

**SAN DIEGO COMMUNITY COLLEGE  
AUXILIARY ORGANIZATION**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS  
INCLUDING REPORT ON COMPLIANCE**

**June 30, 2018**



**SAN DIEGO COMMUNITY COLLEGE AUXILIARY ORGANIZATION  
(A California Nonprofit Corporation)**

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June 30, 2018**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
San Diego Community College Auxiliary Organization  
San Diego, California

### **Report on the Financial Statements**

We have audited the accompanying statement of net position of the San Diego Community College Auxiliary Organization (the Organization), a component unit of the San Diego Community College District (the District), a nonprofit organization, as of June 30, 2018, and the related statements of revenues, expenses, and changes in net position and cash flows of the San Diego Community College Auxiliary Organization for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Organization's financial statements as listed in the table of contents.

### ***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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2018, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 2018 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness on the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Glendora, California  
December 6, 2018

**SAN DIEGO COMMUNITY COLLEGE AUXILIARY ORGANIZATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2018**

**INTRODUCTION**

This section of the San Diego Community College Auxiliary Organization's (Organization) financial statements presents the analysis of the Organization's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the financial statements, which follow this section.

The Organization's general operations are supported by distributions from the Organization's endowment trust. These funds are used for District and campus support activities.

**FINANCIAL HIGHLIGHTS**

- The Organization's current liabilities increased \$331,138 or 70% during the course of the fiscal year ended June 30, 2018, due primarily to an increase in contributions to San Diego Promise Endowment in support of student scholarships and other scholarship funds.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The component unit financial statements include the Independent Auditors' Report, Management's Discussion and Analysis (MD&A) and financial statements with accompanying notes. Operating activities and nonoperating activities are presented separately on the Statement of Revenues, Expenses, and Changes in Net Position and the Statements of Cash Flows are presented using the direct method.

**REQUIRED FINANCIAL STATEMENTS**

The financial statements of the Organization report information about the Organization using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities.

- The *Statements of Net Position* include all of the Organization's assets and liabilities for the year ended June 30, 2018, and provide information about the nature and amounts of investments in resources (assets) and the obligation to the Organization's creditors (liabilities). They also provide the basis for computing rates of return, evaluating the capital structure, and assessing the liquidity and financial flexibility of the Organization.
- The *Statements of Revenues, Expenses, and Changes in Net Position* account for all of the Organization's revenues and expenses for the year ended June 30, 2018. These statements reflect the results of the Organization's operations over the years identified and can be used to determine the Organization's credit worthiness and its ability to successfully recover all its costs through service fees and other charges.
- The *Statements of Cash Flows* are required to provide information about the Organization's cash receipts and cash payments during the year ended June 30, 2018. These statements report cash receipts, cash payments, and net changes in cash resulting from operations,

**SAN DIEGO COMMUNITY COLLEGE AUXILIARY ORGANIZATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2018**

investing and financing activities; and provide answers to the questions of where cash came from, what cash was used for and what the changes in cash were for the reporting periods covered.

Table 1  
Condensed Statement of Net Position

	2018	2017	Variance	Percent Variance
<b>ASSETS</b>				
Cash and Investments	\$ 1,552,484	\$ 1,214,457	\$ 338,027	28%
Other Current Assets	2,912	2,000	912	46%
Total Assets	<u>1,555,396</u>	<u>1,216,457</u>	<u>338,939</u>	<u>28%</u>
<b>LIABILITIES</b>				
Current Liabilities	801,056	469,918	331,138	70%
Total Liabilities	<u>801,056</u>	<u>469,918</u>	<u>331,138</u>	<u>70%</u>
<b>NET POSITION</b>				
Unrestricted	754,340	746,539	7,801	1%
Total Net Position	<u>\$ 754,340</u>	<u>\$ 746,539</u>	<u>\$ 7,801</u>	<u>1%</u>

Overall operating results for the year show an increase to net position of 1%.

Table 2  
Condensed Statement of Revenues, Expenses and Changes in Net  
Position

	2018	2017	Variance	Percent Variance
Total Operating Revenues	\$ 648,472	\$ 227,042	\$ 421,430	186%
Total Operating Expenses	651,711	567,397	84,314	15%
Operating Income (Loss)	<u>(3,239)</u>	<u>(340,355)</u>	<u>337,116</u>	<u>99%</u>
Income from Investments	11,040	6,977	4,063	58%
Changes in Net Position	7,801	(333,378)	341,179	102%
Beginning Net Position	746,539	1,079,917	(333,378)	-31%
Ending Net Position	<u>\$ 754,340</u>	<u>\$ 746,539</u>	<u>\$ 7,801</u>	<u>1%</u>

The Auxiliary realized a change in net position of \$7,801.

**CONTACTING THE ORGANIZATION'S FINANCIAL MANAGEMENT**

This financial report was designed to provide a general overview of the Organization's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Vice Chancellor, Business and Technology Services, San Diego Community College District, 3375 Camino del Rio South, Room 210, San Diego, CA 92108.

**SAN DIEGO COMMUNITY COLLEGE AUXILIARY ORGANIZATION  
HISTORY AND ORGANIZATION**

**JUNE 30, 2018**

The San Diego Community College Auxiliary Organization was formed in 1990 to promote and assist the educational programs of the San Diego Community College District in accordance with the mission, policies and priorities of the District as administered by the District Chancellor.

**BOARD OF DIRECTORS**

Dr. Marie McMahon	Chair, Academic Senate President, Miramar College
Dr. Carlos O. Turner Cortez	Vice Chair, President, Continuing Education
Dr. Bonnie Ann Dowd	Secretary/Treasurer, Executive Vice Chancellor, Business & Technology Services
Dr. Constance Carroll	Chancellor, San Diego Community College District
Dr. Ricky Shabazz	President, City College
Dr. Pamela Luster	President, Mesa College
Dr. Patricia Hsieh	President, Miramar College
Dr. Stephanie Bulger	Vice Chancellor, Instructional Services & Planning
Dr. Justin Akers	Academic Senate President, City College
Michelle Parsons	Academic Senate Representative, Mesa College
Richard Weinroth	Academic Senate President, Continuing Education

**SAN DIEGO COMMUNITY COLLEGE AUXILIARY ORGANIZATION**

**STATEMENT OF NET POSITION**

**June 30, 2018**

**ASSETS**

Cash and Cash Equivalents	\$ 611,587
Investments	940,897
Accounts Receivable	<u>2,912</u>
Total Assets	<u>\$ 1,555,396</u>

**LIABILITIES AND NET POSITION**

**LIABILITIES**

Accounts Payable	\$ 94,577
Deposits Held for Others	631,935
Deferred Revenues	<u>74,544</u>
Total Liabilities	801,056

**NET POSITION**

Unrestricted	<u>754,340</u>
Total Net Position	<u>754,340</u>
Total Liabilities and Net Position	<u>\$ 1,555,396</u>

See accompanying notes to the financial statements



**SAN DIEGO COMMUNITY COLLEGE AUXILIARY ORGANIZATION**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**For the Fiscal Year Ended June 30, 2018**

<b>OPERATING REVENUES</b>	
Local Contributions	\$ 79,603
Transfer from the San Diego Foundation	565,456
Other Income	3,413
Total Operating Revenues	648,472
 <b>OPERATING EXPENSES</b>	
Contract Services and Operating Expenses	98,235
District Support and Promise Scholarships	553,426
Supplies, Materials, and Minor Equipment	50
Total Operating Expenses	651,711
Total Operating Loss	(3,239)
 <b>NONOPERATING INCOME</b>	
Income from Investments	11,040
Total Nonoperating Income	11,040
<b>CHANGE IN NET POSITION</b>	7,801
Net Position - Beginning of Year	746,539
<b>NET POSITION - END OF YEAR</b>	\$ 754,340

See accompanying notes to the financial statements

**SAN DIEGO COMMUNITY COLLEGE AUXILIARY ORGANIZATION**

**STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2018**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Others	\$ 992,349
Cash Support Provided to District and Campuses	(664,450)
Net Cash Provided by Operating Activities	<u>327,899</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of Investments, net	(189,044)
Investment Income	10,128
Net Cash Used for Investing Activities	<u>(178,916)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	148,983
Cash and Cash Equivalents - Beginning of Year	<u>462,604</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 611,587</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (3,239)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:	
Change in Accounts Payable	(12,739)
Change in Deposits Held for Others	348,936
Change in Deferred Revenues	(5,059)
Net Cash Provided by Operating Activities	<u><u>\$ 327,899</u></u>

See accompanying notes to the financial statements

**SAN DIEGO COMMUNITY COLLEGE AUXILIARY ORGANIZATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Reporting Entity**

The financial statements of the San Diego Community College Auxiliary Organization (the Organization) have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental agencies. The Governmental Accounting Standard Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Organization are described below.

The San Diego Community College Auxiliary Organization (the Organization), was formed as a California nonprofit public benefit corporation in 1990 pursuant to the general nonprofit corporation laws of the State of California as an auxiliary organization of the San Diego Community College District (the District) in accordance with the provisions of §72670 of the California Education Code for the primary purpose of promoting and assisting the programs of the District.

The Organization has its own Board of Directors composed of District faculty and administrators; however, the District maintains oversight responsibility for the Organization as carried out by the District Chancellor in accordance with the provisions of §72670 of the California Education Code. Since the District significantly influences its operations, the Organization's financial statements are included in the District's financial statements as a blended component unit. Should the Organization be dissolved, its assets remaining after payment of liabilities shall be distributed to the District.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures, such as depreciation expense and the net book value of capital assets. Accordingly, actual results could differ from those estimates.

**Financial Statement Presentation**

The Organization's financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. The statement of activities and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which they are incurred.

**SAN DIEGO COMMUNITY COLLEGE AUXILIARY ORGANIZATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Statement Presentation (Continued)**

Operating revenues are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

**Income Taxes**

The Organization is a 509(a)(1) publicly supported nonprofit organization that is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private organization. The Organization is also exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code and is registered with the California Attorney General as a charity.

Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Organization did not have any net unrelated business income for the period ended June 30, 2018. It is management's belief that the Organization does not hold any uncertain tax positions that would materially impact the financial statements. The Organization's information and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

**Cash and Cash Equivalents**

The Organization considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents.

**Investments**

The Organization's method of accounting for most investments is the fair value method. Fair value is determined by published quotes when they are readily available.

**Capital Assets – Operations**

The Organization has not adopted a policy to capitalize significant asset purchases in conformance with generally accepted accounting principles because the facilities and equipment used by the Organization for its operation are provided by the District.

**Transfers from the San Diego Foundation**

The San Diego Foundation (the Foundation) makes annual transfers from its Endowment Trust Funds to the Organization in accordance with the San Diego Foundation's investment and distribution policies. The Trust Funds at the San Diego Foundation were valued at \$28,290,411 as of June 30, 2018.

**SAN DIEGO COMMUNITY COLLEGE AUXILIARY ORGANIZATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Foundation's investment policy is to invest endowment funds in a diversified portfolio, which is structured for a long-term total return. To provide diversification and to moderate risk, investments are divided into carefully defined asset classes.

The San Diego Foundation's distribution policy allows for a 5% distribution annually, based upon endowment principal market value over the last 36 months at the request of the organization. The eligible distribution calculations are made on a monthly basis. If the market value of the endowment principal of any fund, at the end of each month, is less than the initial value of the contributions made to the endowment principal, then distributions will be limited only to interest and dividends received.

**NOTE 2: CASH AND INVESTMENTS**

Cash and cash equivalents as of June 30, 2018 consists of the following:

Checking	\$ 28,662
Savings and Money Market Funds	582,625
Petty Cash	300
Total	<u>\$ 611,587</u>

**Cash and Cash Equivalents**

Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. The Organization does not have a policy for custodial credit risk for deposits. The Organization's deposits at California Coast Credit Union and San Diego County Credit Union, inclusive of all cash and cash equivalents, are federally insured by the National Credit Union Administration (NCUA). The Organization's deposits at CitiBank and in the Union Bank checking account, inclusive of all cash and cash equivalents, are federally insured by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2018, the Organization's deposits were not exposed to custodial credit risk as deposits held in interest-bearing accounts did not exceed the \$250,000 insurance limit. The Organization's savings account at Union Bank is held as public funds in their Government Services unit, and is fully insured up to an unlimited amount. The Organization's certificate of deposits at Union Bank are brokered CDs insured by the FDIC, and do not exceed the \$250,000 insurance limit.

**Investments**

For the period ended June 30, 2018, all investments held in brokerage accounts are certificates of deposit.

**SAN DIEGO COMMUNITY COLLEGE AUXILIARY ORGANIZATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 3: ACCOUNTS RECEIVABLE**

The accounts receivable balance as of June 30, 2018 is \$2,912.

The Organization has not historically had difficulty collecting amounts due; accordingly, no allowance for uncollectible accounts has been recorded.

**NOTE 4: RELATED PARTY TRANSACTIONS**

As described in Note 1, the Organization's purpose is to support the District's campuses and programs; therefore, transactions between the Organization and the District are expected. Per the Organization's Bylaws, certain colleges, Continuing Education, and District Office personnel serve as members of the Organization's Board of Directors by virtue of their position at the San Diego Community College District.

**NOTE 5: RISK MANAGEMENT**

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters. The Organization does not have any employees, therefore does not carry worker's compensation insurance. For general liabilities, the Organization is covered under the District's self-insurance program.

**NOTE 6: SUBSEQUENT EVENTS**

San Diego Community College Auxiliary Organization has evaluated subsequent events through December 6, 2018, the date the financial statements were available to be issued. Management did not identify any transactions that require disclosure or that would have an impact on the financial statements.

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
San Diego Community College Auxiliary Organization  
San Diego, 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 San Diego Community College Auxiliary Organization (the Organization), which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 6, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered the Organization’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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’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 basic financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization’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 entity’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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Glendora, California  
December 6, 2018



**SAN DIEGO COMMUNITY COLLEGE AUXILIARY ORGANIZATION  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Fiscal Year Ended June 30, 2018**

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

**SAN DIEGO COMMUNITY COLLEGE AUXILIARY ORGANIZATION  
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES  
For the Fiscal Year Ended June 30, 2018**

**FINDINGS—FINANCIAL STATEMENT AUDIT**

There were no financial statement findings in the prior year.