



Financial Statements
June 30, 2021

Southwestern College Foundation
(A California Nonprofit Corporation)

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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, 2021 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 in *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, 2021, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2021, 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California
October 20, 2021

Southwestern College Foundation
Statement of Financial Position
June 30, 2021

Assets

Current Assets

Cash and cash equivalents	\$ 1,161,696
Pledges receivable	3,535
Due from Southwestern College	1,095
Prepaid expenses	625
Other assets	15
	15

Total current assets	1,166,966
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Noncurrent Assets

Investments	2,894,780
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Total assets	\$ 4,061,746
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Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 43
Deferred revenue	17,500

Total liabilities	17,543
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Net Assets

Without donor restrictions	
Undesignated	707,564
Board designated	142,354

Total without donor restrictions	849,918
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With donor restrictions	3,194,285
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Total net assets	4,044,203
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Total liabilities and net assets	\$ 4,061,746
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Southwestern College Foundation
Statement of Activities
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenues			
Contributions	\$ 85,590	\$ 2,626,066	\$ 2,711,656
Federal grants	175,000	-	175,000
Donated district services	508,671	-	508,671
Special event revenue	71,402	-	71,402
Less: cost of direct benefit to donor	(24,959)	-	(24,959)
Net assets released from restrictions	1,294,523	(1,294,523)	-
Total public support and revenues	2,110,227	1,331,543	3,441,770
Expenses			
Program			
Campus activities	831,243	-	831,243
Scholarship and awards	500,900	-	500,900
Support			
Operating	519,370	-	519,370
Fundraising	497	-	497
Total expenses	1,852,010	-	1,852,010
Income/Gain			
Net unrealized gain	26,813	439,778	466,591
Interest and dividends, net of fees	744	33,627	34,371
Total other income/gain	27,557	473,405	500,962
Change in Net Assets	158,799	1,931,923	2,090,722
Net Assets, Beginning of Year	691,119	1,262,362	1,953,481
Net Assets, End of Year	\$ 849,918	\$ 3,194,285	\$ 4,044,203

Southwestern College Foundation
Statement of Functional Expenses
Year Ended June 30, 2021

	Program		Support		Total
	Campus Activities	Scholarships and Awards	Operating	Fundraising	
District donated salaries and benefits	\$ -	\$ -	\$ 434,706	\$ -	\$ 434,706
District donated services and supplies	-	-	73,966	-	73,966
Mini-grants	33,083	-	-	-	33,083
Pass-through contributions	594,300	-	-	-	594,300
Student programs	199,752	-	-	-	199,752
Scholarship payments	-	258,830	-	-	258,830
Professional services	-	-	9,375	-	9,375
Office expense	-	-	140	-	140
License, tax, and fees	-	-	710	-	710
Printing and supplies	-	-	-	392	392
Federal grants	-	242,070	-	-	242,070
Miscellaneous	4,108	-	473	105	4,686
Total expenses	\$ 831,243	\$ 500,900	\$ 519,370	\$ 497	\$ 1,852,010

Southwestern College Foundation
Statement of Cash Flows
Year Ended June 30, 2021

Operating Activities	
Change in net assets	\$ 2,090,722
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Net unrealized gain	(466,591)
Contributions restricted for long-term purposes	(759,000)
Changes in operating assets and liabilities	
Pledges receivable	(3,535)
Due from Southwestern College	673
Accounts payable	(2,424)
Deferred revenue	17,500
	<u>877,345</u>
Net cash flows from operating activities	<u>877,345</u>
Investing Activities	
Purchases of investments	<u>(1,307,972)</u>
Financing Activities	
Collections of contributions restricted for long-term purposes	<u>759,000</u>
Net Change in Cash and Cash Equivalents	328,373
Cash and Cash Equivalents, Beginning of Year	<u>833,323</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,161,696</u></u>

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 7.

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments available for current use with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of cash held in checking and money market accounts. The Foundation maintains cash balances in financial institutions which are insured by the Federal Deposit Insurance Corporation.

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.

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 grants are 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 \$594,300. The total qualifying expenditures associated with the Federal grant for the year ended June 30, 2021, were \$175,000.

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, supplies and office space received from the District per the terms of the Master Agreement, 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.

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, 2018, 2019, and 2020, are open to audit by the Federal authorities. California State informational returns for the years ended June 30, 2017, 2018, 2019, and 2020, are open to audit by State authorities.

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.

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:

Cash and cash equivalents	\$ 199,616
Investments	<u>142,354</u>
	<u>\$ 341,970</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.

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

Financial instruments that subject the Foundation to credit risk consist primarily of deposits held by financial institutions. The Foundation maintains cash and investment balances at financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) limits. At June 30, 2021, the Foundation had uninsured cash deposits of \$959,559 and uninsured investments of \$2,394,780. Deposit concentration risk is managed by placing cash and investment balances with financial institutions believed by the Foundation to be creditworthy. Management believes credit risk is limited.

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 accounts. The balances as of June 30, 2021, was as follows:

Without Donor Restrictions		
General checking account		\$ 177,707
Money market reserve account		<u>21,909</u>
Total cash without donor restrictions		199,616
With Donor Restrictions		
Cash balances held in investment account		<u>962,080</u>
Total cash		<u>\$ 1,161,696</u>

Note 5 - Investments

Investments are presented at fair value in the financial statements and are composed of the following at June 30, 2021:

	<u>Adjusted Cost</u>	<u>Fair Market Value</u>	<u>Net Unrealized Gain</u>
Fixed income - closed end funds and exchange traded products	\$ 2,313,089	\$ 2,779,680	\$ 466,591
Fixed income - mutual funds	<u>115,100</u>	<u>115,100</u>	<u>-</u>
Total	<u>\$ 2,428,189</u>	<u>\$ 2,894,780</u>	<u>\$ 466,591</u>

Investment activity for the year ended June 30, 2021:

Net unrealized gain on investments	\$ 466,591
Interest and dividends	<u>46,142</u>
Total investment income	512,733
Management fees	<u>(11,771)</u>
Total investment income, net of expenses	<u>\$ 500,962</u>

Note 6 - 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.

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, 2021. The Foundation did not have any assets measured at Level II or Level III as of June 30, 2021. The Foundation did not have any liabilities measured at fair value on a recurring basis as of June 30, 2021.

	<u>Level I</u>
Assets	
Fixed Income - closed end funds and exchange traded products	\$ 2,779,680
Fixed income - mutual funds	<u>115,100</u>
Total	<u>\$ 2,894,780</u>

The Foundation did not have any assets or liabilities measured on a non-recurring basis as of June 30, 2021.

Note 7 - 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.

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 %. 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.

Southwestern College Foundation

Notes to Financial Statements

June 30, 2021

Endowment net asset composition by type of fund as of June 30, 2021, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 142,354	\$ -	\$ 142,354
Donor-restricted endowment funds	-	2,527,273	2,527,273
Total	\$ 142,354	\$ 2,527,273	\$ 2,669,627

Changes in endowment net assets as of June 30, 2021, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance at July 1, 2020	\$ 166,797	\$ 847,241	\$ 1,014,038
Contributions	-	759,000	759,000
Investment income, net	744	28,039	28,783
Investment appreciation	26,813	346,248	373,061
Donor initiated repurposes of gift	-	564,495	564,495
Amounts appropriated for expenditures	(52,000)	(17,750)	(69,750)
Endowment net assets, June 30, 2021	\$ 142,354	\$ 2,527,273	\$ 2,669,627

Note 8 - 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 9 - Subsequent Events

The Foundation's management has evaluated events or transactions from June 30, 2021, through October 20, 2021, 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 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, 2021, 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 20, 2021.

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) as a basis for designing 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 financial statements. 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 "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
October 20, 2021