



SADDLEBACK COLLEGE FOUNDATION

AUDIT REPORT

FOR THE YEAR ENDED
JUNE 30, 2013



San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

SADDLEBACK COLLEGE FOUNDATION
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JUNE 30, 2013

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Christy White, CPA

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Board of Governors
Saddleback College Foundation
Mission Viejo, California

We have audited the accompanying financial statements of Saddleback College Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2013, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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State Board of Accountancy*

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saddleback College Foundation as of June 30, 2013, 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.

Christy White Associates

San Diego, California

October 8, 2013

**SADDLEBACK COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013**

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 440,639	\$ 420,646
Investments	5,502,958	5,013,962
Investments with the Foundation for California Community Colleges	868,297	825,766
Accounts receivable	273,600	90,517
Prepaid expense	1,695	2,002
Total current assets	<u>7,087,189</u>	<u>6,352,893</u>
Total Assets	<u>\$ 7,087,189</u>	<u>\$ 6,352,893</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 369,536	\$ 375,400
Accrued liabilities	1,238	-
Trust Account Liability	56,042	65,751
Total current liabilities	<u>426,816</u>	<u>441,151</u>
Total liabilities	<u>426,816</u>	<u>441,151</u>
Net assets		
Unrestricted	176,908	216,102
Temporarily restricted	4,704,365	4,083,987
Permanently restricted	1,779,100	1,611,653
Total net assets	<u>6,660,373</u>	<u>5,911,742</u>
Total Liabilities and Net Assets	<u>\$ 7,087,189</u>	<u>\$ 6,352,893</u>

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

**SADDLEBACK COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Total 2012
SUPPORT AND REVENUES					
SUPPORT					
Contributions	\$ 23,384	\$ 840,059	\$ 140,123	\$ 1,003,566	\$ 3,151,067
Special events - fundraising	13,682	293,257	27,865	334,804	303,166
In-Kind Donations	15,549	-	-	15,549	75,802
Donated Services	328,742	-	-	328,742	187,826
Donated Professional Fees	-	-	-	-	26,027
REVENUES					
Interest and dividends and realized gains	61,514	172,626	-	234,140	129,235
Unrealized Gain (Loss) on investments	89,160	296,496	-	385,656	(33,283)
Sales & Commission	1,097	109,791	-	110,888	130,529
Other Contract Services	1,805	58,296	-	60,101	-
Other Revenue	-	3,405	-	3,405	400
Total Support and Revenues	534,933	1,773,930	167,988	2,476,851	3,970,769
Net assets released from restrictions	1,154,093	(1,153,552)	(541)	-	-
Total Support and revenue after net assets released from restriction	1,689,026	620,378	167,447	2,476,851	3,970,769
EXPENSES					
Program services	1,306,954	-	-	1,306,954	1,051,628
Supporting services					
Management and general activities	144,340	-	-	144,340	106,229
Fundraising	276,926	-	-	276,926	206,052
Total Expenses	1,728,220	-	-	1,728,220	1,363,909
CHANGE IN NET ASSETS	(39,194)	620,378	167,447	748,631	2,606,860
Net Assets - Beginning	216,102	4,083,987	1,611,653	5,911,742	3,304,882
Net Assets - Ending	\$ 176,908	\$ 4,704,365	\$ 1,779,100	\$ 6,660,373	\$ 5,911,742

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

**SADDLEBACK COLLEGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013**

	Program Services	Management and General	Fundraising	Total 2013	Total 2012
EXPENSES					
Salaries and benefits	\$ 228,097	\$ 144,340	\$ 100,825	\$ 473,262	\$ 295,880
Scholarship payments/Financial Aid	367,302	-	-	367,302	289,985
Program activities	53,227	-	-	53,227	78,134
Special events	-	-	176,101	176,101	156,754
Professional Fees	-	-	-	-	37,692
Contract services	273,763	-	-	273,763	157,032
Supplies and printing	166,193	-	-	166,193	128,030
Seminars and conferences	29,267	-	-	29,267	27,629
Dues and memberships	11,991	-	-	11,991	8,925
In-kind donations	15,549	-	-	15,549	50,812
Program equipment and software	82,667	-	-	82,667	72,282
General operating expenses	78,898	-	-	78,898	60,754
Total Expenses	\$ 1,306,954	\$ 144,340	\$ 276,926	\$ 1,728,220	\$ 1,363,909

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

SADDLEBACK COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 748,631	\$ 2,606,860
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Realized loss/(gain) on investments	(234,140)	(7,980)
Unrealized loss/(gain) on investments	(385,656)	33,283
Changes in operating assets and liabilities		
Accounts receivable	(183,083)	(31,142)
Prepaid expense	307	2,798
Accounts payable	(5,864)	95,632
Accrued liabilities	1,238	-
Increase/(decrease) in trust accounts	(9,709)	15,571
Net cash provided by (used in) operating activities	<u>(68,276)</u>	<u>2,715,022</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(7,502,742)	(3,536,439)
Proceeds on the sale of investments	7,591,011	1,043,459
Net cash provided by (used in) investing activities	<u>88,269</u>	<u>(2,492,980)</u>
NET INCREASE (DECREASE) IN CASH	19,993	222,042
Cash and cash equivalents - Beginning	<u>420,646</u>	<u>198,604</u>
Cash and cash equivalents - Ending	<u>\$ 440,639</u>	<u>\$ 420,646</u>

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

**SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Saddleback College Foundation (the “Foundation”), was formed as a California nonprofit public benefit corporation on December 5, 2003. The public and charitable purposes for which this Foundation is organized are to further the educational purposes of the South Orange County Community College District (the “District”). The Foundation is a discretely presented component unit of the District and has been included in the District’s basic financial statements.

B. 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.

C. Functional Expenses

The costs of providing services have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Certain costs and expenditures have been allocated between program and supporting services based on management’s estimates.

D. Basis of Accounting

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

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Financial Statement Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include all resources available for use by the Board of Governors and management's discretion in carrying out the activities of the Foundation in accordance with its Bylaws. Temporarily or permanently restricted net assets are restricted by the donor or as matter of law. Temporarily restricted net assets are only expendable for the purposes specified by the donor or through the passage of time. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets. Permanently restricted net assets are generally required to be held by the organization in perpetuity while the earnings on those assets are available for use by the organization to support its activities. Donors can place restrictions on the earnings from permanently restricted contributions at the time the contributions are made or pledged.

F. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence or nature of any donor restrictions. A contribution is recognized as income at the date the contribution is received or pledged.

Non-cash contributions of goods and materials are recorded at fair value at the date of contribution. Contributed services are recorded at fair value at the date of contribution if they are used to create or enhance a non-financial asset or require specialized skills, are provided by someone who possesses those skills, and would have to be purchased by the organization if not donated.

G. Income Taxes

The Foundation 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 Foundation 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 Foundation did not have any net unrelated business income for the year ended June 30, 2013. It is management's belief that the Auxiliary does not hold any uncertain tax positions that would materially impact the financial statements. The organization's foundation and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Property and Equipment

The SOCCCD has adopted a policy to capitalize purchases of \$5,000 or more of property and equipment used for administrative purposes. Title to property and equipment acquired with grant and contract funds generally revert to the funding agency when it is no longer needed for the applicable program; therefore, it is not capitalized.

Purchased property and equipment are recorded at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has placed a time or purpose restriction on the asset. Property and equipment are depreciated using the straight-line method. There are currently no fixed assets on the Foundation's records.

I. Deferred Revenue

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

J. Cash and Cash Equivalents

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

K. Investments

The Foundation's method of accounting for most investments is the fair value method. Fair value is determined by published quotes when they are readily available. Unrealized gains and losses are included in the accompanying statement of activities.

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

L. Fair Value Hierarchy

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

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

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

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2013, consist of amounts held in non-interest bearing checking, interest bearing checking, money market, and brokerage accounts totaling \$440,639.

Cash in Bank

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. The Foundation does not have a policy for custodial credit risk of deposits. Through December 31, 2012, the FDIC insured 100% of non-interest bearing accounts and up to \$250,000 per depositor of interest bearing accounts per insured bank. With the expiration of the Dodd-Frank Act, the Foundation had \$190,639 exposed to custodial credit risk as this amount was in excess of the \$250,000 FDIC insured amount.

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 3 – INVESTMENTS

The Foundation has entered into a partnership arrangement with the California Community Colleges Scholarship Endowment (the “Endowment”) through the Foundation for California Community Colleges (FCCC). The Endowment has been set up to provide matching scholarship funds for California community colleges. The Endowment was formed through a generous \$50 million matching commitment from the Bernard Osher Foundation and an initial contribution of \$25 million. The California Community Colleges and the FCCC had until June 2011 to raise an additional \$50 million. Beginning with the 2009-10 year, the Endowment distributed scholarship funding from the initial \$25 million gift to each participating community college. The allocation will be based on each college’s Full Time Equivalent Students (FTES) and each scholarship is valued at a maximum of \$1,000 per school year per student.

These funds are invested in a pooled investment fund held by the FCCC. At June 30, 2013, the fair value of this investment was \$868,297, and included an unrealized gain of \$55,715. An additional \$794,781 is held in the Foundation's name by the FCCC. This amount is comprised of the initial gift of \$397,500 and matching funds by the Bernard Osher Foundation of \$397,281. The additional \$794,781 has not been included in these financial statements as it does not qualify as an asset of the foundation. The FCCC has assembled an investment advisory committee charged with the responsibility for directing and monitoring the investment management of the Endowment’s assets.

Investments are presented in the financial statements at their aggregate fair value. The fair value of investments at June 30, 2013, is as follows:

	Fair Value	Quoted Prices in Active		
		Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stocks and options	\$ 2,266,324	\$ 2,266,324	\$ -	\$ -
Mutual funds	3,100,105	3,100,105	-	-
Government and Government Sponsored Entity (GSE) bonds	136,529	-	136,529	-
Investment with FCCC	868,297	-	868,297	-
Total	\$ 6,371,255	\$ 5,366,429	\$ 1,004,826	\$ -

The following Schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2013:

Net appreciation in fair value of investments	\$ 385,656
Realized gains and interest and dividend income	234,140
Investment income, net	<u>\$ 619,796</u>

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 4 – TRUST ACCOUNTS

The Foundation acts as a fiscal agent for organizations and groups of Saddleback College. Accordingly, \$56,042 of cash at June 30, 2013, belongs to other parties. The Foundation does not have discretion over the funds held on behalf of others.

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2013 total \$273,600.

The Foundation has not historically had difficulty collecting amounts due from grantor agencies; therefore, no allowance for uncollectible accounts has been recorded.

NOTE 6 – NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013, are restricted for the following purposes:

Program Services	\$	4,532,565
Scholarships		171,800
	\$	<u>4,704,365</u>

Permanently Restricted Net Assets

Permanently restricted net assets totaling \$1,779,100 are restricted for investment in perpetuity, which represents the Foundation's endowment funds.

Net Assets Released from Restrictions

Net assets of \$1,154,093 were released from temporarily restricted net assets during the fiscal year. The Foundation met donor imposed restrictions by incurring qualified expenses.

Program Services	\$	824,437
Scholarships		329,656
	\$	<u>1,154,093</u>

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 7 – RELATED PARTIES

To assist the Foundation in carrying out its purpose, the District provides administrative services to the Foundation. The District pays salaries and benefits to the executive director and the senior accounting specialist and contributed to the Foundation's audit fee. In addition, working space for employees who perform administrative services for the Foundation is provided by the District at no charge. During the year ended June 30, 2013, the District contributed \$328,742 to these salaries and benefits. These donated services have been reflected in the accompanying statement of activities as revenues under donated services and donated professional fees and as expenses under salaries and benefits and contract services. The value of donated facilities has not been determined and is therefore not included in the accompanying financial statements; however, management does not believe the amount to be material.

NOTE 8 – ENDOWMENT

The Foundation's endowment consists of approximately 68 individual funds established primarily for scholarships. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Governors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from an income and appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 8 – ENDOWMENT (continued)

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Governors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return ranging from 5 to 8 percent annually. Actual returns in any given year may vary from this amount. Returns for the fiscal year were:

	Fiscal Year
	<u>Investment Earnings</u>
MorganStanley Endowment	\$ 98,713
Osher Endowment	81,000
Total endowment earnings	<u>\$ 179,713</u>

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 Foundation has a policy of appropriating for distribution each year 4 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution was planned. While it is the Foundation's goal to distribute 4 percent, it is not guaranteed and is contingent upon current market conditions. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 2 percent annually. This is consistent with the Foundation'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.

Endowment net assets composition by fund as of June 30, 2013, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowments	\$ 161,134	\$ 1,779,100	<u>\$ 1,940,234</u>

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 8 – ENDOWMENT (continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies as of June 30, 2013.

NOTE 9 – CHARITABLE REMAINDER UNITRUST INTEREST

The Foundation is a 50% beneficiary of the Lycette Charitable Remainder Unitrust (the Unitrust). The Foundation's beneficiary interest was valued at approximately \$210,000 at the time it was written in 2006. The Unitrust is managed by the Foundation and is not recorded in the financial statements as the donor has reserved the right to designate other beneficiaries at any time. The donor has restricted any distribution received by the Foundation to be applied equally to benefit the Landscape and Horticulture Department and the Theatre Arts Department.

NOTE 10 – GIFT ANNUITIES

The Foundation is a named beneficiary of charitable gift annuities administered by the Community College League of California. The Foundation is entitled to the remaining funds in the annuities designated by the donors at the end of the donors' lifetime. The balance of annuity investments at June 30, 2013, is approximately \$50,223. The present value of the future gifts has not been calculated or recorded in the financial statements due to uncertainty of the amount of future gifts to be received.

NOTE 11 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events for the period from June 30, 2013 through 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.

OTHER INDEPENDENT AUDITORS' REPORTS

**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**

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State Board of Accountancy*

Independent Auditors' Report

Governing Board
Saddleback College Foundation
Mission Viejo, 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 statement of financial position of Saddleback College Foundation, as of and for the year ended June 30, 2013, the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Saddleback College Foundation's basic financial statements, and have issued our report thereon dated October 8, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Saddleback 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Saddleback College Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of Saddleback College Foundation'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.

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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Questioned Costs that we consider to be significant deficiencies. See findings #2013-1,# 2013-2,# 2013-3, and #2013-4.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Saddleback College Foundation's financial statements are free of 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*.

Saddleback College Foundation's Response to Findings

Saddleback College Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Saddleback College Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



San Diego, California
October 8, 2013

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

**SADDLEBACK COLLEGE FOUNDATION
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Non-compliance material to financial statements noted?	<u>No</u>

**SADDLEBACK COLLEGE FOUNDATION
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

FINDING #2013-1 - BASIS FOR THE ALLOCATION OF FUNCTIONAL EXPENSES

Criteria:

Internal controls should be implemented to ensure that functional expenses are recorded accurately.

Condition:

Per Financial Accounting Standard Board (FASB) Accounting Standard Codification (ASC) 958-720-45-6, not-for-profit entities shall report their expenses by functional classification. A basis for allocation is required to be used for the functional expense classifications. This will ensure appropriate allocation of the expenses to each of the functions.

A reasonable basis or justification needs to support the allocation of costs to be properly reflected in the audit report and tax return. Currently, a documented basis does not exist and allocation percentages are provided by the Executive Director who is familiar with how time spent in order to allocate payroll, including in-kind payroll costs to program, general and administration and fundraising functions.

Cause:

Lack of internal control procedures regarding the tracking of functional expenses.

Recommendation:

We noted that this was a prior year comment that was not corrected. We recommend that the Foundation develop a written procedure for the functional expense allocation. The procedure should document the frequency with which the functional expense allocation will be prepared and reviewed. We recommend at least a quarterly review of this allocation. The Foundation should update the allocation percentage based on a reasonable criterion, such as labor effort from time records or activity reports of key personnel to ensure the allocation is equitable. The backup documentation to support this allocation should be maintained and provided upon request to support the annual allocation. The allocation written procedure should be provided to management of the foundation and the district by 12/31/13. Allocations should be monitored for accuracy, reasonableness, and timeliness of completion.

Management Response:

The Foundation will request a meeting annually with District services and also a separate meeting internally with Foundation staff at the beginning of each fiscal year to review the current allocation and determine if changes are necessary. A written summary will follow these meetings documenting the allocation to be used for District and Foundation staff salaries for the new fiscal year and the criteria used to determine the allocations. These allocations of salary and other expenses will be posted to the quarterly financial statements of the Foundation.

**SADDLEBACK COLLEGE FOUNDATION
FINANCIAL STATEMENT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

FINDING #2013-2 - RECORDING OF BOARD DESIGNATED FUNDS

Criteria:

Controls should be in place to prevent unrestricted funding from being placed at the discretion of any group or individual.

Condition:

We noted that the Board of Governors (Board) designated unrestricted funds to be used at the discretion of the President of the College. These funds were accounted for as temporarily restricted funds. Board designated funds should not be accounted for as temporarily restricted accounts since these accounts are to be used for external restrictions by donors. The utilization of the funds must comply with the Board designations and the account should be part of unrestricted funds as the Board has the authority to "undesignate" them at any time.

Cause:

Lack of internal control procedures surrounding the recording of unrestricted funds.

Recommendation:

We noted that this was a prior year finding that was not corrected. We recommend that the Foundation develop procedures to ensure that Board designated accounts are reported and tracked in the unrestricted fund to ensure that they are not commingled with temporarily restricted accounts.

Management Response:

The Foundation is in the process of preparing the necessary paperwork to the District office to correct the classification of these funds from temporarily restricted to unrestricted. Future funds will be recorded as suggested per Generally Accepted Accounting Principles and not per Board designations.

**SADDLEBACK COLLEGE FOUNDATION
FINANCIAL STATEMENT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

FINDING #2013-3 - CLASSIFICATION OF FUNDS

Criteria:

Controls should be in place to allow for the proper classification of funding as either unrestricted, temporarily restricted or permanently restricted.

Condition:

We noted the following during our audit:

The Dorothy Marie Lowry Trust contribution in the amount of \$2,278,227 was classified as permanently restricted and should have been recorded as temporarily restricted. Numerous transfers are recorded between unrestricted and temporarily restricted accounts and on a few occasions between permanently restricted funds

Documentation should be reviewed when contributions are received in order to properly classify the funds within the 3 categories. In the absence of proper classification, donor restrictions may not be met or in the case of item a. above, the principal would have not been utilized in accordance with the donor's wishes.

Transfers were used to correct previous transactions that were not recorded correctly or to allocate contributions or investment earnings to the correct accounts. It is important to understand and record the initial transactions correctly on the front-end.

Cause:

Lack of internal control procedures surrounding the proper classification of funding as unrestricted, temporarily restricted or permanently restricted.

Recommendation:

We noted that this finding was noted in the prior year and not corrected. We recommend when recording contributions that the supporting documentation be reviewed to ensure it is correctly classified. This will eliminate transfers occurring and will also ensure that the Foundation is meeting their fiduciary obligation of complying with donor's wishes. In addition, investment earnings can be reported in an investment holding account and when the allocation is determined for each project, the earnings should be reclassified to unrestricted or temporarily restricted earnings instead of recording as transfers.

Management Response:

The Foundation has provided the necessary paperwork to the District office to correct the classification of these funds from permanently restricted to temporarily restricted. Future funds will be recorded as suggested per Generally Accepted Accounting Principles and not per Board designations.

**SADDLEBACK COLLEGE FOUNDATION
FINANCIAL STATEMENT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

FINDING #2013-4 - ACCOUNT RECEIVABLE ACCRUALS

Criteria:

In accordance with Generally Accepted Accounting Principles (GAAP), the accounts receivable balance at year end must reflect all assets that are due to or pledged to the Foundation that have not been received as of the balance sheet date.

Condition:

During our accounts receivable testing and inquiry with management, we found that two receivables had not been recorded. These receivables included an Endowment (Greenspan) of \$100,000 as well as a donation of three Kia vehicles with a total value of \$65,000. This combined to an understatement of accounts receivable of \$165,000.

Cause:

Lack of internal control procedures surrounding the year-end closing.

Recommendation:

We recommend that the Foundation implement sufficient and appropriate internal control procedures to ensure that all transactions are recorded in the proper accounting period.

Management Response:

The receivables which were pledged shortly before the close of the fiscal year contained unique characteristics regarding the amounts at which they should be recorded. Additional time and information was needed to determine the correct amount to record. During the course of the audit work these amounts were addressed and resolved.

**SADDLEBACK COLLEGE FOUNDATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

There were no formal findings reported for the fiscal year ended 2011-12.