

**GROSSMONT COLLEGE FOUNDATION**

**AUDIT REPORT**

**June 30, 2011**



**GROSSMONT COLLEGE FOUNDATION**  
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**JUNE 30, 2011**

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

Governance Board  
Grossmont College Foundation  
El Cajon, California

We have audited the accompanying statement of financial position of Grossmont College Foundation (the "Foundation"), as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Grossmont College 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. 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 Grossmont College Foundation as of June 30, 2011, 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.

As described in Note 8, Grossmont College Foundation intends to transfer its assets to the newly formed Foundation for Grossmont and Cuyamaca Colleges during the year ending June 30, 2012 and commence dissolution procedures.

  
San Diego, California  
November 19, 2011

SAN DIEGO

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**GROSSMONT COLLEGE FOUNDATION  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2011**

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**ASSETS**

Cash and cash equivalents	\$	306,119
Investments		199,805
Beneficial interest in FCCC endowment		<u>611,687</u>

Total assets \$ 1,117,611

**LIABILITIES AND NET ASSETS**

Net assets

Unrestricted	\$	59,771
Temporarily restricted		446,153
Permanently restricted		<u>611,687</u>

Total net assets 1,117,611

Total liabilities and net assets \$ 1,117,611

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

**GROSSMONT COLLEGE FOUNDATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUES</b>				
Grants and contributions	\$ 22,178	\$ 432,521	\$ 287,907	\$ 742,606
Special events proceeds	166,185	13,040	23,925	203,150
Investment income	9,235	-	35,252	44,487
Net assets released from restrictions	434,735	(434,735)	-	-
Total support and revenues	<u>632,333</u>	<u>10,826</u>	<u>347,084</u>	<u>990,243</u>
<b>EXPENSES</b>				
Program services	<u>444,933</u>	-	-	<u>444,933</u>
Supporting services				
Management and general	35,592	-	-	35,592
Fundraising	184,280	-	-	184,280
Total supporting services	<u>219,872</u>	<u>-</u>	<u>-</u>	<u>219,872</u>
Total expenses	<u>664,805</u>	<u>-</u>	<u>-</u>	<u>664,805</u>
Change in net assets	<u>(32,472)</u>	<u>10,826</u>	<u>347,084</u>	<u>325,438</u>
Net assets at beginning of year	92,243	466,330	-	558,573
Adjustments for restatement	-	(31,003)	264,603	233,600
Net assets at beginning of year, restated	<u>92,243</u>	<u>435,327</u>	<u>264,603</u>	<u>792,173</u>
Net assets at end of year	<u>\$ 59,771</u>	<u>\$ 446,153</u>	<u>\$ 611,687</u>	<u>\$ 1,117,611</u>

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

**GROSSMONT COLLEGE FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2011**

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	Program Services	Management and General	Fundraising	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>EXPENSES</b>				
Grants to students, programs	\$ 423,444	\$ -	\$ -	\$ 423,444
Salaries and benefits	21,489	14,326	35,815	71,630
Event expenses	-	-	143,301	143,301
Administrative expenses	-	10,881	2,758	13,639
Professional fees	-	6,323	-	6,323
Miscellaneous	-	4,062	2,406	6,468
Total expenses	<u>\$ 444,933</u>	<u>\$ 35,592</u>	<u>\$ 184,280</u>	<u>\$ 664,805</u>

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

**GROSSMONT COLLEGE FOUNDATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2011**

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 325,438
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Net (gains) losses on investment	<u>(41,782)</u>
Net cash provided by (used in) operating activities	<u>283,656</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Reclassification of CD as investment	(50,189)
Contributions to endowment fund	<u>(342,834)</u>
Net cash provided by (used in) investing activities	<u>(393,023)</u>
Net increase (decrease) in cash	(109,367)
Beginning balance - cash and cash equivalents	<u>415,486</u>
Ending balance - cash and cash equivalents	<u><u>\$ 306,119</u></u>

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



GROSSMONT COLLEGE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Grossmont College Foundation (the “Foundation”), located in San Diego County, was formed as a California nonprofit public benefit corporation on July 18, 1994. The Foundation supports the Grossmont-Cuyamaca Community College District (the “District”) by fundraising for and administering the payment of student scholarships and support for educational programs of Grossmont College (the “College”). The Foundation’s primary source of revenue is grants and contributions from the public.

B. 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.

C. 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.

D. 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.

E. 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.

**GROSSMONT COLLEGE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. 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.

**G. Income Taxes**

The Foundation is a 509(a)(1) publicly supported 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 net 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.

**H. Capital Assets**

The Foundation has not adopted a policy to capitalize 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 is 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. 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.

GROSSMONT COLLEGE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

**K. 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.

**L. 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.

**M. Recent Accounting Pronouncements**

In January 2010, the FASB issued guidance that clarifies existing disclosures and requires new disclosures about fair value measurements. The clarifications and the requirement to disclose the amounts and reasons for significant transfers between Level 1 and Level 2 and significant transfers into and out of Level 3 of the fair value hierarchy are effective for periods beginning after December 15, 2009.

**GROSSMONT COLLEGE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of June 30, 2011, consist of cash held in checking and money market accounts totaling \$306,119.

**NOTE 3 – ENDOWMENT**

In May 2008, the California Community Colleges Scholarship Endowment (the “Endowment”) was launched via a gift of \$25 million from The Bernard 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 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, all of the funds in the Endowment, regardless of source, 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 Grossmont College and the accumulated earnings. As of June 30, 2011, the Foundation’s beneficial interest in the Endowment totaled \$611,687 (see Note 4).

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 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) the 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.

The change in the Foundation’s beneficial interest in the Endowment balance by net asset classification during the year ended June 30, 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance - July 1, 2010	\$ -	\$ 31,003	\$ -	\$ -
Recognize prior contributions and match	-	(31,003)	264,603	233,600
Balance - July 1, 2010 (Restated)	-	-	264,603	264,603
Contributions received	-	-	311,832	311,832
Investment income	-	-	7,902	7,902
Appr(depr)eciation in investments, net of fees	-	-	27,350	27,350
Balance - June 30, 2011	\$ -	\$ -	\$ 611,687	\$ 611,687

**GROSSMONT COLLEGE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value of assets measured on a recurring basis at June 30, 2011 is as follows:

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<u>Cash and cash equivalents</u>					
Cash in checking	\$ 13,497	\$ -	\$ -	\$ -	\$ -
Cash in savings and money market	292,622	-	-	-	-
Total cash and cash equivalents	<u>306,119</u>				
<u>Investments</u>					
Certificates of deposit	50,705	-	-	-	-
Mutual funds	149,100	149,100	149,100	-	-
Total investments	<u>199,805</u>	<u>149,100</u>	<u>149,100</u>	<u>-</u>	<u>-</u>
Beneficial interest in FCCC endowment	611,687	611,687	-	-	611,687
Total	<u>\$1,117,611</u>	<u>\$ 760,787</u>	<u>\$149,100</u>	<u>\$ -</u>	<u>\$611,687</u>

**Cash and cash equivalents**

Cash held in banks is not subject to valuation. For cash equivalents (as defined in Note 1), carrying value approximates fair value because of the short maturity of those investments. At June 30, 2011, the Foundation did not hold any cash equivalents.

**Investments**

The Foundation classifies its certificates of deposit with original maturities of ninety days or more as held to maturity investments, which are carried at cost plus accumulated earnings.

The Foundation classifies its mutual fund investments as trading securities. The fair values of which are determined based on quoted market prices.

**Beneficial interest in FCCC endowment**

The Foundation classifies its agreement with the FCCC as an irrevocable split interest agreement. The Foundation's irrevocable beneficial interest in the Endowment is best valued using the income approach; however, present value of perpetual future distributions cannot be calculated. Generally accepted accounting principles indicate that the fair value of the beneficial interest can be approximated by the fair value of the Endowment, unless specific circumstances indicate otherwise. The Foundation's Board of Directors believes that no such circumstances exist; therefore, the beneficial interest is valued using the fair value of the fund. Although the fair value of investments held in the Endowment would qualify as Level 1 inputs, use of this value as an approximation for value under the income approach constitutes a Level 3 input.

**GROSSMONT COLLEGE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 5 –NET ASSETS**

**Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2011 consist of \$446,153, held in a total of 105 named scholarship and/or program support funds.

**Permanently Restricted Net Assets**

Net assets transferred to the FCCC endowment are classified as permanently restricted (see Note 3).

**NOTE 6 – 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 paid staff. To date, the Foundation has not had a policy of recording these values in the financial statements in conformance with generally accepted accounting principles.

**NOTE 7 – RELATED PARTIES**

As described in Note 1, the Foundation is a supporting organization of the District and the College; 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, the College President is responsible for Foundation operations and District and College personnel serve in ex-officio and voting capacities on the Foundation's Board.

During the year ended June 30, 2011, the Foundation indirectly supported the District by providing grants to students of the College, paying programmatic expenditures, and/or reimbursing District personnel and departments for programmatic costs. The Foundation's support totaled \$423,444.

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

**GROSSMONT COLLEGE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 8 – SUBSEQUENT EVENTS**

On June 14, 2011, the Foundation for Grossmont and Cuyamaca Colleges (the “FGCC”) was incorporated as a nonprofit public benefit corporation in the State of California. The District’s intention in forming the FGCC is to create a vehicle to better support the students and programs of both colleges within the District by combining the operational activities of the Cuyamaca College Foundation with the Grossmont College Foundation. The newly formed Foundation is not a merger of the two former Foundations: it is an entirely new entity. The FGCC formally commenced operations effective July 1, 2011. The Board of Directors and management of Grossmont College Foundation expect to complete the transfer of assets and commence the corporate dissolution process during the 2011-12 fiscal years.

The Foundation has evaluated subsequent events for the period from June 30, 2011 through November 19, 2011, the date the financial statements were available to be issued. Management did not identify any additional transactions that require disclosure or that would have an impact on the financial statements.

**NOTE 9 – RESTATEMENT OF BEGINNING NET ASSETS**

The beginning net asset balance has been restated to include the addition of \$233,600 and reclassification of \$31,003, in order to present value of the Foundation’s beneficial interest in the endowment held at the Foundation for California Community Colleges (see Note 3) as of June 30, 2010 as an asset of the Foundation. The Foundation’s beneficial interest in the endowment is properly classified as permanently restricted net assets of the Foundation under generally accepted accounting principles.