

**HARTNELL COLLEGE FOUNDATION  
(A NONPROFIT ORGANIZATION)**

**FINANCIAL STATEMENTS**

June 30, 2016 and 2015

HARTNELL COLLEGE FOUNDATION  
FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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HARTNELL COLLEGE FOUNDATION  
 ORGANIZATION  
 June 30, 2016  
 (Unaudited)

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The Hartnell College Foundation (the "Foundation") is governed by a Board of Directors and is a legal entity separate from the Hartnell Community College District (the "District"). The Foundation was incorporated in 1979.

The Foundation secures property by outright gift, bequest, will or trust and earnings from investments. The Foundation makes gifts, loans, grants and scholarships in order to promote, foster and implement the programs and activities of the District.

The Board of Directors for the fiscal year ended June 30, 2016 was comprised of the following members:

<u>Members</u>	<u>Office</u>	<u>Term Expires</u>
Anne Secker	President	October 2018
Alfred Diaz-Infante	Past President	October 2017
Margaret D'Arrigo-Martin	Vice President	October 2017
Sharon Dilbeck	Vice President	October 2018
Stephen Goldman	Vice President	October 2018
Kurt Gollnick	Vice President	October 2016
Coralee Linder	Vice President	October 2017
Nicholas Pasculli	Vice President	October 2018
Esther Rubio	Vice President	October 2016
Cathy Schlumbrecht	Vice President	October 2017
Judy Sulsona	Vice President	October 2018
David Warner	Vice President	October 2016
Susan Black	Treasurer	October 2017
Alfred Muñoz	Secretary	October 2018
Teri Belli	Member	October 2016
Michael Briley	Member	October 2016
John Buttgereit	Member	October 2016
Dennis Donohue	Member	October 2017
Karen Fanoe	Member	October 2016
Susan Gill	Member	October 2016
Kevin Healy	Member	October 2016
Nate Holaday	Member	October 2016
Dawn Mathes	Member	October 2017
Dr. Robert Patton	Member	October 2018
Natalie Rava	Member	October 2018
Brad Rice	Member	October 2016
Elliott Robinson	Member	October 2017
Bart Walker	Member	October 2016

Dr. Willard Lewallen	Superintendent/President Hartnell College
Candi DePauw	Hartnell College Board of Trustees Representative

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Hartnell College Foundation  
Salinas, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of Hartnell College Foundation (the "Foundation"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses 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.

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(Continued)

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hartnell College Foundation as of June 30, 2016 and 2015, 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.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Organization on page i is presented for purposes of additional analysis and is not a required part of the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on it.



Crowe Horwath LLP

Sacramento, California  
November 16, 2016

## **FINANCIAL STATEMENTS**

HARTNELL COLLEGE FOUNDATION  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,289,485	\$ 2,925,250
Grants/Pledges receivable, current	1,114,908	886,347
Prepaid expenses	<u>44,055</u>	<u>36,148</u>
Total current assets	<u>5,448,448</u>	<u>3,847,745</u>
Noncurrent assets:		
Pledges receivable, net of current portion	765,000	363,333
Investments	7,394,763	6,994,985
Property and equipment, net	<u>326,582</u>	<u>326,582</u>
Total noncurrent assets	<u>8,486,345</u>	<u>7,684,900</u>
Total assets	<u>\$ 13,934,793</u>	<u>\$ 11,532,645</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 542,919	\$ 568,986
Scholarships payable	176,081	201,389
Deferred revenue	<u>39,891</u>	<u>45,980</u>
Total current liabilities	<u>758,891</u>	<u>816,355</u>
<b>NET ASSETS</b>		
Net assets:		
Unrestricted	836,816	777,547
Temporarily restricted	6,144,859	4,708,584
Permanently restricted	<u>6,194,227</u>	<u>5,230,159</u>
Total net assets	<u>13,175,902</u>	<u>10,716,290</u>
Total liabilities and net assets	<u>\$ 13,934,793</u>	<u>\$ 11,532,645</u>

See accompanying notes to financial statements.

HARTNELL COLLEGE FOUNDATION  
STATEMENT OF ACTIVITIES  
For the year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues:</b>				
Donations	\$ 181,341	\$ 3,888,211	\$ 910,583	\$ 4,980,135
Special events	227,192	123,837	-	351,029
In-kind donations	200,956	63,314	-	264,270
Interest and dividends	2,542	169,081	-	171,623
Realized gain on investments	-	300,592	-	300,592
Unrealized loss on investments	-	(551,822)	-	(551,822)
Other revenue	124,446	185,152	-	309,598
Interfund transfers	(16,319)	(37,166)	53,485	-
Net assets released from restriction	<u>2,704,924</u>	<u>(2,704,924)</u>	<u>-</u>	<u>-</u>
<b>Total revenues</b>	<u>3,425,082</u>	<u>1,436,275</u>	<u>964,068</u>	<u>5,825,425</u>
<b>Expenses:</b>				
Program	2,936,047	-	-	2,936,047
General and administrative	236,250	-	-	236,250
Fundraising	<u>193,516</u>	<u>-</u>	<u>-</u>	<u>193,516</u>
<b>Total expenses</b>	<u>3,365,813</u>	<u>-</u>	<u>-</u>	<u>3,365,813</u>
<b>Change in net assets</b>	<u>59,269</u>	<u>1,436,275</u>	<u>964,068</u>	<u>2,459,612</u>
<b>Net assets, July 1, 2015</b>	<u>777,547</u>	<u>4,708,584</u>	<u>5,230,159</u>	<u>10,716,290</u>
<b>Net assets, June 30, 2016</b>	<u>\$ 836,816</u>	<u>\$ 6,144,859</u>	<u>\$ 6,194,227</u>	<u>\$ 13,175,902</u>

See accompanying notes to financial statements.



HARTNELL COLLEGE FOUNDATION  
STATEMENT OF ACTIVITIES  
For the year ended June 30, 2015

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues:</b>				
Donations	\$ 142,167	\$ 2,256,081	\$ 269,804	\$ 2,668,052
Special events	211,086	81,175	-	292,261
In-kind donations	222,294	22,596	-	244,890
Interest and dividends	3,256	177,259	-	180,515
Realized gain on investments	-	304,665	-	304,665
Unrealized loss on investments	-	(170,739)	-	(170,739)
Other revenue	120,968	270,326	-	391,294
Interfund transfers	(55,000)	25,000	30,000	-
Net assets released from restriction	<u>2,799,640</u>	<u>(2,799,640)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>3,444,411</u>	<u>166,723</u>	<u>299,804</u>	<u>3,910,938</u>
<b>Expenses:</b>				
Program	2,930,599	-	-	2,930,599
General and administrative	229,256	-	-	229,256
Fundraising	<u>171,355</u>	<u>-</u>	<u>-</u>	<u>171,355</u>
Total expenses	<u>3,331,210</u>	<u>-</u>	<u>-</u>	<u>3,331,210</u>
Change in net assets	<u>113,201</u>	<u>166,723</u>	<u>299,804</u>	<u>579,728</u>
Net assets, July 1, 2014	<u>664,346</u>	<u>4,541,861</u>	<u>4,930,355</u>	<u>10,136,562</u>
Net assets, June 30, 2015	<u>\$ 777,547</u>	<u>\$ 4,708,584</u>	<u>\$ 5,230,159</u>	<u>\$ 10,716,290</u>

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See accompanying notes to financial statements.

HARTNELL COLLEGE FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
For the year ended June 30, 2016

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	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 306,469	\$ 77,963	\$ 14,186	\$ 398,618
Employee benefits	57,966	13,565	2,750	74,281
Consulting and marketing	18,292	17,168	-	35,460
Accounting fees	-	9,700	-	9,700
Management/investment fees	173,637	-	-	173,637
Campus area expenses	1,491,780	-	-	1,491,780
Conferences, conventions, and meetings	21,268	6,209	2,662	30,139
Memberships	2,329	2,787	1,194	6,310
Equipment rental and maintenance	4,717	1,427	612	6,756
In-kind	169,361	67,474	27,435	264,270
Planned giving	-	-	9,677	9,677
Postage, printing, and publications	8,446	8,388	3,595	20,429
Scholarships	605,507	-	-	605,507
Special events	-	-	129,469	129,469
Supplies	40,290	2,830	1,213	44,333
Taxes and licenses	-	2,016	-	2,016
Telephone	-	1,688	723	2,411
Other	35,985	25,035	-	61,020
	<u>35,985</u>	<u>25,035</u>	<u>-</u>	<u>61,020</u>
 Total functional expenses	 <u>\$ 2,936,047</u>	 <u>\$ 236,250</u>	 <u>\$ 193,516</u>	 <u>\$ 3,365,813</u>

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See accompanying notes to financial statements.

HARTNELL COLLEGE FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
For the year ended June 30, 2015

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	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 324,086	\$ 82,444	\$ 15,002	\$ 421,532
Employee benefits	58,865	13,775	2,793	75,433
Consulting and marketing	15,234	14,298	-	29,532
Accounting fees	-	12,494	-	12,494
Management/investment fees	165,883	-	-	165,883
Campus area expenses	1,454,654	-	-	1,454,654
Conferences, conventions, and meetings	19,305	5,636	2,416	27,357
Memberships	1,590	1,903	815	4,308
Equipment rental and maintenance	5,629	1,703	730	8,062
In-kind	156,941	62,526	25,423	244,890
Planned giving	-	-	5,002	5,002
Postage, printing, and publications	7,626	7,574	3,246	18,446
Scholarships	653,323	-	-	653,323
Special events	-	-	114,356	114,356
Supplies	36,658	2,575	1,104	40,337
Taxes and licenses	-	1,804	-	1,804
Telephone	-	1,093	468	1,561
Other	30,805	21,431	-	52,236
	<u>30,805</u>	<u>21,431</u>	<u>-</u>	<u>52,236</u>
Total functional expenses	<u>\$ 2,930,599</u>	<u>\$ 229,256</u>	<u>\$ 171,355</u>	<u>\$ 3,331,210</u>

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See accompanying notes to financial statements.

HARTNELL COLLEGE FOUNDATION  
 STATEMENTS OF CASH FLOWS  
 For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 2,459,612	\$ 579,728
Reconciliation to net cash used in operating activities:		
Net change in the fair value of investments	551,822	170,739
Realized gain on sale of securities	(300,592)	(304,665)
Contributions restricted for endowment	(910,583)	(269,804)
Effect of changes in:		
Pledges receivable	(630,228)	(184,759)
Prepaid expenses	(7,907)	(17,001)
Accounts payable	(26,067)	(101,037)
Scholarships payable	(25,308)	18,364
Deferred revenue	<u>(6,089)</u>	<u>13,328</u>
Net cash provided by (used in) operating activities	1,104,660	(95,107)
<b>Cash flows from investing activities</b>		
Purchase of investments	(2,814,385)	(2,442,226)
Proceeds from sale of investments	<u>2,163,377</u>	<u>2,355,564</u>
Net cash used in investing activities	(651,008)	(86,662)
<b>Cash flows from financing activities</b>		
Contributions restricted for endowment	<u>910,583</u>	<u>269,804</u>
Net change in cash and equivalents	1,364,235	88,035
Cash and cash equivalents – beginning of year	<u>2,925,250</u>	<u>2,837,215</u>
<b>Cash and cash equivalents – end of year</b>	<u>\$ 4,289,485</u>	<u>\$ 2,925,250</u>

See accompanying notes to financial statements.

**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Organization: Hartnell College Foundation (the "Foundation") is a not-for-profit public benefit corporation organized to provide support to various programs and functions of Hartnell Community College District (the "District" or "College"), as well as to provide a link between the District and the community. The Foundation is considered a component unit of the District for financial reporting purposes and, accordingly, is reported as a discretely presented component unit in the District's financial statements.

The mission of Hartnell College Foundation is to cultivate resources to champion student success.

Basis of Accounting: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation: The Foundation has adopted the provisions of Codification Topic 958-605, *Accounting for Contributions Received and Contributions Made*, and Codification Topic 958-205, *Financial Statements of Not-for-Profit Organizations*. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that require 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 related investments for general or specific purposes.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions."

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Cash Equivalents: The Foundation considers all highly liquid investments with original maturity dates of three months or less as cash equivalents.

Investments: Investments in marketable securities 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. Investment income is accrued as earned.

**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Net Assets: The Foundation accounts for its endowments in accordance with *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an 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 19 individual funds established for the purpose of supporting education at the District. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. 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.

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 the Foundation's 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 include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds.

The investment objective is to optimize earnings on all invested funds, while maintaining the preservation of capital. Risk will be minimized by investing in high quality investment instruments. To the extent that corporate obligations are purchased, those purchases will be diversified in terms of issuer and industry sector.

Donations: Donations are recognized as revenues in the period received. Donations are considered available for unrestricted use unless specifically restricted by the donor. Event revenues received in advance are deferred and recognized in the period the events occur.

Management Fee Income: The Foundation assessed a 1.5% management fee on all endowments. Income from this fee is unrestricted and is used to support the Foundation's operations and mission.

Pledges Receivable: Pledges receivable consist of unconditional and conditional promises to give. 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.

Pledges which are expected to be collected within one year are recorded at net realizable value. An allowance for uncollectible pledges receivable is established based upon estimated losses related to specific amounts and is recorded through a provision for bad debt which is charged to expense. At June 30, 2016 and 2015, management has determined that an allowance for uncollectible pledges is not considered necessary.

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(Continued)

HARTNELL COLLEGE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Pledges Receivable (continued): Pledges to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates commensurate with risks applicable in the years in which those promises are received. At June 30, 2016 and 2015, the Foundation has not applied a present value discount as the amount was not significant.

Concentration of Credit Risk: Cash balances held in banks are insured up to \$250,000 and are collateralized by the respective financial institution. The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Management believes the Foundation is not exposed to any significant credit risk related to cash.

At June 30, 2016, the bank balances of the Foundation's cash in banks and with brokers was \$4,353,763 of which \$2,114,763 was uninsured.

Tax Status: The United States Treasury Department determined that the Foundation is a nonprofit tax-exempt corporation as defined by Internal Revenue Code Section 501(c)(3). A similar determination was made by the California Franchise Tax Board under Section 237 of the State Revenue and Taxation code.

In 2003, the Foundation Board of Directors approved the 501(h) lobby election of the Internal Revenue Code. Such status provides the Foundation with the ability to participate in the public policy process through lobbying and advocacy campaigns, but limits the Foundation's expenses for this purpose to a maximum of 20% of the first \$500,000 of annual expenditures.

The Foundation has accounted for uncertainty in income taxes as required by the *Accounting for Uncertainty in Income Taxes* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification. The Foundation uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The effect of applying this model and the resulting identification of uncertain tax positions, if any, were not considered significant for financial reporting purposes. The Foundation is not subject to any tax liability. Management does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

The Foundation would recognize interest and penalties related to unrecognized tax benefits in tax expense. During the year ended June 30, 2016, the Foundation did not recognize any interest or penalties. The Foundation is subject to the filing of U.S. Federal and California informational returns. Federal returns for 2011 through 2014 and California returns for 2010 through 2014 are currently open for potential Federal and State examination.

Use of Estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires that management 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.

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(Continued)

HARTNELL COLLEGE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 2 – PLEDGES RECEIVABLE**

Pledges receivable consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Pledges receivable	\$ 1,879,908	\$ 1,249,680
Less pledges receivable, current	<u>(1,114,908)</u>	<u>(886,347)</u>
Pledges receivable, noncurrent	<u>\$ 765,000</u>	<u>\$ 363,333</u>

**NOTE 3 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS**

Investments consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Fixed income	\$ 1,216,233	\$ 722,007
Equity securities	5,757,064	5,813,375
Mutual funds	116,645	131,092
Investment in Foundation for California Community Colleges Scholarship Endowment (FCCC/Osher)	<u>304,821</u>	<u>328,511</u>
Total	<u>\$ 7,394,763</u>	<u>\$ 6,994,985</u>

The Foundation invests in a pooled scholarship endowment fund, FCCC/Osher, managed by the Foundation for California Community Colleges (FCCC). The objective of the Foundation's investment in FCCC/Osher is to grow the Foundation's investments through the Bernard Osher Foundation pledge to match funds contributed to FCCC/Osher. Funds invested in the endowment fund by the Foundation cannot be removed at any time. The investment managers engaged by FCCC are required to follow specific guidelines set forth by FCCC with respect to the various types of allowable investments purchased and held by the pool. Accordingly, the estimated fair value of these investments is based on information provided by external investment managers engaged by FCCC. At June 30, 2016 and 2015, the Foundation investment in the pool consisted of 6% and 6% cash and short term investments, 30% and 23% fixed income securities, and 64% and 71% equity securities, respectively.

The following presents information about the Foundation's assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and 2015, and indicates the fair value hierarchy of the valuation techniques utilized by the Foundation to determine such fair value based on the hierarchy:

Level 1 – Quoted market prices or identical instruments traded in active exchange markets.

Level 2 – Significant other observable inputs such as 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.

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(Continued)



HARTNELL COLLEGE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 3 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

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

<u>Description</u>	<u>June 30, 2016</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment securities:				
Fixed income	\$ 1,216,233	\$ 1,216,233	\$ -	\$ -
Equity securities	5,757,064	5,757,064	-	-
Mutual funds	116,645	116,645	-	-
Investment in FCCC/Osher	<u>304,821</u>	<u>-</u>	<u>-</u>	<u>304,821</u>
Total investment securities	<u>\$ 7,394,763</u>	<u>\$ 7,089,942</u>	<u>\$ -</u>	<u>\$ 304,821</u>

<u>Description</u>	<u>June 30, 2015</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment securities:				
Fixed income	\$ 722,007	\$ 722,007	\$ -	\$ -
Equity securities	5,813,375	5,813,375	-	-
Mutual funds	131,092	131,092	-	-
Investment in FCCC/Osher	<u>328,511</u>	<u>-</u>	<u>-</u>	<u>328,511</u>
Total investment securities	<u>\$ 6,994,985</u>	<u>\$ 6,666,474</u>	<u>\$ -</u>	<u>\$ 328,511</u>

The table below presents a reconciliation and statement of activities classification of gains/losses for all investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ending June 30:

	<u>FCCC/Osher</u>
Beginning balance, July 1, 2015	\$ 328,511
Scholarship distributions	(18,000)
Management fees	(1,143)
Interest and dividends	9,544
Realized gains included in earnings	2,036
Unrealized losses including in earnings	<u>(16,127)</u>
Ending balance, June 30, 2016	<u>\$ 304,821</u>

(Continued)

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**NOTE 3 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

	<u>FCCC/Osher</u>
Beginning balance, July 1, 2014	\$ 343,604
Scholarship distributions	(16,000)
Management fees	(2,532)
Interest and dividends	8,676
Realized gains included in earnings	7,616
Unrealized losses including in earnings	<u>(12,853)</u>
Ending balance, June 30, 2015	<u>\$ 328,511</u>

The fair value of the investments held by FCCC was based upon the net asset values (“NAV’s”) of the assets at June 30, 2016 and 2015. The fair value of the funds held by FCCC is based upon the Foundation’s proportionate share of the FCCC/Osher pooled investment portfolio. Foundation management reviews the valuations and returns in comparison to industry benchmarks and other information provided by FCCC, but there is currently no visibility provided by FCCC to the specific listing of underlying investment holdings.

Pursuant to U.S. GAAP, management has considered redemption restrictions to assess classification of fair value inputs. For alternative investments redeemable at NAV with redemption periods of 90 days or less, the assets are considered a Level 2 fair value measurement. Investments that are redeemable in greater than 90 days are considered a Level 3 fair value measurement due to the inability to redeem the asset at NAV in the near term (Level 3 inputs).

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although 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.

There were no changes in the valuation techniques used during the years ended June 30, 2016 and 2015. There were no transfers of assets between the fair value levels for the years ended June 30, 2016 and 2015.

The Foundation had no non-recurring assets and no liabilities at June 30, 2016 and 2015 which were required to be disclosed using the fair value hierarchy.

**NOTE 4 – ADMINISTRATIVE EXPENSES**

The Foundation’s Statements of Activities include in-kind contributions from the District totaling \$193,643 for the year ended June 30, 2016 and \$204,028 for the year ended June 30, 2015. This consisted of management 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.

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**NOTE 5 – NET ASSETS**

Temporarily restricted – A summary of temporarily restricted net assets and the related donor restrictions are as follows at June 30:

	<u>2016</u>	<u>2015</u>
Academic program	\$ 1,402,635	\$ 1,878,867
Scholarships and awards	4,679,222	2,765,254
Federal Gear Up Grant	<u>63,002</u>	<u>64,463</u>
	<u>\$ 6,144,859</u>	<u>\$ 4,708,584</u>

Permanently restricted for endowment – At June 30 2016 and 2015, the Foundation held \$6,194,227 and \$5,230,159, respectively, in permanently restricted endowment funds for scholarships and awards. The investment income earned on these permanently restricted net assets is generally restricted as to purpose and is held in temporarily restricted net assets until amounts have been appropriated for expenditure at which time the funds are released from restriction.

Changes in endowment net assets for the fiscal year ended June 30 consisted of the following:

	<u>2016</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ 501,778	\$ 1,535,455	\$ 5,230,159	\$ 7,267,392
Change in fair value of investments	(29,535)	(509,310)	-	(538,845)
Investment income	13,692	274,108	-	287,800
Contributions	-	-	910,583	910,583
Other transfer	(16,037)	16,017	53,485	53,465
Appropriation of endowment assets for expenditure	<u>(10,000)</u>	<u>(177,685)</u>	<u>-</u>	<u>(187,685)</u>
Endowment net assets, end of year	<u>\$ 459,898</u>	<u>\$ 1,138,585</u>	<u>\$ 6,194,227</u>	<u>\$ 7,792,710</u>

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(Continued)

HARTNELL COLLEGE FOUNDATION  
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**NOTE 5 – NET ASSETS** (Continued)

	2015			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ 505,308	\$ 1,550,414	\$ 4,930,355	\$ 6,986,077
Change in fair value of investments	(10,118)	(157,954)		(168,072)
Investment income	17,088	290,215		307,303
Contributions			269,804	269,804
Other transfer			30,000	30,000
Appropriation of endowment assets for expenditure	<u>(10,500)</u>	<u>(147,220)</u>		<u>(157,720)</u>
Endowment net assets, end of year	<u>\$ 501,778</u>	<u>\$ 1,535,455</u>	<u>\$ 5,230,159</u>	<u>\$ 7,267,392</u>

Endowment net asset composition by type of fund for the fiscal year ended June 30 consisted of the following:

	2016			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor-restricted endowment funds	\$ (16,944)	\$ 1,138,585	\$ 6,194,227	\$ 7,315,868
Board-designated endowment funds	<u>476,842</u>	<u>-</u>	<u>-</u>	<u>476,842</u>
Total	<u>\$ 459,898</u>	<u>\$ 1,138,585</u>	<u>\$ 6,194,227</u>	<u>\$ 7,792,710</u>

	2015			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor-restricted endowment funds	\$ (905)	\$ 1,535,455	\$ 5,230,159	\$ 6,764,709
Board-designated endowment funds	<u>502,683</u>	<u>-</u>	<u>-</u>	<u>502,683</u>
Total	<u>\$ 501,778</u>	<u>\$ 1,535,455</u>	<u>\$ 5,230,159</u>	<u>\$ 7,267,392</u>

(Continued)

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**NOTE 5 – NET ASSETS** (Continued)

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only):

	<u>2016</u>	<u>2015</u>
Permanently Restricted Net Assets – Portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	<u>\$ 6,194,227</u>	<u>\$ 5,230,159</u>
Temporarily Restricted Net Assets – Purpose restricted Endowment funds	<u>\$ 1,138,585</u>	<u>\$ 1,535,455</u>

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 were 13 and two individual endowment funds with such deficiencies as of June 30, 2016 and 2015, respectively.

**NOTE 6 – SUBSEQUENT EVENTS**

The Foundation evaluated all events or transactions that occurred from June 30, 2016 to November 16, 2016, the date the financial statements were available to be issued. No subsequent events occurred requiring accrual or disclosure.