



Financial Statements
June 30, 2019

Southwestern College Foundation
(A California Nonprofit Corporation)

**SOUTHWESTERN COLLEGE FOUNDATION
(A CALIFORNIA NONPROFIT CORPORATION)**

JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Southwestern College Foundation
Chula Vista, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Southwestern College Foundation (the Foundation) (a California nonprofit corporation), which comprise the statement of financial position as of June 30, 2019, 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 and the standards applicable to financial audits contained *Governmental 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 Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southwestern College Foundation as of June 30, 2019, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Foundation has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Accordingly, the June 30, 2018, financial statements have been adjusted to adopt this standard. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2019, 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 solely 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 the effectiveness of the Foundation's 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.



Rancho Cucamonga, California
October 17, 2019

**SOUTHWESTERN COLLEGE FOUNDATION
(A CALIFORNIA NONPROFIT CORPORATION)**

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019**

ASSETS

Current Assets

Cash and cash equivalents	\$ 549,103
Due from Southwestern College	2,078
Prepaid expenses	1,525
Other assets	550
Total Current Assets	<u>553,256</u>

Noncurrent Assets

Investments	1,081,976
TOTAL ASSETS	<u>\$ 1,635,232</u>

LIABILITIES

Current Liabilities

Accounts payable	\$ 831
Deferred revenue	5,900
TOTAL LIABILITIES	<u>6,731</u>

NET ASSETS

Without donor restrictions

Undesignated	248,575
Board designated	163,523
Total Without Donor Restrictions	<u>412,098</u>

With donor restrictions

TOTAL NET ASSETS	<u>1,216,403</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,635,232</u>

See the accompanying notes to financial statements.

**SOUTHWESTERN COLLEGE FOUNDATION
(A CALIFORNIA NONPROFIT CORPORATION)**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenues			
Contributions	\$ 26,250	\$ 546,397	\$ 572,647
Federal Grants	37,500	-	37,500
Donated District services	338,259	-	338,259
Special event revenue	148,398	22,791	171,189
Less: cost of direct benefit to donor	(37,773)	-	(37,773)
Net assets released from restrictions	491,807	(491,807)	-
Total Public Support and Revenues	<u>1,004,441</u>	<u>77,381</u>	<u>1,081,822</u>
Expenses			
Program			
Campus activities	342,693	-	342,693
Scholarship and awards	199,514	-	199,514
Support			
Operating	348,618	-	348,618
Fundraising	631	-	631
Total Expenses	<u>891,456</u>	<u>-</u>	<u>891,456</u>
Other Income			
Net unrealized gain	11,274	65,082	76,356
Interest and dividends, net of fees	3,048	17,296	20,344
Total Other Income	<u>14,322</u>	<u>82,378</u>	<u>96,700</u>
CHANGE IN NET ASSETS	127,307	159,759	287,066
NET ASSETS, BEGINNING OF YEAR	284,791	1,056,644	1,341,435
NET ASSETS, END OF YEAR	<u>\$ 412,098</u>	<u>\$ 1,216,403</u>	<u>\$ 1,628,501</u>

See the accompanying notes to financial statements.

**SOUTHWESTERN COLLEGE FOUNDATION
(A CALIFORNIA NONPROFIT CORPORATION)**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

	Program		Support		Total
	Campus Activities	Scholarships and Awards	Operating	Fundraising	
District donated salaries and benefits	\$ -	\$ -	\$ 316,042	\$ -	\$ 316,042
District donated services and supplies	-	-	22,217	-	22,217
Mini-grants	50,400	-	-	-	50,400
Pass-through contributions	130,575	-	-	-	130,575
Student programs	161,718	-	-	-	161,718
Scholarship payments	-	199,514	-	-	199,514
Professional services	-	-	8,300	-	8,300
Memberships	-	-	700	-	700
Office expense	-	-	342	-	342
License, tax, and fees	-	-	45	-	45
Printing and supplies	-	-	-	531	531
Advertising	-	-	-	100	100
Miscellaneous	-	-	972	-	972
Total Expenses	<u>\$ 342,693</u>	<u>\$ 199,514</u>	<u>\$ 348,618</u>	<u>\$ 631</u>	<u>\$ 891,456</u>

See the accompanying notes to financial statements.

**SOUTHWESTERN COLLEGE FOUNDATION
(A CALIFORNIA NONPROFIT CORPORATION)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 287,066
Adjustments to reconcile change in net assets to net cash from (used for) operating activities	
Net unrealized gain	(76,356)
Contributions restricted for long-term purposes	(112,302)
Changes in operating assets and liabilities	
Pledges receivable	535
Due from Southwestern College	566
Prepaid expenses	8,475
Other assets	(535)
Accounts payable	788
Deferred revenue	3,400
Net Cash Flows Used For Operating Activities	<u>111,637</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Sales of investments	<u>19,639</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Collections of contributions restricted for long-term purposes	<u>112,302</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 243,578
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>305,525</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 549,103</u></u>

See the accompanying notes to financial statements.

**SOUTHWESTERN COLLEGE FOUNDATION
(A CALIFORNIA NONPROFIT CORPORATION)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Southwestern College Foundation (the Foundation) is a nonprofit organization founded in 1982 for the purpose of receiving contributions for the support and advancement of education on behalf of Southwestern Community College District (the District). The primary purpose of the Foundation is to assist in the institutional development and encourage community support to the District.

Financial Statement Presentation

The Foundation and the District are financially interrelated organizations as defined by ASC Topic 958-605, *Transfers of Assets to a Nonprofit or Charitable Trust that Holds Contributions for Others*. Under ASC Topic 958-605, the Foundation reflects contributions received for the benefit of the District as revenue in its financial statements. The expenses related to these contributions are accounted for under the campus activities program.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The FASB has established the ASC as the source of authoritative accounting principles to be applied in the preparation of financial statements in accordance with GAAP. The financial statements include the accounts maintained by and directly under the control of the Foundation. In addition, the Foundation is required to present a statement of cash flows. The Foundation does not use fund accounting.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for general use and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. In addition, the Foundation's Board has also designated various balances of net assets without donor restrictions for certain uses, as described in Note 9.

Net Assets With Donor Restrictions - Net assets that are contributions and endowment investment earnings subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by actions of the Foundation and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Investments and Investment Income

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Net gains and losses and interest and dividend income are included in investment income on the statement of activities and changes in net assets.

**SOUTHWESTERN COLLEGE FOUNDATION
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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.

Revenue and Revenue Recognition

The Foundation receives support from the following sources: contributions, donated services and materials, grants and special events. Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the absence or existence and nature of any donor restrictions. Contributions are measured at their fair value at the date of contribution and are reported as an increase in net assets. The Foundation's Federal grant is conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. The Foundation's expenses associated with the current year Federal grant are classified as "Pass-through contributions" on the Foundation's statement of functional expenses and are included in the total balance of \$130,575. The total qualifying expenditures associated with the Federal grant for the year ended June 30, 2019, were \$37,500. The total amount of the grant award is \$75,000.

Donated Services and Goods

Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. In addition, a number of volunteers have donated time to the Foundation's fundraising campaigns, which have not been reflected in the accompanying financial statements because the recognition criteria were not met. Donated salaries, benefits, services and supplies received from the District are recorded as contributions at the estimated fair value that the Foundation would have otherwise paid for the same service. The value of those contributed items is recognized as both revenue and expense to the Foundation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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. Accordingly, actual results could differ from those estimates.

Classification of Current and Noncurrent Assets and Liabilities

The Foundation considers assets and liabilities that can reasonably be expected, as part of its normal operations, to be converted to cash or liquidated within twelve months of the statement of financial position date to be current. All other assets and liabilities are considered noncurrent.

**SOUTHWESTERN COLLEGE FOUNDATION
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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, 2016, 2017, and 2018, are open to audit by the Federal authorities. California State informational returns for the years ended June 30, 2015, 2016, 2017, and 2018, are open to audit by State authorities.

Advertising Costs

Advertising costs are expensed as incurred and approximated \$100 during the year ended June 30, 2019.

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, there are no shared cost among the programs and support services that require allocation.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet the criteria for recognition in the current period and when resources are received by the Foundation prior to the incurrence of expenses. In subsequent periods, when both revenue recognition criteria are met or when the Foundation has a legal claim to the resources, the liability for deferred revenue is removed from the statement of financial position and revenue is recognized. At June 30, 2019, deferred revenue has been recorded in this financial statement in the amount of \$5,900 for support on the upcoming annual Fall event in November.

**SOUTHWESTERN COLLEGE FOUNDATION
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Accounting Pronouncements Adopted

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 changes the presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Under this guidance, the Foundation is required to present two classes of net assets (net assets without donor restrictions and net assets with donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the previously required three classes (unrestricted, temporarily restricted, and permanently restricted).

The Foundation has implemented the provisions of this ASU as of June 30, 2019, because management believes it approves the Foundation's financial reporting.

New Accounting Pronouncements

In February 2016, FASB issued ASU 2016-02, Leases (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Although the full impact of this Update on the Foundation's financial statements has not yet been determined, the future adoption of this guidance will require the Foundation to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). ASU 2018-08 clarifies how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution, helps an entity to evaluate whether contributions are considered conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation, and modifies the simultaneous release option currently in GAAP, which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is met in the same period that revenue is recognized. Accounting for contributions is an issue primarily for not-for-profit entities because contributions are a significant source of revenue. However, the amendments in the Update apply to all organizations that receive or make contributions of cash and other assets, including business enterprises. The amendments do not apply to transfers of assets from governments to businesses. For contributions received, ASU 2018-08 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For contributions made, ASU 2018-08 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020.

**SOUTHWESTERN COLLEGE FOUNDATION
(A CALIFORNIA NONPROFIT CORPORATION)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date comprise the following:

Other cash and cash equivalents	\$ 264,980
Investments	147,118
	<u>\$ 412,098</u>

Liquidity Management

To manage liquidity, the Foundation structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. District staff on behalf of the Foundation management monitor daily cash balances.

To help manage unanticipated liquidity, the Foundation management has invested cash and equivalents of \$283,546 as of June 30, 2019, without donor restrictions that, while the Foundation does not intend to spend these for operational purposes, the amounts could be made available for current operations, if necessary.

Additionally, on behalf of the Foundation, the District has implemented cash management procedures, that include the monthly reconciliation of banked and invested cash deposits and disbursements to receipts, disbursement records and donor accounts.

NOTE 3 - CONCENTRATION OF RISK

The Foundation maintains cash balances in financial institutions which are insured up to \$250,000 (FDIC). This is for all combined balances under the financial institution. At June 30, 2019, the Foundation had insured cash balances of \$250,000 and uninsured cash deposits of \$224,962.

**SOUTHWESTERN COLLEGE FOUNDATION
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 - CASH

For the statement of financial position and statement of cash flows, cash is defined as all monies in checking and money market net of un-cleared checks. The net un-cleared cash balance as of June 30, 2019, was as follows:

Without Donor Restrictions	
General checking account	\$ 206,714
Money market reserve account	41,859
Cash balances held in investment account	16,407
Total cash without donor restrictions	264,980
With Donor Restrictions	
Donor restricted annual fund	188,025
Cash balances held in investment account	96,098
Total cash with donor restrictions	284,123
Total cash	\$ 549,103

NOTE 5 - DUE FROM SOUTHWESTERN COLLEGE

Amounts to be collected from related parties as of the statement of financial position date where one party can exercise control or significant influence over another party. Due from College balance is stated at the amount management expects to collect from the outstanding balance. Management has deemed all balances collectable as of fiscal year-end. Due from Southwestern College at June 30, 2019, represents \$2,078, due from the College.

NOTE 6 - INVESTMENTS

Investments are presented at fair value in the financial statements and are composed of the following at June 30, 2019:

	Adjusted Cost	Fair Market Value	Unrealized Gain (Loss)
Fixed income - closed end funds and exchange traded products	\$ 265,709	\$ 358,558	\$ 92,849
Fixed income - mutual funds	234,754	167,953	(66,801)
Equities - common stock	392,777	440,479	47,702
Other - closed end funds and exchange traded products	112,380	114,986	2,606
Total	\$ 1,005,620	\$ 1,081,976	\$ 76,356

**SOUTHWESTERN COLLEGE FOUNDATION
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Investment activity for the year ended June 30, 2019:

Net unrealized gain on investments	\$ 76,356
Interest and dividends	40,551
Total Investment Income	<u>116,907</u>
Management fees	(20,207)
Total Investment Income, Net of Expenses	<u><u>\$ 96,700</u></u>

NOTE 7 - MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Foundation determines the fair market values of certain financial instruments based on the fair value hierarchy established in U.S. GAAP under FASB ASC Topic 820, *Fair Value Measurements and Disclosures*. U.S. GAAP requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and 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.

**SOUTHWESTERN COLLEGE FOUNDATION
(A CALIFORNIA NONPROFIT CORPORATION)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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, 2019. The Foundation did not have any liabilities measured at fair value on a recurring basis as of June 30, 2019.

ASSETS	Level I	Level II	Level III	Total
Fixed income - closed end funds and exchange traded products	\$ 358,558	\$ -	\$ -	\$ 358,558
Fixed income - mutual funds	167,953	-	-	167,953
Equities - common stock	440,479	-	-	440,479
Other - closed end funds and exchange traded products	114,986	-	-	114,986
Total	<u>\$ 1,081,976</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,081,976</u>

NOTE 8 - DONATED SERVICES

As described in Note 1, the Foundation's purpose is to support the students and programs of the District; therefore, transactions between the Foundation and the District are expected. Per the terms of the Master Agreement, the Foundation is authorized to use facilities and property of the District and is covered under the District's insurance. During the year, office space and other District services was provided by the District. The value of the donated space and donated indirect cost has not been determined and is not recognized in the financial statements.

The Foundation is governed by a volunteer Board of Directors separate from that of the District Trustees; however, the College President is an ex-officio advisor of the Foundation's Board of Directors, and the Board may include other District, College, or affiliate personnel from time to time.

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

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 without donor restrictions or with donor restrictions.

**SOUTHWESTERN COLLEGE FOUNDATION
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

The Foundation operates under the guidance of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), enacted by the State of California in 2009, as requiring the preservation of fair value of the original gift, as of the date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Foundation retains in perpetuity (a) original value of gifts donated to permanent endowment (b) plus the original value of subsequent gifts to the endowments (c) plus accumulate 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 held in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure.

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.

Spending is subject to the intent of the donor set forth in express provisions of any applicable gift instrument, the Foundation may appropriate for expenditure, or accumulate, so much of an endowment fund as the Foundation determines is product for the uses, purposes, benefits, and duration for which the endowed fund was established. In order to preserve the real value of the Foundation's endowed assets, a spending payout rate may be selected that strikes a reasonable balance between current spending outlays and reinvestment of the remainder to support spending in the future. The desired investment objective is a long-term rate of return on assets that is at least 5.00 percent. The target rate of return for the Portfolio has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the IPS. In making a determination to appropriate or accumulate any endowed funds, the Foundation shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, all of the following factors:

- the duration and preservation of the fund;
- the purposes of the Foundation and the fund;
- general economic conditions;
- possible effects of inflation or deflations;
- the expected total return from income and appreciation of investments;
- other resources of the Foundation; and
- the Foundation's Investment Policy

Endowment net asset composition by type of fund as of June 30, 2019, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 163,523	\$ -	\$ 163,523
Donor-restricted endowment funds	-	1,031,398	1,031,398
Total	\$ 163,523	\$ 1,031,398	\$ 1,194,921

**SOUTHWESTERN COLLEGE FOUNDATION
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Changes in endowment net assets as of June 30, 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance at July 1, 2018	\$ 151,244	\$ 874,454	\$ 1,025,698
Contributions	-	112,302	112,302
Investment income	3,005	17,296	20,301
Investment appreciation	11,274	65,082	76,356
Amounts appropriated for expenditures	(2,000)	(37,736)	(39,736)
Endowment net assets, June 30, 2019	<u>\$ 163,523</u>	<u>\$ 1,031,398</u>	<u>\$ 1,194,921</u>

NOTE 10 - TRANSACTIONS WITH RELATED ENTITIES

There are significant administrative costs of the Foundation that are paid by the District in accordance with a Memorandum of Understanding between the District and the Foundation that provides that the District will pay salaries and benefits and most services and supplies in exchange for the Foundation stewarding gift assets on behalf of the College and for assisting with the College's fundraising efforts.

These services are provided by the Office of Development and Foundation, a department of Southwestern College, formed exclusively for the management and oversight of College Development and Foundation programs and resources. The cost incurred by the Office of Development and Finance are shown in the financial statements as services donated by the District.

NOTE 11 - ADJUSTMENT RESULTING FROM CHANGE IN ACCOUNTING PRINCIPLE

As disclosed in Note 1, the Foundation adopted the provisions of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of June 30, 2018. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Foundation's June 30, 2018, net assets.

**SOUTHWESTERN COLLEGE FOUNDATION
(A CALIFORNIA NONPROFIT CORPORATION)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

The effect on the Foundation's statement of financial position as of June 30, 2018, is as follows:

	<u>As Previously Reported</u>	<u>Adoption of ASU 2016-14</u>	<u>As Adjusted</u>
Unrestricted	\$ 284,791	\$ (284,791)	\$ -
Temporarily restricted net assets	436,746	(436,746)	-
Permanently restricted net assets	619,898	(619,898)	-
Net assets without donor restrictions	-	284,791	284,791
Net assets with donor restrictions	-	1,056,644	1,056,644

The effect on the Foundation's statement of activities as of June 30, 2018, is as follows:

	<u>As Previously Reported</u>	<u>Adoption of ASU 2016-14</u>	<u>As Adjusted</u>
Net Assets, End of the Year			
Unrestricted	\$ 284,791	\$ (284,791)	\$ -
Temporarily restricted net assets	436,746	(436,746)	-
Permanently restricted net assets	619,898	(619,898)	-
Net assets without donor restrictions	-	284,791	284,791
Net assets with donor restrictions	-	1,056,644	1,056,644

NOTE 12 - SUBSEQUENT EVENTS

The Foundation's management has evaluated events or transactions from June 30, 2019, through October 17, 2019, 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.



**INDEPENDENT AUDITOR'S 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***

The Board of Directors
Southwestern College Foundation
Chula Vista, 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 Southwestern College Foundation (a California nonprofit corporation) (the Foundation), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2019.

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 Foundation'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 cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California
October 17, 2019