

MIRACOSTA COLLEGE FOUNDATION

AUDIT REPORT

FOR THE YEAR ENDED
JUNE 30, 2013



San Diego

Los Angeles

San Francisco
Bay Area

christy  white
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

MIRACOSTA COLLEGE FOUNDATION
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

Heather Daud

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

We have audited the accompanying financial statements of MiraCosta 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 ended, and the related notes to the financial statements. The report is presented in a comparative format. We did not audit the financial statements for year ending June 30, 2012 which are presented for comparative purposes only.

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.

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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 MiraCosta College Foundation as of June 30, 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Christy White Associates

San Diego, California
October 19, 2013

**MIRACOSTA COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013 AND JUNE 30, 2012**

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents		
Unrestricted	\$ 436,136	\$ 404,464
Restricted	1,451,280	839,046
Investments	6,010,240	5,545,397
Investments related to deferred gifts	376,557	372,263
Accounts receivable	51,477	51,260
Total current assets	<u>8,325,690</u>	<u>7,212,430</u>
Total Assets	<u>\$ 8,325,690</u>	<u>\$ 7,212,430</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 237,384	\$ 84,146
Total liabilities	<u>237,384</u>	<u>84,146</u>
Net assets		
Unrestricted	768,739	655,447
Temporarily restricted	2,407,690	1,776,346
Permanently restricted	4,911,877	4,696,491
Total net assets	<u>8,088,306</u>	<u>7,128,284</u>
Total Liabilities and Net Assets	<u>\$ 8,325,690</u>	<u>\$ 7,212,430</u>

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

MIRACOSTA COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2012
SUPPORT AND REVENUES					
Cash contributions	\$ 152,257	\$ 599,560	\$ 208,361	\$ 960,178	\$ 1,135,659
Non-cash contributions	-	130,503	-	130,503	190,369
Miscellaneous income	43,679	-	-	43,679	43,607
Unrealized gain (loss)	46,694	648,161	-	694,855	(47,511)
Change in value of deferred gifts	-	4,294	-	4,294	25,705
Interest and dividends	2,135	179,283	-	181,418	98,562
Transfers	61,790	(68,815)	7,025	-	-
Total Support and Revenues	306,555	1,492,986	215,386	2,014,927	1,446,391
Donor restrictions Satisfied	861,642	(861,642)	-	-	-
Total restrictions satisfied	1,168,197	631,344	215,386	2,014,927	1,446,391
EXPENSES					
Program services	925,705	-	-	925,705	897,855
Management and general activities	129,200	-	-	129,200	214,621
Total Expenses	1,054,905	-	-	1,054,905	1,112,476
CHANGE IN NET ASSETS	113,292	631,344	215,386	960,022	333,915
Net Assets - Beginning	655,447	1,776,346	4,696,491	7,128,284	6,794,369
Net Assets - Ending	\$ 768,739	\$ 2,407,690	\$ 4,911,877	\$ 8,088,306	\$ 7,128,284

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

**MIRACOSTA COLLEGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012**

EXPENSES	Program Services	Management and General	Total	2012
Personnel expenses				
Salaries and wages	\$ -	\$ 59,281	\$ 59,281	\$ -
Total personnel expenses	-	59,281	59,281	-
Non-personnel expenses				
Scholarship and grants	249,816		249,816	359,773
MiraCosta College programs	487,053		487,053	287,286
Direct Student Aid	58,333		58,333	60,427
Support Services		8,413	8,413	78,867
Donated Assets	130,503		130,503	190,369
Professional Fees		25,663	25,663	18,708
Donor Cultivation and goodwill		8,739	8,739	10,102
Other Administrative expenses		27,104	27,104	106,944
Total Expenses	\$ 925,705	\$ 129,200	\$ 1,054,905	\$ 1,112,476

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

MIRACOSTA COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2,013</u>	<u>2012</u>
Change in net assets	\$ 960,022	\$ 333,915
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Contributions restricted for long-term purposes	(807,921)	(1,055,352)
Net unrealized (gain) loss on investments	(694,855)	47,511
(Increase) decrease in operating assets		
Accounts receivable	(217)	24,762
Increase (decrease) in operating liabilities		
Accounts payable	153,238	(1,244)
Net cash provided by (used in) operating activities	<u>(389,733)</u>	<u>(650,408)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Net sale (purchase) of investments	230,012	28,408
Change in value of deferred gifts	(4,294)	(101,642)
(Increase) decrease in restricted cash and cash equivalents	(612,234)	(401,038)
Net cash provided by (used in) investing activities	<u>(386,516)</u>	<u>(474,272)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Collections of contributions restricted for long-term purposes	807,921	1,055,352
Net cash provided by (used in) financing activities	<u>807,921</u>	<u>1,055,352</u>
 NET INCREASE (DECREASE) IN CASH	 31,672	 (69,328)
 Unrestricted Cash and cash equivalents - Beginning	 <u>404,464</u>	 <u>473,792</u>
 Unrestricted Cash and cash equivalents - Ending	 <u>\$ 436,136</u>	 <u>\$ 404,464</u>

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

MIRACOSTA COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND JUNE 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

MiraCosta College Foundation (the “Organization”), was formed as a California nonprofit public benefit corporation in April 26, 1967. The Organization’s mission is to promote the welfare of MiraCosta College; to assist it in fulfilling its objectives; to supplement the total program and activities of the college in appropriate ways; to assist in the promotion of education services; and to otherwise aid and assist the college in fulfilling its role in serving the citizens of the area in which it is located.

The Organization’s primary source of income is from contributions from individuals.

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 Organization’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.

MIRACOSTA COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2013 AND JUNE 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Financial Statement Presentation

The Organization 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 Directors and management's discretion in carrying out the activities of the Organization 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 though 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 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 year ended June 30, 2013. 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 foundation and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

MIRACOSTA COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2013 AND JUNE 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

H. Property and Equipment

The Organization has not adopted a policy to capitalize purchases 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.

I. 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.

J. 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. Unrealized gains and losses are included in the accompanying statement of activities.

MIRACOSTA COLLEGE FOUNDATION
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2013 AND JUNE 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

K. 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.

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Investments					
Equity securities	5,276,221	5,276,221	5,276,221	-	-
Total investments	5,276,221	5,276,221	5,276,221	-	-
Contributions receivable from split interest agreements	376,557	376,557	-	-	376,557
Beneficial interest in CCCS endowment	734,019	734,019	734,019	-	-
	\$ 6,386,797	\$ 6,386,797	\$ 6,010,240	\$ -	\$ 376,557

MIRACOSTA COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013 AND JUNE 30, 2012

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, local agency investment, and brokerage accounts totaling \$1,887,416.

	2013	2012
Unrestricted cash and cash equivalents	\$ 436,136	\$ 404,464
Restricted cash and cash equivalents	1,451,280	839,046
Total cash and cash equivalents	\$ 1,887,416	\$ 1,243,510

Cash in Bank

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 Foundation does not have a policy for custodial credit risk for deposits. Through December 31, 2012, the FDIC insures 100% of non-interest bearing accounts and up to \$250,000 per depositor of interest bearing accounts per insured bank. As of June 30, 2013, the Organization was exposed to custodial credit risk of \$1,637,416.

NOTE 3 – DEFERRED GIFTS

The Foundation is the beneficiary of various charitable remainder trusts, administered by the Community College League of California and one individual trust or, 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 \$376,557 at June 30, 2013 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 4 - ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2013 and June 30, 2012 totaled \$51,477 and \$51,260 respectively.

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

MIRACOSTA COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013 AND JUNE 30, 2012

NOTE 5 – 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.

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, 2013. This rate is reviewed on an annual basis.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Funds
Donor-restricted endowment funds	\$ 339,320	\$ 727,333	\$ 4,231,933	\$ 5,298,586

MIRACOSTA COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013 AND JUNE 30, 2012

NOTE 5 – DONOR DESIGNATED ENDOWMENTS (continued)

California Community Colleges Scholarship (CCCS) Endowment

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’s students. As of June 30, 2013, the Foundation’s beneficial interest in the CCCS Endowment totaled \$734,019.

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 (a) 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.

The change in the Foundation’s beneficial interest in the CCCS Endowment balance by net asset classification during the year ended June 30, 2013 is as follows:

	Total
Balance - July 1, 2012	\$ 694,812
Contributions	3,877
Investment income	16,111
Appreciation (depreciation) of investments, net	56,852
Appropriated for expenditure	(37,633)
Balance - June 30, 2013	<u>\$ 734,019</u>

MIRACOSTA COLLEGE FOUNDATION
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2013 AND JUNE 30, 2012

NOTE 6 – NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2013 and June 30, 2012:

	2013	2012
Deferred gifts	\$ 376,557	\$ 372,263
Various donor-restricted gifts	1,243,121	1,133,822
Foundation Scholarships	788,012	270,261
Total Temporarily Restricted Net Assets	\$ 2,407,690	\$ 1,776,346

Permanently restricted net assets consist of the following at June 30, 2013 and June 30, 2012:

	2013	2,012
Osher endowment	\$ 734,019	\$ 676,067
Scholarship endowments	2,462,726	1,804,031
General endowments	1,715,132	2,216,393
Total Permanently Restricted Net Assets	\$ 4,911,877	\$ 4,696,491

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

	2013	2,012
Scholarships and grants	\$ 308,149	\$ 405,533
Other program services	553,492	460,688
Total donor restrictions released	\$ 861,641	\$ 866,221

NOTE 7 – RELATED PARTIES

There are certain administrative costs of the Foundation that are paid by the MiraCosta Community College District in accordance with the approved Master Agreement between the District and the MiraCosta College Foundation to provide salaries for foundation staff in exchange for the services related to fundraising to support the mission of the College. The costs identified include 50% of the salaries of the executive director and administrative assistant, use of facilities and various other district services. Management has estimated the total cost for the years ended June 30, 2013 and June 30, 2012 to be approximately \$115,000 and \$110,000 respectively.

On November 15, 2005, the Foundation entered into a master agreement with the District. This agreement stipulates that the Foundation will receive from the District the net profits from the bookstore and ATM commissions to support the fundraising activities of the Foundation. The operational revenue recorded in these financial statements represents the commission of the fiscal year 2012-13 in the amount of \$43,681.

MIRACOSTA COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013 AND JUNE 30, 2012

NOTE 8 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events for the period from June 30, 2012 through October 19, 2013, 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.