MiraCosta College Foundation

(A California Nonprofit Corporation)

Annual Financial Report

June 30, 2014

MIRACOSTA COLLEGE FOUNDATION
(A California Nonprofit Corporation)

JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
MiraCosta College Foundation
Oceanside, California

Report on the Financial Statements

We have audited the accompanying financial statements of MiraCosta College Foundation (a California nonprofit corporation) which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, cash flows, and functional expenses 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 from material misstatement.

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

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

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FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MiraCosta College Foundation as of June 30, 2014, 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.

Vavrinek, Trine, Day & Co., LLP.

Rancho Cucamonga, California
January 30, 2015

MIRACOSTA COLLEGE FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS	
Current Assets	
Cash and cash equivalents	
Unrestricted	$ 449,059
Restricted	1,117,797
Investments	6,725,963
Investments related to deferred gifts	373,515
Accounts receivable	6,811
Total Current Assets	8,673,145
Noncurrent Assets	
Beneficial interest in assets held by the Foundation for CA Community Colleges	814,020
Cash surrender value of life insurance	25,075
Total Assets	$ 9,512,240
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	$ 54,443
NET ASSETS	
Unrestricted	753,998
Temporarily restricted	3,338,952
Permanently restricted	5,364,847
Total Net Assets	9,457,797
Total Liabilities and Net Assets	$ 9,512,240

See the accompanying notes to financial statements.

MIRACOSTA COLLEGE FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUES				
Contributions, gifts, and grants	$ 69,705	$ 541,078	$ 416,776	$ 1,027,559
Donated asset contributions	-	189,408	-	189,408
Net assets released from restrictions	1,007,665	(1,007,665)	-	-
Total Public Support and Revenues	1,077,370	(277,179)	416,776	1,216,967
EXPENSES				
Program services	1,037,743	-	-	1,037,743
General and administrative	61,834	-	-	61,834
Total Expenses	1,099,577	-	-	1,099,577
OTHER INCOME				
Unrealized gain on investments	62,689	937,928	-	1,000,617
Change in value of deferred gifts	-	21,156	-	21,156
Change in cash surrender value of life insurance	-	877	-	877
Change in valule of benefical interest in assets held by Foundation for CA Community Colleges	-	102,967	-	102,967
Interest and dividends	1,867	124,617	-	126,484
Total Other Income	64,556	1,187,545	-	1,252,101
TRANSFERS	(57,090)	20,896	36,194	-
CHANGE IN NET ASSETS	(14,741)	931,262	452,970	1,369,491
NET ASSETS, BEGINNING OF YEAR	768,739	2,407,690	4,911,877	8,088,306
NET ASSETS, END OF YEAR	$ 753,998	$ 3,338,952	$ 5,364,847	$ 9,457,797

See the accompanying notes to financial statements.

MIRACOSTA COLLEGE FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	$ 1,369,491
Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities	
Contributions restricted for long-term purposes	(957,854)
Net unrealized gain on investments	(1,000,617)
Change in Assets and Liabilities	
Decrease in accounts receivable	44,666
Increase in value of beneficial interest in assets held by the Foundation for CA Community Colleges	(102,967)
Increase in cash surrender value of life insurance	(877)
Decrease in accounts payable	(182,941)
Net Cash Flows From Operating Activities	(831,099)
CASH FLOWS FROM INVESTING ACTIVITIES	
Net purchase of investments	(426,159)
Change in value of deferred gifts	(21,156)
Decrease in restricted cash and cash equivalents	333,483
Net Cash Flows From Investing Activities	(113,832)
CASH FLOWS FROM FINANCING ACTIVITIES	
Collections of contributions restricted for long-term purposes	957,854
NET CHANGE IN UNRESTRICTED CASH AND CASH EQUIVALENTS	12,923
UNRESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	436,136
UNRESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	$ 449,059

See the accompanying notes to financial statements.

MIRACOSTA COLLEGE FOUNDATION
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STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Services	General and Administrative	Total
Scholarships and grants	$ 325,578	$ -	$ 325,578
MiraCosta College programs	424,923	-	424,923
Direct student aid	97,834	-	97,834
Support services	-	5,910	5,910
Donated assets	189,408	-	189,408
Professional fees	-	8,777	8,777
Donor cultivation and goodwill	-	13,094	13,094
Other administrative expenses	-	34,053	34,053
TOTAL	$ 1,037,743	$ 61,834	$ 1,099,577

See the accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The MiraCosta College Foundation (the Foundation) is a non-profit public benefit corporation organized under the Non-profit Public Benefit Corporation Law of the State of California. The Foundation was incorporated on April 26, 1967, with the express purpose of promoting the interest and welfare of MiraCosta College (the College) and securing resources that will transform student lives. The Foundation is an independent foundation established under the laws of the State of California. The members of the Foundation's Board of Directors are composed of members from the local community, the College's President, and two members of the College management staff.

Financial Statement Presentation

The accompanying financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-210-50. Under ASC 958-210-50, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Foundation is required to present a statement of cash flows. The Foundation does not use fund accounting. Revenues and expenses are recorded when incurred in accordance with the accrual basis of accounting.

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

Method of Accounting

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America utilizing the accrual basis of accounting, have been prepared to focus on the Foundation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of equity and transactions into three classes of net assets - permanently restricted, temporarily restricted, or unrestricted as follows:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or the passage of time.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. At June 30, 2014, there were no material unconditional promises to give; therefore, no pledges receivable have been accrued in these financial statements. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the time of the gift.

Fair Value Measurements

The fair value of equity and debt securities with readily determinable fair values approximates their respective quoted market prices. Because of the inherent uncertainty of valuation methods, those estimated values might differ significantly from those used had a market existed. All other financial instruments' fair values approximate their carrying amounts due to the short maturities of these instruments.

Support and Expenses

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

Investments

Short-term investments are valued at amortized cost, which approximates market value. Investment transactions are recorded on trade date. Realized gain and losses on sales of investments are determined on the specific identification basis.

Donated Assets

The Foundation records the value of donated assets when there is an objective basis available to measure their value. Donated assets are capitalized at the stated donated value and depreciated in accordance with Foundation policies unless they are passed through to the College.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking and money market accounts with maturities of less than 90 days. The Foundation maintains cash balances in financial institutions which are insured up to $250,000. At June 30, 2014, the Foundation had uninsured cash deposits of $1,335,162. Cash and cash equivalents reported on the statement of cash flows are unrestricted.

Income Taxes

The Foundation is a charitable, not-for-profit, tax-exempt organization qualified under provisions of Section 50l(c)(3) of the Internal Revenue Code and corresponding California provisions. Accordingly, no provision for income taxes has been provided in the financial statements. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(A)(vi). The Foundation annually files information returns, Forms 990, 199, and RRF-1, with the appropriate agencies. There was no unrelated business activity income.

The Foundation has adopted FASB ASC Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

The Foundation's Federal informational tax returns for the years ended June 30, 2011, 2012, and 2013, are open to audit by the Federal authorities. California State informational returns for the years ended June 30, 2010, 2011, 2012, and 2013, are open to audit by State authorities.

Allocation of Functional Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, based upon management's estimates, certain costs have been allocated among the programs and the general and administrative activities.

NOTE 2 - INVESTMENTS

Investments are stated at fair value and are summarized as of June 30, 2014:

Investments	Adjusted Cost	Fair Value	Unrealized Gain
Vanguard - Inv Grade Fixed Income	$ 1,410,982	$ 1,657,579	$ 246,597
Vanguard - U.S. Equity	3,056,060	3,590,167	534,107
Vanguard - International Equity	1,258,304	1,478,217	219,913
Total Investments	$ 5,725,346	$ 6,725,963	$ 1,000,617

The investment return consists of the following at June 30, 2014:

Interest and dividend income	$ 126,484
Unrealized gain on investments	1,000,617
Total Return	$ 1,127,101

NOTE 3 - FAIR VALUE DISCLOSURES

The Foundation determines the fair market values of certain financial instruments based on the fair value hierarchy established in U.S. GAAP under *Fair Value Measurements and Disclosures*, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level I - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level II - Observable inputs other than Level I prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level III - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level III assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2014. The Foundation did not have any liabilities measured at fair value on a recurring basis as of June 30, 2014.

	Level I	Level III	Total
Assets			
Fixed income	$ 1,657,579	$ -	$ 1,657,579
U.S. equity	3,590,167	-	3,590,167
International equity	1,478,217	-	1,478,217
Deferred gifts	-	373,515	373,515
Total	$ 6,725,963	$ 373,515	$ 7,099,478

The following table presents changes in the Foundation's investment assets measured at fair value on a recurring basis for the year ending June 30, 2014.

	Level III
Investments, at Fair Value	
Balance, at June 30, 2013	$ 352,359
Net change in value of investments	21,156
Balance, at June 30, 2014	$ 373,515

The Foundation did not have any assets or liabilities recorded at fair value on a non-recurring basis.

NOTE 4 - DEFERRED GIFTS

The Foundation is the beneficiary of various charitable remainder trusts, administered by the Community College League of California and one individual trustor, which provide for the payment of distributions to the grantor or other designated beneficiary over the trust's term (generally the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available to the Foundation. The Foundation recognizes the fair value of its interest in the trust at the time the trust is established as a contribution. Fair value is based on the present value of the estimated future benefits to be received using discount rates ranging from 6.0 percent to 9.2 percent. Assets held in the charitable remainder trusts totaled $373,515 at June 30, 2014, and are reported at fair value or cost, depending on the nature of the assets in the statement of financial position. The Foundation revalues its liability to make distributions to the other designated beneficiaries annually based on mortality tables and other applicable factors. The revision of this liability together with the amortization of the discount associated with the contribution is reported as changes in the value of deferred gifts in the statement of activities.

NOTE 5 - BENEFICIAL INTEREST IN ASSETS HELD BY THE FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

In May 2008, the California Community Colleges Scholarship Endowment (the CCCS Endowment) was launched via a gift of $25 million from the Bernard Osher Foundation (the Osher Foundation) to the Foundation for California Community Colleges (the FCCC). The FCCC and California's community colleges were challenged with raising an additional $50 million through June 2011, for which the Osher Foundation agreed to provide a 50 percent match of up to $25 million. The purpose of the CCCS Endowment is to provide scholarships for students in California's community college system based on the terms of the agreement between the Osher Foundation and the FCCC, as well as the agreement between the FCCC and the Foundation. All of the funds contributed to the CCCS Endowment, regardless of source, are irrevocable gifts to the FCCC. The Foundation has an irrevocable beneficial interest in the balance of funds contributed for the benefit of students at MiraCosta College and the accumulated earnings, which does not include any funds contributed by the Osher Foundation. The Foundation has designated funds totaling $1,087,266 for the benefit of MiraCosta College's students. As of June 30, 2014, the Foundation's beneficial interest in the CCCS Endowment totaled $814,020.

In relation to the CCCS Endowment, this interpretation extends to the earnings on the fund, less distributions for scholarships made in conformance with the aforementioned agreements as determined by the FCCC. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the value of endowed gifts as of the date of the donation, and (b) net earnings on (c) less allowable distributions. Scholarship distributions made from the fund are classified as temporarily restricted income upon receipt of notification from the FCCC as to the amount and date of scheduled distributions.

NOTE 6 - DONOR DESIGNATED ENDOWMENTS

The Foundation consists of various funds established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net assets associated with endowments are classified and reported based on existence of donor-imposed restrictions as either unrestricted, temporarily restricted, or permanently restricted.

The Foundation operates under the guidance of the State Prudent Management of Institutional Funds Act (SPMIFA) 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 has classified as permanently restricted net assets (a) original value of gifts donated to permanent endowment (b) plus the original value of subsequent gifts to the endowments (c) plus accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift. 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.

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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, and (7) the Foundation's investment policies.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds. Endowment assets are invested in a well-diversified mix including equity and fixed-income securities, intended to provide an inflation-protected rate of return satisfying the distribution requirements while protecting the corpus. Investment risk is measured in terms of the total endowment fund, not individual endowments.

The Foundation's Board approved spending policy was created to protect the values of the endowments. An endowment spending rate of no more than 5.5 percent is based on a three-year moving average of current market values as of June 30, 2014. This rate is reviewed on an annual basis.

Endowment net asset composition by type of fund as of June 30, 2014, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Funds
Donor-restricted endowment funds	$ 386,994	$ 1,441,016	$ 4,684,903	$ 6,512,913

Changes in endowment net assets as of June 30, 2014, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Funds
Balance at June 30, 2013	$ 339,320	$ 727,333	$ 4,231,933	$ 5,298,586
Contributions	-	-	416,776	416,776
Investment income	4,837	121,545	-	126,382
Net appreciation	62,689	860,095	-	922,784
Transfers in (out)	-	(8,041)	36,194	28,153
Amounts appropriated for expenditures	(19,852)	(259,916)	-	(279,768)
Balance at June 30, 2014	$ 386,994	$ 1,441,016	$ 4,684,903	$ 6,512,913

NOTE 7 - RESTRICTIONS OF NET ASSET BALANCES

Temporarily restricted net assets consist of the following at June 30, 2014:

Deferred gifts	$ 398,590
Various donor-restricted funds	1,441,016
Foundation scholarships	1,499,346
Total Temporarily Restricted Net Assets	$ 3,338,952

Permanently restricted net assets consist of the following at June 30, 2014:

Scholarship endowments	$ 2,887,896
Osher Endowment	680,620
General endowments	1,796,331
Total Permanently Restricted Net Assets	$ 5,364,847

NOTE 8 - NET ASSETS RELEASED FROM RESTRICTIONS

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes were as listed below.

Scholarships and grants	$ 374,012
Other program services	444,245
Gift in kind	189,408
Total	$ 1,007,665

These assets were all reclassified to unrestricted net assets for the purpose stated.

NOTE 9 - TRANSACTIONS WITH RELATED ENTITIES

There are certain administrative costs of the Foundation that are paid by the MiraCosta Community College District (the District) in accordance with the Master Agreement by and between the District and MiraCosta College Foundation that provides that the District will pay staff salaries in exchange for the Foundation raising funds to support and enhance the mission of the College. These costs include 50 percent of the salaries of the executive director and administrative assistant, use of facilities, and use of District services. Management has estimated the total cost for the year ended June 30, 2014, to be approximately $115,000.

NOTE 10 - TRANSFERS BETWEEN FUNDS

During the year ended June 30, 2014, various transfers were performed as follows: (1) administrative fee expenses from various contributions were transferred to the unrestricted fund for operating expenses, and (2) management reviewed the original donor instructions and determined some donations had been classified incorrectly.

NOTE 11 - SUBSEQUENT EVENTS

The Foundation's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through January 30, 2015, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.