

**OHLONE COLLEGE
FOUNDATION**

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

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

OHLONE COLLEGE FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of
Ohlone College Foundation
Fremont, California**

Report on Financial Statements

We have audited the accompanying statement of financial position of Ohlone College Foundation, 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.

Auditor's Responsibility

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

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

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

Opinion

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

Other Matter - Predecessor Auditor

The financial statements of Ohlone College Foundation as of June 30, 2015, were audited by other auditors whose report dated November 16, 2015 expressed an unmodified opinion on those statements.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

December 1, 2016

OHLONE COLLEGE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 528,267	\$ 456,801
Accounts receivable	9,572	
Current portion of pledges receivable	104,000	79,000
Prepaid expense	230,000	156,928
Total current assets	<u>871,839</u>	<u>692,729</u>
Noncurrent assets:		
Investments	3,385,885	3,384,686
Pledges receivable	37,000	141,000
Charitable remainder trust assets	762,566	886,031
Total noncurrent assets	<u>4,185,451</u>	<u>4,411,717</u>
TOTAL ASSETS	<u>\$ 5,057,290</u>	<u>\$ 5,104,446</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 8,092	\$ 2,002
Scholarships payable	127,200	117,650
Liabilities to beneficiaries	62,418	71,654
Total current liabilities	<u>197,710</u>	<u>191,306</u>
Long-term liabilities:		
Scholarships payable	49,980	41,822
Liabilities to beneficiaries, net	332,169	371,515
Total long-term liabilities	<u>382,149</u>	<u>413,337</u>
Total liabilities	<u>579,859</u>	<u>604,643</u>
Net assets:		
Unrestricted	273,074	226,868
Temporarily restricted	2,224,857	2,293,435
Permanently restricted	1,979,500	1,979,500
Total net assets	<u>4,477,431</u>	<u>4,499,803</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,057,290</u>	<u>\$ 5,104,446</u>

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

OHLONE COLLEGE FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016 WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
SUPPORT AND REVENUES					
Contributions	\$ 432,938	\$ 100,438		\$ 533,376	\$ 1,330,469
Special event revenues	141,783			141,783	143,532
Investment income, net	7,877	43,304		51,181	26,772
Change in value of charitable remainder trust assets		37,336		37,336	(7,334)
Transfers	(7,577)	7,577			
Net assets released from restrictions	<u>257,233</u>	<u>(257,233)</u>			
TOTAL SUPPORT AND REVENUES	<u>832,254</u>	<u>(68,578)</u>		<u>763,676</u>	<u>1,493,439</u>
EXPENSES					
Program services:					
Scholarships and awards	126,419			126,419	176,059
College instructional support	90,742			90,742	274,964
Total program services	<u>217,161</u>			<u>217,161</u>	<u>451,023</u>
Support services:					
Fundraising	364,143			364,143	369,109
Administrative	204,744			204,744	201,315
Total support services	<u>568,887</u>			<u>568,887</u>	<u>570,424</u>
TOTAL EXPENSES	<u>786,048</u>			<u>786,048</u>	<u>1,021,447</u>
CHANGE IN NET ASSETS	46,206	(68,578)		(22,372)	471,992
Net Assets- Beginning	<u>226,868</u>	<u>2,293,435</u>	<u>\$ 1,979,500</u>	<u>4,499,803</u>	<u>4,027,811</u>
Net Assets - Ending	<u>\$ 273,074</u>	<u>\$ 2,224,857</u>	<u>\$ 1,979,500</u>	<u>\$ 4,477,431</u>	<u>\$ 4,499,803</u>

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

OHLONE COLLEGE FOUNDATION

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

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (22,372)	\$ 471,992
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized loss on investments	125,969	65,181
Change in value of charitable remainder trust assets	(37,336)	7,334
Changes in:		
Accounts receivable	(9,572)	4,562
Pledges receivable	79,000	(220,000)
Prepaid expense	(73,074)	(150,005)
Other assets		1,217
Accounts payable	6,090	(186,025)
Scholarships	17,708	133,372
Liabilities to beneficiaries	112,219	
Net cash provided by operating activities	<u>198,632</u>	<u>127,628</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(947,040)	(524,933)
Proceeds from sales and maturities of investments	790,097	
Investment management fees	<u>29,777</u>	<u>30,358</u>
Net cash used by investing activities	<u>(127,166)</u>	<u>(494,575)</u>
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	71,466	(366,947)
 Cash and cash equivalents - Beginning	<u>456,801</u>	<u>823,748</u>
 Cash and cash equivalents - Ending	<u>\$ 528,267</u>	<u>\$ 456,801</u>

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

OHLONE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

1. ORGANIZATION

Ohlone College Foundation (the Foundation), is a nonprofit public benefit corporation incorporated in the State of California on May 15, 1987 and organized to provide support to various programs and functions of Ohlone Community College District (the District), as well as to provide a link between the District and the community. The District and the Foundation have adopted a Master Agreement whereby the Foundation reasserted its status as an auxiliary organization of the District, pursuant to Title V of the California Code of Regulations. The Foundation is included as a component unit in the District's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - 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 – 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.

Cash and 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.

Pledges receivable - Pledges receivable are unconditional promises to give which are recognized as contribution revenue and pledges receivable in the period they are pledged. Amounts expected to be collected within one year are recorded at net realizable value. As of June 30, 2016 and 2015 pledges receivable totaled \$141,000 and \$220,000, respectively. The Foundation has not historically had difficulty collecting amounts due from donors; therefore, no allowance for uncollectible accounts has been recorded. Conditional pledges receivable are not recorded until the conditions are substantially met.

Investments are stated at fair value and are held for long-term purposes.

OHLONE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Charitable remainder trust assets include the estimated fair value of various irrevocable charitable trusts in which the Foundation is the trustee and remainder beneficiary. The fair value of the Foundation's remainder interest in irrevocable trusts is determined using investment returns consistent with the composition of the asset portfolios, life expectancies, and relevant discount rate. Irrevocable charitable trusts whose use is limited by the Foundation due to time or donor-imposed restrictions increase temporarily or permanently restricted net assets.

Liability to beneficiaries represents the present value of the liability due to primary beneficiaries of the irrevocable charitable remainder trusts for which the Foundation is both trustee and remainder beneficiary. On an annual basis, the Foundation reviews the need to revalue the liability to make distributions to the designated beneficiaries based upon actuarial assumptions. The present value of the estimated future payments is calculated using discount rates ranging from 7.0% to 7.8% and applicable mortality tables.

Scholarships payable represent liabilities due to scholarship recipients. The Ohlone Promise Scholarship pays for tuition, books and enrollment fees for two years at the District. The long-term portion of the scholarship liability is estimated based on the projected costs of the scholarship recipient's second year tuition, books and enrollments fees.

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. |

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

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

OHLONE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Income taxes – The Foundation is exempt from income taxes under Internal Revenue Code Section 501(c)(3), and is classified as a public charity within the meaning of Internal Revenue Code Section 509(a).

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.

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.

Subsequent events have been evaluated through December 1, 2016, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since June 30, 2016 that require recognition or disclosure in the financial statements.

Reclassifications- Certain 2015 amounts have been reclassified to conform to the 2015 financial statement presentation

3. INVESTMENTS

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Cash	\$ 181,697		\$ 181,697
Fixed income securities:			
Asset backed		\$ 1,008,897	1,008,897
Mutual funds:			
Growth		108,293	108,293
Value		51,745	51,745
Blend		523,723	523,723
Equity:			
Services	165,681		165,681
Technology	185,174		185,174
Healthcare	252,504		252,504
Basic Materials	168,098		168,098
Financials	199,676		199,676
Industrial Goods	235,637		235,637
Consumer Goods	232,478		232,478
World Bonds	72,282		72,282
Total investments at fair value	<u>\$ 1,693,227</u>	<u>\$ 1,692,658</u>	<u>\$ 3,385,885</u>

OHLONE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

The table below sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Cash	\$ 193,754		\$ 193,754
Fixed income securities		\$ 957,128	957,128
Mutual funds		341,959	341,959
Equities	<u>1,891,845</u>	<u> </u>	<u>1,891,845</u>
Total investments at fair value	<u>\$ 2,085,599</u>	<u>\$ 1,299,087</u>	<u>\$ 3,384,686</u>

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

	<u>2016</u>	<u>2015</u>
Net unrealized losses	\$ (153,298)	\$ (165,054)
Realized gains	27,329	99,873
Interest and dividends	<u>177,145</u>	<u>91,953</u>
Total investment income	<u>\$ 51,176</u>	<u>\$ 26,772</u>

4. CHARITABLE REMAINDER TRUST ASSETS

The Foundations charitable remainder trust assets represent assets held in charitable remainder trusts in which the Foundation is both the trustee and the remainder beneficiary. Assets invested under these trusts and payments made to beneficiaries are based on the terms of the trust agreements. As of June 30, 2016, charitable remainder trust assets total \$762,566 and the associated liability to beneficiaries total \$394,587. As of June 30, 2015, charitable remainder trust assets total \$886,031 and the associated liability to beneficiaries total \$443,169. The Foundation's investments held in charitable remainder trusts are classified within Level 2 of the fair value hierarchy because they are valued using a matrix pricing model.

5. NET ASSETS

Temporarily restricted net assets represent unused funds for scholarships and District programs.

Permanently restricted net assets for the years ended consist of donor restricted endowments assets.

OHLONE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

The Foundation's Board of Directors (the Board) is charged with the responsibility of management of the endowed assets. To assist in carrying out this duty, the Foundation has adopted an investment policy that prioritizes preservation of capital, long-term growth, and adherence to the prudent person investment philosophy. To enact this policy, the Foundation's investment strategy emphasizes total return, assuming a level of risk consistent with reasonable and prudent investment practices for such funds. The Board believes that the policy is in compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIF A), enacted by the State of California in 2009, to ensure the prudent management of endowed funds in the disbursement of current earnings in support of the District, and to meet future needs established by the donor. Investment proceeds from permanently restricted endowments are used by the Foundation based upon the donor restrictions.

The Foundation's endowments include donor-restricted endowment funds. 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 (a) the original value of the gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. All accumulated unrealized appreciation and depreciation of endowment investments are recorded as directed by the donor gift. The funds are to be invested in perpetuity and interest and dividends are to be used per the donor intent.

7. RELATED PARTIES

Ohlone Community College District

As described in Note 1, the Foundation's purpose is to support the District's students and programs. Therefore, transactions between the Foundation and the District are to be expected. In accordance with the Foundation's Bylaws, certain District personnel serve as ex-officio members of the Foundation's Board of Directors by virtue of their position at the District.

In exchange for support that the Foundation provides to the campus programs, the District contributes to the Foundation all salaries and related expenses incurred and paid by the District on behalf of the Foundation. For the years ended June 30, 2016 and 2015, the District contributed \$401,807 and \$411,029, respectively, to the Foundation for personnel-related costs and facility use.