



SADDLEBACK COLLEGE FOUNDATION

AUDIT REPORT

FOR THE YEAR ENDED
JUNE 30, 2014



San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION
associates

SADDLEBACK COLLEGE FOUNDATION
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JUNE 30, 2014

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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*Licensed by the California
State Board of Accountancy*

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, 2014, 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.

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, 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.

Christy White Associates

San Diego, California

October 9, 2014

SADDLEBACK COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS

Current assets

Cash and cash equivalents (Note 2)	\$ 365,682
Investments (Note 3)	6,757,821
Contributions receivable (Note 4)	140,154
Prepaid expense	4,126
Total current assets	<u>7,267,783</u>

Other assets

Gift annuity receivable (Note 10)	39,862
Long-term contributions receivable (Note 4)	138,978
Investments with the Foundation for California Community Colleges (Note 3)	963,418
Total other assets	<u>1,142,258</u>

Total Assets	\$ 8,410,041
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LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 609,949
Accrued liabilities	218
Trust Account Liability (Note 3)	4,878
Total current liabilities	<u>615,045</u>
Total liabilities	<u>615,045</u>

Net assets

Unrestricted	326,767
Temporarily restricted	5,603,561
Permanently restricted	1,864,668
Total net assets	<u>7,794,996</u>

Total Liabilities and Net Assets	\$ 8,410,041
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The notes to financial statements are an integral part of this statement.

SADDLEBACK COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Contributions	\$ 52,356	\$ 1,113,979	\$ 48,421	\$ 1,214,756
Special events income - fundraisers (net of costs of direct benefits to donors of \$110,435)	87,649	190,476	-	278,125
In-Kind Donations	513,040	-	-	513,040
Donated Services (Note 6)	372,858	-	-	372,858
Donated Professional Fees (Note 6)	5,355	-	-	5,355
Investment income (Note 3)	212,047	776,634	-	988,681
Sales & Commission	44,233	94,607	-	138,840
Other Contract Services	26,348	69,074	-	95,422
Net assets released from restrictions				
Purpose restrictions satisfied	1,391,581	(1,391,581)	-	-
Total Support and Revenues	2,705,467	853,189	48,421	3,607,077
EXPENSES				
Program services	2,065,087	-	-	2,065,087
Supporting services				
Management and general activities	233,137	-	-	233,137
Fundraising (Note 9)	257,070	-	-	257,070
Total Expenses	2,555,294	-	-	2,555,294
CHANGE IN NET ASSETS	150,173	853,189	48,421	1,051,783
Net Assets - Beginning, as restated (Note 11)	176,594	4,750,372	1,816,247	6,743,213
Net Assets - Ending	\$ 326,767	\$ 5,603,561	\$ 1,864,668	\$ 7,794,996

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, 2014

	Program Services	Management and General	Fundraising	Total
EXPENSES				
Salaries and benefits	\$ 262,137	\$ 228,182	\$ 198,623	\$ 688,942
Scholarship payments/Financial Aid	543,338	-	4,800	548,138
Program activities	127,193	3,677	-	130,870
Special events	-	-	53,647	53,647
Professional Fees	5,355	-	-	5,355
Contract services	243,803	196	-	243,999
Supplies and printing	119,108	193	-	119,301
Seminars and conferences	31,737	-	-	31,737
Dues and memberships	5,242	-	-	5,242
In-kind donations	578,040	-	-	578,040
Program equipment and software	88,895	-	-	88,895
General operating expenses	60,239	889	-	61,128
Total Expenses	\$ 2,065,087	\$ 233,137	\$ 257,070	\$ 2,555,294

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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,051,783
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Realized loss/(gain) on investments	(300,616)
Unrealized loss/(gain) on investments	(464,641)
Restatement of gift annuity receivable	39,862
Restatement of pledged receivable	42,978
Changes in operating assets and liabilities	
Contributions receivable (Note 4)	133,446
Prepaid expense	(2,431)
Accounts payable	240,413
Accrued liabilities	(1,020)
Increase/(decrease) in trust accounts	(51,164)
Long-term contributions receivable (Note 4)	(138,978)
Net cash provided by (used in) operating activities	<u>549,632</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments and reinvested earnings	(4,933,099)
Proceeds on the sale of investments	4,308,510
Net cash provided by (used in) investing activities	<u>(624,589)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (74,957)

Cash and cash equivalents - Beginning 440,639

Cash and cash equivalents - Ending \$ 365,682

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

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 principal sources of revenue for the Foundation include donor contributions and investment related income.

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.

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.

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2014. It is management's belief that the Foundation 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.

H. Capital Assets

The District has adopted a policy to capitalize purchases of \$5,000 or more of property and equipment used for administrative purposes. Property and equipment acquired with grant and contract funds, or contributed assets where the asset will revert to the funding agency at its discretion will be capitalized and a liability will be amortized over the estimated useful life of the asset under the straight-line method.

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. The entity does not imply an expiring time restriction if the entity receives a long-lived asset without stipulations regarding how long the asset must be used. Property and equipment are depreciated using the straight-line method. There are currently no fixed assets on the Foundation's records.

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Capital Assets (continued)

The Foundation depreciates its property and equipment using the straight-line method over the following estimated useful lives:

Asset	Useful Life
Buildings	50
Site improvements	10
Equipment and vehicle	8
Technology	3

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, 2014

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. When significant changes in valuation techniques or inputs have taken place, the Foundation may revise an asset's or liabilities position in the hierarchy and recognize the change on the date of the event or change in circumstances that caused the transfer.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2014, consist of amounts held in non-interest bearing checking, interest bearing checking, money market, and brokerage accounts totaling \$365,682.

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. The FDIC insures up to \$250,000 per depositor, per insured bank, for each account ownership category. The Foundation did not hold amounts in excess of this threshold as of June 30, 2014.

Trust Account

The Foundation acts as a fiscal agent for organizations and groups of Saddleback College. Accordingly, \$4,126 of cash at June 30, 2014, belongs to other parties. The Foundation does not have discretion over the funds held on behalf of others.

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 3 – INVESTMENTS AND INVESTMENT WITH THE FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

Investments are presented in the financial statements at their aggregate fair value. The fair value of investments at June 30, 2014, 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	\$ 3,697,472	\$ 3,697,472	\$ -	\$ -
Mutual funds	2,905,348	2,905,348	-	-
Government and Government Sponsored Entity (GSE) bonds	155,001	-	155,001	-
Total Investments	6,757,821	6,602,820	155,001	-
Investment with FCCC	963,418	-	963,418	-
Total investments and investment with FCCC	\$ 7,721,239	\$ 6,602,820	\$ 1,118,419	\$ -

Government and government sponsored entity (GSE) bonds are considered to be measured by level 2 measurements such as using quoted market prices, recent market transactions and spread data for similar transactions. Also, the investment with the FCCC is measured using level 2 inputs including the allocable share in the market value of the underlying investments held by the FCCC.

The following Schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2014:

Net appreciation (depreciation)	\$ 464,641
Realized gains	300,616
Interest and dividends	223,424
Total investment income	<u>\$ 988,681</u>

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 3 – INVESTMENTS AND INVESTMENT WITH THE FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES (continued)

Investment with the Foundation for California Community Colleges

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 Osher Foundation's lead gift of \$25 million established the California Community Colleges Scholarship Endowment. The California Community Colleges and the Foundation for California Community Colleges raised an additional \$28.5 million, spurring \$14.2 million in match dollars from The Osher Foundation; the result is a \$67.7 million permanent scholarship fund. Scholarships from the Endowment were first distributed to students throughout the state in Fall 2009 and will continue to be dispersed every year in perpetuity. 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.

Investment with the Foundation for California Community Colleges (continued)

These funds are invested in a pooled investment fund held by the FCCC. At June 30, 2014, the fair value of this investment was \$963,418. 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.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2014 total \$279,132. The amounts represent unconditional promises to give. A portion of the contributions are from an unconditional promise to give a specified amount each year, until the donor's death. This receivable has been discounted at rate of 6%. Accordingly, \$38,978 is expected to be collected in over one year from June 30, 2014, and therefore is recorded in other assets. Total long-term contributions receivable total \$138,978 and include a donor's bequest. \$140,154 of contributions receivable is expected to be collected in less than one year from June 30, 2014.

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

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 5 – NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 amount to \$5,603,561, are restricted for the use in providing scholarships and other program services to Saddleback College.

Permanently Restricted Net Assets

Permanently restricted net assets totaling \$1,864,668 are restricted for investment in perpetuity, which represents the Foundation's endowment funds.

Net Assets Released from Restrictions

Net assets of \$1,391,581 were released from temporarily restricted net assets during the fiscal year. The Foundation met donor imposed restrictions by incurring qualified expenses for scholarships and other program services.

NOTE 6 – 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, 2014, the District contributed \$378,213 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.

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 7 – 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, 2014

NOTE 7 – 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, 2014.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. 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.

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 a percentage, recommended by the Finance Committee and voted on by the Board of Governors, 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. It is the Foundation's goal to distribute these funds prudently. Distributions are not guaranteed, and are 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.

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 7 – ENDOWMENT (continued)

Endowment composition and changes in endowment net assets for the fiscal year ended June 30, 2014, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2013	\$ 161,134	\$ 1,779,100	\$ 1,940,234
Restatements	-	37,147	37,147
Endowment net assets, as restated, July 1, 2013	161,134	1,816,247	1,977,381
Contributions	9,329	48,421	57,750
Net investment income	62,174	-	62,174
Net appreciation (depreciation)	107,974	-	107,974
Amounts appropriated for expenditure	(83,409)	-	(83,409)
Endowment net assets, June 30, 2014	\$ 257,202	\$ 1,864,668	\$ 2,121,870

NOTE 8 – 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.

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 9 – FUNDRAISING EXPENSE

Fundraising expenses consist largely of operating special fundraising events and costs associated with communicating with potential donors. Total fundraising costs were approximately 95 % of funds raised for the year ended June 30, 2014. The schedule below presents fundraising expense costs and funds raised prior to netting the cost of direct benefits to donors. Fundraising expenses, including allocated salary and benefits not directly related to a specific event, have been shown as 'Other' in the below schedule.

Gala event	\$	48,097
KSBR		82,589
Golf		18,578
Other		218,241
Total fundraising costs (A)	\$	<u>367,505</u>
Contributions	\$	82,613
Special events revenue		305,947
Total funds raised (B)	\$	<u>388,560</u>
Fundraising expense ratio (A/B)		95%

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, 2014, is approximately \$51,698. The receivable is measured at the present value of future expected payments discounted at rates ranging from 6.6-8.6%. The receivable balance is 39,862 as of June 30, 2014.

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 11 – RESTATEMENTS

The statement of activities contains a restatement of an increase of \$43,722 of permanently restricted net assets and a decrease of \$43,722. This difference from the balances as of June 30, 2013 relate to the Foundation's internal audit of endowment records and realization that there were net assets recorded as temporarily restricted where permanent restrictions were more appropriate. This balance was a continual carryover for several prior years, and it was adjusted to balance with the Foundation's accounting records. Similarly, due to written agreements with donors, the Foundation has reclassified \$6,575 as temporarily restricted.

Per review a past pledge transaction, the Foundation realized that a pledged annuity should be recorded as of the prior year, as this additional pledge held no conditions. The amount of the annuity will be recorded as a receivable in the amount of \$42,978.

The Foundation also recognized the Community College League of California's charitable gift annuity as described in Note 10.

See a summary of restated balances below:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance, as originally stated	\$ 176,908	\$ 4,704,365	\$ 1,779,100	\$ 6,660,373
Restatement(s)				
Reclassify temporary restrictions as permanent	-	(43,722)	43,722	-
Reclassify permanent restrictions as temporary	-	6,575	(6,575)	-
Reclassify unrestricted net assets as temporary restrictions	(314)	314	-	-
Recognize pledged annuity contribution	-	42,978	-	42,978
Recognize gift annuity (Note 10)	-	39,862	-	39,862
Beginning balance, as restated	\$ 176,594	\$ 4,750,372	\$ 1,816,247	\$ 6,743,213

SADDLEBACK COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 12 – CONTINGENCIES

The Foundation may be subject to various claims, legal proceedings, and investigations covering a wide range of matters that arise in the ordinary course of business. In the opinion of management all such matters are adequately covered by insurance or by accruals, and if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the Foundation if disposed of unfavorably.

NOTE 13 - CONCENTRATIONS

The Foundation conducts operations primarily in Southern California and, therefore, is subject to risks from changes in local economic conditions. The Foundation also receives a substantial amount of donated services from the South Orange County Community College District.

NOTE 14 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events for the period from June 30, 2014 through the date the financial statements were available to be issued, October 9, 2014. Management did not identify any transactions that require disclosure or that would have an impact on the financial statements.