Cuesta College Foundation

Financial Statements

June 30, 2015 and 2014

C O N T E N T S

CALIBER
AUDIT & ATTEST, LLP

Independent Auditors' Report on the Financial Statements

To the Board of Directors
Cuesta College Foundation
San Luis Obispo, California

We have audited the accompanying financial statements of Cuesta College Foundation (a non-profit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, changes in net assets, 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.

Auditors' 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 auditors' 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 Cuesta College Foundation as of June 30, 2015 and 2014, 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.

Caliber Audit + Attest, LLP

San Luis Obispo, California
October 14, 2015

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Cuesta College Foundation

Statements of Financial Position
June 30, 2015 and 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 759,387	$ 1,678,356
Investments	26,798,728	25,348,956
Accounts receivable, related party	-	38,489
Pledges receivable	200,352	58,800
Notes receivable	1,461,498	1,556,397
Split interest agreements and estates receivable	1,583,562	782,447
Perpetual trusts held by others	3,897,519	3,988,957
Prepaid expense and supply inventory	2,750	2,750
Total assets	$ 34,703,796	$ 33,455,152
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 474,592	$ 344,163
Unitrust liability	7,218	7,637
Total liabilities	481,810	351,800
Commitments and Contingencies		
Net Assets		
Unrestricted	646,004	795,796
Temporarily restricted	21,090,846	20,473,804
Permanently restricted	12,485,136	11,833,752
Total net assets	34,221,986	33,103,352
Total liabilities and net assets	$ 34,703,796	$ 33,455,152

See Notes to Financial Statements.

Cuesta College Foundation

Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Support				
Contributions	$ 201,488	$ 1,598,843	$ 683,785	$ 2,484,116
In-kind contributions and donated services	16,142	182,241	-	198,383
Support from Cuesta College	204,431	-	-	204,431
Interest and dividends	164,625	418,592	-	583,217
Income from perpetual trusts held by others	36,876	133,951	-	170,827
Net realized and unrealized gain on investments	(12,290)	445,139	-	432,849
Other income	50	-	-	50
Change in value of split interest agreements	-	7,079	59,037	66,116
Change in value of perpetual trusts held by others	-	-	(91,438)	(91,438)
	611,322	2,785,845	651,384	4,048,551
Net assets released from restrictions	2,168,803	(2,168,803)	-	-
Total revenue, gains and support	2,780,125	617,042	651,384	4,048,551
Functional Expenses				
Program				
Payments to Cuesta College	1,932,772	-	-	1,932,772
Payments to beneficiaries	775	-	-	775
In-kind contributions to Cuesta College	182,540	-	-	182,540
Administration				
Personnel	240,461	-	-	240,461
Operating	47,702	-	-	47,702
Development	525,667	-	-	525,667
Total expenses	2,929,917	-	-	2,929,917
Change in net assets	$ (149,792)	$ 617,042	$ 651,384	$ 1,118,634

See Notes to Financial Statements.

Cuesta College Foundation

Statement of Activities
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Support				
Contributions	$ 196,722	$ 2,276,224	$ 180,760	$ 2,653,706
In-kind contributions and donated services	24,093	380,232	-	404,325
Support from Cuesta College	204,569	-	-	204,569
Interest and dividends	159,189	367,598	-	526,787
Income from perpetual trusts held by others	37,609	139,176	-	176,785
Net realized and unrealized gain on investments	55,527	2,769,491	-	2,825,018
Other income	2	216	-	218
Change in value of split interest agreements	-	1,451	41,294	42,745
Change in value of perpetual trusts held by others	-	-	321,326	321,326
	677,711	5,934,388	543,380	7,155,479
Creation of permanent endowments	-	(104,338)	104,338	-
Net assets released from restrictions	2,012,469	(2,012,469)	-	-
Total revenue, gains and support	2,690,180	3,817,581	647,718	7,155,479
Functional Expenses				
Program				
Payments to Cuesta College	1,676,769	-	-	1,676,769
Payments to beneficiaries	18,549	-	-	18,549
In-kind contributions to Cuesta College	268,273	-	-	268,273
Administration				
Personnel	234,732	-	-	234,732
Operating	27,601	-	-	27,601
Development	379,052	-	-	379,052
Total expenses	2,604,976	-	-	2,604,976
Change in net assets	$ 85,204	$ 3,817,581	$ 647,718	$ 4,550,503

See Notes to Financial Statements.

Cuesta College Foundation

Statements of Changes in Net Assets
Years Ended June 30, 2015 and 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - June 30, 2013	$ 710,592	$ 16,656,223	$ 11,186,034	$ 28,552,849
Change in net assets	85,204	3,817,581	647,718	4,550,503
Net Assets - June 30, 2014	795,796	20,473,804	11,833,752	33,103,352
Change in net assets	(149,792)	617,042	651,384	1,118,634
Net Assets - June 30, 2015	$ 646,004	$ 21,090,846	$ 12,485,136	$ 34,221,986

See Notes to Financial Statements.

Cuesta College Foundation

Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ 1,118,634	$ 4,550,503
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gain on investments	(432,429)	(2,825,018)
Change in value of split interest agreements	(66,115)	(42,745)
Change in value of perpetual trusts held by others	91,438	(321,326)
Contributions restricted for long-term investment	(1,124,889)	(180,760)
Contributions of charitable remainder trusts and estates	-	-
Contributions of notes receivable	-	(113,209)
Change in operating assets and liabilities:		
Accounts receivable, related party	38,489	(38,489)
Pledges receivable	(141,552)	28,518
Prepaid expense and supply inventory	-	8,072
Accounts payable	130,429	17,184
Unitrust liability	(2,049)	(2,642)
Net cash provided by (used in) operating activities	(388,044)	1,080,088
Cash flows from investing activities:		
Purchase of investments	(3,690,773)	(5,285,511)
Proceeds from sale of investments	2,675,060	2,537,909
Payments from notes receivable	94,899	63,469
Net cash used in investing activities	(920,814)	(2,684,133)

See Notes to Financial Statements.

Cuesta College Foundation

Statements of Cash Flows - Continued
Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from financing activities:		
Proceeds from contributions for endowed long-term investment	$ 389,889	$ 180,760
Amounts received from estates receivable	-	2,847,000
Net cash provided by financing activities	389,889	3,027,760
Net increase (decrease) in cash and cash equivalents	(918,969)	1,423,715
Cash and cash equivalents, beginning of year	1,678,356	254,641
Cash and cash equivalents, end of year	$ 759,387	$ 1,678,356
Cash and cash equivalents		
Available for operations	$ 757,333	$ 642,590
Available for specific purposes	2,054	1,035,766
	$ 759,387	$ 1,678,356

Supplemental disclosure of cash flow information:

No taxes or interest were paid by the Foundation during June 30, 2015 and 2014

Noncash activities

	2015	2014
Contributions of charitable remainder trusts and estates	$ 735,000	$ -
Contributions of notes receivable	$ -	$ 113,209
Other in-kind contributions and services	$ 198,383	$ 291,116

See Notes to Financial Statements.

Note 1. Operations and Summary of Significant Accounting Policies

Nature of operations:

The Cuesta College Foundation (the Foundation) is a California non-profit public benefit corporation that was incorporated on April 18, 1973, under the laws of the State of California. The Cuesta College Foundation was organized to promote the general welfare of the San Luis Obispo County Community College District (Cuesta College or the College) by assisting and supporting Cuesta College in fulfilling its role, and by soliciting, raising and distributing monies, properties and other assets, for the purchase of equipment and other outlay needs, and for the awarding of scholarships to students.

Basis of accounting:

The financial statements are presented on an accrual basis, which recognizes income when earned, and expenses when incurred. However, interest income is allocated to the various funds on a cash basis. Foundation resources are accounted for by the use of separate funds so that visibility and control are maintained for the benefit of the Foundation. Funds that have similar objectives and characteristics have been combined based on net asset restriction categories in the accompanying financial statements.

Financial statement presentation:

In order to accommodate the various alternatives for donors' distribution objectives, the Foundation's records are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose.

The Foundation has presented its financial statements in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, 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.

The Foundation reports gifts of cash and other assets as an increase in temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

A summary of the net asset categories included in the accompanying financial statements is as follows:

Unrestricted net assets: Unrestricted amounts represent all contributions other than endowments that are available for various activities, including:

- Operational and administrative functions.
- Support of Cuesta College at the discretion of the Board of Directors.
- Contributions with donor-imposed restrictions that are met during the same year as the contribution is made are included in unrestricted support that increases unrestricted net assets.

Temporarily restricted net assets: Temporarily restricted amounts represent deferred gifts that are subject to donor-imposed restrictions, either for a specific purpose or subject to the passage of time. Temporarily restricted amounts also include earnings on permanently restricted endowments that are absent of explicit donor stipulations and that have not yet been appropriated for expenditure by the Foundation. When the restriction expires, the net assets of this fund are reclassified to unrestricted net assets.

Permanently restricted net assets: Permanently restricted amounts represent those assets contributed to the Foundation where the original dollar value is to remain in perpetuity as a permanent endowment of the Foundation. While the Foundation's bylaws and fund agreements provide for variance power, which, under certain unanticipated circumstances, allows for the modification of restrictions, management believes that such variance power applies only to the use of endowment funds, not expenditure or disbursement of the principal. Accordingly the Foundation has recorded such amounts as a component of permanently restricted net assets.

It is also the Foundation's policy that permanently restricted assets are reported at their original value at the time of the gift. Management keeps the original corpus and realized and unrealized gains and losses on those assets linked for determining the fair market value of the fund for administrative purposes. Realized and unrealized gains and losses on those assets are recorded as temporarily restricted assets until appropriated, and do not impact the original corpus of the permanently restricted assets.

Contributions:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All pledges receivable and amounts received that are donor restricted for future periods or donor restricted for specific purposes are reported as temporarily or permanently restricted. The restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction when the donor stipulated time restriction ends or the purpose restriction is accomplished by the Foundation.

In-kind contributions and donated services:

It is the Foundation's policy to record non-cash items and in-kind gifts at their fair market value on the date they are received.

Contributed services are recorded in the financial statements to the extent that those services create or enhance a nonfinancial asset or meet the following criteria: a) the service requires specialized skills, b) the service is provided by individuals who possess those skills, and c) the service would typically need to be purchased if not contributed.

For the years ended June 30, 2015 and 2014, in-kind contributions and donated services totaled $198,383 and $404,325, respectively.

Cash and cash equivalents:

The Foundation considers cash equivalents to be all highly liquid debt instruments with a maturity of three months or less. Cash and cash equivalents consist mainly of cash, certificates of deposit, and money market funds, and are valued using Level 1 inputs as discussed in Note 2.

Concentrations of credit risk:

The Foundation invests in various types of marketable securities and money market funds. The Foundation has established guidelines relative to diversification and maturities that target certain safety and liquidity risk levels. These guidelines are periodically reviewed and modified.

The Foundation maintains cash balances at financial institutions located in California. Certain accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times during the years ended June 30, 2015 and 2014, the Foundation held cash in excess of federally insured limits.

The Foundation also invests in various investment securities. Investment securities in general, are subject to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that the changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Investment valuation and income recognition:

The Foundation's investments are stated at fair market value in the statement of financial position, with all gains and losses included in the statement of activities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 2 for discussion of fair value measurement.

Investments acquired by gift are recorded at their fair market value at the date of the gift. The Foundation’s policy is to liquidate all gifts of investments as timely as possible, taking into consideration the impact on market price.

Investments are made according to the Investment Policy adopted by the Foundation’s Board of Directors. These guidelines provide for a balanced diversified portfolio with investments in equities, fixed income and other securities with performance measured against appropriate indices. Outside parties are contracted by the Foundation for the purpose of providing investment management.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Realized gains or losses on the sale of marketable securities are calculated using the specific-identification method. Unrealized gains and losses represent the change in the fair market value of the individual investments for the year, or since the acquisition date, if acquired during the year. Gains and losses on investments are shown net of fees totaling $62,146 and $53,349 for the years ended June 30, 2015 and 2014, respectively.

Pledges receivable:

When a donor has unconditionally promised to contribute funds to the Foundation in future periods, the Foundation recognizes a pledge receivable. Pledges expected to be collected within one year are recorded as support and a receivable at net realizable value. Pledges expected to be collected in future years are recorded as support and a receivable at the present value of expected future cash flows. Discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. A provision for doubtful pledges receivable has not been established as management considers all accounts to be collectible based on favorable history over a substantial period of time.

Split interest agreements:

The Foundation has irrevocable remainder beneficiary interests in split interest agreements whose maturities are based on the life expectancy of the income beneficiaries. The Foundation records the beneficial interest in the split interest agreements as temporarily restricted or permanently restricted depending on whether the donor's restrictions specify whether the distributed balance will be held in perpetuity at the end of the trust.

The change in fair value of these assets is included in the change in value of split interest agreements on the statement of activities.

Perpetual trusts held by others:

The Foundation is the beneficiary of perpetual irrevocable trusts held and administered by independent trustees. Under the terms of the trusts, the Foundation has the irrevocable right to receive the income earned on the trust assets in perpetuity. The fair value of the beneficial interest in the trust is recognized as an asset and as a permanently restricted contribution at the date the trust is established. The Foundation's estimate of fair value is based on fair value information received from the trustees. The trust assets consist of, but are not limited to, cash and cash equivalents, corporate and government bonds, mutual funds and equity securities. These assets are not subject to the control or direction of the Foundation. Gains and losses, which are not distributed by the trusts, are reflected as change in value of perpetual trusts held by others in the statements of activities.

Administrative and management fees:

Custodian, investment, administrative, and management fees are recognized in the fiscal year in which they occur.

The Foundation charges an administrative fee internally for endowed funds under management. These fees help fund general operations, and are recorded internally both as revenue and expense. The fees have been net for financial statement presentation as the fees do not come from sources external to the Foundation.

Endowment investments:

The Foundation holds individual endowments which are managed in a unitized investment pool. Investment earnings and related expenses are allocated based on each individual endowment's unit market value.

The Foundation pools a portion of its unrestricted assets for investment with the endowment fund unitized pool held in various mutual funds.

Funds with deficiencies:

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor or Uniform Prudent Management of Institutional Funds Act (UPMIFA) required the Foundation to retain as a fund of perpetual duration ("below water endowments"). In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported as negative unrestricted net assets. There were no negative unrestricted net assets as of June 30, 2015 and 2014.

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, thus providing intergenerational equity to all beneficiaries.

The investment objectives call for a disciplined, consistent management philosophy that accommodates the occurrence of all events which might be considered reasonable and probable. The investment objectives call for a philosophy which avoids extreme positions or opportunistic styles.

Income tax status:

The Foundation's activities are generally exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Franchise Tax Code. Since the Foundation is exempt from federal and state income tax liability, no provision is made for current or deferred income tax expense. However, the Foundation remains subject to taxes on any net income that is derived from trade or business, regularly carried on, and unrelated to its exempt purpose. Management believes that the Foundation has no taxable unrelated business income.

For the years ended June 30, 2015 and 2014, management of the Foundation is not aware of any material uncertain tax positions to be accounted for in the financial statements under the principles of the *Income Taxes* topic of the Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC)*. The Foundation recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense.

All tax exempt entities are subject to review and audit by federal, state and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the tax-exempt entity under the Internal Revenue Code and applicable state statutes. With few exceptions, the Foundation is no longer subject to U.S. federal tax examinations for the years before 2011 or state income tax examinations for the years before 2010.

Functional expense allocations:

Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Expenses which apply to more than one functional category have been allocated based on estimates made by management.

Advertising:

The Foundation expenses advertising costs as incurred. Marketing and public relations expense for the years ended June 30, 2015 and 2014 was $172,855 and $719, respectively.

Use of estimates:

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those assumed in computing the estimated fair value of the split interest agreements, pledges receivable, perpetual trusts held by others, charitable remainder unitrust, the estimated value of contributed real estate, other in-kind contributions and donated services, and the functional allocation of expenses.

Note 2. Investments and Fair Value Measurements

Investments consisted of the following at June 30, 2015 and 2014:

	2015	***2014***
Mutual funds:		
Multi-strategy equity funds	$ 10,907,488	$ 10,281,992
Multi-strategy bond funds	7,205,686	6,712,620
International equity funds	2,135,935	1,994,279
Equity index funds	3,546,307	3,330,019
Intermediate bond funds	1.982.926	1,363,367
Total mutual funds	25,788,342	23,682,277
Government obligations	228,672	594,672
Certificates of deposit	789,901	1,069,412
Real estate investments fund	-	54
Other investments	1,813	2,541
Total investments	$ 26,798,728	$ 25,348,956

The Fair Value Measurements topic of the FASB *ASC*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the 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 that the Company has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or by other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value, on a recurring basis. There have been no changes to the methodologies used at June 30, 2015 and 2014.

Common stocks, corporate bonds, and U.S. governmental securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value (NAV) of shares held by the Company at year end.

Certificates of deposit: Valued at cost plus accrued interest, which approximates fair value due to the short term nature of these investments.

Real estate investments funds: Valued at the net asset value (NAV) of shares held by the Company at year end.

Other investments consists of a life insurance policy: Valued at the cash value at year end.

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

Marketable securities at June 30, 2015 and 2014, consist principally of investments in mutual funds and investments in listed stocks, and are classified as Level 1. Marketable securities for the years ended June 30, 2015 and 2014 had appreciated (depreciated) in value as follows, including gains and losses on marketable securities bought and sold during the year:

	2015	***2014***
Mutual funds	$ 497,316	$ 2,881,006
Government obligations	(329)	1,744
Other investments	(727)	(492)
Net realized and unrealized gain (loss) on Level 1 investments	$ 496,260	$ 2,882,258

The following table sets forth by level, within the fair value hierarchy, the Foundation's financial instruments at fair value as of June 30, 2015 and 2014:

	2015 Level 1	***2014 Level 1***
Mutual funds	$ 25,778,342	$ 23,682,277
Government obligations	228,672	594,672
Certificates of deposit	789,901	1,069,412
Other investments	1,813	2,541
Total investments	$ 26,798,728	$ 25,348,902

	2015 Level 3	2014 Level 3
Real estate investments fund	$ -	$ 54

The real estate investments fund is valued using the net asset value per the annual statement. The following table sets forth a summary of changes in the fair value of the real estate investments fund, which is a Level 3 asset, for the years ended June 30, 2015 and 2014:

	2015	2014
Balance, beginning of year	$ 54	$ 394
Distributions	-	(215)
Total gain (loss) - unrealized and realized	(54)	(125)
Balance, end of year	$ -	$ 54

Note 3. Pledges Receivable

Pledges receivable as of the years ended June 30, 2015 and 2014 are as follows.

	2015	2014
Due within one year	77,000	$ 60,000
Due in one to five years	132,000	-
Future value	209,000	60,000
Less discount to present value at 2%	(8,648)	(1,200)
Total pledges receivable	$ 200,352	$ 58,800

Note 4. Notes Receivable

The notes receivable are comprised of the following at June 30, 2015 and 2014:

	2015	2014
Note receivable due in monthly installments of $1,476, including interest at 7%, due April 2020, secured by real property.	$ 69,125	$ 81,549
Note receivable due in monthly installments of $2,859, including interest at 7%, due November 2022, secured by real property.	197,997	217,687
Note receivable due in monthly installments of $8,607, including interest at 6%, due September 2032, secured by real property.	1,108,336	1,143,952
Note receivable due in monthly installments of $899, including interest at 6%, due December 2023, secured by real property.	86,040	113,209
Total notes receivable	$ 1,461,498	$ 1,556,397

A provision for these loans has not been established as management considers the full balance to be collectible based on the loans being secured by real property.

Note 5. Endowment Funds

The Foundation follows the authoritative guidance in the FASB *ASC* that covers *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*. The State of California approved a version of UPMIFA in September 2008, effective for January 1, 2009. The Foundation adopted these provisions in fiscal 2009.

The Foundation's unitized endowment pool consists of approximately 210 individual funds established for a variety of purposes to benefit the Foundation and Cuesta College. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (quasi-endowments). As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors interprets UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of 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 1) the original value of gifts donated to the permanent endowment, 2) the original value of subsequent gifts to the permanent endowment, and 3) 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to invest or appropriate donor-restricted endowment funds:

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

The Foundation’s endowment investment policy is based on fundamental financial principles that include prudent asset allocation, risk assessment and long-term planning. The investment policy emphasizes total return, which allows the funds to utilize current dividend and interest income, and over time, a portion of the aggregate return from capital appreciation, in an 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. Within this framework, specific investment objectives for endowment investments include liquidity, preservation of capital, preservation of purchasing power, and long-term growth of capital.

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 balances a greater emphasis on equity-based investments (approximately 70% of the total portfolio) to achieve its long-term return objectives within prudent risk constraints along with a substantive allocation (approximately 30% of the total portfolio) to fixed income to provide certainty of return and tempering of volatility.

Endowment funds are maintained in pooled investment portfolios. Interest, dividends, and realized and unrealized gains and losses in the investment pools are allocated quarterly to the endowment funds in proportion to each fund's share in the investment pools.

The Foundation has a policy of appropriating for distribution each year a spending rate for both above water endowments (those that have a value greater than their original gift value) and, if applicable, a potentially different spending rate for below water endowments (those that have a value less than their original gift value). To provide a smoothing effect to distributions over the short term, the Foundation averages the quarter-ending value for the most recent 12 quarters to establish a Market Value per Unit by which the spending rate will be multiplied. In establishing the spending rate for any year, the Foundation considers the long-term expected return on its endowment with the goal of providing inter-generational equity in terms of the purchasing power of the distributions over time. Accordingly, the Foundation each year establishes a current spending rate that will hopefully allow its endowment, after each distribution is made, to grow with the rate of inflation. This is consistent with the organization's objective 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. The spending policy is approved on an annual basis by the Board of Directors. During the year ended June 30, 2012, the Foundation Board, upon the recommendation of the Finance Committee, approved a 4% spending rate for above water endowments and a 2% spending rate for below water endowments, with the deferred 2% going back into that particular endowment to help it regain its original gift value more quickly. There were no changes made to the spending rate for the years ended June 30, 2015 and 2014.

At June 30, 2015, endowment net assets consisted of the following:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Donor-restricted endowment funds	$ -	$ 3,265,185	$ 7,858,697	$11,123,882
Board-designated quasi-endowments with donor purpose restrictions	-	11,998,381	-	11,998,381
Board-designated endowments without donor purpose restrictions	346,047	-	-	346,047
Total	$ 346,047	$ 15,263,566	$ 7,858,697	$ 23,468,310

At June 30, 2014, endowment net assets consisted of the following:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Donor-restricted endowment funds	$ -	$ 3,602,375	$ 7,572,242	$11,174,617
Board-designated quasi-endowments with donor purpose restrictions	-	11,797,130	-	11,797,130
Board-designated endowments without donor purpose restrictions	349,013	-	-	349,013
Total	$ 349,013	$ 15,399,505	$ 7,572,242	$ 23,320,760

The changes in endowment net assets for the year ended June 30, 2015 are as follows:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Endowment net assets, June 30, 2014	$ 349,013	$ 15,399,505	$ 7,572,242	$23,320,760
Investment return:				
Investment income	6,262	417,195	-	423,457
Net appreciation (realized and unrealized), net of fees	7,622	447,013	-	454,635
Total investment return	13,884	864,208	-	878,092
Contributions	-	-	286,557	286,557
Appropriation of endowment assets for expenditure	(16,850)	(1,050,473)	-	(1,067,323)
Creation of board-designated quasi-endowments with donor purpose restrictions	-	50,000	-	50,000
Other changes	-	326	(102)	224
Endowment net assets, June 30, 2015	$ 349,047	$ 15,263,566	$ 7,858,697	$23,468,310

The changes in endowment net assets for the year ended June 30, 2014 are as follows:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Endowment net assets, 2014 June 30, 2013	$ 312,749	$ 9,951,653	$ 7,287,144	$17,551,546
Investment return:				
Investment income	5,956	366,288	-	372,244
Net appreciation (realized and unrealized), net of fees	46,316	2,769,297	-	2,815,613
Total investment return	52,272	3,135,585	-	3,187,857
Contributions	-	411,300	180,760	592,060
Appropriation of endowment assets for expenditure	(16,008)	(848,033)	-	(864,041)
Creation of board-designated quasi-endowments with donor purpose restrictions	-	2,749,000	-	2,749,000
Creation of permanent endowments with donor purpose restrictions	-	-	104,338	104,338
Endowment net assets, June 30, 2014	$ 349,013	$ 15,399,505	$ 7,572,242	$23,320,760

Note 6. Split-Interest Agreements and Estates Receivable

The Foundation is named the beneficiary of several remainder interests in charitable remainder trusts and charitable gift annuities administered outside the Foundation. Contribution revenue and the related assets are recognized using the fair value of the assets less the present value of the payments expected to be made to the beneficiaries. Under accounting principles generally accepted in the United States of America, the Foundation records their beneficial interest in split interest agreements and revenue for the estimated beneficial interest expected to be received using actuarial and present value calculations. The present value of this asset is calculated by using recent life expectancy tables and risk adjusted discount rates of 5% as of June 30, 2015 and 2014.

The Foundation is the beneficiary of nine irrevocable charitable remainder trusts, or a portion thereof, that are administered by independent trustees. Subsequent changes after the initial receipt of the contribution are shown as change in value of split interest agreements in the statement of activities. The beneficial interest for these charitable remainder trusts at June 30, 2015 and 2014, totaled $785,336 and $708,897, respectively.

The Foundation is the beneficiary of six irrevocable charitable gift annuities that are administered by the Community College League of California at year end. Subsequent changes are shown as change in value of split interest agreements in the statement of activities. The beneficial interest for these charitable gift annuities at June 30, 2015 and 2014, totaled $63,562 and $73,550, respectively.

The Foundation was named the beneficiary of two estates and recorded receivables totaling $2,847,000 as of June 30, 2013. In general, the Foundation records the receivables in the year they are notified of the estates at the estimated values provided by the executors minus a discount of 20% as a conservative estimate of the eventual value and to account for factors that might affect collection. However, for one of the estates previously noted, management determined that is was appropriate to apply a 25% discount to account for the unpredictability of the real estate market as the estate holds significant amounts of real property. For the second estate previously noted, a 2% discount factor was applied to determine the present value of the receivable, as the Foundation does not believe that there are other factors that will affect collection. The Foundation's interest in both of these estates were received during the year ended June 30, 2014. Amounts received in excess of the receivable recorded as of June 30, 2013 are included as contributions on the statement of activities for the year ended June 30, 2014. There was no estate receivable outstanding as of June 30, 2014.

As of June 30, 2015, the Foundation was named beneficiary of another estate, and subsequent to year-end, the Foundation received final distribution for a fourth estate. The Foundation determined that a 2% discount factor was applied to determine the present value of the receivable, as the Foundation does not believe that there are other factors that will affect collection. The Foundation has recorded receivables totaling $735,000 as of June 30, 2015.

The valuation of split interest agreements fall into the Level 3 category of the fair value hierarchy, as discussed in Note 2.

The following table sets forth a summary of changes in the fair value of the split interest agreements and estates receivable, which are Level 3 assets, for the years ended June 30, 2015 and 2014:

	2015	2014
Balance, beginning of year	$ 782,447	$ 3,586,702
Total gains/losses (unrealized and realized)	66,115	42,745
Contributions from estates	735,000	-
Receipts from estates and trusts	-	(2,847,000)
Balance, end of year	$ 1,583,562	$ 782,447

	Fair value	*Principal valuation technique*	*Unobservable inputs*	*Range of significant input values*
Split interest agreements	$1,583,562	Net present value of the estimated future value to be received	Discount rate	5%
			Years remaining	3 – 14

Note 7. Perpetual Trusts Held by Others

The Foundation is the beneficiary of three perpetual trusts that are administered by trustees outside the Foundation. Although the assets of these trusts are not in its possession, the Foundation will receive the income earned on trust assets in perpetuity. The fair value of the trust assets has been used to determine the fair value of the Foundation's beneficial interest in the trusts, which are considered level 3 assets. For the Foundation, the change in the value of the perpetual trusts held by others is based solely on the change in fair value of the underlying trust assets. The Foundation's beneficial interest in each trust is as follows:

	Percent Interest
Trust #1	50%
Trust #2	25%
Trust #3	100%

The portion of assets held in these trusts for the benefit of the Foundation at June 30, 2015 and 2014, are as follows:

	2015	2014
Trust #1	$ 2,910,176	$ 2,951,559.21
Trust #2	708,496	743,315
Trust #3	278,847	294,083
Total	$ 3,897,519	$ 3,988,957

Perpetual trusts held by others consisted of the following at June 30, 2015 and 2014:

	2015	2014
Cash	$ 52,046	$ 250,744
Money market	24,468	94,586
Fixed income securities:		
Investment grade taxable	823,623	507,731
Bond mutual funds	288,180	244,570
Other	21,067	-
International developed bonds	199,355	124,659
Total fixed income	1,332,225	876,960
Equities:		
U.S. large cap	1,163,124	1,436,408
U.S. mid cap	138,338	60,794
U.S. small cap	212,551	215,884
International development	237,728	275,570
Mutual funds	297,052	405,534
Emerging markets	92,624	82,680
Other	-	3,480
Total equity funds	2,139,417	2,480,350
Hedge funds	215,200	229,419
Tangible assets	8,046	11,110
Real estate funds	60,922	45,242
Other investments	64,414	45,242
Accrued income	781	546
Total perpetual trust investments	$ 3,897,519	$ 3,988,957

Note 8. Charitable Remainder Unitrust

The Foundation administers and is the trustee of a charitable remainder unitrust. The charitable remainder unitrust provides for the payment of distributions to the grantors over the lifetime of the grantors. At the end of the trust's term, the remaining assets are available for the North County Campus and Gabriel Family Endowment Fund. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation was recorded as a temporarily restricted contribution in the period the trust was established and subsequent changes are shown as change in value of split interest agreements in the statement of activities. Assets held in the charitable remainder unitrust totaled $33,021 and $35,281 at June 30, 2015 and 2014, respectively, are included in investments, and are reported at fair market value in the Foundation’s statement of financial position. On an annual basis, the Foundation revalues the trust assets to make distributions to the designated beneficiaries based on a contract rate of 8.2%. The present value of the estimated future payments is $7,218 and $7,637 as of June 30, 2015 and 2014, respectively and is calculated using actuarial and present value calculations.

Note 9. Restrictions and Limitations on Net Asset Balances

Temporarily restricted net assets as of June 30, 2015 and 2014 consisted of the following:

	2015	*2014*
Capital campaign and major gifts	$ 37,564	$ 40,958
Scholarships	549,090	501,826
Trust fund	25,841	26,317
Externally trusted charitable remainder trusts	453,747	436,344
Externally administered charitable gift annuities	63,226	73,550
Estates not yet distributed to Foundation	441,000	-
Pledge receivables	97,020	-
Endowment spending reserves	3,265,185	3,602,375
Quasi endowment	11,998,381	11,797,130
Various campus departments	4,159,792	3,995,304
Total	$ 21,090,846	$ 20,473,804

Permanently restricted net assets at June 30, 2015 and 2014 consisted of the following:

	2015	*2014*
Endowment funds	$ 7,858,697	$ 7,572,242
Externally trusted charitable remainder trusts	331,590	272,553
Estates not yet distributed to Foundation	294,000	-
Pledge receivables	103,332	-
Perpetual trusts held by others	3,897,517	3,988,957
Total	$ 12,485,136	$ 11,833,752

Note 10. Agreement with Cuesta College

The Foundation has an agreement with Cuesta College for services, facilities and equipment. The College employs all the Foundation staff, and the Foundation reimbursed the cost of four employee positions during the year ending June 30, 2015 and three and one-half employee positions during the year ended June 30, 2014. The remaining employees, including the executive director, were funded by the College. The College also provides office space and various office equipment used by the Foundation. Any amounts provided by the College are treated as in-kind gifts from Cuesta College and shown as support from Cuesta College in the accompanying statement of activities and changes in net assets.

As of June 30, 2015 and 2014, the Foundation had an accounts payable balance to the College of $472,739 and $284,957, respectively.

Note 11. Subsequent Events

The date to which events occurring after June 30, 2015 have been evaluated for possible October 14, 2015, which is the date on which the financial statements were available to be issued.