

**THE FOUNDATION FOR
SANTA BARBARA CITY COLLEGE**

FINANCIAL STATEMENTS

JUNE 30, 2016

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

JUNE 30, 2016

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Foundation for Santa Barbara City College
Santa Barbara, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Foundation for Santa Barbara City College (a non-profit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, 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 *Government 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation for Santa Barbara City College as of June 30, 2016, and the change 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 September 29, 2016 on our consideration of the Foundation for Santa Barbara City College'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 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 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 for Santa Barbara City College's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Foundation for Santa Barbara City College's June 30, 2015 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated September 30, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, California

September 29, 2016

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

STATEMENT OF FINANCIAL POSITION

June 30, 2016

(With Comparative Totals for June 30, 2015)

ASSETS

					(Restated)
					(Memo)
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
CURRENT ASSETS					
Cash and equivalents	\$ 511,291	\$ 514,745	\$ -	\$ 1,026,036	\$ 2,092,592
Short-term investments	514,272	902,414	84,814	1,501,500	1,917,105
Accounts receivable	4,394	51,820	-	56,214	260,603
Pledges and grants receivable	5,569	1,446,641	980,000	2,432,210	2,374,026
Prepaid expenses	36,565	-	-	36,565	27,460
Total Current Assets	<u>1,072,091</u>	<u>2,915,620</u>	<u>1,064,814</u>	<u>5,052,525</u>	<u>6,671,786</u>
OTHER ASSETS					
Pledges receivable	-	1,071,734	781,275	1,853,009	2,403,165
Long-term investments	795,029	9,225,595	25,776,125	35,796,749	35,222,729
Assets held in FCCC-Osher	-	-	823,846	823,846	889,940
Office equipment, net	107,667	-	-	107,667	161,589
Assets held in charitable remainder trusts	-	1,982,784	4,959,071	6,941,855	7,316,528
Assets of pooled income fund	-	45,019	63,097	108,116	113,827
Contributions receivable from remainder trusts	-	4,650,841	715,629	5,366,470	5,159,093
Total Other Assets	<u>902,696</u>	<u>16,975,973</u>	<u>33,119,043</u>	<u>50,997,712</u>	<u>51,266,871</u>
TOTAL ASSETS	<u>\$ 1,974,787</u>	<u>\$ 19,891,593</u>	<u>\$ 34,183,857</u>	<u>\$ 56,050,237</u>	<u>\$ 57,938,657</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES					
Accounts payable and accrued liabilities	\$ 453,325	\$ -	\$ -	\$ 453,325	\$ 484,226
Scholarships payable	1,067,870	-	-	1,067,870	1,119,719
Total Current Liabilities	<u>1,521,195</u>	<u>-</u>	<u>-</u>	<u>1,521,195</u>	<u>1,603,945</u>
OTHER LIABILITIES					
Liability under unitrust agreements	-	646,618	1,528,913	2,175,531	2,518,326
Discount for future interest - pooled income funds	-	24,989	13,418	38,407	42,214
Refundable advances - revocable split interest agreements	-	12,122	-	12,122	11,486
Total Other Liabilities	<u>-</u>	<u>683,729</u>	<u>1,542,331</u>	<u>2,226,060</u>	<u>2,572,026</u>
TOTAL LIABILITIES	<u>1,521,195</u>	<u>683,729</u>	<u>1,542,331</u>	<u>3,747,255</u>	<u>4,175,971</u>
NET ASSETS					
Unrestricted	453,592	-	-	453,592	1,421,435
Temporarily restricted	-	19,207,864	-	19,207,864	19,979,793
Permanently restricted	-	-	32,641,526	32,641,526	32,361,458
Total Net Assets	<u>453,592</u>	<u>19,207,864</u>	<u>32,641,526</u>	<u>52,302,982</u>	<u>53,762,686</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,974,787</u>	<u>\$ 19,891,593</u>	<u>\$ 34,183,857</u>	<u>\$ 56,050,237</u>	<u>\$ 57,938,657</u>

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

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2016

(With Comparative Totals for the Year Ended June 30, 2015)

					(Restated) (Memo)
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
REVENUE, GAINS, AND OTHER SUPPORT					
Contributions and bequests	\$ 499,852	\$ 3,453,836	\$ 273,419	4,227,107	5,986,633
Investment income (loss)	(29,553)	(581,408)	(20,094)	(631,055)	677,571
Other income	136,752	85,010	-	221,762	265,449
Change in value of split-interest agreements	-	(109,437)	72,743	(36,694)	130,217
Net assets released from restrictions	<u>3,665,930</u>	<u>(3,619,930)</u>	<u>(46,000)</u>	<u>-</u>	<u>-</u>
Total Revenue, Gains, and Other Support	<u>4,272,981</u>	<u>(771,929)</u>	<u>280,068</u>	<u>3,781,120</u>	<u>7,059,870</u>
EXPENSES					
College programs and other designated disbursements	2,844,392	-	-	2,844,392	2,979,095
Scholarships and awards	1,020,387	-	-	1,020,387	1,155,277
Fundraising	573,490	-	-	573,490	586,017
Administrative	<u>802,555</u>	<u>-</u>	<u>-</u>	<u>802,555</u>	<u>1,009,435</u>
Total Expenses	<u>5,240,824</u>	<u>-</u>	<u>-</u>	<u>5,240,824</u>	<u>5,729,824</u>
CHANGE IN NET ASSETS	(967,843)	(771,929)	280,068	(1,459,704)	1,330,046
NET ASSETS, BEGINNING OF YEAR	<u>1,421,435</u>	<u>19,979,793</u>	<u>32,361,458</u>	<u>53,762,686</u>	<u>52,432,640</u>
NET ASSETS, END OF YEAR	<u>\$ 453,592</u>	<u>\$ 19,207,864</u>	<u>\$ 32,641,526</u>	<u>\$ 52,302,982</u>	<u>\$ 53,762,686</u>

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

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2016

(With Comparative Amounts for the Year Ended June 30, 2015)

	2016	(Memo) 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,459,704)	\$ 1,330,046
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	59,668	51,862
Contributions restricted for long-term investment	(273,419)	(2,172,160)
Loss on long-term investments	2,066,418	692,069
Decrease (increase) in pledges, grants and accounts receivable	687,256	(1,154,613)
Decrease (increase) in split-interest agreements	(173,007)	358,250
Decrease in accounts payable and accrued liabilities	(82,750)	(204,057)
Decrease in liability under split-interest agreements	(345,966)	(326,713)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	478,496	(1,425,316)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(5,846)	(99,023)
Proceeds from sale of investments	15,314,420	19,467,347
Purchase of investments	(17,127,046)	(19,289,796)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,818,472)	78,528
 CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	273,419	2,172,160
NET CASH PROVIDED BY FINANCING ACTIVITIES	273,419	2,172,160
 NET INCREASE (DECREASE) IN CASH	(1,066,557)	825,372
 CASH, BEGINNING OF YEAR	2,092,593	1,267,221
 CASH, END OF YEAR	\$ 1,026,036	\$ 2,092,593

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Non-cash transactions consisted of the following:

In-kind contributions to the Foundation of rents by Santa Barbara City College	\$ 50,000	\$ 50,000
In-kind services provided by the Foundation to Santa Barbara City College	\$ 199,935	\$ 97,000

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

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 1- Nature of Activities

The Foundation for Santa Barbara City College (the Foundation), a not-for-profit organization, was formed for the purpose of encouraging, securing, and managing voluntary private gifts, trusts, and bequests for the benefit of Santa Barbara City College (the College). The Foundation provides financial support for various college-related programs including department and program support, student scholarships and awards, equipment purchases and capital improvements, and faculty research and teaching activities.

Note 2- Summary of Significant Accounting Policies

A) Presentation

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting. The Foundation reports information regarding its financial position and activities in three classes of net assets - unrestricted, temporarily restricted, and permanently restricted - based on the existence or absence of donor-imposed restrictions.

Unrestricted Net Assets

The unrestricted group of net assets represents unrestricted resources available for current support of Foundation and College activities.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions and other inflows of funds temporarily subject to donor-imposed restrictions. The restrictions are temporary in that they are expected to expire with the passage of time or be satisfied and removed by actions of the Foundation that fulfill donor stipulations. Earnings on donor-restricted endowment funds that have not yet been appropriated are also classified as temporarily restricted net assets.

Permanently Restricted Net Assets

Permanently restricted net assets include outright gifts, charitable remainder unitrusts and pledges receivable that require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for expenditure in accordance with donor restrictions and Foundation spending policies for programs and activities of the College. The spendable, or distributable, portion of each endowment fund is included with temporarily restricted net assets.

B) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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. Actual results could differ from those estimates.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 2- Summary of Significant Accounting Policies (continued)

C) Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less at the date of purchase are considered cash equivalents. Amounts held as investments are not considered cash or cash equivalents for the purpose of the statement of cash flows.

D) Investments

The Foundation records investments in debt and equity securities with readily determinable market values at fair value. The fair value of investments in securities traded on national securities exchanges is valued at the closing price on the last business day of the fiscal year. The investments in hedge funds, partnerships and private equity, for which quoted market prices are not readily available, are determined by management in good faith with the assistance of third-party investment managers using methods they consider appropriate. The Foundation defines real assets as investments in real estate and other commodities. Realized and unrealized gains and losses are included in the change in net assets.

E) Donor Restrictions

The Foundation reports gifts of cash and other assets as 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 a 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.

The Foundation reports gifts of property and equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, as well as gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations regarding how long such assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

F) Donated Property and Investments

Donated property and investments are reflected as contributions in the accompanying statements at their fair market value at date of receipt.

G) Functional Expenses

The Foundation allocates its expenses on a functional basis among its various program and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 2- Summary of Significant Accounting Policies (continued)

H) Income Taxes

The Foundation is exempt from both federal and state income taxes under Section 501(c) (3) and 23701(d), respectively.

Note 3- Pledges Receivable

Unconditional promises are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges not anticipated to be received in the next twelve months are recorded after discounting at 2% to the net present value of the pledge. The allowance for uncollectible pledges is based on the Foundation's estimate of 2%.

Gross pledges	\$ 4,448,928
Less cancelled pledges	(19,440)
Less present value discount	(57,073)
Less allowance for uncollectible pledges	<u>(87,196)</u>
Net pledges	<u>\$ 4,285,219</u>

Unconditional promises are expected to be realized in the following periods:

Due in one year or less	\$ 2,432,210
Due between one and ten years	<u>1,853,009</u>
	<u>\$ 4,285,219</u>

Pledges receivable at year end have the following restrictions:

Student support	\$ 2,399,032
Departmental programs and activities	1,880,618
General operating support	<u>5,569</u>
	<u>\$ 4,285,219</u>

Note 4- Assets Held at FCCC – Osher

The Foundation has invested \$759,035 in the California Community Colleges Endowment Challenge managed by the Foundation for California Community Colleges (FCCC). The purpose of the Challenge is to create a \$100 million permanent scholarship fund for California community college students, the California Community Colleges Scholarship Endowment (CCCSE). As a participant, the Foundation for SBCC was allocated \$379,517 in matching funds. The funds invested in CCCSE remain the Foundation's permanently restricted assets. Earnings on both the Foundation's investment and the match funds will be distributed as scholarship funds to the Foundation for distribution to SBCC students in accordance with the terms of the Partnership agreement dated June 2010. The FCCC has assembled an Investment Advisory Committee to direct and monitor the investment of the CCCSE assets. The funding of scholarships began with the 2009-2010 academic year.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 5- Investments

Investments are presented in the financial statements at fair value. At year end, investments consisted of the following:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gain (Loss)</u>
Marketable funds:			
Fixed income	\$ 13,675,151	\$ 13,062,182	\$ (612,969)
Domestic equities	12,206,974	12,671,785	464,811
International equities	6,573,223	5,996,833	(576,390)
Alternative investments	5,406,004	5,567,449	161,445
Total	<u>\$ 37,861,352</u>	<u>\$ 37,298,249</u>	<u>\$ (563,103)</u>

Investments held by the restricted and permanently restricted group of net assets are placed in an investment pool. Investment income, gains and losses are allocated to the various restricted net assets as stipulated in the Foundation's investment policy.

The following summarizes the investment return included in the statement of activities for the year ended June 30, 2016.

Interest and dividend income	\$ 1,633,008
Realized loss on investments	(67,215)
Unrealized loss on investments	(1,999,203)
Investment fees	<u>(197,645)</u>
Total Loss on Investment	<u>\$ (631,055)</u>

Note 6- Investment in Commercial Real Estate

Buildings and improvements suitable for a motel operation were donated to the Foundation in December 1983, and recorded at the estimated fair market value as of that date in the amount of \$945,000. These buildings and improvements have been leased to Motel 6 since 1971. The lease is for sixty-five years and the terms call for periodic adjustments based on changes in the Consumer Price Index. Annual lease income was \$136,752 for the year ended June 30, 2016. The aggregate future minimum lease payments for the twenty remaining years of the lease are approximately \$3 million.

The expected future minimum lease payments to be received for the next five years are as follows:

2016	\$ 136,752
2017	144,396
2018	144,396
2019	144,396
2020	144,396

The Foundation received an income increase on January 1, 2012. The next increase is scheduled to take effect January 1, 2017. As of June 30, 2012 the building and improvements were fully depreciated.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 7- Split-Interest Agreements

The Foundation is the remainderman for various charitable remainder trusts, gift annuity contracts and interests in pooled income funds that have been established by donors to provide income or benefits, generally for life, to designated beneficiaries. The remainder of the trusts will be distributed to the Foundation for the purposes designated in the trust agreements, generally for unrestricted, temporarily restricted or permanently restricted purposes. Each year beneficiaries receive a percentage of the trust's fair market value, payable quarterly; some of the trusts are further limited to net income or net-income-with-make-up provisions. The total fair market value of all trusts at year end was \$6,941,855 with a corresponding present value liability of \$2,175,532.

The trusts are separate legal entities, created under the provisions of Section 664 of the Internal Revenue Code, and have a calendar year end as required by the Tax Reform Act of 1986. The trusts are exempt from Federal and California income taxes on investment income accumulated for future distribution and any net capital gains.

Foundation as Trustee: In certain cases, the Foundation acts as trustee at no charge as a service to the donors. As trustee, the Foundation has fiduciary control over the trust assets and responsibility over the life of the trust for the payments to the income beneficiaries. For financial statement presentation, the interest in these trusts is presented at fair value as "Assets held in charitable remainder trusts." The fair value of amounts payable to trust income beneficiaries over the life of the trusts is based on their present value using discount rates ranging from 5% to 8% and the life expectancy of each trust's income beneficiaries. Based on the estimated life of the trust, each year a portion of the net change in asset value is recognized as revenue under "Change in value of split-interest agreements."

Pooled Income Fund: Two donors have contributed assets to the Foundation's pooled income fund and one donor has contributed assets to a pooled income fund administered by another charitable organization. For financial statement presentation, this fund is presented at fair value of the assets and the amounts payable to the income beneficiaries are recorded at their fair value based on their present value using discount rates ranging from 5% to 6%. These are reflected as "Discount for future interest-pooled income." As pooled income interests mature, a portion of the net change in asset value is recognized as revenue under "Change in value of split-interest agreements."

Other Trusts and Deferred Gifts: The Foundation does not act as trustee for certain other trusts which are also included in the financial statements; the Foundation has neither fiduciary control of the trust assets nor a liability for the distributions payable to the income beneficiaries. The fair value of the interest in these trusts is calculated based on the net present value of the estimated future benefits to be received when the assets are distributed, using discount rates ranging from 5% to 11.382% and the life expectancy of each trust's income beneficiaries. These are reflected as "Contributions receivable from remainder trusts." The Foundation received two trust donations during the year in the amount of \$209,652.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 8– Fair Value Measurements

Under the Financial Accounting Standards Board's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation uses various methods including market, income and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1: Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange
- Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data

Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data
- Level 3: Unobservable inputs supported by little or no market activity for 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; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data

The Foundation has various processes and controls in place to ensure that fair value is reasonably estimated. A model validation policy governs the use and control of valuation models used to estimate fair value. This policy requires review and approval of models, and periodic re-assessments of models to ensure that they are continuing to perform as designed. The Foundation performs due diligence procedures over third-party pricing service providers in order to support their use in the valuation process. Where market information is not available to support internal valuations, independent reviews of the valuations are performed and any material exposures are escalated through a management review process.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 8– Fair Value Measurements (continued)

During the year ended June 30, 2016, there were no changes to the Foundation's valuation techniques that had, or are expected to have, a material impact on its financial position or results of operations.

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

Equity Securities

The fair value of equity securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Marketable Funds

Marketable funds are valued at the net asset value (“NAV”) of shares held at year end. The NAV is based on the value of the underlying securities which are valued based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Assets Held in Charitable Remainder Trusts and Liability under Unitrust Agreements

The fair value of perpetual investment trusts is based on the fair value of the Foundation's interest in the trusts' underlying investments.

The underlying investments are valued based on quoted market prices, when available, or market prices provided by recognized broker dealers. The liability under unitrust agreements is based on the discounted present value of future annuities due.

Assets of Pooled Income Funds and Discount for Future Interest

The fair value of assets of pooled income funds is based on the fair value of the Foundation's interest in the funds' underlying investments. The underlying investments are valued based on quoted market prices, when available, or market prices provided by recognized broker dealers. The fair value of the discount for future interest is based on the discounted present value.

Contributions Receivable from Remainder Trusts and Refundable Advances

The fair value of contributions receivable from remainder trusts is based on the fair value of the Foundation's interest in the trusts' underlying investments. The underlying investments are valued based on quoted market prices, when available, or market prices provided by recognized broker dealers. The fair value of the refundable advances is based on the discounted present value.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 8– Fair Value Measurements (continued)

Nonmarketable Securities

The fair value of nonmarketable securities is estimated based on the information obtained from the investment manager. Net asset value and entity level attributes are considered when estimating.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets and liabilities at fair value as of June 30, 2016:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets held in charitable remainder trusts	\$ 6,941,855	\$ -	\$ -	\$ 6,941,855
Assets of pooled income fund	108,116	-	-	108,116
Contributions receivable from remainder trusts	5,366,470	-	-	5,366,470
Marketable funds:				
Short-term	1,501,500	1,501,500	-	-
Long-term	31,053,145	31,053,145	-	-
Nonmarketable securities	<u>5,567,450</u>	-	-	<u>5,567,450</u>
Total assets	<u>\$50,538,536</u>	<u>\$32,554,645</u>	<u>\$ -</u>	<u>\$17,983,891</u>
Liability under unitrust agreements	\$ 2,175,532	\$ -	\$ -	\$ 2,175,532
Discount for future interest - pooled income funds	38,407	-	-	38,407
Refundable advances - revocable				
Split-interest agreements	<u>12,122</u>	-	-	<u>12,122</u>
Total liabilities	<u>\$ 2,226,061</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,226,061</u>

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 8– Fair Value Measurements (continued)

The following table sets forth additional disclosures of the Foundation’s investments whose fair values are estimated using net asset value per share as of June 30, 2016.

	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>
Marketable funds	\$31,730,799	\$ -	Daily
Nonmarketable securities			
Capital Partners IV	387,463	55,000	
Global Distressed Investors	148,563	76,300	
SEI Core Property	1,794,263	-	
SEI Special Situations Fund	1,602,472	-	
SEI Structured Credit Fund	<u>1,634,689</u>	<u>-</u>	
Total	<u>\$37,298,249</u>	<u>\$ 131,300</u>	

Marketable funds: The pricing and valuation processes are built upon a base of independent third-party pricing for the majority of fund holdings. Independent third-party pricing sources are used to price all security positions for which a readily determinable market price is available. Securities for which third-party pricing sources are not available are priced on “fair value” basis, subject to review and approval by the Fair Value Committee.

Nonmarketable securities: This class includes several real estate funds. The fair values of this class have been estimated using information obtained from the investment manager. The net asset value should be considered in the fair value process but the entity level attributes should also be considered. Two investments are illiquid and cannot be redeemed within the next five years. These investments are audited annually.

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2016.

	<u>Split-Interest Agreements</u>	<u>Nonmarketable Securities</u>	<u>Total</u>
Balance, June 30, 2015	\$ 12,589,454	\$ 602,314	\$ 13,191,768
Net gains and losses	-	(36,241)	(36,241)
Purchases	-	5,107,500	5,107,500
Contributions	209,652	-	209,652
Redemptions	-	(106,123)	(106,123)
Change in fair market value	<u>(382,665)</u>	<u>-</u>	<u>(382,665)</u>
Balance, June 30, 2016	<u>\$ 12,416,441</u>	<u>\$ 5,567,450</u>	<u>\$ 17,983,891</u>

The valuation techniques noted above have been consistently applied to similar assets and liabilities for the year ended June 30, 2016.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 8– Fair Value Measurements (continued)

Changes in Fair Value and Related Gains and Losses

The Foundation's investments (including losses on investments bought and sold, as well as held during the year) depreciated in value by \$2,103,111 for the year ended June 30, 2016 as follows:

Marketable funds	\$ (2,030,175)
Nonmarketable securities	(36,242)
Change in value of split-interest agreements	<u>(36,694)</u>
	<u>\$ (2,103,111)</u>

Note 9- Assets Released from Donor Restrictions

Net assets during 2016 were released from donor restrictions by incurring expenses, satisfying the restricted purposes, or by occurrence of other events specified by donors.

College Programs	\$ 2,645,543
Scholarships and Awards	<u>1,020,387</u>
	<u>\$ 3,665,930</u>

Note 10- Endowment

The Foundation's endowment consists of 189 donor-restricted endowment funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Effective January 1, 2009, an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) became effective for all non-profit organizations within California. The Board of Directors of the Foundation follows UPMIFA while continuing to emphasize that for true endowments, those funds designated as endowment by the donor, the amount of the original gift will never be withdrawn from principal without agreement from the donor.

As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated (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 FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 10- Endowment (continued)

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

Endowment net asset composition by type of fund, as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets Including board designated, beginning of year	\$ (151,498)	\$ 7,507,258	\$32,361,458	\$39,717,218
Net investment return (investment income, realized and unrealized gains and losses)	(15,667)	(685,289)	52,649	(648,307)
Contributions	-	3,500	273,419	276,919
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(978,535)</u>	<u>(46,000)</u>	<u>(1,024,535)</u>
Endowment net assets, end of year	<u>\$ (167,165)</u>	<u>\$ 5,846,934</u>	<u>\$32,641,526</u>	<u>\$38,321,295</u>

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 10- Endowment (continued)

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as board-designated funds. As approved by the Board of Directors, the endowment assets are invested with the expectation of generating a long-term rate of total return in excess of the spending allocation percentage above the rate of inflation. The Foundation will make an annual spending allocation of not more than 5% of the average fair market value of each endowment fund, based on the thirteen-quarter average as of June 30th of each fiscal year to be available for the subsequent fiscal year.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2016, the Foundation has four out of 189 total endowment funds with deficiencies, resulting from unfavorable market fluctuations, totaling \$167,165.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year up to 5 percent of its endowment fund's average fair value over the prior thirteen quarters, unless prohibited by donor stipulations. Such appropriations are not taken from deficient funds as described above. All such distributions are classified as temporarily restricted net assets until appropriated for expenditure. All other income or appreciation remains classified as permanently restricted. In establishing this policy, the Foundation considered the long-term expected return on its endowment. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment returns.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 11- Related Party Transactions

Santa Barbara City College provides certain services to the Foundation which are charged to the Foundation. For the year ended June 30, 2016, these costs were approximately \$154,033. The College also provides facility use and maintenance, computing and communication services, and other services to the Foundation, which are not included in the Foundation's financial statements. Such costs attributable to these services were estimated to be approximately \$50,000 for the year ended June 30, 2016.

Certain services are also provided by the Foundation to the Santa Barbara City College. Such services included program/event development, assistance in scholarship processing and marketing. For the year ended June 30, 2016, these costs amount to \$199,935.

Note 12- Defined Contribution Plan

Effective July 1, 1994, the Board of Directors established a defined contribution retirement plan for permanent employees. The tax deferred group annuity plan covers all employees who work at least 1,000 hours in a twelve-month period commencing with his or her date of employment. The Foundation matches voluntary contributions to the plan by the employee, up to 6% of gross compensation. For the year ended June 30, 2016, no pension expenses were recorded because unvested accumulated employer contributions were used to fulfill the matching contribution.

Note 13- Income Tax Matters

The Foundation is a California nonprofit public benefit corporation, which is exempt from income taxes, therefore no provision for income taxes is required. The Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Foundation evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2016, the Foundation has no uncertain tax positions requiring accrual.

The Foundation files tax returns in California and U.S. federal jurisdictions. The Foundation is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2012 and 2011, respectively.

Note 14- Restatement

Endowment net assets as of June 30, 2014, were restated as a result of further review of the intent and treatment of contributions received in previous years. As a result, \$275,000 and \$254,781 were reclassified from permanently restricted endowment net assets to temporarily restricted endowment net assets and unrestricted net assets, respectively. In addition, \$75,231 was reclassified from non-endowed temporarily restricted net assets to unrestricted net assets.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 15- Risks and Uncertainties

The Foundation invests in investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of activities and changes in net assets.

The Foundation maintains cash balances at several banks insured by the Federal Deposit Insurance Corporation (FDIC). The Federal Deposit Insurance Corporation (FDIC) only insures the first \$250,000 of funds on deposit at any one institution. The Foundation had uninsured cash of approximately \$714,500 deposited with three different banks.

Note 16- Comparative Amounts

The amounts shown for June 30, 2015 in the accompanying financial statements are included to provide a basis for comparison with June 30, 2016 and are not intended to present all information necessary for a fair presentation of the June 30, 2015 financial statements in conformity with accounting principles generally accepted in the United States of America.

Note 17- National Science Foundation Grant

The Foundation received a multi-year grant from the National Science Foundation totaling \$598,808 and payable over five years. As qualifying expenses are incurred, the Foundation will receive equivalent grant funds for reimbursement of expenses. For the year ended June 30, 2016, the total related grant expenses were \$25,060, of which \$24,810 was receivable as of June 30, 2016.

Note 18- Subsequent Events

On September 13, 2016, the Foundation signed a Purchase and Sale Agreement with the intent of purchasing a building in downtown Santa Barbara. The negotiated price will be \$5,300,000 provided that all conditions are successfully met by both the buyer and seller. Escrow is scheduled to close October 28, 2016.

The building will be leased to Santa Barbara City College for educational programs and reported as an investment in the Foundation's endowed restricted funds in future years. The investment in the property will be replacing other fixed income assets in the Foundation's portfolio.

Subsequent events have been evaluated through September 29, 2016, the date that the financial statements were available to be issued. There were no additional subsequent events noted that required disclosures.



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**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***

INDEPENDENT AUDITOR’S REPORT

To the Board of Directors of
The Foundation for Santa Barbara City College:

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 the Foundation for Santa Barbara City College, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 29, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation for Santa Barbara City College’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 for Santa Barbara City College’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 entity’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 for Santa Barbara City College'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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script, reading "McGowan Guntermann".

Santa Barbara, California

September 29, 2016