

CRAFTON HILLS COLLEGE FOUNDATION

For the Year Ended

June 30, 2016

Independent Auditor's Report

L. Ray Ashworth

CERTIFIED PUBLIC ACCOUNTANT

1101 Orange St • Redlands, CA 92373

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CRAFTON HILLS COLLEGE FOUNDATION

JUNE 30, 2016

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L. Ray Ashworth

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Crafton Hills College Foundation
Yucaipa, CA

I have audited the accompanying financial statements of Crafton Hills College Foundation, which comprise the statement of financial position as of June 30, 2016, and the related statement of activities 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

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

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Crafton Hills 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.

L. Ray Ashworth

CERTIFIED PUBLIC ACCOUNTANT
Redlands, California
January 31, 2017

1101 Orange St • Redlands, CA 92373
(909) 307-0880 FAX (909) 307-5378

CRAFTON HILLS COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ -	\$ 276,493	\$ 77,040	\$ 353,533
Pledges receivable, net	7,896	802	83,802	92,500
Investments	15,375	1,429,116	-	1,444,491
Total Current Assets	23,271	1,706,411	160,842	1,890,524
NON-CURRENT ASSETS				
Charitable gift annuities	-	35,761	-	35,761
Pledges receivable, long-term, net	-	-	33,000	33,000
Community Foundation	100,200	-	-	100,200
Art work	243,000	100,200	-	343,200
Total Non-Current Assets	343,200	135,961	33,000	512,161
TOTAL ASSETS	\$ 366,471	\$ 1,842,372	\$ 193,842	\$2,402,685
LIABILITIES AND NET ASSETS				
NET ASSETS				
Unrestricted	\$ 366,471	\$ -	\$ -	\$ 366,471
Temporarily restricted	-	1,842,372	-	1,842,372
Permanently restricted	-	-	193,842	193,842
Total Net Assets	366,471	1,842,372	193,842	2,402,685
LIABILITIES AND NET ASSETS	\$ 366,471	\$ 1,842,372	\$ 193,842	\$2,402,685

See accompanying notes to financial statements and Independent Auditor's Report

CRAFTON HILLS COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
Contributions	\$ 81,332	\$ 150,682	\$ 146,229	\$ 378,243
Grants	-	163,500	-	163,500
Fundraising	56,533	2,983	-	59,516
Interest and dividends	1,450	-	29	1,479
Donated services revenue	97,426	-	-	97,426
Unrealized gain on investments	6,829	-	-	6,829
Unrealized gain from investment in Community Foundation	1,801	-	-	1,801
Change in value of charitable gift annuities	1,252	-	-	1,252
Other income	665	-	-	665
Net assets released form restrictions	714,974	(714,974)	-	-
Total Support and Revenue	962,262	(397,809)	146,258	710,711
OPERATING EXPENSES				
Programs				
Scholarships	97,147	-	400	97,547
Academic support and other	361,041	-	-	361,041
Total Program Expenses	458,188	-	400	458,588
Support Services				
General and Administrative	110,414	-	64	110,478
Fundraising	20,786	-	-	20,786
Total Support Services	131,200	-	64	131,264
Total Operating Expenses	589,388	-	464	589,852
Change in Net Assets	372,874	(397,809)	145,794	120,859
Transfer of Net Assets	(126,470)	122,446	4,024	-
Net Assets - Beginning	120,067	2,117,735	44,024	2,281,826
Net Assets - Ending	\$ 366,471	\$ 1,842,372	\$ 193,842	\$ 2,402,685

See accompanying notes to financial statements and Independent Auditor's Report
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CRAFTON HILLS COLLEGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30,2016

	PROGRAMS			SUPPORT SERVICES		
	ACADEMIC			GENERAL AND		TOTAL
	SCHOLARSHIPS	SUPPORT AND OTHER	TOTAL	ADMINISTRATIVE	FUNDRAISING	
Scholarship awards	\$ 88,722	\$ -	\$ 88,722	\$ -	\$ -	\$ 88,722
Materials and Supplies	-	31,173	31,173	-	369	31,542
Employment	-	130,000	130,000	-	-	130,000
Food	-	31,830	31,830	-	8,749	40,579
Conferences and meetings	-	1,846	1,846	-	45	1,891
Marketing and promotion	-	5,867	5,867	-	-	5,867
Banking services	-	-	-	18,990	-	18,990
Donated services	8,825	78,622	87,447	6,135	3,844	97,426
Professional fees	-	-	-	73,056	-	73,056
Philanthropic service fee	-	-	-	2,303	-	2,303
Investment consulting fee	-	-	-	33	-	33
Cultivation expenses	-	-	-	6,261	-	6,261
Travel	-	5,639	5,639	-	-	5,639
Equipment and computers	-	23,130	23,130	-	-	23,130
Classes	-	10,130	10,130	-	-	10,130
Rent	-	425	425	-	-	425
Other	-	42,379	42,379	3,700	7,779	53,858
Total Program Costs	\$ 97,547	\$ 361,041	\$ 458,588	\$ 110,478	\$ 20,786	\$ 589,852

CRAFTON HILLS COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$120,859
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	-
Permanently restricted contributions	(146,229)
Unrealized gain on investments	(6,829)
Effects of changes in operating assets and liabilities:	
Pledges receivable, net	(125,500)
Net cash provided by (used in) operating activities	(157,699)

CASH FLOWS FROM INVESTING ACTIVITIES

Increase in Investments	(103,895)
Increase in Investment in Community Foundation	(100,200)
Increase in Charitable gift annuities	(1,252)
Net cash used by investing activities	(205,347)

CASH FLOWS FROM FINANCING ACTIVITIES

Permanently restricted contributions	146,229
Net cash used by financing activities	146,229

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(216,817)
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	570,350
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CASH AND CASH EQUIVALENTS, END OF YEAR	\$353,533
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Cash paid for interest was \$ 0 and In-kind donations was \$ 97,426.

**CRAFTON HILLS COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED**

JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

Crafton Hills College Foundation (the Organization) is an independent nonprofit corporation whose mission is to promote gifts for the support and enhancement of quality education at Crafton Hills College (The District). The Organization's programs include scholarships and other student awards, academic support, and the acquisition of instructional equipment and improvements to facilities for both vocational and academic enrichment.

SOURCES OF FUNDING

The Organization receives support from contributions and revenues generated by investments, grants, and campus activities.

BASIS OF ACCOUNTING

The Organization maintains its accounting records on the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when the obligation is incurred.

BASIS OF PRESENTATION

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted – these generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

Temporarily Restricted – The Organization reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from program or capital restrictions.

Permanently Restricted – These net assets are received from donors who stipulate that resources are to be maintained permanently, but permits the Organization to expend all of the income (or other economic benefits) derived from the donated assets.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased, or at fair value at the date of donation. Donor restricted property and equipment whose restrictions are met in the same period are labeled as unrestricted donations. Property and equipment is capitalized if the cost of an asset is greater than, or equal to, \$2,500 and the useful life is greater than one year. Depreciation is calculated using the straight-line method over five to fifteen years.

**CRAFTON HILLS COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED**

JUNE 30, 2016

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CONTRIBUTIONS

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence and/or nature of any donor restrictions. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

PLEDGES RECEIVABLE

The Organization uses the allowance method to determine uncollectable promises receivable. The allowance is based upon management's analysis of past promises made and collected. Management has determined that all of the pledges receivable are collectable and therefore no allowance for uncollectable pledges receivable is necessary.

INCOME TAX STATUS

The Organization is exempt from income tax status under Internal Revenue Code Section 501(c)(3) and California Revenue Code Section 23701d. The Organization is not considered a private foundation under Section 509(a) of the Internal Revenue Code.

In accordance with accounting standards, which provides accounting and disclosure guidance about uncertain tax positions taken by a foundation, Management believes that all of the positions taken by the Organization in its federal and state income tax returns are more likely than not to be sustained upon examination. The Organization files returns in the U.S. Federal jurisdiction and the State of California. The Organization's federal income tax returns for the tax years 2012 and beyond remain subject to examination by the Internal Revenue Service. The Organization's California income tax returns for 2011 and beyond remain subject to examination by the Franchise Tax Board.

CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, the Organization considers all highly liquid investments with an original maturity date of less than 90 days to be cash.

CONCENTRATION OF CREDIT RISK

The Organization has cash in financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution for the interest bearing accounts or the Securities Investor Protection Corporation (SIPC) up to \$500,000 at each institution. At various times throughout the year, the Organization may have cash balances at financial institutions on a periodic basis and does not believe this concentration of cash results in a high level of risk for the Organization. At year end, the Organization had investment funds in excess of the SIPC limit of \$ 944,491.

**CRAFTON HILLS COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED**

JUNE 30, 2016

CONTRIBUTED GOODS AND SERVICES

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets, or services that require specialized skills, are provided by individuals possessing those skills, and would typically be purchased if not provided through donation, are recorded at fair value in the period received.

FUNCTIONAL ALLOCATION OF EXPENSES

Costs of providing the Organization's programs and activities are presented in the statement of functional expenses. The Organization classifies portions to general and administrative and fundraising based on the costs associated with the respective categories.

Investments are recorded at fair market value. Both unrealized gains and losses from the fluctuation of market value and realized gains and losses from the sale of investments are reflected in the statement of activities.

DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

The Organization adopted the standard for Fair Value Measurements. The accounting principle for fair value measurements defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2: Observable inputs other than Level 1 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 3: 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 3 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.

The general rule for acceptable investments for the aggregated endowment funds (federal and non-federal) are savings accounts or in low-risk securities in which a regulated insurance company may invest under the law of the State in which the institution is located. This typically includes savings accounts such as a federally insured bank savings account, a comparable

**CRAFTON HILLS COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED**

JUNE 30, 2016

interest bearing account offered by a bank, or a money market fund. "Low-risk securities" includes certificates of deposits, mutual funds, stocks, or bonds.

Income from the endowment may be spent for costs necessary to operate the Organization, including general operating and maintenance costs, costs to administer and manage the endowment fund, and costs associated with buying and selling securities, such as stockbroker commissions and fees to "load" mutual funds. Income from the endowment cannot be spent for a school or department of divinity or any religious worship or sectarian activity, an activity that is inconsistent with a State plan for desegregation application to the grantee, or an activity that is inconsistent with a State plan applicable to the grantee.

2. COMMUNITY FOUNDATION

The Organization has transferred assets to the Community Foundation (the Foundation) which is holding them as an agency fund (Fund) for the benefit of the Organization. The Organization has granted the Foundation variance power which gives the Foundation's Board of Trustees the power to use the Fund for other purposes in certain circumstances. The Fund is subject to the Foundation's investment and spending policies which currently result in a distribution to the Organization of 4 percent of the fund balance per year. The Organization reports the fair value of the Fund (the Beneficial Interest in Assets Held at the Foundation) in the statement of financial position as Community Foundation and reports distributions received as investment income. Changes in the value of the Fund are reported as gains or losses in the statement of activities.

3. RELATED PARTY TRANSACTIONS

The Organization provides various levels of monetary support and service to the District. The transactions are recorded within the financial statements as distributions, student programs, and scholarship expense. The District provides office space and other support to the Organization. The value of this support has been calculated and is reflected within these financial statements. (See note 6).

4. TITLE V FUNDS RESTRICTED FUNDS

The Organization has elected to restrict Title V funds as a temporary endowment for a period of 20 years. The restriction was placed on the amount of \$58,000 which will be released on August 18, 2029.

5. CHARITABLE GIFT ANNUITIES

The Organization is the beneficiary of two irrevocable split-interest agreements. Both of these agreements are charitable gift annuities whereby the Community College League of California is the third-party trustee. Per the agreements the donors are also the annuitant, and upon termination the Organization is entitled to the residuum value of the annuity. For reporting purposes, the Organization's source for measuring the fair value of these annuities is statements received from the Community College League of California's trust company, whereby the value of donated assets are reduced by the present value of expected future cash payments to the annuitants. Accordingly, this is considered a Level II fair value measurement.

**CRAFTON HILLS COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED**

JUNE 30, 2016

6. DONATED SERVICES

The activities carried on by the Organization are conducted by employees of the San Bernardino Community College District using the physical resources of Crafton Hills College. Costs incurred by the district on behalf of the Organization include wages and occupancy expenses. The estimated amount of donated services rendered to the Foundation for the year ended June 30, 2016 was \$ 97,426.

7. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Crafton Hills College Foundation Board of Directors has interpreted UPMIFA, in accordance with California state law, as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. Accordingly, the Organization classifies the original value of the gifts made to such endowment as permanently restricted.

Crafton Hills College Foundation's investment policy stipulates that a prudent portion of monies are to be placed in interest-bearing accounts, to maximize the potential earnings on the gifts. The unappropriated investment earnings on permanently and temporarily restricted net assets are classified as temporarily restricted net assets until the funds are released from their temporarily restricted purpose.

The general rule for acceptable investments for the aggregated endowment funds (federal and non-federal) are savings accounts or low-risk securities in which a regulated insurance company may invest under the law of the State in which the institution is located. This typically includes savings accounts such as a federally insured bank savings accounts, a comparable interest bearing account offered by a bank, or a money market fund. "Low-risk securities" includes certificates of deposit, mutual funds, stocks, or bonds.

Income from the endowment may be spent for costs necessary to operate the Organization, including general operating and maintenance costs, costs to administer and manage the endowment fund, and costs associated with buying and selling securities, such as stockbroker commissions and fees to "load" mutual funds. Income from the endowment cannot be spent for a school or department of divinity or any religious worship or sectarian activity, an activity that is inconsistent with a State plan for desegregation application to the grantee, or an activity that is inconsistent with a State plan applicable to the grantee.

**CRAFTON HILLS COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED**

JUNE 30, 2016

TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

The details of Temporarily and Permanently restricted net assets as of June 30, 2016 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of year	\$ 2,117,735	\$ 44,024	\$2,161,759
Contributions	153,665	146,228	299,893
Grants	163,500	30	163,530
Appropriation of endowment assets	(714,974)	(464)	(715,438)
Fund Transfers	122,446	4,024	126,470
Total	<u>\$ 1,842,372</u>	<u>\$ 193,842</u>	<u>\$2,036,214</u>

8 ARTWORK

The Foundation's artwork is comprised of:

	Fair Value
Gach	\$ 302,300
Peelle	36,000
DeGrazia	4,500
Lithographic Prints	400
Total	<u>\$ 343,200</u>

The Foundation received both the Gach and Peelle artwork as contributions. The contributors required that the Foundation maintain custody of the contributed artwork for three years from the date of donation. On November 28, 2015 and December 14, 2015 the Gach and Peelle artwork respectively, was released from all holding requirements made by the contributors. The Organization now holds legal title to the artwork and any proceeds are unrestricted as to its use.

9 COMMITMENTS

The Organization has entered into an operating lease agreement for office equipment.

Total minimum lease payment commitments under the lease agreement are as follows:

<u>Years ending June 30</u>	
2017	\$ 3,060
2018	<u>\$ 3,060</u>
Total	<u>\$ 6,120</u>

**CRAFTON HILLS COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED**

JUNE 30, 2016

10 INVESTMENTS

	Level 1	Level 2	Level 3	Total
Merrill Lynch				
Investment cash	\$ 41,025	\$ -	\$ -	\$ 41,025
Equities	756,228	-	-	756,228
Mutual Funds	372,338	-	-	372,338
Government Securities	160,243	-	-	160,243
Corporate Bonds	114,657	-	-	114,657
				-
U.S. Savings Bonds	31,020	-	-	31,020
Community Foundation	-	100,200	-	100,200
Total Investments	\$ 1,475,511	\$ 100,200	\$ -	\$ 1,575,711

See Note 1 for a description of the three levels of inputs that may be used to measure fair value.

The following table presents further detail for investments at year end:

	Adjusted Cost	Fair value	Unrealized Gain
Merrill Lynch	\$ 1,343,427	\$ 1,444,491	\$ 101,064
U.S. Savings Bonds	14,792	31,020	16,228
Community Foundation	100,000	100,200	200
Total Investments	\$ 1,458,219	\$ 1,575,711	\$ 117,492

Community Foundation	
Balance at July 1, 2015	\$ -
Investments	100,000
Income and gains	2,535
Losses and fees	(2,335)
Balance at June 30, 2016	\$ 100,200

11 SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 31, 2017, the date on which the financial statements were available to be issued and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.