Palo Verde College Foundation

Report on Audit

June 30, 2013

Palo Verde College Foundation
(A Non-Profit Organization)

June 30, 2013

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Messner
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Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Palo Verde College Foundation
Blythe, California

We have audited the accompanying financial statements of Palo Verde College Foundation (a nonprofit organization), which comprise the statement of financial position, as of June 30, 2013, and the related statements of activities 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.

Auditors' Responsibility

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

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

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

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The Board of Trustees
Palo Verde College Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palo Verde College Foundation, as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
January 21, 2014

Palo Verde College Foundation
(A Non-Profit Organization)

Statement of Financial Position
June 30, 2013

ASSETS		
Current assets:		
Cash and cash equivalents	$	50,160
Investments		146,975
Total current assets		197,135
Noncurrent assets:		
Cash and cash equivalents restricted for endowment		20,758
Investments restricted for endowments		866,052
Beneficial Interest in FCCC Endowment		180,877
Total noncurrent assets		1,067,687
TOTAL ASSETS	$	1,264,822
NET ASSETS		
Unrestricted		197,135
Permanently Restricted		1,067,687
Total Net Assets		1,264,822
TOTAL LIABILITIES AND NET ASSETS	$	1,264,822

The accompanying notes are an integral part of these statements.

Palo Verde College Foundation
(A Non-Profit Organization)

Statement of Activities
For the Fiscal Year Ended June 30, 2013

	Unrestricted	Permanently Restricted	Total
Support and Revenues			
Grants and Contributions	22,142	$ -	$ 22,142
Special Events Proceeds	7,542	-	7,542
Investment Income	4,580	33,295	37,875
Endowment Contributions	-	-	-
Net realized and unrealized gains on investments	5,024	52,667	57,691
Net Assets Released from Restriction	-	-	-
Total Support and Revenues	39,288	85,962	125,250
Expenses			
Program Services	37,946	-	37,946
General and Administration	13,423	5,976	19,399
Fundraising	1,800	-	1,800
Total Expenses	53,169	5,976	59,145
Change in Net Assets	(13,881)	79,986	66,105
Net Assets at Beginning of Year	211,016	987,701	1,198,717
Net Assets at End of Year	$ 197,135	$ 1,067,687	$ 1,264,822

The accompanying notes are an integral part of these statements.

Palo Verde College Foundation
(A Non-Profit Organization)

Statement of Functional Expenses
For the Fiscal Year Ended June 30, 2013

	Program Services	General and Adminstrative	Fundraising	Total
Awards	$ -	$ 2,475	$ -	$ 2,475
Advertising	-	752	-	752
Bank Charges	-	42	-	42
BBQ Expenses	-	-	1,800	1,800
Dues	-	2,665	-	2,665
Fees	-	61	-	61
Insurance	-	1,200	-	1,200
Investment Fees	-	6,941	-	6,941
Meals & Entertainment	-	630	-	630
Miscellaneous	-	(383)	-	(383)
Nursing Program	1,822	-	-	1,822
Office supplies	-	18	-	18
Printing	-	1,344	-	1,344
Professional Fees	-	500	-	500
Reimbursements	-	-	-	-
Tax-Business	-	1,529	-	1,529
Training	-	500	-	500
Travel, Business	-	1,125	-	1,125
Scholarships and Grants	36,124	-	-	36,124
Totals	$ 37,946	$ 19,399	$ 1,800	$ 59,145

The accompanying notes are an integral part of these statements.

Palo Verde College Foundation
(A Non-Profit Organization)

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	$ 66,105
Adjustments to Reconcile the Change in Net Assets to Net Cash Provided by (Used In) Operating Activities:	
Net (Gains) Losses on Investments	(57,691)
Net Cash Provided By (Used In) Operating Activities	8,414
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments, Net	(38,276)
Total Cash Provided By (Used In) Investing Activities	(38,276)
Net Increase (Decrease) in Cash and Cash Equivalents	(29,862)
Cash and Cash Equivalents at Beginning of Year	80,022
Cash and Cash Equivalents at End of Year	$ 50,160

The accompanying notes are an integral part of these statements.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Palo Verde College Foundation (the "Foundation") is a California nonprofit auxiliary organization of Palo Verde College District. The Foundation was organized with the purpose of providing benefit to the educational programs and services of the Palo Verde College District (the District). The Foundation is authorized to operate as an auxiliary organization of the District under the provisions of Article 6 of Chapter 6 of Part 45 of the Education Code.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis financial reporting framework, in accordance with Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC Topic 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets:

- **Unrestricted Net Assets** – These are net assets that are not subject to donor-imposed restrictions and may be used for any operating purpose of the Foundation.

- **Temporarily Restricted Net Assets** – These are net assets that are subject to donor-imposed stipulations that require the passage of time and/or the occurrence of a specific event, for them to be used.

- **Permanently Restricted Net Assets** – These are net assets required to be maintained in perpetuity, with only the income used for operating activities, due to donor-imposed restrictions.

In addition, the Foundation is required by FASB ASC Topic 958-205 to present a statement of cash flows.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and investments that are available for current use with maturity dates of less than three months from the date of acquisition. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of these financial instruments. Cash and cash equivalents that are restricted for long-term purposes, including those restricted for endowments, or are not available for the Foundation's general use have been reported as noncurrent assets in the statement of financial position.

Investments

The Foundation's method of accounting for investments is the fair value method. Fair value is determined by published quotes when they are readily available. Adjustments to fair values are included in the accompanying statement of financial position and statement of activities.

Revenue Recognition

In accordance with FASB ASC Topic 958-605, *Accounting for Contributions Received and Contributions Made,* contributions received by the Foundation are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions are recognized as revenues in the period unconditional promises to give are received by the Foundation. 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. Contributions to be received after one year are discounted using the risk-free rate as of the date the unconditional promise to give was received by the Foundation. Amortization of discounts is recorded as additional contributions in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund-raising activity. Amounts deemed by management to be uncollectible are charged to expenses. Recoveries on receivables previously charged-off are credited to expenses. Management believes that all outstanding pledges are collectible and no allowance is necessary as of June 30, 2013.

Federal Income Taxes

The Foundation is exempt from federal income tax under Section 501(a) of the Internal Revenue Code (the Code) of 1986, as amended, as an organization described in Section 501(c)(3) of the Code. However, income generated from activities unrelated to the Foundation's exempt purpose is subject to tax under Section 511 of the Code. The Foundation did not conduct any unrelated business activities in fiscal year 2013. Therefore, the Foundation has made no provision for federal income taxes in the accompanying financial statements. Accordingly, contributions to the Foundation are tax deductible within the limitations prescribed by the Code. The Foundation has also been classified as a publicly-supported organization which is not a private foundation under Section 509(a) of the Code.

The Foundation applies the provisions of FASB ASC Topic 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC Topic 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Foundation believes that is has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements. The Federal income tax returns of the Foundation for years 2010 through 2012 are still subject to examination by the Internal Revenue Service, generally for three years after they were filed.

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.

Functional Expenses

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

Capital Assets

Acquisitions of property and equipment in excess of $1,000 are capitalized. Property and equipment are recorded at cost. Donated assets are reflected as contributions at their estimated values on the date received. Depreciation of equipment is calculated using the straight-line method over the estimated useful lives of the assets.

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 qualifying expenditures. 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.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2013 consist of amounts held in non-interest bearing checking, interest bearing checking, money market, and brokerage accounts totaling $70,918.

NOTE 3 – FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, *Fair Value Measurements*, provides a framework for measuring fair value. FASB ASC Topic 820 also establishes a fair value hierarchy that distinguishes between inputs based on market data from independent sources (observable inputs) and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs).

The fair value hierarchy in FASB ASC Topic 820 prioritizes fair value measurements into three levels based on the nature of the inputs. The three levels of the fair value hierarchy under FASB ASC Topic 820 are as follows:

> Level 1 – Investments in this category are valued based on quoted prices in active markets for identical assets that are accessible at the measurement date. An active market is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
>
> Level 2 – Investments in this category are valued based on inputs, in the absence of activity quoted market prices, which are observable for the asset, either directly or indirectly. Level 2 inputs include: (a) quoted prices for similar assets in active markets; (b) quoted prices for identical or similar assets in markets that are not active; (c) inputs other than quoted prices that are observable for the asset such as interest rates and yield curves observable at commonly quoted intervals; and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.
>
> Level 3 – Investments in this category are valued based on unobservable inputs for asset. Unobservable inputs are used to the extent observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date.

Fair value of assets measured on a recurring basis, at June 30, 2013 is as follows:

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Equities	543,225	543,225	543,225	-	-
Fixed income securities	469,802	469,802	469,802	-	-
Other investments	-	-	-	-	-
Beneficial interest in FCCC endowment	180,877	180,877	-	180,877	.
Total	$ 1,193,904	$ 1,193,904	$ 1,013,027	$ 180,877	$ -

Investment return is summarized as follows:

Interest and dividend earnings	$ 37,877
Net realized and unrealized gains/(losses) on investments carried at fair value	57,689
Total investment income	$ 95,566

NOTE 4 – BENEFICIAL INTEREST IN FCCC ENDOWMENT

FCCC Endowment is a pooled investment fund held by the Foundation for California Community Colleges (FCCC) and is permanently restricted for community college scholarships. Management and investment oversight is the responsibility of the Foundation for California Community Colleges (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 grant agreement. Subsequent fundraising by the Foundation that results in monies transferred to FCCC may remain permanently restricted assets of the Foundation 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 Endowed Scholarship campaign ended on June 30, 2011 which was the final date contributions to this fund were eligible for the 1 to 2 match. Total assets that were transferred by the Foundation prior to June 30, 2011 were matched, and the total investment in the fund was permanently established. Contributions are permanently restricted and may only be used for scholarships. According to the terms of the donor agreement between the Osher Foundation and the Foundation for California Community Colleges (FCCC), a minimum of 5 percent will be distributed annually from the endowment earnings (in the event earnings are below 5 percent, distributions will be from the corpus) to the colleges. Distributions will occur bi-annually for the Fall and Spring semesters and will be based upon the total investment for each college. Distributions to the Foundation from the Osher Foundation are classified as contributions and assets on the financial statements.

The Foundation classifies its investments in FCCC as Level 2.

NOTE 5 – CONTRIBUTED SERVICES

The Foundation receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. The District contributes to the Foundation by providing various administrative functions. To date, the Foundation has not had a policy of recording these values in the financial statements in accordance with generally accepted accounting principles.

NOTE 6 – RELATED PARTIES

As described in Note 1, the Foundation is a supporting organization of the District; therefore, transactions between the Foundation and the District, District personnel, students at the District, and programs of the District are expected.

During the year ended June 30, 2013, the Foundation indirectly supported the District by providing grants to students of the District, paying programmatic expenditures, and/or reimbursing District personnel and departments for programmatic costs. The Foundation's total support totaled $37,946.

The Foundation was further supported by the involvement of District personnel in the Foundation's events and programs. The total of these contributions has not been segregated from the non-District affiliated contributions.

NOTE 7 – ENDOWMENTS

The Foundation's endowment consists of approximately 2 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 Trustees 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 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 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.

Investment Return Objectives, Risk Parameters and Strategies

The Foundation has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt 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. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation -protected rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return of approximately 5-7% annually. Actual returns in any given year may vary from this amount. 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 has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 2% annually, which is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Changes in endowment net assets, as of June 30, 2013, are as follows:

	Permanently Restricted
Endowment net assets, beginning of year	$ 987,701
Contributions	-
Investment income	33,295
Net appreciation (depreciation)	52,667
Amounts appropriated for expenditure	(5,976)
Endowment net assets, end of year	$ 1,067,687

NOTE 8 – SUBSEQUENT EVENTS

In compliance with ASC 855, *"Subsequent Events"*, the Foundation has evaluated subsequent events through January 21, 2014, the date the financial statements were available to be issued and, in the opinion of management, there are no subsequent events which need to be disclosed.