

RIO HONDO COLLEGE FOUNDATION

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2018**



**COSSOLIAS | WILSON
DOMINGUEZ | LEAVITT**
CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL SECTION

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Financial Section



INDEPENDENT AUDITORS' REPORT

Board of Directors
Rio Hondo College Foundation (the Foundation)
Whittier, California

We have audited the accompanying financial statements of Rio Hondo College Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2018, and the related statements 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

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Rio Hondo College Foundation as of June 30, 2018, 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.

CWDL, Certified Public Accountants

San Diego, California
May 10, 2019

**RIO HONDO COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018 AND JUNE 30, 2017**

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 252,972	\$ 183,164
Accounts receivable	43,552	3,069
Investment	2,400,050	2,252,921
Funds held by others	214,337	210,728
Total Assets	2,910,911	2,649,882
Liabilities		
Accounts payable and accrued expenses	46,008	25,352
Accrued payroll and related liabilities	27,770	9,490
Due to Rio Hondo College	91,063	91,063
Total Liabilities	164,840	125,905
NET ASSETS		
Unrestricted	91,537	122,514
Temporarily restricted	2,470,534	2,217,463
Permanently restricted	184,000	184,000
Total Net Assets	2,746,071	2,523,977
Total Liabilities and Net Assets	\$ 2,910,911	\$ 2,649,882

The notes to financial statements are an integral part of this statement.

**RIO HONDO COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018 AND JUNE 30, 2017**

	June 30, 2018			June 30, 2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE AND SUPPORT					
Contributions and grants	\$ 107,713	\$ 326,189	\$ -	\$ 433,903	\$ 218,956
Fundraising events	102,900	-	-	102,900	110,100
In-kind, facilities	10,000	-	-	10,000	10,000
In-kind, personnel services	93,257	-	-	93,257	84,263
Dividends and interest income	-	51,872	-	51,872	33,119
Realized gain (loss) on sale of investments	2,413	55,057	-	57,470	(1,509)
Unrealized gain (loss) on investments, net of fees	-	47,044	-	47,044	147,821
Restrictions released	227,092	(227,092)	-	-	-
Total revenue and restrictions released	543,375	253,071	-	796,446	602,750
EXPENSES					
Program services	400,699	-	-	400,699	320,992
Support services	68,116	-	-	68,116	55,232
Fundraising expenses	105,537	-	-	105,537	44,752
Total Expenses	574,352	-	-	574,352	420,976
CHANGE IN NET ASSETS	(30,977)	253,071	-	222,094	181,774
Net assets - beginning	122,514	2,217,463	184,000	2,339,977	2,342,203
Net assets - ending	\$ 91,537	\$ 2,470,534	\$ 184,000	\$ 2,746,071	\$ 2,523,977

The notes to financial statements are an integral part of this statement.

**RIO HONDO COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018 AND JUNE 30, 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 222,094	\$ 181,774
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Investment fees	(3,609)	(18,788)
Realized & unrealized (gain) loss on investments, net	(147,129)	(165,098)
(Increase) decrease in:		
Accounts receivable	(40,483)	1,402
Deposits and prepaid expenses	-	1,623
Increase (decrease) in:		
Accounts payable and accrued expenses	20,656	6,280
Accrued payroll and related liabilities	18,280	620
Due to Rio Hondo College	-	(112)
Net cash provided by operating activities:	69,808	7,701
CASH FLOWS FROM INVESTING ACTIVITIES		
Reinvested funds held by others	-	(14,426)
Other investment activity, net	-	43,881
Net cash provided by investing activities	-	29,455
NET INCREASE IN CASH AND CASH EQUIVALENTS	69,808	37,156
Cash and cash equivalents - beginning	183,164	146,008
Cash and cash equivalents - ending	\$ 252,972	\$ 183,164
Supplemental, Non-Cash Information		
In-kind, facilities	\$ 10,000	\$ 10,000
In-kind, personnel services	\$ 93,257	\$ 84,263

The notes to financial statements are an integral part of this statement.

**RIO HONDO COLLEGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018 AND JUNE 30, 2017**

	June 30, 2018			June 30, 2017	
	Program Services	Support Services	Fundraising	Total	Total
Salaries and related expenses					
Salaries, taxes and benefits	\$ 39,253	\$ 32,711	\$ 58,879	\$ 130,843	\$ 99,137
Advertising and printing					
Audit, taxes and insurance	-	14,738	-	14,738	15,517
Bank charges	-	-	3,787	3,787	1,638
Contributions to the college	114,984	-	-	114,984	55,561
Equipment and supplies	-	-	7,290	7,290	2,741
In-kind, facilities	6,500	2,500	1,000	10,000	10,000
In-kind, personnel services	83,931	9,326	-	93,257	84,263
Licenses, fees and dues	-	-	6,059	6,059	6,785
Marketing	-	6,833	-	6,833	2,728
Outside services, events	-	-	28,522	28,522	22,675
Scholarship expenses	143,471	-	-	143,471	118,654
Donor Cultivation	-	769	-	769	-
Investment Fees	12,560	-	-	12,560	-
Travel	-	1,239	-	1,239	1,277
Total Expenses	\$ 400,699	\$ 68,116	\$ 105,537	\$ 574,352	\$ 420,976

The notes to financial statements are an integral part of this statement.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Rio Hondo College Foundation (the Foundation) was founded in 1992 and is governed by a Board of Directors. Its funding sources are from private and public contributions and fundraising activities. The Foundation is organized under the not-for-profit public benefit corporation law for charitable and educational purposes. It was founded to provide an instrumentality for financing and undertaking activities, projects and functions, of a charitable and educational nature, which will benefit the students and augment the educational programs of Rio Hondo College (the College).

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.

Basis of Accounting

The Foundation's policy is to prepare its financial statements on the accrual basis of accounting, consequently, revenues are recognized when earned rather than when cash is received, and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

Financial Statement Presentation

The Foundation is required to report 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 net assets include all resources available for use by the Board of Directors and management's discretion in carrying out the activities of the Foundation in accordance with its Bylaws. Temporarily or permanently restricted net assets are only expendable for the purpose specified by the donor or through the passage of time. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets. Permanently restricted net assets are generally required to be held by the Foundation in perpetuity while the earnings on those assets are available for use by the Foundation to support its activities. Donors can place restrictions on the earnings from permanently restricted contributions at the time the contributions are made or pledged. Fund accounting is not used in the Foundation's financial statement presentation.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES, continued

Net Assets

The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

- *Unrestricted net assets* Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting for the nature of the Foundation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.
- *Temporarily restricted net assets.* Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Foundation's unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of donor-restricted endowment funds. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as temporarily restricted until the specified asset is placed in service by the Foundation, unless the donor provides more specific directions about the period of its use.
- *Permanently restricted net assets.* Permanently restricted net assets are resources whose use by the Foundation is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time.

All revenues and net gains are reported as increases in unrestricted net assets in the statement of activities unless the use of the related resources is subject to temporary or permanent donor restrictions. All expenses and net losses other than losses on endowment investments are reported as decreases in unrestricted net assets.

Capital Assets

The Foundation has not adopted a policy to capitalize asset purchases in conformance with generally accepted accounting principles because the Foundation does not own, nor does it have plans to acquire, property or equipment. The property and equipment used by the Foundation in its operations is owned by the District.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet the criteria for recognition in the current period and when resources are received by the Foundation prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the Foundation has a legal claim to the resources, the liability for deferred revenue is removed from the statement of financial position and revenue is recognized.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES, continued

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. Cash and cash equivalents exclude highly-liquid investments restricted for endowment, which are instead reported as investments. Cash and cash equivalent balances, at times, may be in excess of the Federal Deposit Insurance Corporation insurance limit of \$250,000.

Accounts Receivable

Receivables consist of accounts receivable and student loans and are stated at the amount management expects to collect from outstanding balances. The Foundation uses the allowance method of accounting for receivables determined to be potentially uncollectable. In management's opinion, all receivables were collectible at year-end and therefore no allowance for doubtful accounts was considered necessary at June 30, 2018.

Investments

Investments in debt and equity securities with readily determinable market values are recorded 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; securities traded on the over-the counter market is valued at the last reported bid price.

Investment purchases and sales are accounted for on a trade-date basis. Interest income is recorded when earned and dividends are recorded on the ex-dividend date. Investments are made according to the policies adopted by the Foundation's Board. The Foundation contracts with outside parties to provide investment management and consulting services.

Investment securities are exposed to various risks, such as interest rate, credit and overall market volatility. Because of the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near-term and that such changes could materially affect the amounts reported in the statement of financial position.

Funds Held by Others

The Foundation has the unconditional right to receive all the cash flows from its beneficial interest in California Community Colleges (FCCC). The Foundation records its beneficial interest at the fair value using the present value of the estimated future cash. The balance at June 30, 2018 consists of stocks, bonds and mutual fund investments and money instruments stated at market value. The fund is held and investment by the California Community Colleges for the Foundation's benefit and is reported at fair value in the statement of financial position, with distributions and changes in fair value recognized in the statement of activities.

Deposits and Prepaid Expenses

Deposits and prepaid expenses are expensed ratably over their respective terms of agreement.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES, continued

Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as temporarily restricted until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

Contributed Goods and Services – (In-kind)

Contributions of goods received that are measurable are recorded as revenue at their estimated fair value when received. Contributions of services are recognized if the services received meet any of these criteria: (1) if they create or enhance nonfinancial assets and (2) if they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Expense Recognition and Allocation

The cost of providing the Foundation's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Foundation.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Foundation generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and management and general expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.\

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES, continued

Endowment Investments

Endowment investments consist of investments purchased with the following resources:

- Donor-restricted permanent endowments, which are contributions restricted by donors to investment in perpetuity with only investment income and appreciation being used to support the Foundation's activities.
- Donor-restricted term endowments, which are contributions restricted by donors to investment for the term specified by the donor. During that term, the donor may either require investment income and appreciation to be reinvested in the fund or may permit the Foundation to spend those amounts in accordance with the donor's restrictions on use.
- Board-designated endowments, which are resources set aside by the Board of Directors for an indeterminate period to operate in a manner similar to a donor-restricted permanent endowment. Because a board-designated endowment results from an internal designation, it can be spent upon action of the Board of Directors.

Endowment investments also include investments purchased with unspent investment income and net gains on these resources.

Endowment investments are reported at fair value. The fair value for investments in equity securities traded on national securities exchanges is determined by the closing price on the last business day of the fiscal year; securities traded on the over-the-counter market are valued at the last reported bid price. The fair value of shares in exchange-traded funds is determined by the closing price on the last business day of the fiscal year. The fair value of open-end mutual fund units is determined by the published net asset value per unit at the end of the last trading day of the fiscal year.

The investment and spending policies for the Endowment Fund are discussed in Note 6.

Income Taxes

The Foundation is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Foundation is also exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code.

Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Foundation did not have any net unrelated business income for the year ended June 30, 2018. It is management's belief that the Foundation does not hold any uncertain tax positions that would materially impact the financial statements.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES, continued

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Foundation's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Foundation's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Comparative Totals

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Fair Value Measurements

The Fair Value Measurements Topic of the *FASB Accounting Standards Codification* establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

As of June 30, 2018, the Foundation does not have any assets or liabilities subject to fair value measurements.

**RIO HONDO COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2018, consist of cash held in checking accounts totaling \$252,972.

NOTE 3 - INVESTMENTS

The Foundation measures fair value in accordance with FASB ASC 820-10. FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels; Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs, other than the quoted market prices in active markets, are observable either directly or indirectly, and Level 3 unobservable inputs in which there is little or no market data, which requires the Foundation to develop its own assumptions. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. All assets reported at fair value at June 30, 2018, are Level 1 and Level 2 inputs.

Investments consist of the following at June 30, 2018:

Type of Investments	Level 1	Level 2	Total
Certificates of Deposit	\$ -	\$ 354,739	\$ 354,739
Endowment Grants			
Cash	8,652	-	8,652
Equity Securities:			
Bond Funds	801,840	-	801,840
Equity Funds	760,110	-	760,110
Exchange Traded Funds	458,223	-	458,223
Total	\$ 2,028,825	\$ 354,739	\$ 2,383,564

At June 30, 2018, the Foundation does not have any investments measures using Level 3 inputs.

The composition of the investment return reported in the statement of activities is as follows:

Dividends and interest reinvested	\$ 47,670
Interest income, other	2,413
Realized gain(loss) on investments	31,391
Unrealized gain(loss) on investments	61,031
Investment fees	(11,820)
Total	\$ 130,685

**RIO HONDO COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 - FUNDS HELD BY OTHERS

The Foundation is a participant in a pooled investment in the California Community Colleges Scholarship Endowment fund held by the Foundation for California Community Colleges (FCCC) which is permanently restricted for community colleges scholarships. Management and investment oversight is the responsibility of FCCC as directed by the donor, Bernard Osher from the Osher Foundation.

An initial gift from the Osher Foundation of \$25 million and any match from the Osher Foundation are considered gifts to the FCCC and remain assets of the FCCC per the grant agreement. Subsequent fundraising by the Foundation that results in monies transferred to FCCC may remain permanently restricted assets of the Foundation and will be reflected as such on all financial reporting. However, all donations to the endowment must be left in the fund permanently and cannot be returned or used for other purposes.

The Osher Foundation will provide a 50 percent match for each dollar raised. The match will be reconciled annually based on the amount raised each fiscal year by the FCCC and individual colleges. Contributions received from the Foundation and invested in the Endowment on or before June 30 of a given year, and the match dollars subsequently applied to those contributions, begin earning interest and result in scholarship distributions one year later. Earnings on both the dollars raised by the Foundation and the match provided by the Osher Foundation will be distributed as scholarship funds to the Foundation, net of investment expenses.

The earnings from the dollars raised by the Foundation and the corresponding match amount will be set aside for scholarships for Rio Hondo Community College students.

At June 30, 2018 the fair value of this investment was \$214,337. The composition is as follows using Level 2 inputs:

Beginning balance	\$ 210,728
Contributions	-
Dividends and interest reinvested	4,202
Net realized gain(loss)	23,666
Net unrealized gain(loss)	(13,987)
Less - investment fees	(740)
Less - withdrawals	(9,533)
Total	<u>\$ 214,337</u>

**RIO HONDO COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 – RESTRICTED NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 consist of amounts restricted by donor-imposed stipulations, and are available for the following purposes:

Grant	Balance at 7/1/2017	Income	Expenditures	Balance at 6/30/2018
Temporarily restricted programs	\$ 290,181	\$ 329,091	\$ (205,000)	\$ 414,272
P&R Endowments	1,900,554	140,092	(11,820)	2,028,826
Foundation for California Community College Endowment	26,728	13,882	(10,273)	30,337
Total	\$ 2,217,463	\$ 483,065	\$ (227,093)	\$ 2,473,435

Expenditures of temporarily restricted net assets during the year ended June 30, 2018 were:

Grant	Expenditures	Balance at 6/30/2018
Temporarily restricted programs	Scholarships	\$ 205,000
HH Endowments	Scholarships and investment fees	11,820
Foundation for California Community College Endowment	Scholarships and investment fees	10,273
Total		\$ 227,093

Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2018, are resources invested in perpetuity, the income which is available for the following purposes:

Foundation for California Community Colleges Endowment	\$ 184,000
Total	\$ 184,000

NOTE 6 – ENDOWMENT

The Foundation received a Title III Endowment Challenge Grant from the Department of Education in the amount of \$364,202 during the year ended June 30, 1998. The corpus of the endowment is to be invested for a period of twenty years and the Foundation may, for allowable expenditures, spend up to fifty percent of the aggregate income earned. Beginning in 2018, the Foundation may use the corpus for any educational purpose.

Starting 2001, the Foundation has been a recipient of Title V Endowment Challenge Grants from the Department of Education, which is passed through the Rio Hondo Community College. The corpus of the endowment, with funds raised by the foundation, is to be invested for a period of twenty years and the Foundation may, for allowable expenditures, spend up to fifty percent of the aggregate income earned. Beginning in 2021, the Foundation may use the corpus for any educational purpose.

On June 4, 2008, the Foundation received a \$150,000 grant from B.C. McCabe Foundation. The award was invested towards the scholarship endowment fund for veterans.

The Foundation follows the provisions of ASC 958 Section 205-45, *Reporting Endowment Funds*. These provisions provide guidance on the net classification of donor-restricted endowment funds for a not-for profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also required disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (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 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:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

**RIO HONDO COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 – ENDOWMENT, continued

The net composition of the endowment as of June 30, 2018, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds:			
Foundation for California Community Colleges	\$ 30,337	\$ 184,000	\$ 214,337
Title III	1,131,078	-	1,131,078
Title V (1)	434,605	-	434,605
Title V (2)	278,726	-	278,726
McCabe	184,417	-	184,417
Total	<u>\$ 2,059,163</u>	<u>\$ 184,000</u>	<u>\$ 2,243,163</u>

The changes in endowment net assets for the year ended June 30, 2018, are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2017	\$ 1,927,282	\$ 184,000	\$ 2,111,282
Investment return:			
Dividends & Interest	51,872	-	51,872
Total investment return	<u>1,979,154</u>	<u>184,000</u>	<u>2,163,154</u>
Net Gain (realized and unrealized)	102,101	-	102,101
Fees	(12,560)	-	(12,560)
Withdrawals	(9,533)	-	(9,533)
Endowment new assets, June 30, 2018	<u>\$ 2,059,162</u>	<u>\$ 184,000</u>	<u>\$ 2,243,162</u>

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 its 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(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to provide a total return, over time, which at minimum equals or exceeds the rate of inflation plus the annual endowment spending percentage set by the Board of Directors assuming a moderate level of investment risk.

The Foundation expects its endowment funds to provide an average rate of return of approximately 6.3 percent using 10-year capital market assumptions. Actual returns in any given year may vary from this amount.

**RIO HONDO COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 – ENDOWMENT, continued

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 quality-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's Board of Directors has a policy of evaluating the investment income earned each year. A portion of the income will be designated for student scholarships and the additional available income will be designated for future growth of the endowment based on donor-imposed conditions. The Board of Directors is mindful of its responsibility to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 7 - FUNDRAISING EVENTS

The Foundation conducted various special event and fundraising activities during the year. The revenue and expenses from fund development activities for the year ended June 30, 2018 were as follows:

	<u>Revenue</u>	<u>Expenses</u>	<u>Net Revenue</u>
Taste of Rio	\$ 100,520	\$ (28,521)	\$ 71,999
Annual Fund Drive	2,380	-	2,380
Total	<u>\$ 102,900</u>	<u>\$ (28,521)</u>	<u>\$ 74,379</u>

NOTE 8 - RELATED PARTY TRANSACTIONS

The Foundation's primary purpose is to assist in the institutional development and encourage community support to Rio Hondo Community College and its students. The Foundation receives gifts, property and funds to be used for the benefit of the College, its programs, and any person or organization having an official relationship with the College. The balance payable to the College amounted to \$103,257 as of June 30, 2018.

To assist the Foundation in carrying out its purpose, the College provides administrative services to the Foundation. Salaries and benefits for the administrative staff are paid by the College. For the fiscal year ended June 30, 2018, the College provided in-kind personnel services of approximately of \$93,257. Working space for employees, who perform administrative services for the Foundation, is provided by the College at no charge to the Foundation, and for 2018 amounted to an estimated fair value of \$10,000. These amounts are classified as in-kind contributions and expenses in the accompanying statements of activities and statement of functional expenses.

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NOTE 9 - CONCENTRATION RISK

Financial instruments, which potentially expose the Foundation to concentration of credit risk, consist primarily of cash and cash equivalents. The Foundation places its cash and cash equivalents with major financial institutions. The total cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. As of June 30, 2017, the Foundation's cash balances did not exceed the FDIC limit.

The majority of the Foundation's contributions and grants are received from corporations, foundations, and individuals located in the greater Los Angeles metropolitan area and from agencies of the state of California. As such, the Foundation's ability to generate resources via contributions and grants is dependent upon the economic health of that area and of the state of California. An economic downturn could cause a decrease in contributions and grants that coincides with an increase in demand for the Foundation's services.

NOTE 10 – SUBSEQUENT EVENTS

The Foundation management evaluated subsequent events from June 30, 2018 through May 10, 2019, the date the financial statements were issued. The District concluded that no subsequent events have occurred that would require recognition or disclosure in the financial statements.