the Osher Foundation and the FCCC, as well as the agreement between the FCCC and the Foundation. All of the funds contributed to the CCCS Endowment, regardless of source, are irrevocable gifts to the FCCC. The Foundation has an irrevocable beneficial interest in the balance of funds contributed for the benefit of students at MiraCosta College and the accumulated earnings, which does not include any funds contributed by the Osher Foundation. The Foundation has designated funds totaling \$1,081,596 for the benefit of MiraCosta College's students. As of June 30, 2017 and 2016, the Foundation's beneficial interest in the CCCS Endowment totaled \$778,091 and \$725,928, respectively.

In relation to the CCCS Endowment, this interpretation extends to the earnings on the fund, less distributions for scholarships made in conformance with the aforementioned agreements as determined by the FCCC. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the value of endowed gifts as of the date of the donation, and (b) net earnings on (c) less allowable distributions. Scholarship distributions made from the fund are classified as temporarily restricted income upon receipt of notification from the FCCC as to the amount and date of scheduled distributions.

***NOTE 7 - DONOR DESIGNATED ENDOWMENTS***

The Foundation consists of various funds established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net assets associated with endowments are classified and reported based on existence of donor-imposed restrictions as either unrestricted, temporarily restricted, or permanently restricted.

The Foundation operates under the guidance of 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 has classified as permanently restricted net assets (a) original value of gifts donated to permanent endowment (b) plus the original value of subsequent gifts to the endowments (c) plus accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift. 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.

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.

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The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds. Endowment assets are invested in a well-diversified mix including equity and fixed-income securities, intended to provide an inflation-protected rate of return satisfying the distribution requirements while protecting the corpus. Investment risk is measured in terms of the total endowment fund, not individual endowments.

The Foundation's Board approved spending policy was created to protect the values of the endowments. An endowment spending rate of no more than 5.5 percent is based on a three-year moving average of current market values as of June 30, 2017. This rate is reviewed on an annual basis.

Endowment net asset composition by type of fund as of June 30, 2017, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Funds</u>
Donor-restricted endowment funds	<u>\$ 382,397</u>	<u>\$ 1,476,648</u>	<u>\$ 5,370,306</u>	<u>\$ 7,229,351</u>

Endowment net asset composition by type of fund as of June 30, 2016, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Funds</u>
Donor-restricted endowment funds	<u>\$ 356,308</u>	<u>\$ 969,855</u>	<u>\$ 5,191,983</u>	<u>\$ 6,518,146</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Funds</u>
Balance at June 30, 2016	\$ 356,308	\$ 969,855	\$ 5,191,983	\$ 6,518,146
Contributions	-	-	140,024	140,024
Change in value of investments	46,160	844,923	-	891,083
Transfers in (out)	-	(4,799)	38,299	33,500
Amounts appropriated for expenditures	(20,071)	(333,331)	-	(353,402)
Balance at June 30, 2017	<u>\$ 382,397</u>	<u>\$ 1,476,648</u>	<u>\$ 5,370,306</u>	<u>\$ 7,229,351</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Funds
Balance at June 30, 2015	\$ 378,487	\$ 1,311,733	\$ 4,992,955	\$ 6,683,175
Contributions	-	-	187,798	187,798
Investment income	(1,882)	(23,675)	-	(25,557)
Transfers in (out)	-	(3,855)	11,230	7,375
Amounts appropriated for expenditures	(20,297)	(314,348)	-	(334,645)
Balance at June 30, 2016	<u>\$ 356,308</u>	<u>\$ 969,855</u>	<u>\$ 5,191,983</u>	<u>\$ 6,518,146</u>

**NOTE 8 - RESTRICTIONS OF NET ASSET BALANCES**

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

	2017	2016
Deferred gifts	\$ 566,670	\$ 552,359
Various donor-restricted funds	1,476,648	969,855
Foundation scholarships	1,881,825	1,851,432
Total Temporarily Restricted Net Assets	<u>\$ 3,925,143</u>	<u>\$ 3,373,646</u>

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

	2017	2016
Scholarship endowments	\$ 3,552,075	\$ 3,363,320
Beneficial interest in assets held by the Foundation for CA Community Colleges	682,313	682,313
General endowments	1,818,231	1,828,663
Total Permanently Restricted Net Assets	<u>\$ 6,052,619</u>	<u>\$ 5,874,296</u>

**NOTE 9 - NET ASSETS RELEASED FROM RESTRICTIONS**

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes were as listed below at June 30:

	2017	2016
Scholarships and grants	\$ 480,781	\$ 490,348
Other program services	916,582	399,795
Gift in kind	100,450	104,517
Total	<u>\$ 1,497,813</u>	<u>\$ 994,660</u>

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***NOTE 10 - TRANSACTIONS WITH RELATED ENTITIES***

There are certain administrative costs of the Foundation that are paid by the MiraCosta Community College District (the District) in accordance with a Memorandum of Understanding between the District and MiraCosta College Foundation that provides that the District will pay for 50 percent of the Executive Director's salary in exchange for the Foundation stewarding gift assets on behalf of the College and for assisting with the College's fundraising efforts. These costs include 50 percent of the Executive Director's salary and use of District services. Management has estimated the total cost for the years ended June 30, 2017 and 2016, to be approximately \$73,000 and \$78,000, respectively.

***NOTE 11 - TRANSFERS BETWEEN FUNDS***

During the year ended June 30, 2017, various transfers were performed to the unrestricted fund for operating expenses. Transfers from the temporarily restricted to the permanently restricted funds were performed primarily for scholarship matching.

During the year ended June 30, 2016, various transfers were performed based on management analysis and donor authorizations.

***NOTE 12 - SUBSEQUENT EVENTS***

The Foundation's management has evaluated events or transactions from June 30, 2017, through February 13, 2018, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that require additional disclosure in the Foundation's financial statements.