

**SAN BERNARDINO VALLEY
COLLEGE FOUNDATION**

AUDIT REPORT

June 30, 2012

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
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JUNE 30, 2012

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Directors
San Bernardino Valley College Foundation
San Bernardino, California

We have audited the accompanying statement of financial position of San Bernardino Valley College Foundation (the "Foundation"), as of June 30, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of San Bernardino Valley College Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2011 financial statements and, in our report dated January 5, 2012, we expressed an unqualified opinion on those financial statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Bernardino Valley College Foundation as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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San Diego, California
October 3, 2012

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SAN BERNARDINO VALLEY COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012
(With comparative totals for 2011)

	2012	Restated 2011
	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 211,561	\$ 158,165
Investments	2,464,351	2,294,706
Pledges receivable	29,000	-
Beneficial interest in CCCS Endowment	339,287	347,824
	<u>339,287</u>	<u>347,824</u>
Total Assets	\$ 3,044,199	\$ 2,800,695
	<u>\$ 3,044,199</u>	<u>\$ 2,800,695</u>
LIABILITIES AND NET ASSETS		
Net assets		
Unrestricted	\$ 259,453	\$ 211,906
Temporarily restricted	1,360,177	1,174,867
Permanently restricted	1,424,569	1,413,922
	<u>1,424,569</u>	<u>1,413,922</u>
Total net assets	3,044,199	2,800,695
	<u>3,044,199</u>	<u>2,800,695</u>
Total Liabilities and Net Assets	\$ 3,044,199	\$ 2,800,695
	<u>\$ 3,044,199</u>	<u>\$ 2,800,695</u>

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

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
(With comparative totals for 2011)

	2012				Restated
	Temporarily Permanently				2011
	Unrestricted	Restricted	Restricted	Total	Total
SUPPORT AND REVENUES					
Contributions	\$ 41,393	\$ 318,963	\$ 22,008	\$ 382,364	\$ 371,820
Support from SBCCD	226,757	-	-	226,757	236,832
Special events	34,434	52,726	-	87,160	48,319
Less direct benefit to donors	(33,936)	-	-	(33,936)	(15,018)
Net investment income	58,477	63,590	(11,361)	110,706	386,029
Net assets released from restrictions					
Donor restrictions satisfied	249,969	(249,969)	-	-	-
Total Support and Revenues	577,094	185,310	10,647	773,051	1,027,982
OPERATING EXPENSES					
Program services					
Scholarships	158,417	-	-	158,417	197,508
Valley Bound	181,050	-	-	181,050	237,953
Other programs	17,492	-	-	17,492	88,984
Supporting services					
Management and general	105,305	-	-	105,305	118,695
Fundraising	67,283	-	-	67,283	45,970
Total Operating Expenses	529,547	-	-	529,547	689,110
CHANGE IN NET ASSETS	47,547	185,310	10,647	243,504	338,872
Net assets at beginning of year, as originally stated	154,536	1,174,867	1,471,292	2,800,695	2,461,823
Reclassification of net assets	57,370	-	(57,370)	-	-
Net assets at beginning of year, restated	211,906	1,174,867	1,413,922	2,800,695	2,461,823
Net assets at end of year	\$ 259,453	\$ 1,360,177	\$ 1,424,569	\$ 3,044,199	\$ 2,800,695

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

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012
(With comparative totals for 2011)

	2012						Restated
	Program Services						2011
	Scholarships	Valley Bound	Other Programs	Total	Management and General	Fundraising	Total
EXPENSES							
Grants and assistance	\$ 95,477	\$ 152,784	\$ 5,400	\$ 253,661	\$ -	\$ -	\$ 349,894
Fees for service	-	-	-	-	8,548	-	110,585
Advertising and promotion	-	-	-	-	-	4,021	913
Office expenses	-	-	-	-	4,894	1,562	4,309
Conferences and meetings	2,238	-	2,490	4,728	5,789	3,152	-
Investment and bank fees	6,094	9,752	345	16,191	-	244	1,595
Personnel	54,608	18,514	9,257	82,379	86,074	58,304	236,832
Total Expenses - 2012	\$ 158,417	\$ 181,050	\$ 17,492	\$ 356,959	\$ 105,305	\$ 67,283	\$ 529,547
Total Expenses - 2011	\$ 197,508	\$ 237,953	\$ 88,984	\$ 524,445	\$ 118,695	\$ 60,988	\$ 704,128

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

**SAN BERNARDINO VALLEY COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

	2012	Restated 2011
	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 243,504	338,872
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
(Gains) and losses on investment, net	(110,706)	(386,029)
(Increases) decreases in operating assets	(29,000)	-
Net cash provided by (used in) operating activities	<u>103,798</u>	<u>(47,157)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Distribution from CCCS Endowment	10,667	-
Investment in CCCS Endowment	(2,824)	(113,724)
Sale of investments	595,341	194,837
Purchase of investments	(653,586)	-
Net cash provided by (used in) investing activities	<u>(50,402)</u>	<u>81,113</u>
Net increase (decrease) in cash	53,396	33,956
Beginning balance	<u>158,165</u>	<u>124,209</u>
Ending balance	<u>\$ 211,561</u>	<u>\$ 158,165</u>

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

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

San Bernardino Valley College Foundation (the "Foundation"), located in San Bernardino County, was formed as a California nonprofit public corporation on March 6, 1973. The Foundation supports the San Bernardino Community College District (the "District") by fundraising for and administering the payment of student scholarships and support for other educational programs of San Bernardino Valley College (the "College"). In addition, the Foundation oversees the Valley Bound Commitment program, which serves to remove economic barriers and improve achievement for low income students from the San Bernardino Valley area. The Foundation is supported primarily through public donations, grants, and investment income.

B. 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.

C. 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 Directors and management's discretion in carrying out the activities of the Foundation in accordance with its Bylaws. Temporarily or permanently 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 Foundation in perpetuity while the earnings on those assets are available for use by the Foundation to support its activities. Donors can place restrictions on the earnings from permanently restricted contributions at the time the contributions are made or pledged. Fund accounting is not used in the Foundation's financial statement presentation.

D. 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.

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Comparative Financial Information

The financial statements include prior-year summarized comparative information in total. 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 Foundation's financial statements for the year ended June 30, 2011 from which the summarized information was derived.

F. 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.

G. 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.

H. Capital Assets

The Foundation has not adopted a policy to capitalize significant asset purchases in conformance with generally accepted accounting principles because the Foundation does not own, nor does it have plans to acquire property or equipment. The property and equipment used by the Foundation in its operations are owned by the District.

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 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.

J. Contributions

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

Non-cash contributions of goods, materials, and facilities 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 possessing those skills, and would have to be purchased by the Foundation if not donated.

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

K. 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.

L. Income Taxes

The Foundation is a 509(a)(3) 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 foundation. The Foundation is also exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code.

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 unrelated business income for the year ended June 30, 2011. It is management's belief that the Foundation does not hold any uncertain tax positions that would materially impact the financial statements.

M. Fair Value Measurements

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.

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2012, consist of cash in checking and savings totaling \$211,561.

Custodial Credit Risk

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 for deposits. 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, 2012, the Foundation was not exposed to custodial credit risk as there were no deposits over \$250,000 at any one insured bank.

NOTE 3 – ENDOWMENT

The Foundation’s endowment assets are segregated into two funds: (1) named/endowed scholarship funds and (2) the CCCS Endowment fund. Endowment funds as of June 30, 2012 consisted of:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Named/endowed Scholarship Funds	\$ -	\$ 940,763	\$ 1,085,282	\$ 2,026,045
CCCS Endowment	-	-	339,287	339,287
Total	\$ -	\$ 940,763	\$ 1,424,569	\$ 2,365,332

Named/endowed Scholarship Funds

The Foundation will establish a named/endowed scholarship fund for the benefit of students and student programs at the bequest of a donor who agrees to make an initial permanently restricted contribution of \$5,000. Following the creation of the fund, scholarships and program support will be awarded in perpetuity from the earnings on the endowed funds and any accumulations thereof. As of June 30, 2012, the Foundation held 110 separate named/endowed funds totaling \$2,016,045.

The Foundation’s Board of Directors is charged with the responsibility for management of the endowed assets. To assist in carrying out this duty, the Foundation has adopted an investment policy that prioritizes preservation of capital, risk aversion, and adherence to investment discipline as its major tenets. To enact this policy, the Foundation’s investment strategy emphasizes total return, with a focus on long-term growth of capital while avoiding excessive risk and maintaining sufficient liquidity. The Foundation has adopted a spending policy that specifies expenses shall not exceed 5% of the average net assets over the past three years ending June 30 of the preceding fiscal year.

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 3 – ENDOWMENT (continued)

Named/ended Scholarship Funds (continued)

The Foundation’s Board of Directors interprets the Uniform Prudent Management of Institutional Funds Act (UPMIFA), enacted by the State of California in 2009, as requiring the preservation of 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 value of endowed gifts as of the date of the donation and (b) earnings on endowed gifts that are directed to be endowed by the original donor or the designated representative of the donor to which the Foundation makes annual reports. Earnings on endowed funds are classified as temporarily restricted net assets until such time as the Board of Directors’ adopts a resolution for appropriation. The funds will be released from restriction in conformance with the use and/or time restrictions specified in the Board’s resolution.

The change in the named/ended scholarship fund balance by net asset classification during the year ended June 30, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance - July 1, 2011	\$ -	\$ 915,848	\$ 1,066,098	\$ 1,981,946
Contributions	-	35,916	19,184	55,100
Investment income	-	25,809	-	25,809
Net appr(depr)eciation in investments	-	30,297	-	30,297
Appropriated for expenditure	-	(67,107)	-	(67,107)
Balance - June 30, 2012	\$ -	\$ 940,763	\$ 1,085,282	\$ 2,026,045

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, the funds contributed by the Osher Foundation are permanently restricted assets of the FCCC. The Foundation has an irrevocable beneficial interest in the balance of funds contributed for the benefit of students at San Bernardino Valley College and the accumulated earnings. As of June 30, 2012, the Foundation’s beneficial interest in the CCCS Endowment totaled \$339,287(see Note 4).

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 3 – ENDOWMENT (continued)

The Foundation’s Board of Directors interprets the Uniform Prudent Management of Institutional Funds Act (UPMIFA), enacted by the State of California in 2009, as requiring the preservation of fair value of the original gift, as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. 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) earnings on (a) less allowable distributions and fees. The distributions are recognized as income upon receipt of notification from the FCCC as to the amount and date of scheduled distributions and classified as temporarily restricted investment income.

CCCS Endowment (continued)

The change in the CCCS Endowment fund balance by net asset classification during the year ended June 30, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	
Balance - July 1, 2011	\$ -	\$ -	\$ 347,824	\$ 347,824
Contributions	-	15,333	2,824	18,157
Investment income	-	10,667	-	10,667
Net appr(depr)eciation in investments	-	-	(11,361)	(11,361)
Appropriated for Expenditures	-	(26,000)	-	(26,000)
Balance - June 30, 2012	\$ -	\$ -	\$ 339,287	\$ 339,287

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of assets measured on a recurring basis at June 30, 2012 is as follows:

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Certificates of deposit	\$ 159,186	N/A	\$ -	\$ -	\$ -
Equity securities	1,399,866	1,399,866	1,399,866	-	-
Bonds	905,299	905,299	905,299	-	-
Total investments	<u>2,464,351</u>				
Beneficial interest in FCCC endowment	339,287	339,287	-	-	339,287
	<u>\$ 2,803,638</u>	<u>\$ 2,644,452</u>	<u>\$ 2,305,165</u>	<u>\$ -</u>	<u>\$ 339,287</u>

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Beneficial interest in FCCC endowment

The Foundation classifies its agreement with the FCCC as an irrevocable split interest agreement and the CCCS Endowment as charitable lead trust held at the FCCC. The Foundation's beneficial interest in the CCCS Endowment is required to be measured on a recurring basis at fair value. Generally accepted accounting principles indicate that the fair value of the beneficial interest can be approximated by the fair value of portion of the CCCS Endowment upon which the Foundation has an irrevocable beneficial interest, unless specific circumstances indicate otherwise. The Foundation's Board of Directors believes that no such circumstances exist. Measurement of the Foundation's beneficial interest in the CCCS Endowment is a Level 3 measurement within the fair value hierarchy because even though that measurement is based on the unadjusted fair value of assets held at the FCCC, the Foundation will never receive those assets or have the ability to direct the FCCC to redeem them.

NOTE 5 – DONATED MATERIALS AND SERVICES

The District contributes to the Foundation by providing facilities and equipment (see Note 1) and by paying the personnel costs of the Foundation's staff. Salaries and benefits for Foundation personnel totaled \$226,757 for the year ended June 30, 2012.

During the year, many volunteers and students donate time and services to the Foundation in an effort to advance the programs and objectives of the Foundation. These services have not been recorded in the financial statements of the Foundation because they do not meet the criteria required by generally accepted accounting principles.

NOTE 6 – NET ASSETS

Unrestricted Net Assets

The Foundation's unrestricted net assets of \$259,453 as of June 30, 2012 consisted of cash and investments.

Temporarily Restricted Net Assets

The Foundation's temporarily restricted net assets of \$1,360,177 as of June 30, 2012 carried the following restrictions:

Scholarships	\$ 1,038,598
Valley Bound	212,312
Program support	45,502
Buildings and equipment	63,766
Total temporarily restricted net assets	<u>\$ 1,360,178</u>

SAN BERNARDINO VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 6 – NET ASSETS (continued)

Permanently Restricted

The Foundation's permanently restricted net assets of \$1,424,569 consisted of endowment funds restricted by the donor (see Note 3).

Reclassification of Beginning Net Assets

During the year ended June 30, 2012 the Foundation's management identified an overstatement of permanently restricted net assets related to the CCCS Endowment fund (see Note 3). The reclassification has the effect of reducing permanently restricted net assets and increasing unrestricted net assets in the amount of \$57,370.

NOTE 7 – RELATED PARTIES

As described in Note 1, the Foundation is exempt from federal income tax by the IRS as a supporting organization of the District; therefore, transactions between the Foundation and the District, District personnel, students at the College, and programs of the College, are expected. Per the Foundation's Bylaws, seven District or College personnel serve as ex-officio, non-voting members on the Foundation's Board of Directors by virtue of their position at the District or College.

During the year ended June 30, 2012 the Foundation indirectly supported the District by providing grants to students of the College, paying for programmatic expenditures, and/or reimbursing District personnel or other parties affiliated with the District or the College for appropriate programmatic costs. The Foundation's support totaled \$253,661. The Foundation was directly supported by the District via use of facilities, equipment, and personnel (see Note 5).

The Foundation was further supported by contribution to and participation in the Foundation's programs by District and College personnel. The total amount of these contributions has not been segregated from non-District affiliated contributions.

NOTE 8 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events for the period from June 30, 2012 through October 3, 2012, 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.