

**RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT FOUNDATION
(A California Nonprofit Corporation)**

**ANNUAL FINANCIAL REPORT
WITH
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2012

**RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT FOUNDATION
(A California Nonprofit Corporation)**

JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Rancho Santiago
Community College District Foundation
Santa Ana, California

We have audited the accompanying statement of financial position of Rancho Santiago Community College District Foundation (a California nonprofit corporation) as of June 30, 2012, and the related statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of Rancho Santiago Community College District Foundation's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of 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 Rancho Santiago Community College District 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2012, on our consideration of Rancho Santiago Community College District Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 26, 2012

**RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT FOUNDATION
(A California Nonprofit Corporation)**

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012**

ASSETS

Current Assets

Cash - unrestricted	\$ 277,687
Cash - restricted	12,552
Accounts receivable	35,622
Total Current Assets	325,861

Noncurrent Assets

Investments - unrestricted	2,781,973
Total Assets	\$ 3,107,834

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 6,365
Due to Rancho Santiago Community College District	33,653
Deferred revenue	8,932
Total Current Liabilities	48,950

NET ASSETS

Unrestricted	3,055,469
Temporarily restricted	3,415
Total Net Assets	3,058,884
Total Liabilities and Net Assets	\$ 3,107,834

See the accompanying notes to financial statements.

**RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT FOUNDATION
(A California Nonprofit Corporation)**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Contributions	\$ 5,500	\$ -	\$ 5,500
Fundraising	87,835	-	87,835
Donated salaries and benefits	52,577	-	52,577
Federal revenues	-	136,672	136,672
Miscellaneous revenue	9,560	-	9,560
Assets released from restrictions	174,527	(174,527)	-
Total Revenues	329,999	(37,855)	292,144
EXPENSES			
Operating expenses	169,326	-	169,326
Program expenses	138,672	-	138,672
Fundraising expenses	9,901	-	9,901
Total Expenses	317,899	-	317,899
OTHER INCOME (EXPENSE)			
Realized gain on sale of investments	-	37,109	37,109
Unrealized loss	-	(187,315)	(187,315)
Interest and dividends	68	45,339	45,407
Transfers	3,022,992	(3,022,992)	-
Total Other Income (Expense)	3,023,060	(3,127,859)	(104,799)
CHANGE IN NET ASSETS	3,035,160	(3,165,714)	(130,554)
NET ASSETS, BEGINNING OF YEAR	20,309	3,169,129	3,189,438
NET ASSETS, END OF YEAR	\$ 3,055,469	\$ 3,415	\$ 3,058,884

See the accompanying notes to financial statements.

**RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT FOUNDATION
(A California Nonprofit Corporation)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ (130,554)
Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities	
Unrealized loss	187,315
Changes in Assets and Liabilities	
Decrease in accounts receivable	28,278
Increase in accounts payable	6,365
Decrease in due to Rancho Santiago Community College District	(46,324)
Decrease in deferred revenue	(19,068)
Net Cash Flows From Operating Activities	<u>26,012</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(1,929,991)
Proceeds on the sale of investments	2,073,770
Decrease in restricted cash and cash equivalents	88,457
Net Cash Flows From Investing Activities	<u>232,236</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 258,248
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>19,439</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 277,687</u></u>

See the accompanying notes to financial statements.

**RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT FOUNDATION
(A California Nonprofit Corporation)**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Operating</u>	<u>Program</u>	<u>Fundraising</u>	<u>Total</u>
Donated salaries and benefits	\$ 52,577	\$ -	\$ -	\$ 52,577
Foundation scholarships / Grants	-	2,000	-	2,000
Program expenses	-	136,672	-	136,672
Rental Facility (Short-Term)	63,764	-	-	63,764
Bank / Credit Card Use Fees	1,532	-	-	1,532
Dues, memberships, and subscriptions	85	-	-	85
Professional fees	8,225	-	-	8,225
Advertising: Foundation	-	-	4,693	4,693
Misc fundraising expenses	-	-	4,365	4,365
Investment expenses	35,855	-	-	35,855
Contracted services	4,028	-	-	4,028
Special events - other operating expenses	-	-	843	843
Supplies	3,260	-	-	3,260
TOTAL EXPENSES	<u>\$ 169,326</u>	<u>\$ 138,672</u>	<u>\$ 9,901</u>	<u>\$ 317,899</u>

See the accompanying notes to financial statements.

**RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT FOUNDATION
(A California Nonprofit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Rancho Santiago Community College District Foundation (the Foundation) is a nonprofit organization founded in 1998 for the purpose of receiving contributions for the support and advancement of education on behalf of Rancho Santiago Community College District (the District). The primary purpose of the Foundation is to assist in the institutional development and encourage community support to the District.

Financial Statement Presentation

The Foundation prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements include the accounts maintained by, and directly under, the control of the Foundation.

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. The Foundation had no permanently restricted net assets at June 30, 2012. In addition, the Foundation is required to present a statement of cash flows. As permitted by the statement, the Foundation does not use fund accounting.

The Foundation and the District are financial interrelated organizations as defined by *Transfers of Assets to a Nonprofit or Charitable Trust that Holds Contributions for Others*. The Foundation reflects contributions received for the benefit of the District as revenue in its financial statements. The expenses related to these contributions are accounted for under program and supporting services.

Public Support and Revenue

The Foundation receives substantially all of its revenue from direct donations, pledges, and corporate grants. Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Realized gains/losses and unrealized gains/losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as assets released from restriction between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. 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 at the time of the gift.

**RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT FOUNDATION
(A California Nonprofit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Donated Assets, Services, and Facilities

The Foundation records the value of donated assets and facilities when there is an objective basis available to measure their value. Donated facilities are reflected as support in the accompanying statements at their estimated values at date of donation and fair market value of facilities for the year. Donated assets are capitalized at the stated donated value and depreciated in accordance with Foundation policies, unless they are passed through to the District.

Use of 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 reported amounts of assets and liabilities at the reporting date, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Foundation is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2009 and forward may be audited by regulatory agencies; however, the Foundation is not aware of any such actions at this time.

The Foundation has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking and money market accounts and certificates of deposit with maturities of less than 90 days. The Foundation maintains cash balances in financial institutions which are insured up to \$250,000. At June 30, 2012, the Foundation did not have any cash balances held in financial institutions in excess of Federal depository insurance coverage.

For purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

**RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT FOUNDATION
(A California Nonprofit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Investments

Investments in marketable securities with readily determinable fair values are presented at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, based upon management's estimates, certain costs have been allocated among the programs, support services, and fundraising activities.

NOTE 2 - RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2012:

Other	\$ <u>3,415</u>
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NOTE 3 - DONATED SERVICES

During the year, District staff and administrators donate significant amounts of time and services to the Foundation in an effort to advance the programs and objectives of the Foundation. The Foundation records the value of donated services when there is an objective basis available to measure their fair value. Donated services are reflected in the accompanying statements when the criteria for recognition have been met and are recorded at fair value.

**RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT FOUNDATION
(A California Nonprofit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 - INVESTMENTS

Investments are presented at fair value in the financial statements and are composed of the following at June 30, 2012:

	Adjusted Cost	Fair Market Value	Unrealized Gain (Loss)
Government bonds	\$ 260,511	\$ 267,554	\$ 7,043
Common stock	1,543,943	1,351,319	(192,624)
Closed end funds	7,733	4,769	(2,964)
Mortgage and asset backed securities	319,093	327,720	8,627
CDs and mutual funds	838,008	830,611	(7,397)
Total	<u>\$ 2,969,288</u>	<u>\$ 2,781,973</u>	<u>\$ (187,315)</u>

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

	Total
Interest and dividends	\$ 45,407
Realized gain	37,109
Net unrealized loss	(187,315)
Total	<u>\$ (104,799)</u>

NOTE 5 - INVESTMENT SECURITIES

Market Value of Financial Assets and Liabilities

The Foundation determines the fair market values of certain financial instruments based on the fair value hierarchy established in Statement of Financial Accounting Standards, *Fair Value Measurements*, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

**RANCHO SANTIAGO
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2012. The Foundation did not have any liabilities measured at fair value on a recurring basis as of June 30, 2012.

Assets	Level 1	Level 2	Total
Government Bonds	\$ 267,554	\$ -	\$ 267,554
Common stock	1,351,319	-	1,351,319
Closed end funds	4,769	-	4,769
Mortgage and asset backed securities	-	327,720	327,720
CDs and mutual funds	-	830,611	830,611
Total	<u>\$ 1,623,642</u>	<u>\$ 1,158,331</u>	<u>\$ 2,781,973</u>

The following table presents changes in the Foundation's Level 1 and Level 3 investment assets measured at fair value on a recurring basis for the year ending June 30, 2012.

Level 1 Investments		
Balance, beginning of year		\$ 3,113,067
Purchases of Investments		1,929,991
Sale of Investments		(2,073,770)
Change in Value		(187,315)
Transfer		(1,158,331)
Balance, end of year		<u>\$ 1,623,642</u>
Level 2 Investments		
Balance, beginning of year		\$ -
Transfer		1,158,331
Balance, end of year		<u>\$ 1,158,331</u>

The Foundation did not have any assets or liabilities recorded at fair value on a non-recurring basis.

**RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT FOUNDATION
(A California Nonprofit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 - TRANSFERS BETWEEN FUNDS

The Foundation received an Endowment Challenge Grant from the Department of Education in the amount of \$1,000,002 in January 1992. The corpus of the endowment was to be invested over a period of 20 years, and the Foundation was not to spend more than 50 percent of the aggregate income earned for allowable expenditures. The end of the 20 year investment period occurred during the 2011-2012 fiscal year. At the time, the restrictions on the funds were lifted, and the Foundation gained the ability to use the corpus for any educational purpose. As a result, at June 30, 2012, the balance of the corpus was transferred to the Foundation's unrestricted fund in the amount of \$3,022,992.

NOTE 7 - RELATED PARTY TRANSACTIONS

Rancho Santiago Community College District

Rancho Santiago Community College District charges administrative services to the Foundation. Salaries and benefits for the Executive Director, administrative staff, and other services are paid by the District and reimbursed by the Foundation. Accordingly, at June 30, 2012, the Foundation owed the District \$33,653 for salaries and benefits.

NOTE 8 - DONOR DESIGNATED ENDOWMENTS

Endowment net asset composition by type of fund as of June 30, 2012, is as follows:

	Temporarily Restricted	Total Net Endowment Funds
Donor-restricted endowment funds	\$ -	\$ -

Changes in endowment net assets as of June 30, 2012, are as follows:

Endowment net assets, beginning of year	Temporarily Restricted
Investment income	\$ 3,165,714
Net appreciation (depreciation)	45,339
Transfers of investment losses to unrestricted	37,109
Amounts appropriated for expenditures	(187,315)
Transfer to unrestricted	(37,855)
Endowment net assets, end of year	(3,022,992)
	\$ -

**RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT FOUNDATION
(A California Nonprofit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 9 - SUBSEQUENT EVENTS

The Foundation's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through November 26, 2012, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors
Rancho Santiago
Community College District Foundation
Santa Ana, California

We have audited the financial statements of Rancho Santiago Community College District Foundation as of and for the year ended June 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Rancho Santiago Community College District Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Rancho Santiago Community College District Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rancho Santiago Community College District Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rancho Santiago Community College District Foundation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rancho Santiago Community College District Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, others within the Foundation, Rancho Santiago Community College Administration and Board of Trustees, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Vannich, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 26, 2012