

**FOUNDATION FOR  
CALIFORNIA COMMUNITY  
COLLEGES**

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

**YEARS ENDED  
JUNE 30, 2016 AND 2015**

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## TABLE OF CONTENTS JUNE 30, 2016 AND 2015

---

	<u>PAGE</u>
Independent Auditor's Report .....	1
Financial Statements:	
Statements of Financial Position .....	3
Statements of Activities .....	4
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7
Supplemental Schedules:	
Schedule of Expenditures of Federal Awards .....	15
Notes to Schedule of Expenditures of Federal Awards .....	16
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	17
Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance .....	19
Schedule of Findings and Questioned Costs .....	21

## INDEPENDENT AUDITOR'S REPORT

**Board of Directors  
Foundation for California Community Colleges  
Sacramento, California**

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

We have audited the accompanying financial statements of Foundation for California Community Colleges (Foundation), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and of cash flows 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foundation for California Community Colleges as of June 30, 2016 and 2015, 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.

***Other Matters***

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2016, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

*Gilbert Associates, Inc.*

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**September 8, 2016**

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## STATEMENTS OF FINANCIAL POSITION JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 3,075,375	\$ 5,679,247
Accounts receivable	6,781,090	5,032,673
Current portion of grants receivable	2,007,500	2,355,000
Prepaid expenses and other assets	843,790	385,256
Total current assets	<u>12,707,755</u>	<u>13,452,176</u>
<b>NONCURRENT ASSETS:</b>		
Investments	53,323,532	57,212,262
Investments held on behalf of others	33,269,336	32,048,744
Grants receivable		60,000
Facility Program (FUSION) development costs, net	186,721	279,862
Property and equipment, net	783,371	163,618
Deposits	3,434	2,697
Total noncurrent assets	<u>87,566,394</u>	<u>89,767,183</u>
<b>TOTAL ASSETS</b>	<u>\$ 100,274,149</u>	<u>\$ 103,219,359</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,991,830	\$ 2,662,112
Accrued expenses	904,725	1,193,663
Scholarships payable	2,229,701	2,316,665
Deferred revenue	1,699,139	877,365
Funds held on behalf of others	112,096	101,062
Total current liabilities	<u>6,937,491</u>	<u>7,150,867</u>
<b>INVESTMENTS HELD ON BEHALF OF OTHERS</b>	<u>33,269,336</u>	<u>32,048,744</u>
<b>TOTAL LIABILITIES</b>	<u>40,206,827</u>	<u>39,199,611</u>
<b>NET ASSETS:</b>		
Unrestricted	3,471,729	2,824,009
Temporarily restricted	17,864,625	21,197,343
Permanently restricted	38,730,968	39,998,396
Total net assets	<u>60,067,322</u>	<u>64,019,748</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 100,274,149</u>	<u>\$ 103,219,359</u>

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

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, SUPPORT AND INCOME:</b>				
Contracts and fees for service	\$ 21,565,845			\$ 21,565,845
Philanthropic contributions	35,771	\$ 4,613,040	\$ 26,455	4,675,266
Investment loss		(1,412,590)		(1,412,590)
Net assets released from restrictions	<u>7,827,051</u>	<u>(6,533,168)</u>	<u>(1,293,883)</u>	
Total revenues	<u>29,428,667</u>	<u>(3,332,718)</u>	<u>(1,267,428)</u>	<u>24,828,521</u>
<b>EXPENSES:</b>				
Program services:				
Community college campus services	11,770,614			11,770,614
Workforce development	11,143,959			11,143,959
Student learning	<u>990,146</u>			<u>990,146</u>
Total program services	23,904,719			23,904,719
Supporting services:				
General and administrative	4,763,959			4,763,959
Fundraising expenses	<u>112,269</u>			<u>112,269</u>
Total supporting services	<u>4,876,228</u>			<u>4,876,228</u>
Total expenses	<u>28,780,947</u>			<u>28,780,947</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	647,720	(3,332,718)	(1,267,428)	(3,952,426)
<b>NET ASSETS, Beginning of Year</b>	<u>2,824,009</u>	<u>21,197,343</u>	<u>39,998,396</u>	<u>64,019,748</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 3,471,729</u>	<u>\$ 17,864,625</u>	<u>\$ 38,730,968</u>	<u>\$ 60,067,322</u>

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

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, SUPPORT AND INCOME:</b>				
Contracts and fees for service	\$ 21,026,663			\$ 21,026,663
Philanthropic contributions	20,000	\$ 5,918,451	\$ 14,043	5,952,494
Investment income		386,811		386,811
Net assets released from restrictions	<u>7,562,969</u>	<u>(7,562,969)</u>		
Total revenues	<u>28,609,632</u>	<u>(1,257,707)</u>	<u>14,043</u>	<u>27,365,968</u>
<b>EXPENSES:</b>				
Program services:				
Community college campus services	12,603,986			12,603,986
Workforce development	10,781,925			10,781,925
Student learning	<u>669,051</u>			<u>669,051</u>
Total program services	24,054,962			24,054,962
Supporting services:				
General and administrative	4,062,651			4,062,651
Fundraising expenses	<u>104,921</u>			<u>104,921</u>
Total supporting services	<u>4,167,572</u>			<u>4,167,572</u>
Total expenses	<u>28,222,534</u>			<u>28,222,534</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	387,098	(1,257,707)	14,043	(856,566)
<b>NET ASSETS, Beginning of Year</b>	<u>2,436,911</u>	<u>22,455,050</u>	<u>39,984,353</u>	<u>64,876,314</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 2,824,009</u>	<u>\$ 21,197,343</u>	<u>\$ 39,998,396</u>	<u>\$ 64,019,748</u>

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Decrease in net assets	\$ (3,952,426)	\$ (856,566)
Reconciliation to net cash used by operating activities:		
Net realized and unrealized loss on investments	2,318,913	854,827
Depreciation and amortization	219,338	110,187
Loss on disposal of property and equipment	13,599	
Permanently restricted contributions	(26,455)	(14,043)
Changes in:		
Accounts receivable	(1,748,417)	(195,410)
Grants receivable	407,500	(700,000)
Prepaid expenses and other assets	(458,534)	36,375
Deposits	(737)	
Accounts payable	(670,282)	(1,071,080)
Accrued expenses	(288,938)	81,318
Scholarships payable	(86,964)	233,665
Deferred revenue	821,774	(681,909)
Funds held on behalf of others	11,034	53,346
Net cash used by operating activities	<u>(3,440,595)</u>	<u>(2,149,290)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(932,778)	(1,255,680)
Proceeds from sale of investments	2,502,595	2,414,589
Purchases of property and equipment	<u>(759,549)</u>	<u>(10,128)</u>
Net cash provided by investing activities	<u>810,268</u>	<u>1,148,781</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Permanently restricted contributions	<u>26,455</u>	<u>14,043</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,603,872)</b>	<b>(986,466)</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<u>5,679,247</u>	<u>6,665,713</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<u><u>\$ 3,075,375</u></u>	<u><u>\$ 5,679,247</u></u>



# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

---

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Foundation for California Community Colleges (Foundation) is the statewide non-profit supporting the California Community College system. Incorporated in 1998, the Foundation serves as the official foundation to the California Community Colleges' Board of Governors and the system-wide Chancellor's Office and provides effective services and innovative solutions for the largest higher education system in the nation. The Foundation facilitates collaboration, accelerates innovation, and increases system-wide resources through a variety of ways, including entrepreneurial programs, grants and contracts, and philanthropy.

The Foundation's mission is to benefit, support, and enhance the missions of the California Community College system. Foundation programs reach all 113 California Community Colleges and 72 districts, and are designed to benefit students, colleges, college foundations, and the system as a whole.

**Basis of accounting and financial statement presentation** – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

**Revenue recognition** – The Foundation generates revenue through contracts, fees for service, grants, and contributions. Revenues fund a variety of programs and services that support key California Community College initiatives such as student success, workforce development, student services, and environmental programs.

#### Contracts and fees for service

Contracts are awarded and fees for service are earned from public agencies and education partners for the delivery of innovative programs and services that benefit students, colleges, and the system as a whole. Revenues from contracts and fees for service are recognized over the term of the project administered as work is performed and services are provided. Contracts with public agencies and education partners set out the terms, including the work plan and required services to be performed, total contract revenues, a cost budget, and other items. Amounts collected in advance of work performed or services provided are recorded as deferred revenue until earned.

#### Philanthropic contributions

The Foundation receives contributions from private foundations, organizations, corporations, and individuals. Some of these contributions are temporarily or permanently restricted by the donor; other contributions are received without restriction and can be used for any Foundation purpose. Grants from private foundations are treated as contributions and recognized in full when received or unconditionally promised, in accordance with professional standards. Such contributions are initially reported as an increase in temporarily or permanently restricted net assets. When a restriction expires (generally as payments are made to fulfill the grantor-imposed purpose of the contribution), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. See footnote 5, Net Assets for additional information related to the release of permanently restricted net assets associated with the California Community Colleges Scholarship Endowment.

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

---

**Cash and cash equivalents** – For financial statement purposes, the Foundation considers all investments with an initial maturity of three months or less to be cash equivalents, unless held for long-term purposes.

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

**Accounts receivable** are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Management believes that all accounts are collectible and no allowance is necessary. Accounts receivable includes amounts owed from government and fee for service contracts.

**Grants receivable** consist of unconditional promises to give from private foundation grants. Long-term grants receivable totaling \$60,000 at June 30, 2015, are expected to be collected during the year ended June 30, 2017. No discount was applied to long-term grants receivable as it was considered immaterial.

**Investments** are stated at fair value.

**Investments held on behalf of others** – The Foundation holds investments on behalf of various California Community Colleges for the purpose of generating investment income to fund scholarships for their students. These investments are co-invested with funds held by the Foundation and remain permanently restricted net assets of the Colleges. Investments held on behalf of California Community Colleges totaled \$29,701,953 and \$32,048,744 at June 30, 2016 and 2015, respectively.

In August 2015, the Foundation entered into an agreement with the Board of Governors of the California Community Colleges Chancellors Office to hold and take over the administration of the Real Estate Education Endowment, an endowment fund created for the purpose of providing scholarships to California Community College students pursuing education in the field of real estate. The Real Estate Education Endowment investments are co-invested with the funds held by the Foundation and remain the assets of the Board of Governors of the California Community Colleges Chancellors Office. Investments held by the Foundation for the Real Estate Education Endowment totaled \$3,567,383 at June 30, 2016.

Investments held on behalf of others are stated at fair value and classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

**Funds held on behalf of others** – The Foundation receives and disburses funds on behalf of two organizations. The balance of these funds is included as a liability in the Foundation's statements of financial position.

**Property and equipment** is stated at cost or, if donated, at the estimated fair market value at the date of donation. The Foundation capitalizes all expenditures for property and equipment in excess of \$5,000. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from three to seven years.

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

---

**FUSION Program development costs** – Software development costs, including costs to acquire software for programs and services provided by the Foundation, are capitalized. These costs are amortized over the estimated remaining useful life of the program. Other costs and indirect costs associated with the development project are expensed when incurred. Accumulated amortization at June 30, 2016 and 2015 totaled \$554,358 and \$461,217, respectively.

FUSION program development costs were funded by California Community College Districts. The resulting software was developed by Foundation contractors for the sole purpose of supporting the collection and analysis of facilities and infrastructure data for all 72 California Community College Districts. The FUSION software and web pages unique to the FUSION program are 100 percent dedicated to the FUSION program, controlled and utilized exclusively by California Community College Districts, and maintained by the Foundation. The Foundation actively manages the ongoing operations of the FUSION program, under the direction of the California Community College Districts, consistent with the Foundation's mission to benefit, support and enhance the California Community Colleges.

**Income taxes** – The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation has applied the accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements. With some exceptions, the Foundation is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2012.

**Functional allocation of expenses** – The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated based on employees' time incurred and management's estimates of the usage of resources.

**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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Reclassification** – Certain 2015 amounts have been reclassified to conform to the 2016 financial statement presentation.

**Subsequent events** have been evaluated for recognition and disclosure through September 8, 2016, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2016 that require recognition or disclosure in the financial statements.

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

**Fair value measurements** – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

- Level 1 Inputs    Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 Inputs    Inputs other than quoted prices in active markets that are observable either directly or indirectly.
- Level 3 Inputs    Unobservable inputs for the asset or liability.

## 2. INVESTMENTS

The Foundation's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

Investments consist of the following:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 3,084,917	\$ 3,104,993
Common stocks:		
US large cap	10,450,378	11,034,477
Mutual funds:		
Fixed income	16,218,475	13,389,301
International Equity	13,519,279	17,461,978
US large cap equity	6,790,628	7,901,040
US mid cap equity	2,604,718	3,614,566
US small cap equity	<u>655,137</u>	<u>705,907</u>
Total	<u>\$ 53,323,532</u>	<u>\$ 57,212,262</u>

Investment income (loss) consists of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 906,323	\$ 1,241,638
Net realized and unrealized loss	<u>(2,318,913)</u>	<u>(854,827)</u>
Total	<u>\$ (1,412,590)</u>	<u>\$ 386,811</u>

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

### 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Software	\$ 164,161	\$ 202,738
Computers	113,424	171,777
Furniture and fixtures	558,155	125,048
Equipment	266,341	281,609
Tenant improvements	<u>131,482</u>	<u>52,986</u>
Total	1,233,563	834,158
Less accumulated depreciation and amortization	<u>(450,192)</u>	<u>(670,540)</u>
Property and equipment, net	<u>\$ 783,371</u>	<u>\$ 163,618</u>

### 4. LINE OF CREDIT

The Foundation has a \$4,500,000 line of credit agreement with a bank. Interest on borrowings varies based on the balance outstanding and the bank's broker call rates. At June 30, 2016, these rates ranged from 2.5% to 3.75%. Borrowings are collateralized by certain investments of the Foundation. There was no balance owed at June 30, 2016 and 2015.

### 5. NET ASSETS

Temporarily restricted net assets are to be used for the following programs:

	<u>2016</u>	<u>2015</u>
Nursing education	\$ 12,441,626	\$ 12,843,254
Career Ladders	1,628,262	2,491,203
Student Success Initiative	2,277,215	2,196,253
California Community Colleges Scholarship		
Endowment – investment income		2,024,107
Other	<u>1,517,522</u>	<u>1,642,526</u>
Total	<u>\$ 17,864,625</u>	<u>\$ 21,197,343</u>

Permanently restricted net assets totaling \$38,730,968 and \$39,998,396 as of June 30, 2016 and 2015, respectively, consist of the donor-restricted funds received from the Bernard Osher Foundation and other private grantors to fund student scholarships through the California Community Colleges Scholarship Endowment. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation classifies as permanently restricted net assets, the original value of all gifts donated to the permanent endowment. All accumulated unrealized appreciation and depreciation of endowment investments are recorded to temporarily restricted net assets to the extent that the original value of donated principal has not decreased. Accumulated unrealized depreciation of endowment investments is recorded as a decrease to permanently

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

---

restricted net assets to the extent that there are no offsetting accumulated endowment earnings in temporarily restricted net assets. Accumulated unrealized appreciation of endowment investments is recorded as an increase to permanently restricted net assets to the extent that the principal has been reduced through previous unrealized losses or funding endowment expenditures.

The California Community Colleges Scholarship Endowment funds are to be invested in perpetuity and interest and dividends are to be used per donor intent. The endowment investment policy, approved by the Board of Directors, emphasizes preservation of capital as its primary objective and growth and income as secondary objectives. The principal of the endowment fund may be used to fund expenditures if earnings are not sufficient to meet payout requirements, however, prior consent from the Bernard Osher Foundation is mandatory.

Changes in endowment net assets are as follows:

	<u>2016</u>	<u>2015</u>
Endowment net assets, beginning of year	\$ 42,022,503	\$ 44,034,332
Contributions	26,455	14,043
Investment gain:		
Investment income	699,533	956,015
Realized/unrealized loss	<u>(1,787,822)</u>	<u>(665,222)</u>
Total investment gain (loss):	(1,088,289)	290,793
Approved endowment expenditures	<u>(2,229,701)</u>	<u>(2,316,665)</u>
Endowment net assets, end of year	<u>\$ 38,730,968</u>	<u>\$ 42,022,503</u>
Permanently restricted net assets	<u>\$ 38,730,968</u>	<u>\$ 39,998,396</u>
Temporarily restricted net assets	<u>\$ _____</u>	<u>\$ 2,024,107</u>

Scholarship awards payable to California Community College students are funded through the endowment and through investments held on behalf of various California Community Colleges. Scholarship awards payable are included in the statements of financial position liability balances as follows:

	<u>2016</u>	<u>2015</u>
Scholarships payable	\$ 2,229,701	\$ 2,316,665
Investments held on behalf of others	<u>1,588,399</u>	<u>1,651,355</u>
Total	<u>\$ 3,818,100</u>	<u>\$ 3,968,000</u>

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

---

### 6. OPERATING LEASE OBLIGATION

The Foundation leases office space, operating space for their Smog Referee Program and equipment under operating leases expiring in various years through 2024. Total expenses under the operating leases were \$940,131 and \$931,763 for the years ended June 30, 2016 and 2015, respectively. Future minimum lease payments are as follows:

**Year ending**

**June 30:**

2017	\$ 894,592
2018	481,655
2019	444,735
2020	385,884
2021	395,412
Thereafter	<u>600,264</u>
Total	<u>\$ 3,202,542</u>

### 7. DEFINED BENEFIT PENSION PLAN

Plan Description

Plan name:	California Public Employees' Retirement System (CalPERS)
Plan's EIN:	94-6207465
Plan number:	5260

All full-time employees are covered under a defined benefit pension plan maintained by an agency of the State of California. The Foundation's employees are members of the California Public Employees' Retirement System (CalPERS).

The CalPERS Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. The Foundation participates in the Miscellaneous 3% at 60 Risk Pool, for employees hired on or before December 31, 2012, and the Miscellaneous 2% at 62 Risk Pool, for employee hired on or after January 1, 2013, both of which are part of the Public Agency portion of CalPERS, an agent multiemployer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. Multiemployer plans differ from single-employer plans in that much of the fiduciary responsibilities and risks under a single-employer plan would lie with the Foundation. Under this multiemployer plan, the fiduciary responsibilities and risks lie with CalPERS. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. The Plan selects optional benefit provisions by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office at 400 Q Street, Sacramento, California 95811.

The CalPERS Board of Administration approved structural changes to the risk pools at their May 31, 2014 meeting, which combined all miscellaneous groups into one risk pool (Miscellaneous Risk Pool) effective with the 2013 valuations. The funded status of the Miscellaneous Risk Pool as of

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

June 30, 2014 (most recent available annual report) was 81.3%, defined as the market value of assets (\$10,686,754,939 at June 30, 2014) divided by the entry age normal accrued liability (\$13,137,020,035 at June 30, 2014). The funded status of the Foundation's 3% at 60 and 2% at 62 plans reported by CalPERS as of June 30, 2014 (most recent available annual report) are as follows:

	<b><u>3% at 60</u></b> <b><u>Risk Pool</u></b>	<b><u>2% at 62</u></b> <b><u>Risk Pool</u></b>
Entry age normal accrued liability	\$ 14,028,278	\$ 145,242
Market value of assets	12,125,688	155,021
Funded status	86.4%	106.7%

### Funding Policy

Active plan members of the Miscellaneous 3% at 60 Risk Pool and Miscellaneous 2% at 62 Risk Pool are required to contribute 8% and 6.25% of their annual covered salary, respectively. In addition, the Foundation is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates of the Miscellaneous 3% at 60 Risk Pool for the fiscal years ended June 30, 2016, 2015 and 2014 were 11.07%, 16.16% and 15.08%, respectively, of annual covered payroll. The required employer contribution rates of the Miscellaneous 2% at 62 Risk Pool for the fiscal years ended June 30, 2016, 2015 and 2014 were 6.24%, 6.25% and 6.25%, respectively, of annual covered payroll. The Foundation's contributions to CalPERS for the Miscellaneous 3% at 60 Risk Pool for the years ending June 30, 2016, 2015 and 2014 were \$612,427, \$890,394 and \$827,109, respectively, and equal 88%, 100%, and 100%, respectively, of the required contributions for each year. The Foundation's contributions to the Miscellaneous Risk Pool for 2016, and 2015 represent less than 5% of the Plan's total contributions for the plan year ending June 30, 2014 (most recent available annual report). The Foundation's contributions to CalPERS for the Miscellaneous 2% at 62 Risk Plan for the years ending June 30, 2016, 2015 and 2014 were \$212,577, \$136,958 and \$69,202 respectively, and equal 100% of the required contributions for each year. Future adopted contribution rates for the Miscellaneous 3% at 60 Risk Pool for the year ending June 30, 2017 are \$100,947 plus 11.995% of covered annual payroll. Contribution rates for the Miscellaneous 3% at 60 Risk Pool for the year ended June 30, 2018 are estimated to be \$129,318 plus 12.00% of covered annual payroll. Future adopted contribution rates for the Miscellaneous 2% at 62 Risk Pool as a percentage of covered annual payrolls are 6.56% for the year ending June 30, 2017 and are estimated to be 6.60% for the year ended June 30, 2018.

## 8. DEFERRED COMPENSATION AND OTHER RETIREMENT PLANS

The Foundation offers a defined contribution plan (the "Plan") to employees in accordance with Internal Revenue Code Section 403(b). The Plan is available to all full-time employees of the Foundation. This Plan allows for employee deferrals, employer matching, and elective employer contributions. Participants are immediately 100% vested in all contributions to the Plan. The Foundation also has an IRS Section 457 deferred salary plan for certain employees. The Foundation made no contributions to these plans in 2016 and 2015.



## **SUPPLEMENTAL SCHEDULES**

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2016

	<u>CFDA Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>Department of Health and Human Services:</b>			
Direct programs:			
Transitional Clinic Network Program	93.610	\$ 401,640	\$ 439,938
<b>National Science Foundation:</b>			
Direct programs:			
Advanced Technology Education	47.076	22,520	157,709
<b>Department of Labor:</b>			
Passed through State of California, Employment Development Department Workforce Accelerator Fund	17.258		391,812
<b>U.S. Department of Agriculture:</b>			
Direct programs:			
Forest Service Watershed Restoration and Enhancement	10.693	48,925	313,186
Passed through State of California, Department of Social Services Fresh Success Program	10.561	16,979	73,470
<b>U.S Department of Education</b>			
Passed through the Regents of the University of California Career Technical Education Program	84.305	_____	_____ 34,174
<b>Total expenditures of federal awards</b>		<u>\$ 490,064</u>	<u>\$ 1,410,289</u>

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2016

---

### 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards of Foundation for California Community Colleges (Foundation) is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### 2. INDIRECT COST RATE

The Foundation has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

### **Independent Auditor's Report**

**Board of Directors  
Foundation for California Community Colleges  
Sacramento, California**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Foundation for California Community Colleges (Foundation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 8, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Gilbert Associates, Inc." followed by a period.

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**September 8, 2016**

## **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

### **Independent Auditor's Report**

**Board of Directors  
Foundation for California Community Colleges  
Sacramento, California**

#### **Report on Compliance for Each Major Federal Program**

We have audited Foundation for California Community Colleges' (Foundation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended June 30, 2016. The Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Foundation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

***Opinion on Major Federal Program***

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

**Report on Internal Control Over Compliance**

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Gilbert Associates, Inc.*

GILBERT ASSOCIATES, INC.  
Sacramento, California

September 8, 2016

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2016

---

### SECTION I - SUMMARY OF AUDITOR'S RESULTS

#### **Financial Statements**

Type of auditor's report issued on whether the  
financial statements were prepared in accordance  
with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ No

Noncompliance material to financial statements noted?

☐ Yes ☒ No

#### **Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Type of auditor's report issued:

Unmodified

Any audit findings disclosed that are required to be reported  
in accordance with 2 CFR 200.516(a)?

☐ Yes ☒ No

Identification of major programs:

Name of Federal Program or Cluster

CFDA Number

Transitional Clinic Network Program

93.610

Dollar threshold used to distinguish between Type A and  
Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No



# **FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2016**

---

### **SECTION II – FINANCIAL STATEMENT FINDINGS**

None noted.

### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None noted.

### **SECTION IV – STATUS OF PRIOR YEAR AUDIT FINDINGS**

None noted.