VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

To the Audit Committee and Board of Directors
Cabrillo College Foundation

We have audited the financial statements of Cabrillo College Foundation for the year ended June 30, 2018, and have issued our report thereon dated November 19, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards*), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 12, 2018. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Findings</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Cabrillo College Foundation are described in Note 1 to the financial statements. Other than the reporting of pension obligations, no new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was management's allocation of expenses to functional classifications and the estimates of net pension obligations based on actuarial information. We evaluated the key factors and assumptions used to develop the allocation formulas in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

5000 Hopyard Road, Suite 335 Pleasanton, CA 94588 Tel: 925.734.6600 www.vtdcpa.com Fax: 925.734.6611

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No such items were identified.

Disagreements with Management
For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated November 19, 2018.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Audit Committee, Board of Directors, and management of Cabrillo College Foundation and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Vavrinek, Trine, Day & Co LLP

November 19, 2018

CABRILLO COLLEGE FOUNDATION
(A California Nonprofit Corporation)

FINANCIAL STATEMENTS
JUNE 30, 2018
WITH
INDEPENDENT AUDITORS' REPORT

CABRILLO COLLEGE FOUNDATION
(A California Nonprofit Corporation)

JUNE 30, 2018

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Cabrillo College Foundation
Aptos, California

We have audited the accompanying financial statements of Cabrillo College Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, 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.

Auditors' 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 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.

5000 Hopyard Rd., Suite 335, Pleasanton, CA 94588 P 925.734.6600 F 925.734.6611 W

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cabrillo 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.

Emphasis of Matter- Change in Accounting Principles

As discussed in Note 11 to the financial statements, in 2018, the Organization adopted new accounting guidance for Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Cabrillo College Foundation's 2017 financial statements, and our report dated November 15, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Vavrinek, Trine, Day & Co LLP

Vavrinek, Trine, Day & Co., LLP
Pleasanton, California
November 19, 2018

CABRILLO COLLEGE FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 4,742,741	$ 4,735,118
Contributions receivable, net of allowance (Note 2)	165,254	410,672
Accounts receivable	78,539	63,214
Split interest agreements (Note 3)	655,032	137,619
Prepaids and other assets	24,607	31,913
Note receivable	-	10,925
Investments (Note 5)	29,047,861	26,182,667
Deferred outflows related to pension plans (Note 10)	113,683	126,371
Equipment, net of accumulated depreciation (Note 6)	5,247	-
Total Assets	$ 34,832,964	$ 31,698,499
LIABILITIES		
Scholarships, payables and accrued compensation (Note 7)	$ 1,452,538	$ 1,632,579
Net pension liability (Note 10)	406,031	336,966
Deferred inflows related to pension plans (Note 10)	13,198	40,294
Other post employment benefits (Note 11)	117,453	59,305
Total Liabilities	1,989,220	2,069,144
NET ASSETS		
Unrestricted (Note 9)	717,395	646,944
Temporarily restricted (Note 9)	9,219,845	8,371,552
Permanently restricted (Note 9)	22,906,504	20,610,859
Total Net Assets	32,843,744	29,629,355
Total Liabilities and Net Assets	$ 34,832,964	$ 31,698,499

See the accompanying notes to financial statements.

CABRILLO COLLEGE FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Support and Revenues					
Contributions, net of uncollectible amounts	$ 487,204	$ 1,411,962	$ 2,295,645	$ 4,194,811	$ 2,352,345
Investment income (loss), net of investment expenses	32,698	1,491,058	-	1,523,756	2,659,090
Endowment management fee	428,592	-	-	428,592	369,364
In-kind contributions	24,693	42,721	-	67,414	46,789
Other income	194,620	-	-	194,620	129,573
Net assets released from restrictions	2,097,448	(2,097,448)	-	-	-
Total Support and Revenues	3,265,255	848,293	2,295,645	6,409,193	5,557,161
Expenses					
Program services					
Scholarships and awards	1,002,140	-	-	1,002,140	964,070
College support	1,439,893	-	-	1,439,893	1,795,601
Supporting Services					
Management and general	338,155	-	-	338,155	331,218
Fundraising	348,122	-	-	348,122	263,005
Total program and supporting services	3,128,310	-	-	3,128,310	3,353,894
CHANGE IN NET ASSETS	136,945	848,293	2,295,645	3,280,883	2,203,267
NET ASSETS, BEGINNING OF YEAR	646,944	8,371,552	20,610,859	29,629,355	27,426,088
NET ASSETS, RESTATEMENT (Note 11)	(66,494)	-	-	(66,494)	-
NET ASSETS, END OF YEAR	$ 717,395	$ 9,219,845	$ 22,906,504	$ 32,843,744	$ 29,629,355

See the accompanying notes to financial statements.

CABRILLO COLLEGE FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017

	Scholarships and Awards	College Support	Management and General	Fundraising	2018 Total Expenses	2017 Total Expenses
Direct Program Support						
Scholarships and awards	$ 832,247	$ -	$ -	$ -	$ 832,247	$ 840,624
College support	-	1,222,142	-	-	1,222,142	1,547,900
Supporting Services						
Salaries	96,150	95,235	148,167	133,284	472,836	495,245
Employee benefits	42,701	50,560	78,662	70,761	242,684	211,360
Payroll taxes	7,916	7,850	12,213	10,997	38,976	42,883
Insurance	971	970	5,297	970	8,208	9,064
Printing	3,735	3,735	5,603	5,603	18,676	18,199
Consultants	-	-	48,394	4,786	53,180	35,399
Office supplies	2,099	2,098	2,099	2,098	8,394	8,107
Office equipment	1,571	1,573	1,573	1,576	6,293	732
Software and maintenance	5,062	5,062	5,062	5,062	20,248	14,238
Postage and delivery	1,855	1,856	1,856	6,805	12,372	8,910
Uncollectible pledges	-	-	-	25,435	25,435	-
Bank charges	-	-	7,152	-	7,152	8,428
Depreciation	807	-	-	-	807	-
Miscellaneous	-	202	5,218	7,594	13,014	11,832
Training	-	-	10,970	-	10,970	7,987
In kind supplies/materials	1,137	42,721	-	-	43,858	33,469
Occupancy	5,889	5,889	5,889	5,889	23,556	13,320
Public relations	-	-	-	67,262	67,262	46,197
Total Expenses	$ 1,002,140	$ 1,439,893	$ 338,155	$ 348,122	$ 3,128,310	$ 3,353,894

See the accompanying notes to financial statements.

CABRILLO COLLEGE FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,280,883	$ 2,203,267
Adjustments to reconcile change in net assets to net cash provided (used) by operations		
Depreciation	807	-
Note receivable write off	10,925	-
Change in valuation of split-interest agreement	(517,413)	1,625,123
Change in operating assets and liabilities		
Contributions receivable	245,418	848,099
Accounts receivable	(15,325)	11,547
Prepaids and other assets	7,306	5,296
Scholarships, payables and accrued compensation	(180,042)	(139,237)
Net pension obligation	54,657	26,150
Other post employment benefits	(8,346)	4,455
Net Cash Provided by Operating Activities	2,878,870	4,584,700
CASH FLOWS FROM INVESTING ACTIVITIES		
Issuance of note receivable	-	(10,925)
Additions to investments	(2,865,194)	(2,700,318)
Purchases of capital assets	(6,054)	-
Net Cash Used by Investing Activities	(2,871,248)	(2,711,243)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,622	1,873,457
CASH AND CASH EQUIVALENTS, Beginning of Year	4,735,119	2,861,662
CASH AND CASH EQUIVALENTS, End of Year	$ 4,742,741	$ 4,735,119

SUPPLEMENTAL DISCLOSURE ON NONCASH ACTIVITIES

In kind donations	$ 67,414	$ 46,789

See the accompanying notes to financial statements.

NOTE #1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The Cabrillo College Foundation (the "Foundation") was incorporated in the State of California in 1965, as a nonprofit public benefit corporation. The Foundation was organized to operate for the advancement of education, to provide financial support to students and various programs of Cabrillo Community College District (the District), and to provide a link between the District and the community.

Financial Statement Presentation

The Foundation prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements include the accounts maintained by and directly under the control of the Foundation.

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Foundation is required to present a statement of cash flows. The Foundation does not use fund accounting. Revenues and expenses are recorded when incurred in accordance with the accrual basis of accounting.

The Foundation and the District are financial interrelated organizations as defined by *Transfers of Assets to a Nonprofit or Charitable Trust that Holds Contributions for Others.* The Foundation reflects contributions received for the benefit of the District as revenue in its financial statements. The expenses related to these contributions are accounted for under program and supporting services.

Support and Expenses

Contributions are measured at their fair value at the date of contribution and are reported as an increase in net assets. The Foundation reports gifts of cash or other assets in the category designated by the donor. The Foundation reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Absent explicit donor stipulation about where the contributions are to be spent, the Foundation reports these contributions as unrestricted.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. The fair values of these investments are subject to change based on the fluctuations of market values. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Equipment

Equipment is stated at cost, or if donated, at estimated fair value on the date of donation. Routine maintenance and repairs are charged to expense as incurred. Depreciation is computed on the straight line method based on the assets' estimated useful lives ranging from three to five years. Depreciation expense for the years ended June 30, 2018, and 2017 was $807 and $0, respectively.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Foundation's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Office space was provided by the Cabrillo Community College District on behalf of the Foundation. Donated supplies and materials include items donated to the Foundation for the use of the Foundation or the District. In kind donations for the years ended June 30, 2018, and 2017 are as follows:

	2018	2017
Rent - allocated to programs and supporting services	$ 23,556	$ 13,320
Supplies and materials - management and general	1,137	-
Supplies and materials - restricted for program use	42,721	33,469
	$ 67,414	$ 46,789

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and 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. Significant estimates include the value of the beneficial interest in a charitable remainder trust.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking and money market accounts and certificates of deposit with maturities of less than 90 days. The Foundation strives to maintain cash balances in financial institutions which are insured up to $250,000. At June 30, 2018, no amounts were in excess of Federal depository insurance coverage. Cash from certain donor contributions in the amount of $30,459 is required to be held in separate bank or investment accounts.

Uncollectible Pledges

The Foundation computes the estimated allowance for uncollectible pledges based on a historical analysis of uncollectible pledges. Historically, there are no significant uncollectible amounts for restricted pledges, therefore, an allowance for uncollected pledges has not been recorded. For pledges resulting from the Annual Fund Calling Campaign, there is an allowance for uncollectible pledges as of June 2018 of $11,495, or 35% of annual fund pledges outstanding.

Income Taxes

The Foundation is a nonprofit corporation exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). Income tax returns for 2014 and forward may be audited by regulatory agencies however, the Organization is not aware of any such actions at this time.

The Organization has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements. Interest and penalties related to uncertain tax positions are recorded as part of the income tax expense, if applicable.

Allocation of Functional Expenses

The costs of providing the various programs, fundraising, and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and fundraising activities benefited.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Comparative Totals

The financial statements include certain prior year summarized information in total but not by functional expense categories. Such information does not constitute 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.

NOTE #2 – CONTRIBUTIONS RECEIVABLE

Contributions receivable represent unconditional promises to give, which have been made by donors, but not received. Contributions receivable at June 30, 2018 and 2017 were as follows:

	2018	2017
Receivable in one year or less	$ 140,880	$ 356,044
Receivable in two to five years	35,869	70,000
Subtotal	176,749	426,044
Less allowance for uncollectible receivables	(11,495)	(15,372)
Net contributions receivable	$ 165,254	$ 410,672

For the year-ended June 30, 2018, two sources provided approximately 40% of total net contributions receivable.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Conditional promises that are not recorded as conditions have not been met as of June 30, 2018 consist of amount for which the Foundation has been notified of being named a beneficiary of various estates with an expected value of approximately $24 million.

NOTE #3 – SPLIT INTEREST AGREEMENTS

The Foundation is a beneficiary of a charitable lead trust, a charitable remainder trust, and several charitable gift annuities. The charitable lead trust provides annual payments to the Foundation until the trust terminates. The charitable gift annuities are assets contributed by the donors. The split interest agreements are reported at fair value. The split interest agreements are revalued on an annual basis, and the change in the net present value is recorded as a gain or loss in the statement of activities. At June 30, 2018 and 2017, the beneficial interest was valued as follows:

Split interest agreements	2018	2017
Charitable lead trust	$ 74,704	$ 85,146
Charitable gift annuities	39,566	52,473
Charitable remainder trust	540,762	-
Total	$ 655,032	$ 137,619

NOTE #4 – RELATED PARTY TRANSACTIONS

Foundation board members donated $250,807 to the Foundation during the fiscal year ended June 30, 2018.

NOTE #5- INVESTMENT SECURITIES

Investments are stated at fair market value and consist of the following:

	2018	2017
Funds invested in common stock	$ 11,116,819	$ 12,574,350
Funds invested in preferred stocks	87,722	44,588
Funds invested in fixed income securities	2,104,565	1,786,474
Funds invested in U.S. Government Securities	3,044,934	2,396,759
Funds invested in closed end funds, structured products and action rights	4,334,805	2,793,011
Funds invested in managed certificates of deposits and money markets	7,188,972	7,253,509
Funds invested in mutual funds	5,912,785	4,069,094
Total	$ 33,790,602	$ 30,917,785

Investments	$ 29,047,861	$ 26,182,667
Investments - cash equivalents	4,583,500	4,550,038
Total Investments	33,631,361	30,732,705
Cash	159,241	185,080
Total cash, cash equivalents, and investments	$ 33,790,602	$ 30,917,785

Investment activity for the years ended June 30, 2018 and June 30, 2017, consisted of the following:

	2018	2017
Realized gains (losses) on investments	$ 2,031,528	$ 771,451
Unrealized gains (losses) on investments	(648,536)	1,825,591
Interest and dividends	672,103	571,227
Gain (loss) on split interest agreements	(1,776)	(618)
Total investment income (loss)	2,053,319	3,167,651
Investment expenses	(529,563)	(508,561)
Total investment income (loss), net of expenses	$ 1,523,756	$ 2,659,090

Investments 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 possible that future changes in risks could materially affect account balances and the amounts reported in the accompanying financial statements.

Investment Policies

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. In order to meet its needs, the investment strategy of the Cabrillo College Foundation is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. Endowment assets include those assets of donor-restricted funds that the organization must hold

in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested to meet or exceed the index, or blended market index that most closely corresponds to the style of investment management selected and agreed upon by the Finance Committee. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7.0 percent annually. Actual returns in any given year may vary from this amount.

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 Endowment's spending policy has a target total return of 7.0%. The target distribution rate of 4.0% will be calculated over a trailing 12 quarter period. *The Spending Policy is 7.0% = 4.0% distribution rate + 1.5% inflation factor + 1.5% management fee*. In establishing this policy, the Foundation considered the long-term expected return on its endowment.

Endowment Fund Corpus

The Cabrillo College Foundation has 393 endowment funds with corpus totaling $22,906,504.

NOTE #6 – EQUIPMENT

Property and equipment at June 30, 2018, consisted of the following:

	Beginning of Year	Additions	Deletions	End of Year
Equipment	$ 70,092	$ 6,054	$ 27,047	$ 103,193
Accumulated depreciation	(70,092)	(807)	(27,047)	(97,946)
	$ -	$ 5,247	$ -	$ 5,247

NOTE #7 – SCHOLARSHIPS, PAYABLES AND ACCRUED COMPENSATION

Scholarships, payables and accrued compensation represent unconditional promises made by the Foundation and are due as follows:

	Scholarships	College Support & Accounts payable	Accrued compensation	Total 2018	Total 2017
Payable in one year or less	$ 654,039	$ 226,166	$ 50,203	$ 930,408	$ 1,080,933
Payable in two to five years	297,631	-	-	297,631	336,398
Payable in more than five years	224,499	-	-	224,499	215,248
Total payable	$ 1,176,169	$ 226,166	$ 50,203	$ 1,452,538	$ 1,632,579

NOTE #8 – MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Foundation determines the fair market values of certain financial instruments based on the fair value hierarchy established in Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which requires an entity to maximize the use of observable inputs and minimize the use unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels, as defined by SFAS No. 157, to measure fair value:

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

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed securities, corporate debt securities, derivative contracts, residential mortgage, and loans held-for-sale.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential MSRs, asset-backed securities (ABS), highly structured or long-term derivative contracts and certain collateralized debt obligations (CDO) where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2018. The Foundation did not have any liabilities measured at fair value on a recurring basis as of June 30, 2018.

ASSETS	Level 1	Level 2	Level 3	Total
Funds invested in				
Common stock	$ 11,116,819	$ -	$ -	$ 11,116,819
Preferred stocks	87,722	-	-	87,722
Corporate bonds and notes	2,104,565	-	-	2,104,565
U.S. Government Securities	3,044,934	-	-	3,044,934
Closed end funds and structured products	4,334,805	-	-	4,334,805
Managed certificates of deposits and money markets	7,188,972	-	-	7,188,972
Mutual funds	5,912,784	-	-	5,912,784
Total	$ 33,790,601	$ -	$ -	$ 33,790,601

NOTE #9 – NET ASSETS

At June 30, 2018 and 2017, unrestricted net assets consisted of the following:

	2018	2017
Designated		
President's Circle board designated	$ 304,302	$ 294,302
Computers	15,000	15,000
Retiree medical benefits	54,078	47,023
Operating reserve	290,617	284,933
Undesignated		
Undesignated	53,398	5,686
Total	$ 717,395	$ 646,944

Temporarily restricted net assets consist of the following scholarship and college support non-endowed and endowed funds:

Temporarily Restricted Funds	2018	2017
Endowed scholarship and college support funds available	$ 1,746,673	$ 1,498,941
Endowed accumulated earnings	4,599,109	3,977,667
Subtotal endowed funds temporarily restricted	6,345,782	5,476,608
Non-endowed scholarship and college support funds available	2,874,063	2,894,944
Total	$ 9,219,845	$ 8,371,552

Permanently restricted endowment net assets, for which investment and interest earnings may be used for scholarships and college support and consist of the historical gift balance of the endowed funds in the amount of $22,906,504 at June 30, 2018, and $20,610,859 at June 30, 2017, allocated as follows:

Endowment Funds	Temporarily Restricted Endowment Earnings	Permanently Restricted	Total Endowments
Beginning of year	$ 5,476,608	$ 20,610,859	$ 26,087,467
Contributions	11,221	2,295,645	2,306,866
Scholarships and college support	(625,694)	-	(625,694)
Investment earnings (loss)	2,020,367	-	2,020,367
Investment and management fees	(529,563)	-	(529,563)
Other increases/decreases	(7,157)	-	(7,157)
End of year	$ 6,345,782	$ 22,906,504	$ 29,252,286

NOTE #10 – RETIREMENT PLANS

CalPERS

Plan Description

The Foundation offers eligible employees retirement benefits with CalPERS. Employees become eligible starting the first day of employment if one of the following criteria is met:

- Employee’s position is full-time seasonal or limited term and is more than 6 months,
- Employee’s part-time position exceeds 1,000 hours in one fiscal year,
- Employee is a member of CalPERS by previous employment (either has funds on deposit or service credit)

The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

The Cabrillo College Foundation pays the required employer contribution. CalPERS eligible employees contribute their required contribution. The retirement calculation for Cabrillo College Foundation employees is a as follows

1) Full-time and part-time eligible employees (classic members as defined by CalPERS) hired prior to October 1, 2011 have a retirement calculation of 2% at 55.
2) Full-time and part-time eligible employees (PEPRA members as defined by CalPERS) hired on or after January 1, 2013 will have a retirement calculation of 2% at 62. PEPRA is Public Employees’ Pension

Reform Act.

3) The rates are based upon an actuarially determined rate and the actuarial methods and assumptions used for determining those rates are those adopted by the CalPERS Board of Administration.

Plan Valuation

GASB Statement No. 67, Financial Reporting for Pensions Plans, established new financial reporting requirements for most state and local government plans that provide employee pension benefits. GASB Statement No. 67 required governmental retirement plans that provide defined benefit pensions to value and report the amount of pension liabilities and unfunded obligations for each member in the plan effective June 30, 2014. ASC-718-80-35-2 requires employers providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability when reasonably estimatable.

The Plan is a Multiple Employer Plan where the net pension liability is allocated to the plan based on a valuation date of June 30, 2016. Its proportion of the CalPERS Miscellaneous Risk Pool is summarized as follows:

	Measurement Date 6/30/2017
Plan's Proportion of the Net Pension Liability	0.01030%
Plan's Proportionate Share of the Net Pension Liability	$ 406,031
Plan's Covered-Employee Payroll	$ 378,490
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	107.28%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.4%
Plan's Proportionate Share of Aggregate Employer Contributions	$ 28,721
Plan's Proportionate Share of Deferred Outflows	$ 84,962
Plan's Proportionate Share of Deferred Inflows	$ 13,198

Actuarial Assumptions and Sensitivity to Changes in the Discount Rate

The actuarial assumptions include: a discount rate of 7.15% and is based on the entry age normal methodology.

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent), or 1 percentage-point higher (8.15 percent) than the current rate:

Schedule of Plan Contributions		6/30/2017
Actuarially Determined Contribution	$	28,721
Contributions in Relation to the Actuarially Determined Contribution		(28,721)
Contribution Deficiency (Excess)	$	-
Covered Employe Payroll	$	378,490
Contributions as a Percentage of Covered Employee Payroll		7.59%

Annual Pension Cost

The Foundation made contributions to CalPERS for fiscal year ending June 30, 2018 in the amount of $28,721.

Section 403(b) Employee Wage and Salary Reduction Plan

The Foundation provides a payroll deduction plan under Internal Revenue Code section 403(b). Full-time and part-time eligible employees may elect to participate. Each participating employee declares an amount of pre-tax compensation to be withheld by the Foundation, who in turn deposits the withholdings into a personal tax-deferred annuity. No employer contributions are required.

Section 457 Employee Wage and Salary Reduction Plan

The Foundation also provides a payroll deduction plan under Internal Revenue Code section 457 to the Executive Director. The Executive Director may elect to participate and declares an amount of pre-tax compensation to be withheld from the Executive Director's paycheck. The withholdings are deposited into a personal tax-deferred annuity. No employer contributions are required.

NOTE #11 – POST EMPLOYMENT BENEFITS

The Foundation has a defined benefit post employment health care benefits plan that provides health care benefits to Administrators and their spouses hired on or before August 19, 2009, who retire from the Foundation upon obtaining a certain age and years of service. Currently, there are no active employees that meet these eligibility requirements. One retiree is receiving employee only post employment health care benefits.

As a non-governmental organization, the Cabrillo College Foundation would normally follow the guidance of the Financial Accounting Standards Board (FASB), rather than the Governmental Accounting Standards Board (GASB). As the Foundation is a component unit of a governmental agency, the Foundation has elected to follow GASB 75 Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions in accounting for post employment benefits to be consistent with the Cabrillo Community College District method of accounting, and as the results are not expected to be significantly different.

Approximately 46% of the GASB 75 Total OPEB Obligation amount as of June 30, 2018 has been set aside, however, for it to be legally considered "funded" it would need to be in an irrevocable trust. At the Executive Committee meeting on August 25, 2011 the Executive Committee approved a motion to annually set aside an amount equal to the annual increase in the liability until such time as the designated amount reaches 100% of the liability.

Annual OPEB Cost and Net OPEB Obligation

The Foundation's annual other post employment benefit (OPEB) cost (expense) is calculated based on an amount actuarially determined in accordance with the parameters of GASB Statement 75. The Net OPEB Obligation represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and any unfunded actuarial accrued liabilities. Based on an actuarial study performed as of June 30, 2018 and updated every two years, the Foundation's Net OPEB Obligation was $117,453. The Foundation implemented GASB 75 during the year ended June 30, 2018, which resulted in a restatement to net position of $66,494.

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The plan is not funded by an irrevocable trust and, therefore, no table of changes in funding progress is presented.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the most recent actuarial valuation as of June 30, 2018, the entry age actuarial cost method was used. The actuarial assumptions included a 3.8 percent investment rate of return (net of administrative expenses). Healthcare cost trend rates were estimated at 4 percent, and payroll increase at 2.75% per year.

NOTE #12 – SUBSEQUENT EVENTS

The Foundation's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through November 19, 2018, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

INDEPENDENT AUDITORS' 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*

Board of Directors
Cabrillo College Foundation
Aptos, California

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 Cabrillo College Foundation "The Organization" (a nonprofit organization), 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, and have issued our report thereon dated November 19, 2018.

Emphasis of Matter- Change in Accounting Principles

As discussed in Note 11 to the financial statements, in 2018, the Organization adopted new accounting guidance for Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cabrillo College Foundation'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 Cabrillo College Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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.

5000 Hopyard Rd., Suite 335, Pleasanton, CA 94588 P 925.734.6600 F 925.734.6611 W

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 Cabrillo College Foundation'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.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
November 19, 2018