

Financial Statements

COLLEGE OF THE DESERT
FOUNDATION

JUNE 30, 2014

COLLEGE OF THE DESERT FOUNDATION

JUNE 30, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
College of the Desert Foundation
(An Auxiliary Organization of
Desert Community College District)
Palm Desert, California

We have audited the accompanying financial statements of College of the Desert Foundation (An Auxiliary Organization of Desert Community College District), 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.

Board of Directors
College of the Desert Foundation
(An Auxiliary Organization of
Desert Community College District)
Palm Desert, California

Continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of College of the Desert Foundation (An Auxiliary Organization of Desert Community College District) 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.

Report on Summarized Comparative Information

We have previously audited the College of the Desert Foundation's (An Auxiliary Organization of Desert Community College District) June 30, 2013 financial statements, and our report dated October 9, 2013 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Brabo + Carlsen, LLP

Palm Springs, California

August 20, 2014

COLLEGE OF THE DESERT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Foundation's Forms 990, Return of Organization Exempt from Income Tax, are subject to examination by the IRS, generally for three years after they are filed. The Foundation's Forms 199, California Exempt Organization Annual Information Return, are subject to examination by the Franchise Tax Board, generally for four years after they are filed.

Advertising Costs

Advertising costs are expensed as incurred by the Foundation. Total advertising costs for the year ended June 30, 2014 were \$302,438.

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. Accordingly, actual results could differ from those estimates.

Fair Value Measurements

The Foundation's financial instruments are measured using generally accepted accounting principles, which, among other things, establish a hierarchal framework for disclosure of and measurement of investments at fair value. Cash, most receivables, accounts payable and accrued liabilities are settled so close to the balance sheet date that the fair value does not differ significantly from the stated amounts.

Fair values of financial instruments are measured and reported using one of the following categories:

Level I Inputs – Quoted prices are available in active markets for identical investments as of the reporting date.

Level II Inputs – Pricing inputs are available in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III Inputs – Pricing inputs are unobservable and determination of fair value requires significant management judgment or estimation.

Comparative Data

The financial statements contain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Subsequent Events

Subsequent events have been evaluated through August 20, 2014, which is the date the financial statements were available to be issued.

COLLEGE OF THE DESERT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1: INVESTMENTS

Investments at June 30, 2014, stated at fair value based on quoted market price are summarized as follows:

Equities	\$ 9,345,358
Mutual Funds	7,422,151
Government securities	1,228,300
Corporate bonds	2,652,559
Real Assets	557,784
Other investments	<u>988,945</u>
	22,195,097
Certificates of deposit	<u>2,163,246</u>
	<u>\$24,358,343</u>

The investment return consists of the following for the year ended June 30, 2014:

Interest and dividends	\$ 697,780
Realized gains on investments	541,942
Unrealized gains on investments	1,869,180
Investment fees	<u>(182,532)</u>
	<u>\$2,926,370</u>

NOTE 2: PLEDGES RECEIVABLE

Pledges receivable at June 30, 2014, are stated at fair value based on management's estimate of a discount to present value of 4%, and are comprised of the following:

Pledges receivable in less than one year	\$1,058,905
Pledges receivable in one to five years	<u>1,609,500</u>
Total	2,668,405
Less: Unamortized discount	<u>(97,990)</u>
Pledges receivable, net	<u>\$2,570,415</u>

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at June 30, 2014:

Office furniture and equipment	\$ 20,319
Less accumulated depreciation	<u>(11,866)</u>
Property and equipment, net	<u>\$ 8,453</u>

COLLEGE OF THE DESERT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 4: SPLIT INTEREST AGREEMENTS

The Foundation has a beneficial interest in various irrevocable charitable remainder trusts and pooled income funds including a pooled income fund administered by the Community College League of California. The assets are held in various stocks, bonds, and other assets in the names of the individual donors' trusts, and are accounted for in the endowment fund. The trusts provide for payments to the grantor or other designated beneficiary over the trust's terms.

At the end of the trust's term, the remaining assets are available to the Foundation. Fair value is based on the present value of the estimated future benefits to be received, which take into account required annual distributions to the donor, the donor's life expectancy, and the assumed rate of return on the investments over the years. The trusts are revalued on an annual basis, and the change in the present value of the trusts' assets is recorded as a gain or loss in the statement of activities.

A summary of the changes in split interest agreements for the year is summarized as follows:

Balance, at June 30, 2013	\$ 531,649
Net changes in current fair market values	<u>11,820</u>
Balance at June 30, 2014	<u>\$ 543,469</u>

NOTE 5: INVESTMENTS IN CALIFORNIA COMMUNITY COLLEGES SCHOLARSHIP ENDOWMENT

Investment in California Community Colleges Scholarship Endowment is a pooled investment fund held by the Foundation for California Community Colleges (FCCC) and is permanently restricted for community colleges scholarships. Management and investment oversight is the responsibility of the FCCC, as directed by the donor, Bernard Osher from the Osher Foundation.

The initial gift from the Osher Foundation of \$25 million and any match from the Osher Foundation are considered gifts to the FCCC and remain assets of the FCCC per the grant agreement. Subsequent fundraising by College of the Desert Foundation (CODF) that results in monies transferred to FCCC may remain permanently restricted assets of CODF and will be reflected as such on all financial reporting. However, all donations to the endowment must be left in the fund permanently and cannot be returned or used for other purposes.

The Osher Foundation will provide a 50 percent match for each dollar raised through 2014. The match will be reconciled annually through 2014 based on the amount raised that fiscal year by the FCCC and individual colleges. Contributions received from CODF and invested in the endowment on or before June 30 of a given year, and the match dollars subsequently applied to those contributions begin earning interest and result in scholarship distribution one year later. Earnings on both the dollars raised by CODF and the match provided by the Osher Foundation, net of investment expenses, will be distributed as scholarship funds to CODF. The earnings from the dollars raised by CODF and the corresponding match amount will be set aside for scholarships for College of the Desert students. The balance at June 30, 2014 was \$408,724.

COLLEGE OF THE DESERT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 6: ENDOWMENT FUNDS

The Foundation's endowment consists of funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors 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 funds that is not classified in permanently restricted net assets may be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted 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.

Investment Return Objectives, Risk Parameters and Strategies

The Foundation has adopted an investment policy, approved by the Board of Directors for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Therefore, the Foundation expects its endowment assets, over time to exceed the average annual return of the applicable benchmark index with a lower than benchmark volatility over a three to five year rolling time period. Actual returns in any given year may vary from this expectation. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Foundation's Board approved spending policy was created to protect the values of the endowments. The Board approved a policy that all endowments are first subject to an annual administrative fee of 2% calculated at the end of each quarter, based on the market value balance that is deposited into the operating fund of the Foundation. The total endowment spending rate of no more than 5% per year is determined by the investment committee at their January meeting using the average market value of the funds on June 30th for each of the three years immediately preceding the fiscal year the payout is to be made.

COLLEGE OF THE DESERT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 6: ENDOWMENT FUNDS (Continued)

Endowment Net Asset Composition by type of fund as of June 30, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total All Funds</u>
	\$ -	\$3,178,868	\$18,546,263	\$21,725,131

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total All Funds</u>
Endowment net assets, beginning of the year	\$ 600,000	\$1,108,798	\$18,163,344	\$19,872,142
Contributions	-	326,301	312,403	638,704
Investment income/(loss)	-	2,265,942	67,775	2,333,717
Amounts appropriated for expenditures	-	(522,807)	(11,329)	(534,136)
Inter-fund transfers	<u>(600,000)</u>	<u>634</u>	<u>14,070</u>	<u>(585,296)</u>
Endowment net assets, end of the year	\$ -	\$3,178,868	\$18,546,263	\$21,725,131

NOTE 7: FAIR VALUE MEASUREMENTS

Assets measured at fair value at June 30, 2014 are as follows:

	<u>Prices in Active Markets (Level I)</u>	<u>Prices in Inactive Markets (Level II)</u>	<u>Estimates No Active Markets (Level III)</u>
<u>Measured on a Recurring Basis</u>			
Equities	\$ 9,345,358	\$ -	\$ -
Mutual Funds	7,422,151	-	-
Government securities	1,228,300	-	-
Corporate bonds	2,652,559	-	-
Real Assets	557,784	-	-
Other investments	988,945	-	-
Split interest agreements	-	-	543,469
Investment in FCCC	-	<u>408,724</u>	-
Total	<u>\$22,195,097</u>	<u>\$ 368,715</u>	<u>\$ 531,649</u>
<u>Measured on a Nonrecurring Basis</u>			
Non-cash contributions	\$ -	\$ -	\$ 74,296
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,296</u>

COLLEGE OF THE DESERT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 8: RESTRICTIONS OF NET ASSET BALANCES

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

Split interest agreements	\$ 543,649
Various donor restricted funds	6,683,478
Osher endowment	72,175
Foundation scholarships	<u>2,560,665</u>
	<u>\$ 9,859,967</u>

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

Scholarship endowments	\$ 6,011,309
Osher endowment	336,549
General endowments	<u>12,198,405</u>
	<u>\$18,546,263</u>

NOTE 9: NET ASSETS RELEASED FROM RESTRICTION

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes for the year ended June 30, 2014 were as listed below:

Scholarships and grants	<u>\$ 799,590</u>
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NOTE 10: LEASE COMMITMENTS

The Foundation leases a copier under a 60-month operating lease agreement that commenced May 2014 and expires April 2019.

Minimum required future rental payments under leases as of June 30, 2014, are:

<u>Year ending June 30</u>	
2015	\$ 3,806
2016	3,806
2017	3,806
2018	3,806
2019	<u>3,449</u>
Total minimum future rental payments	<u>\$18,713</u>

Rental expenses for operating agreements were \$4,041 for the year ended June 30, 2014.

NOTE 11: INTER-FUND TRANSFERS

Inter-fund transfers consist of a reclassification of donor contributions between the different net asset classes during the year ended June 30, 2014.

COLLEGE OF THE DESERT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 12 CONCENTRATION OF CREDIT RISK

At June 30, 2014, the Foundation had on deposit with a local bank amounts in excess of \$250,000. Deposits in excess of \$250,000 are not insured by the Federal Depository Insurance Company. Given the existing size of operations it is not unusual for this limit to be exceeded on a periodic basis. The Foundation is aware of this matter and evaluates alternatives for safeguarding cash while at the same time maximizing operational performance.

The Foundation also maintains accounts with multiple brokerage firms. The accounts contain cash and securities and sometimes exceed the amount guaranteed by the Securities Investor Protection Corporation which is \$500,000 with a limit of \$250,000 for cash.