

STATE CENTER COMMUNITY COLLEGE FOUNDATION

FINANCIAL STATEMENTS

**YEAR ENDED JUNE 30, 2012
WITH COMPARATIVE TOTALS FOR 2011**

STATE CENTER COMMUNITY COLLEGE FOUNDATION
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011

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Moore Grider & Company
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

**Board of Directors
State Center Community College Foundation
Fresno, California**

We have audited the accompanying statement of financial position of State Center Community College Foundation (the Foundation) as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information was derived from the organization's 2011 financial statements; and in our report dated October 20, 2011, 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 State Center Community College Foundation as of June 30, 2012, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Moore Grider & Company

November 13, 2012

*A Partnership Including
Accountancy Corporations*

Richard L. Holland, C.P.A.

Thomas L. Bell, C.P.A.,
Accountancy Corporation

Denise S. Hurst, C.P.A.

Kenneth J. Labendeira, C.P.A.,
Accountancy Corporation

Pamela J. Gallemore, C.P.A.,
Accountancy Corporation

Karl L. Noyes, C.P.A.,
Accountancy Corporation

Cory J. Bell, C.P.A.

Cheryl A. Storer, C.P.A., A.P.A.

Kendall K. Wheeler, C.P.A.

Necia Wollenman, C.P.A.

Rena R. Avedikian, C.P.A.

Kelli D. Steele, C.P.A.

Julie B. Fillmore, C.P.A.

Carrie M. Wiebe, C.P.A.

Nora E. Crow, C.P.A.

Nicholas Medeiros, C.P.A.

Oscar Espinoza, C.P.A.

L. Jerome Moore, C.P.A.
Retired

Robert E. Grider, C.P.A.
Retired

STATE CENTER COMMUNITY COLLEGE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2012, WITH COMPARATIVE TOTALS FOR 2011

| | Unrestricted | Temporarily Restricted | Permanently Restricted | TOTALS | |
|--|-------------------|---------------------------|---------------------------|----------------------|----------------------|
| | | | | 2012 | 2011 |
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | \$ (1,271,799) | \$ 1,688,173 | \$ 0 | \$ 416,374 | \$ 517,356 |
| Receivables | 11,643 | 0 | 0 | 11,643 | 0 |
| Pledges receivable, net of allowance for uncollectible amounts (Note 2) | 0 | 24,205 | 0 | 24,205 | 40,273 |
| Due from (to) other funds | 725,404 | (645,500) | (79,904) | 0 | 0 |
| Short-term investments (Note 3) | 384,698 | 260,583 | 0 | 645,281 | 642,869 |
| TOTAL CURRENT ASSETS | (150,054) | 1,327,461 | (79,904) | 1,097,503 | 1,200,498 |
| PLEDGES RECEIVABLE , net of current portion (Note 2) | 0 | 3,216 | 0 | 3,216 | 9,867 |
| LONG-TERM INVESTMENTS (Note 3) | 362,082 | 4,768,346 | 6,154,707 | 11,285,135 | 11,293,317 |
| TOTAL ASSETS | 212,028 | 6,099,023 | 6,074,803 | 12,385,854 | 12,503,682 |
| LIABILITIES AND NET ASSETS | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts payable and accrued liabilities | 16,118 | 92,687 | 0 | 108,805 | 463,506 |
| Deferred revenue | 1,000 | 0 | 0 | 1,000 | 0 |
| TOTAL CURRENT LIABILITIES | 17,118 | 92,687 | 0 | 109,805 | 463,506 |
| NET ASSETS | | | | | |
| Unrestricted | 194,910 | 0 | 0 | 194,910 | 204,686 |
| Temporarily restricted (Note 6) | 0 | 6,006,336 | 0 | 6,006,336 | 5,688,418 |
| Permanently restricted (Note 6) | 0 | 0 | 6,074,803 | 6,074,803 | 6,147,072 |
| TOTAL NET ASSETS | 194,910 | 6,006,336 | 6,074,803 | 12,276,049 | 12,040,176 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 212,028 | \$ 6,099,023 | \$ 6,074,803 | \$ 12,385,854 | \$ 12,503,682 |

See Accompanying Notes to Financial Statements

STATE CENTER COMMUNITY COLLEGE FOUNDATION

STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011

| | Unrestricted | Temporarily Restricted | Permanently Restricted | TOTALS | |
|---|-------------------|---------------------------|---------------------------|----------------------|----------------------|
| | | | | 2012 | 2011 |
| PUBLIC SUPPORT AND REVENUES | | | | | |
| Contributions | \$ 178,676 | \$ 2,099,317 | \$ 0 | \$ 2,277,993 | \$ 1,651,614 |
| Interest and dividends (Note 3) | 7,017 | 94,331 | 76,979 | 178,327 | 217,347 |
| Realized gain on sale of investments (Note 3) | 741 | 15,349 | 9,353 | 25,443 | 48,934 |
| Unrealized gain (loss) on investments (Note 3) | (4,945) | (43,093) | (88,697) | (136,735) | 1,639,928 |
| Net assets released from restrictions: | | | | | |
| Satisfaction of program restrictions (Note 6) | 1,917,890 | (1,917,890) | 0 | 0 | 0 |
| Income reallocation (Note 6) | 0 | 69,904 | (69,904) | 0 | 0 |
| TOTAL PUBLIC SUPPORT AND REVENUES | <u>2,099,379</u> | <u>317,918</u> | <u>(72,269)</u> | <u>2,345,028</u> | <u>3,557,823</u> |
| EXPENSES (Note 7) | | | | | |
| Program services: | | | | | |
| Educational activities | 1,546,869 | 0 | 0 | 1,546,869 | 2,594,957 |
| Scholarships and awards | 405,251 | 0 | 0 | 405,251 | 387,747 |
| | <u>1,952,120</u> | <u>0</u> | <u>0</u> | <u>1,952,120</u> | <u>2,982,704</u> |
| Management and general | 62,596 | 0 | 0 | 62,596 | 57,996 |
| Fundraising | 94,439 | 0 | 0 | 94,439 | 70,006 |
| TOTAL EXPENSES | <u>2,109,155</u> | <u>0</u> | <u>0</u> | <u>2,109,155</u> | <u>3,110,706</u> |
| NET INCREASE (DECREASE) IN NET ASSETS | (9,776) | 317,918 | (72,269) | 235,873 | 447,117 |
| NET ASSETS, beginning of year | <u>204,686</u> | <u>5,688,418</u> | <u>6,147,072</u> | <u>12,040,176</u> | <u>11,593,059</u> |
| NET ASSETS, end of year | <u>\$ 194,910</u> | <u>\$ 6,006,336</u> | <u>\$ 6,074,803</u> | <u>\$ 12,276,049</u> | <u>\$ 12,040,176</u> |

See Accompanying Notes to Financial Statements

STATE CENTER COMMUNITY COLLEGE FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

| | 2012 | 2011 |
|---|--------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in net assets | \$ 235,873 | \$ 447,117 |
| Adjustments to reconcile increase in net assets to net cash provided from (used by) operating activities: | | |
| Realized gain on sale of investments | (25,443) | (48,934) |
| Unrealized (gain) loss on investments | 136,735 | (1,639,928) |
| Changes in: | | |
| Receivables | (11,643) | 17,991 |
| Pledges receivable | 22,719 | 68,296 |
| Accounts payable and accrued liabilities | (354,701) | 401,063 |
| Deferred revenue | 1,000 | 0 |
| | <u>4,540</u> | <u>(754,395)</u> |
| NET CASH PROVIDED FROM (USED BY) OPERATING ACTIVITIES | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (2,588,452) | (4,618,606) |
| Proceeds from sale of investments | 2,482,930 | 5,754,309 |
| | <u>(105,522)</u> | <u>1,135,703</u> |
| NET CASH PROVIDED FROM (USED BY) INVESTING ACTIVITIES | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on annuity obligations | 0 | (2,518) |
| | <u>0</u> | <u>(2,518)</u> |
| NET CASH USED BY FINANCING ACTIVITIES | | |
| NET INCREASE (DECREASE) IN CASH | (100,982) | 378,790 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>517,356</u> | <u>138,566</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 416,374</u> | <u>\$ 517,356</u> |

See Accompanying Notes to Financial Statements

STATE CENTER COMMUNITY COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

State Center Community College Foundation is incorporated as a nonprofit public benefit auxiliary corporation to provide financial support for scholarships, instructional programs, educational support, athletics and student activities at the campuses of the State Center Community College District.

The following are the significant accounting policies of the organization:

Method of accounting – The financial statements are prepared using the accrual basis of accounting, in which support and revenue are recognized when received or earned and expenses are recognized when incurred.

Tax status – The Foundation is a nonprofit public benefit corporation exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The Foundation has been classified as an organization that is not a private foundation and has been designated as a “publicly supported” organization. Contributions to the Foundation are deductible under Section 170(c)(2).

Income tax returns are filed in U.S. federal and state of California jurisdictions. Tax returns remain subject to examination by the U.S. federal jurisdiction for three years after the return is filed and for four years by the California jurisdiction. There are currently no tax years under examination. Interest and penalties on tax assessments are classified as an expense when incurred. For the years ended June 30, 2012 and 2011, interest and penalties totaled \$0.

Generally accepted accounting principles provides accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its federal and state tax returns are more likely than not to be sustained upon examination.

Cash and cash equivalents – For purposes of the statements of cash flows, the organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Receivables – Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. At June 30, 2012 the organization considers all amounts to be fully collectible; therefore, no allowance for doubtful accounts is reflected.

Pledges Receivable – Unconditional pledges receivable from donors that are expected to be collected within one year are recorded at net realizable value. Long-term pledges receivable that are expected to be collected in a period beyond one year are recorded at a discount using the present value of their estimated future cash flows. The discounts on long-term pledges receivable are

STATE CENTER COMMUNITY COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 1: **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

Pledges Receivable (continued)

to give are not included as support until the conditions are substantially met. Management has determined that an allowance of \$42,815 and \$78,045 for uncollectible pledges receivable is sufficient as of June 30, 2012 and 2011, respectively.

Investments:

Permanently restricted – Each of the four endowments within the group receives separate returns based on its invested portfolio and records the return on its investments in various revenue accounts as reflected in the accompanying statement of activities.

Temporarily restricted and unrestricted – Each activity participating in the investment pool receives its pro rata share of the overall return and records the return on its investments in various revenue accounts as reflected in the accompanying statement of activities.

The investment portfolios of all the funds are carried at fair value at June 30, 2012 and 2011. All investment income is credited to unrestricted net assets unless otherwise designated by the donor. All capital appreciation/depreciation earned on temporarily restricted and unrestricted investments are credited to unrestricted net assets, unless otherwise designated by the donor.

Accounting for contributions – All contributions received are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Unconditional promises to give that are silent as to the due date are presumed to be time restricted by the donor until received and are reported as temporarily restricted net assets.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. 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 and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets include the principal amount of contributions accepted with the stipulation from the donor that the principal be maintained in perpetuity and only the income from those investments is expended for the purposes specified by the donors.

Accounting estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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.

Comparative financial information – The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not

STATE CENTER COMMUNITY COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Comparative financial information (continued)

include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

NOTE 2: PLEDGES RECEIVABLE

Pledges receivable at June 30, 2012 and 2011 are as follows:

| | 2012 | 2011 |
|---|-------------------------|-------------------------|
| Pledges receivable | \$ 70,447 | \$ 128,876 |
| Less: Unamortized discount | <u>211</u> | <u>691</u> |
| TOTAL | 70,236 | 128,185 |
| Less: Allowance for uncollectible pledges | <u>42,815</u> | <u>78,045</u> |
| Net pledges receivable | <u>\$ 27,421</u> | <u>\$ 50,140</u> |
| Amounts due in: | | |
| Less than one year | \$ 24,205 | \$ 40,273 |
| One to four years | <u>3,216</u> | <u>9,867</u> |
| | <u>\$ 27,421</u> | <u>\$ 50,140</u> |

The average discount rate used to calculate the present value of promises to give expected to be collected in periods beyond one year was 7% for the years ended June 30, 2012 and 2011.

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STATE CENTER COMMUNITY COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 2: **PLEDGES RECEIVABLE** (Continued)

A summary of changes in pledges receivable for the years ended June 30, 2012 and 2011 is presented below:

| | 2012 | 2011 |
|--|------------------|------------------|
| Pledges receivable | | |
| Balance, beginning of year | \$ 50,140 | \$ 118,436 |
| Additions to pledges receivable | 1,302 | 13,290 |
| Payments on pledges receivable | (59,731) | (58,481) |
| Changes in provision for doubtful accounts | 35,230 | (24,694) |
| Change in discount on pledges receivable | <u>480</u> | <u>1,589</u> |
| Balance, end of year | <u>\$ 27,421</u> | <u>\$ 50,140</u> |

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STATE CENTER COMMUNITY COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 3: INVESTMENTS

The Foundation invests in premium investment grade mutual bond funds and equity securities from companies located throughout the world. The securities are classified as “available for sale” and carried on the financial statements at fair value. Investments at June 30, 2012 and 2011 are summarized as follows:

| | <u>2012</u> | |
|--|-----------------------------|-----------------------------------|
| | <u>FAIR VALUE</u> | <u>UNREALIZED GAIN (LOSS)</u> |
| SHORT-TERM INVESTMENTS | | |
| Unrestricted | | |
| California Local Agency Investment Fund | \$ 384,698 | \$ 0 |
| Temporarily Restricted | | |
| California Local Agency Investment Fund | <u>260,583</u> | <u>0</u> |
| TOTAL SHORT-TERM INVESTMENTS | <u>\$ 645,281</u> | <u>\$ 0</u> |
| LONG-TERM INVESTMENTS | | |
| Unrestricted | | |
| Destination Wealth Management | <u>\$ 362,082</u> | <u>\$ 34,895</u> |
| Temporarily Restricted | | |
| American Funds | 202,295 | 51,675 |
| Destination Wealth Management | <u>4,566,051</u> | <u>262,515</u> |
| | <u>4,768,346</u> | <u>314,190</u> |
| Permanently Restricted | | |
| American Funds | 107,634 | (42,413) |
| Destination Wealth Management | <u>6,047,073</u> | <u>1,583,622</u> |
| | <u>6,154,707</u> | <u>1,541,209</u> |
| TOTAL LONG-TERM INVESTMENTS | <u>\$ 11,285,135</u> | <u>\$ 1,890,294</u> |

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STATE CENTER COMMUNITY COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 3: INVESTMENTS (Continued)

| | <u>2011</u> | |
|--|-----------------------------|-----------------------------------|
| | <u>FAIR VALUE</u> | <u>UNREALIZED GAIN (LOSS)</u> |
| SHORT-TERM INVESTMENTS | | |
| Unrestricted | | |
| California Local Agency Investment Fund | \$ 382,286 | \$ 0 |
| Temporarily Restricted | | |
| California Local Agency Investment Fund | <u>260,583</u> | <u>0</u> |
| TOTAL SHORT-TERM INVESTMENTS | <u>\$ 642,869</u> | <u>\$ 0</u> |
| LONG-TERM INVESTMENTS | | |
| Unrestricted | | |
| Destination Wealth Management | <u>\$ 361,916</u> | <u>\$ 39,840</u> |
| Temporarily Restricted | | |
| American Funds | 191,695 | 45,370 |
| Destination Wealth Management | <u>4,494,236</u> | <u>311,913</u> |
| | <u>4,685,931</u> | <u>357,283</u> |
| Permanently Restricted | | |
| American Funds | 101,463 | (46,084) |
| Destination Wealth Management | <u>6,144,007</u> | <u>1,675,990</u> |
| | <u>6,245,470</u> | <u>1,629,906</u> |
| TOTAL LONG-TERM INVESTMENTS | <u>\$ 11,293,317</u> | <u>\$ 2,027,029</u> |

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STATE CENTER COMMUNITY COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 3: INVESTMENTS (Continued)

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2012, with comparative totals for 2011:

| | TEMPORARILY PERMANENTLY | | | TOTAL | |
|---|-------------------------|------------------|-------------------|------------------|---------------------|
| | UNRESTRICTED | RESTRICTED | RESTRICTED | 2012 | 2011 |
| Interest and dividends, (net of management fees of \$53,357 in 2012 and \$54,205 in 2011) | \$ 7,017 | \$ 94,331 | \$ 76,979 | \$ 178,327 | \$ 217,347 |
| Realized gain on sale of investments | 741 | 15,349 | 9,353 | 25,443 | 48,934 |
| Unrealized gain (loss) on investments | (4,945) | (43,093) | (88,697) | (136,735) | 1,639,928 |
| | <u>\$ 2,813</u> | <u>\$ 66,587</u> | <u>\$ (2,365)</u> | <u>\$ 67,035</u> | <u>\$ 1,906,209</u> |

Interest and dividends (net of management fees) and realized gains (losses) earned on permanently restricted endowments, governed by U.S. Department of Education Title III Regulations, is credited one-half to permanently restricted net assets and the other half is credited to temporarily restricted net assets and available for funding scholarship or student activity needs of the campuses.

NOTE 4: ENDOWMENTS

Effective July 1, 2008 the Foundation adopted the provisions established by accounting literature for Endowments of Not-for-Profit Foundations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds. The accounting literature provides guidance for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also required disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

The Foundation's endowment assets consist of individual funds established to provide financial support to the Foundation in perpetuity. The endowment assets include donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, are classified and reported on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation has interpreted the California 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 organization 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

STATE CENTER COMMUNITY COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 4: ENDOWMENTS (Continued)

Interpretation of Relevant Law (continued)

endowment 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 organization considers the following factors in making a determination to appropriate or accumulate the donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
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
7. The investment policies of the Foundation

Return Objectives and Risk Parameters

The Foundation has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well diversified asset mix, which includes premium investment grade mutual bond funds and equity securities, that is intended to result in a consistent inflation-protected rate of return. Accordingly, the Foundation expects its endowment assets, over time, to produce an average rate of return of approximately 4.5% 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.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation seeks investment returns through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that includes equity and debt 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 uses a method based upon the total return on assets to determine the amounts appropriated for expenditure for endowments under which the organization is the income

STATE CENTER COMMUNITY COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 4: **ENDOWMENTS** (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy (continued)
beneficiary in conformity with the "Uniform Prudent Management of Institutional Funds Act"
(UPMIFA).

As of February 22, 2006, the board approved a spending/distribution policy. All endowed scholarship gifts not governed by U.S. Department of Education Title III Regulations shall be managed in accordance with the following spending/distribution policy:

It is the policy of the Foundation to preserve the principal of the endowment fund ("Endowment") and maintain its current and future value, while providing for a consistent volume of annual earnings available to be distributed for scholarship purposes. In this regard, the Endowment shall annually make available for distribution 4.5% of its principal balance as follows: in the quarter that the distribution is to be made, 4.5% of the average quarterly book balance of the Endowment shall be calculated by multiplying 4.5% by the average quarterly book value of the Endowment as determined over the three year period immediately preceding the year in which the distribution is to be made. To the extent that the actual earnings for the year fall short of the 4.5% calculation, available earnings from previous years can be distributed. This 4.5% calculation of distributable earnings shall then be allocated pro rata between all individual endowment accounts based on each individual endowment account's beginning of the year market value, plus current year donations and reinvestments (weighted for the month in which they were made). Earnings shall be defined as dividends, interest, and, to the extent that distributions are not covered by interest and dividends, realized gains. Annually, earnings not distributed pursuant to this policy shall be combined into the Endowment principal.

Endowment Net Asset Composition by Type of Fund

At June 30, 2012 and 2011, endowment net assets consist of permanently restricted donor-restricted endowment funds of \$6,074,803 and \$6,147,072, respectively.

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See next page for continuation of notes.

STATE CENTER COMMUNITY COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 4: ENDOWMENTS (Continued)

Changes in Endowment Net Assets

The following schedule shows changes in endowment net assets for the years ended June 30, 2012 and 2011:

| | 2012 | 2011 |
|--|----------------------------|----------------------------|
| Permanently restricted endowment net assets, beginning of year | <u>\$ 6,147,072</u> | <u>\$ 5,219,915</u> |
| Investment return | | |
| Interest and dividends, net of expenses | 76,979 | 97,401 |
| Realized gain on sale of investments | 9,353 | 18,685 |
| Unrealized gain (loss) on investments | <u>(88,697)</u> | <u>909,468</u> |
| Net investment return (loss) | (2,365) | 1,025,554 |
| Contributions | 0 | 0 |
| Release of endowment earnings for program purposes | <u>(69,904)</u> | <u>(98,397)</u> |
| Permanently restricted endowment net assets, end of year | <u><u>\$ 6,074,803</u></u> | <u><u>\$ 6,147,072</u></u> |

NOTE 5: FAIR VALUE MEASUREMENTS

FASB ASC 820 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the 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 fair value hierarchy under FASB ASC 820 are described below:

Level 1 Quoted prices for identical assets or liabilities traded in active markets.

STATE CENTER COMMUNITY COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; quoted prices that are observable for the asset or liability or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2012 and 2011.

Pledge revenue: Valued at estimated future cash flows.

Bond and equity mutual funds: Valued at the quoted net asset value of shares held by the Foundation at year end.

Money market funds: Valued at the net asset value of shares held by the Foundation at year end.

The table below presents the level within the hierarchy at which assets are measured at June 30, 2012:

| | 2012 | | | |
|--------------------------|---------------|---------------|---------|----------|
| | TOTAL | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| Nonrecurring: | | | | |
| Pledge revenue | \$ 1,302 | \$ 0 | \$ 0 | \$ 1,302 |
| Recurring: | | | | |
| Available for sale | | | | |
| marketable securities | | | | |
| Bond mutual funds | 4,345,595 | 4,345,595 | 0 | 0 |
| Equity mutual funds | 6,256,667 | 6,256,667 | 0 | 0 |
| Money market funds | 1,328,154 | 1,328,154 | 0 | 0 |
| Total available for sale | | | | |
| marketable securities | 11,930,416 | 11,930,416 | 0 | 0 |
| | \$ 11,931,718 | \$ 11,930,416 | \$ 0 | \$ 1,302 |

STATE CENTER COMMUNITY COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

The table below presents the level within the hierarchy at which assets are measured at June 30, 2011:

| | 2011 | | | |
|--------------------------|----------------------|----------------------|----------------|------------------|
| | TOTAL | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| Nonrecurring: | | | | |
| Pledge revenue | \$ 13,290 | \$ 0 | \$ 0 | \$ 13,290 |
| Recurring: | | | | |
| Available for sale | | | | |
| marketable securities: | | | | |
| Bond mutual funds | 4,048,224 | 4,048,224 | 0 | 0 |
| Equity mutual funds | 6,472,358 | 6,472,358 | 0 | 0 |
| Money market funds | 1,415,604 | 1,415,604 | 0 | 0 |
| Total available for sale | | | | |
| marketable securities | 11,936,186 | 11,936,186 | 0 | 0 |
| | \$ 11,949,476 | \$ 11,936,186 | \$ 0 | \$ 13,290 |

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See next page for continuation of notes.

STATE CENTER COMMUNITY COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 6: PERMANENTLY AND TEMPORARILY RESTRICTED NET ASSETS

Permanently and temporarily restricted net assets are available for the following purposes as of June 30, 2012 and 2011:

| | 2012 | | 2011 | |
|------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | PERMANENTLY RESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TEMPORARILY RESTRICTED |
| Scholarships | \$ 5,255,495 | \$ 3,544,695 | \$ 5,331,991 | \$ 3,370,572 |
| Instructional programs | 534,961 | 765,287 | 534,453 | 689,816 |
| Educational support | 264,291 | 1,496,537 | 260,676 | 1,418,074 |
| Athletic programs | 20,056 | 199,817 | 19,952 | 209,956 |
| | \$ 6,074,803 | \$ 6,006,336 | \$ 6,147,072 | \$ 5,688,418 |

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes during the year ended June 30, 2012 are:

| | 2012 TEMPORARILY RESTRICTED |
|------------------------|--|
| Scholarships | \$ 364,081 |
| Instructional programs | 302,570 |
| Educational support | 949,228 |
| Athletic programs | 302,011 |
| | \$ 1,917,890 |

Net assets released from restrictions – income reallocation during the year ended June 30, 2012 are:

Interest and dividends (net of management fees) and realized gains (losses) of \$69,904 earned on permanently restricted net assets were reallocated from permanently restricted net assets to temporarily restricted net assets.

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STATE CENTER COMMUNITY COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 7: FUNCTIONAL EXPENSES

Functional expenses for the year ended June 30, 2012 are the following:

| | <u>Program Services</u> | | <u>General and Administrative</u> | <u>Fundraising</u> | <u>Total</u> |
|----------------------------------|-----------------------------------|------------------------------------|---------------------------------------|--------------------|---------------------|
| | <u>Educational Activities</u> | <u>Scholarships and Awards</u> | | | |
| Building and equipment | \$ 22,291 | \$ 0 | \$ 0 | \$ 0 | \$ 22,291 |
| Conferences, travel and meals | 95,234 | 0 | 0 | 0 | 95,234 |
| Contract labor | 1,109,877 | 0 | 0 | 0 | 1,109,877 |
| Fundraising supplies | 0 | 0 | 0 | 90,961 | 90,961 |
| Other | 20,271 | 0 | 0 | 0 | 20,271 |
| Printing and binding | 20,435 | 0 | 0 | 0 | 20,435 |
| Salaries | 3,478 | 0 | 62,596 | 3,478 | 69,552 |
| Scholarships | 0 | 405,251 | 0 | 0 | 405,251 |
| Supplies and material | 275,283 | 0 | 0 | 0 | 275,283 |
| | <u>\$ 1,546,869</u> | <u>\$ 405,251</u> | <u>\$ 62,596</u> | <u>\$ 94,439</u> | <u>\$ 2,109,155</u> |

Functional expenses for the year ended June 30, 2011 are the following:

| | <u>Program Services</u> | | <u>General and Administrative</u> | <u>Fundraising</u> | <u>Total</u> |
|----------------------------------|-----------------------------------|------------------------------------|---------------------------------------|--------------------|---------------------|
| | <u>Educational Activities</u> | <u>Scholarships and Awards</u> | | | |
| Building and equipment | \$ 19,717 | \$ 0 | \$ 0 | \$ 0 | \$ 19,717 |
| Conferences, travel and meals | 181,237 | 0 | 0 | 0 | 181,237 |
| Contract labor | 1,465,262 | 0 | 0 | 0 | 1,465,262 |
| Fundraising supplies | 0 | 0 | 0 | 66,784 | 66,784 |
| Other | 48,997 | 0 | 0 | 0 | 48,997 |
| Printing and binding | 32,946 | 0 | 0 | 0 | 32,946 |
| Salaries | 3,222 | 0 | 57,996 | 3,222 | 64,440 |
| Scholarships | 0 | 387,747 | 0 | 0 | 387,747 |
| Supplies and material | 196,277 | 0 | 0 | 0 | 196,277 |
| Transfer of Osher funds | 647,299 | 0 | 0 | 0 | 647,299 |
| | <u>\$ 2,594,957</u> | <u>\$ 387,747</u> | <u>\$ 57,996</u> | <u>\$ 70,006</u> | <u>\$ 3,110,706</u> |

NOTE 8: CREDIT RISK

Cash - The Foundation maintains its cash accounts primarily with a bank located in Fresno, California. The FDIC insures total interest bearing cash balances up to \$250,000 per bank. At June 30, 2012, the Foundation had a cash balance on deposit with the bank in the amount of \$412,737, which exceeded the balance insured by the FDIC. Typically the monthly balance in the interest bearing account is less than \$250,000.

Pledge Receivable – Economic conditions within California may impact the collection of pledges receivable.

STATE CENTER COMMUNITY COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 13, 2012 (date financial statements available to be issued) noting the following matter:

Effective July 1, 2012, the time restraints on the temporarily restricted portion of Endowment I expired. Management is currently awaiting final approval from the United States Department of Education to release the restrictions. As a result, \$951,414 in temporarily restricted net assets will be reallocated to unrestricted net assets.