

MODESTO JUNIOR COLLEGE FOUNDATION

FINANCIAL STATEMENTS

June 30, 2017 and 2016

MODESTO JUNIOR COLLEGE FOUNDATION

FINANCIAL STATEMENTS
June 30, 2017 and 2016

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES – YEAR ENDED JUNE 30, 2017	4
STATEMENT OF ACTIVITIES – YEAR ENDED JUNE 30, 2016	5
STATEMENTS OF CASH FLOWS.....	6
NOTES TO FINANCIAL STATEMENTS	7

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Modesto Junior College Foundation
Modesto, California

Report on the Financial Statements

We have audited the accompanying financial statements of Modesto Junior College Foundation (the "Foundation") which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Modesto Junior College Foundation as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
November 20, 2017

MODESTO JUNIOR COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 1,977,221	\$ 1,116,194
Accrued interest receivable	10,017	15,053
Other receivables	146,660	-
Prepaid expenses	26,392	20,744
Investments	<u>10,330,096</u>	<u>8,890,792</u>
Total assets	<u>\$ 12,490,386</u>	<u>\$ 10,042,783</u>
LIABILITIES		
Accounts payable	\$ 88,771	\$ 70,236
Unearned revenue	56,510	62,360
Amounts held in trust for others	28,594	28,093
Other liabilities	<u>732</u>	<u>822</u>
Total liabilities	<u>174,607</u>	<u>161,511</u>
NET ASSETS		
Unrestricted	249,739	297,503
Temporarily restricted	5,548,193	3,676,662
Permanently restricted	<u>6,517,847</u>	<u>5,907,107</u>
Total net assets	<u>12,315,779</u>	<u>9,881,272</u>
Total liabilities and net assets	<u>\$ 12,490,386</u>	<u>\$ 10,042,783</u>

See accompanying notes to the financial statements.

MODESTO JUNIOR COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
Year ended June 30, 2017

	2017			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions	\$ 149,441	\$ 1,297,382	\$ 610,740	\$ 2,057,563
Investment income	32,613	1,103,164	-	1,135,777
Fundraising events	104,007	95,866	-	199,873
Net assets released from restrictions	<u>624,881</u>	<u>(624,881)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>910,942</u>	<u>1,871,531</u>	<u>610,740</u>	<u>3,393,213</u>
Program expenses:				
Program development grants	65,055	-	-	65,055
Scholarships	173,764	-	-	173,764
Investment administration	86,063	-	-	86,063
Other	<u>218,092</u>	<u>-</u>	<u>-</u>	<u>218,092</u>
Total program expenses	<u>542,974</u>	<u>-</u>	<u>-</u>	<u>542,974</u>
Supporting expenses:				
Fundraising	76,645	-	-	76,645
Administrative	<u>339,087</u>	<u>-</u>	<u>-</u>	<u>339,087</u>
Total support expenses	<u>415,732</u>	<u>-</u>	<u>-</u>	<u>415,732</u>
Total expenses	<u>958,706</u>	<u>-</u>	<u>-</u>	<u>958,706</u>
Change in net assets	(47,764)	1,871,531	610,740	2,434,507
Net assets, beginning of year	<u>297,503</u>	<u>3,676,662</u>	<u>5,907,107</u>	<u>9,881,272</u>
Net assets, end of year	<u>\$ 249,739</u>	<u>\$ 5,548,193</u>	<u>\$ 6,517,847</u>	<u>\$ 12,315,779</u>

See accompanying notes to the financial statements.

MODESTO JUNIOR COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
Year ended June 30, 2016

	2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions	\$ 286,429	\$ 344,292	\$ -	\$ 630,721
Investment income	3,558	159,941	-	163,499
Fundraising events	116,823	90,034	-	206,857
Changes for underwater endowments	7,336	(7,336)	-	-
Net assets released from restrictions	<u>558,936</u>	<u>(558,936)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>973,082</u>	<u>27,995</u>	<u>-</u>	<u>1,001,077</u>
Program expenses:				
Program development grants	28,350	-	-	28,350
Scholarships	142,311	-	-	142,311
Investment administration	85,138	-	-	85,138
Other	<u>131,383</u>	<u>-</u>	<u>-</u>	<u>131,383</u>
Total program expenses	387,182	-	-	387,182
Supporting expenses:				
Fundraising	98,264	-	-	98,264
Administrative	<u>537,444</u>	<u>-</u>	<u>-</u>	<u>537,444</u>
Total support expenses	<u>635,708</u>	<u>-</u>	<u>-</u>	<u>635,708</u>
Total expenses	<u>1,022,890</u>	<u>-</u>	<u>-</u>	<u>1,022,890</u>
Change in net assets	(49,808)	27,995	-	(21,813)
Net assets, beginning of year	<u>347,311</u>	<u>3,648,667</u>	<u>5,907,107</u>	<u>9,903,085</u>
Net assets, end of year	<u>\$ 297,503</u>	<u>\$ 3,676,662</u>	<u>\$ 5,907,107</u>	<u>\$ 9,881,272</u>

See accompanying notes to the financial statements.

MODESTO JUNIOR COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,434,507	\$ (21,813)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized loss on investments	(842,757)	102,335
Contributions restricted for endowment	(610,740)	-
Changes in:		
Accrued interest receivable	5,036	(9,207)
Other receivables	(146,660)	172,556
Prepaid expenses	(5,648)	(3,443)
Accounts payable	18,535	(8,280)
Unearned revenues	(5,850)	39,327
Amounts held in trust for others	501	19,755
Other liabilities	<u>(90)</u>	<u>241</u>
Net cash provided by operating activities	<u>846,834</u>	<u>291,471</u>
Cash flows from investing activities:		
Purchase of investments	(9,637,051)	(6,597,130)
Proceeds from sale of investments	<u>9,040,504</u>	<u>6,694,056</u>
Net cash used in investing activities	<u>(596,547)</u>	<u>96,926</u>
Cash flows provided by financing activities:		
Contributions restricted for endowment	<u>610,740</u>	<u>-</u>
Net change in cash and cash equivalents	861,027	388,397
Cash and cash equivalents, beginning of year	<u>1,116,194</u>	<u>727,797</u>
Cash and cash equivalents, end of year	<u>\$ 1,977,221</u>	<u>\$ 1,116,194</u>

See accompanying notes to the financial statements.

MODESTO JUNIOR COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The Modesto Junior College Foundation (the Foundation), formed on January 8, 1968, is a nonprofit public benefits organization whose mission is to generate financial support for and increase community awareness of students, programs, and activities of Modesto Junior College. Modesto Junior College is a part of the Yosemite Community College District (the District), and provides higher education instruction in Modesto, California, and the surrounding area.

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

Unrestricted Net Assets: Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets: Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

Cash and Cash Equivalents: The Foundation considers cash and cash equivalents to include cash in commercial checking accounts and demand deposits in money market funds that are used for operational purposes with original maturity dates of three month or less. The Foundation at times may include in its depository account cash that has been restricted as to its use by donors. Cash and cash equivalent balances, at times, may be in excess of the Federal Deposit Insurance Corporation insurance limit of \$250,000. At June 30, 2017 and 2016, cash exceeded federally insured limits by \$1,177,330 and \$588,083 respectively.

Investments: Investments are carried at fair value. Net change in the fair value of investments, which consists of realized gains or losses and the unrealized appreciation (depreciation) of those investments, is reported in the statement of activities as a component of investment income. Investment income is accrued as earned.

Net Assets: The Foundation accounts for its endowments in accordance with Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to and Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds (Codification Topic 958-205). The Foundation's endowment currently consists of 78 individual funds established for the purpose of supporting education at the District. All endowments are donor-restricted endowment funds. There are no funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

(Continued)

MODESTO JUNIOR COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard prudence prescribed by UPMIFA.

The Foundation follows adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain purchasing power of the endowment assets. Endowment assets are those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specific period(s).

The investment objective is to optimize earnings on all invested funds, while maintaining the preservation of capital. The Foundation targets a diversified asset allocation that places an emphasis on money market funds, bond funds and equity-based investments to achieve its long-term return objective within prudent risk parameters.

Other Receivables: The Foundation utilizes the allowance method of accounting for uncollectible accounts receivable. No allowance was necessary at June 30, 2017 and 2016, respectively.

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

Contributions: Contributions are recognized as revenues in the period received. Unconditional promises to give (pledges) are recognized as revenue when the commitment is communicated to the Foundation. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Event revenues received in advance are deferred and recognized in the period as the events occur.

Management Fee Income: The Foundation assessed a 1.8% management fee on all restricted and temporarily restricted endowments, unless there are restrictions from the donor specific to management fees, based on the fund balances in each endowment as of December 31 of each year. Income from this fee is unrestricted and is used to support the Foundation's operations and mission.

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

(Continued)

MODESTO JUNIOR COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses: The costs of providing the various activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes: The Foundation, as a nonprofit organization, is exempt from income taxes under Section 501(c)(3) of the *Internal Revenue Code* and Section 23701(d) of the *California Revenue and Taxation Code*. The Foundation has not entered into any activities that would jeopardize its tax-exempt status. Accordingly, no provision for income taxes is required.

The Foundation files exempt organization returns in the U.S. federal and California jurisdictions. The federal returns for tax years 2013 and beyond, and the California returns for tax years 2012 and beyond, remain subject to examination by the taxing authorities.

The Foundation adopted FASB ASC 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in the Foundation's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC 740 also provides guidance on de-recognition and measurement of a tax position taken or expected to be taken in a tax return.

The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. Interest and penalties on tax assessments are classified as income tax expense when incurred. For the years ended June 30, 2017 and 2016, the Foundation did not incur any interest or penalties.

Subsequent Events: Management has evaluated subsequent events through November 20, 2017, the date on which the financial statements were available to be issued.

NOTE 2 - INVESTMENTS

Following is a summary of investments held for the years ended June 30 as follows:

	<u>2017</u>	<u>2016</u>
Investments:		
Mutual funds	\$ 986,991	\$ 902,742
Equity securities	6,773,409	5,796,158
Debt and fixed income securities	<u>2,569,696</u>	<u>2,191,892</u>
Total investments	<u>\$10,330,096</u>	<u>\$ 8,890,792</u>

The Foundation accounts for certain assets and liabilities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*. The Foundation measures some assets at fair value on a recurring basis. The Foundation may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. The Foundation had no assets or liabilities that were required to be measured on a non-recurring basis as of June 30, 2017 and 2016.

The Foundation classifies its fair value assets and liabilities into a hierarchy of three levels based on the markets in which they are traded and the reliability of the assumptions used to determine fair value. The asset or liability measurement level within the hierarchy is based on the lowest level of any assumption that is significant to the measurement. All of the Foundation's assets recorded at fair value at June 30, 2017 and 2016 were Level 1 and level 2 assets.

(Continued)

MODESTO JUNIOR COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2017 and 2016

NOTE 2 – INVESTMENTS (Continued)

Valuations within the hierarchy levels are based upon the following:

Level 1: Quoted market prices for identical instruments traded in active exchange markets.

Level 2: Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model- based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the methods that market participants would use in pricing an asset or liability.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the years ended June 30, 2017 and 2016.

The Foundation is required or permitted to record the following assets at fair value on a recurring basis:

<u>June 30, 2017</u>				
<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment securities:				
Mutual funds	\$ 986,991	\$ 986,991	\$ -	\$ -
Equity securities	6,773,409	6,773,409	-	-
Debt and fixed income securities	<u>2,569,696</u>	<u>487,775</u>	<u>2,081,921</u>	<u>-</u>
Total investment securities	<u>\$ 10,330,096</u>	<u>\$ 8,248,175</u>	<u>\$ 2,081,921</u>	<u>\$ -</u>

<u>June 30, 2016</u>				
<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment securities:				
Mutual funds	\$ 902,742	\$ 902,742	\$ -	\$ -
Equity securities	5,796,158	5,796,158	-	-
Debt and fixed income securities	<u>2,191,892</u>	<u>565,444</u>	<u>1,626,448</u>	<u>-</u>
Total investment securities	<u>\$ 8,890,792</u>	<u>\$ 7,264,344</u>	<u>\$ 1,626,448</u>	<u>\$ -</u>

Mutual Funds - Each investor in a mutual fund will typically receive units of participation or shares in the mutual fund. These shares are valued daily, based on the underlying securities owned by the mutual fund, and are usually publicly traded equity securities.

Equity Securities - Equity securities are valued at the closing price reported on the active market on which the individual securities are traded.

Debt and Fixed Income Securities - Corporate and municipal bonds and other debt and fixed income securities are generally valued by a computerized pricing service or, for less actively traded issues, by utilizing a yield-based matrix system to arrive at an estimated market value.

(Continued)

MODESTO JUNIOR COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2017 and 2016

NOTE 2 – INVESTMENTS (Continued)

Following is a summary of investment income for the years ended June 30 as follows:

	<u>2017</u>	<u>2016</u>
Dividends and interest	\$ 293,020	\$ 265,834
Net realized/unrealized loss	<u>842,757</u>	<u>(102,335)</u>
Total	<u>\$ 1,135,777</u>	<u>\$ 163,499</u>

NOTE 3 – ENDOWMENTS

The Foundation accounts for endowments under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and its own governing documents. All endowments are donor-restricted endowment funds. See Note 1, Net Assets for more details on the use and investment of those funds. All endowments are Donor-restricted.

The endowment net asset composition as of June 30, 2017, consists of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (10,027)	\$ 1,524,829	\$ 5,907,107	\$ 7,421,909
Income		222,376	-	222,376
Net appreciation (depreciation) (realized and unrealized)	-	640,505	-	640,505
Contributions	-	142,072	610,740	752,812
Appropriation of endowment assets for expenditure	-	(359,927)	-	(359,927)
Changes in underwater endowment	<u>8,781</u>	<u>(8,781)</u>	<u>-</u>	<u>-</u>
	<u>\$ (1,246)</u>	<u>\$ 2,161,074</u>	<u>\$ 6,517,847</u>	<u>\$ 8,677,675</u>

The endowment net asset composition as of June 30, 2016, consists of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (2,691)	\$ 1,689,199	\$ 5,907,107	\$ 7,593,615
Income	-	203,784	-	203,784
Net appreciation (depreciation) (realized and unrealized)	-	(82,352)	-	(82,352)
Contributions	-	27,650	-	27,650
Appropriation of endowment assets for expenditure	-	(320,788)	-	(320,788)
Changes in underwater endowment	<u>(7,336)</u>	<u>7,336</u>	<u>-</u>	<u>-</u>
	<u>\$ (10,027)</u>	<u>\$ 1,524,829</u>	<u>\$ 5,907,107</u>	<u>\$ 7,421,909</u>

(Continued)

MODESTO JUNIOR COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2017 and 2016

NOTE 3 – ENDOWMENTS (Continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There was one individual endowment funds with such deficiency as of June 30, 2017 and 2016.

NOTE 4 - RESTRICTED NET ASSETS

The temporarily restricted net assets as of June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Scholarships	\$ 3,902,694	\$ 2,270,678
Academic programs	738,548	631,833
Departmental fundraising	89,424	69,735
Other	<u>817,527</u>	<u>704,416</u>
Total Temporarily Restricted Net Assets	<u>\$ 5,548,193</u>	<u>\$ 3,676,662</u>

The Foundation's permanently restricted net assets at June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Scholarships	\$ 4,888,426	\$ 4,639,707
Academic programs	1,246,652	945,882
Other	<u>382,769</u>	<u>321,518</u>
Total Permanently Restricted Net Assets	<u>\$ 6,517,847</u>	<u>\$ 5,907,107</u>

NOTE 5 – ADMINISTRATIVE EXPENSES

The Foundation's Statements of Activities include an amount donated from College District totaling \$199,772 for the year ended June 30, 2017 and \$147,526 for the year ended June 30, 2016. This consisted of accounting and management support services as provided by the District.

The valuation of such services is determined based upon the cost of the employee's salaries and benefits.