

DELTA COLLEGE FOUNDATION
(A California Nonprofit Corporation)

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2004

**DELTA COLLEGE FOUNDATION
(A California Nonprofit Corporation)**

JUNE 30, 2004

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October 5, 2004

Board of Directors
Delta College Foundation
5151 Pacific Avenue
Stockton, CA 95207

Dear Board Members:

We have completed our audit of Delta College Foundation's (a California Nonprofit Corporation) (the Foundation) financial records for the year ended June 30, 2004, and have issued our report dated October 5, 2004. In planning and performing our audit of the financial statements, we have considered the internal control structure of the Foundation in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements as a whole and not to provide assurance on the internal control structure.

During our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect our report dated October 5, 2004, on the financial statements of the Foundation. We will review the status of these matters during our next engagement.

CURRENT YEAR OBSERVATIONS

New Governance Standards

The California Nonprofit Integrity Act of 2004, SB 1262, was signed into law on September 30, 2004. This new California law is effective January 1, 2005, and applies to charitable corporations like the Foundation. The act includes provisions related to governance of charitable agencies and to fundraising activities of the agency. The following is a summary of the provisions of this act that will most affect the operations of your Foundation:

- Requires that an annual audit be performed for entities with over \$2,000,000 in revenues.
- Requires the formation of an audit committee that is tasked with the following:
 - Recommend the retention or termination of the independent auditor.
 - Negotiate the fee structure for the auditor.
 - Confer with the auditor to satisfy the committee members that the financial affairs of the charitable organization are in order.
 - Review and determine whether to accept the audit.
 - Approve performance of any non-audit services by the auditing firm.
- Requires public disclosure of audited financial statements and requires the financial statements be available within nine months of year-end.
- Requires the audit committee or the Board of Directors to review the compensation paid to the chief executive officer and the chief financial officer (or equivalents).

Additionally, the act focuses on fundraising provisions primarily as they relate to the use of professional fundraisers. The Foundation has not utilized the services of professional fundraisers in the past; however, should these services be considered in the future, the following areas should be addressed:

- Enter into written contracts containing mandatory terms and conditions for every charitable fundraising event where a commercial fundraiser is used.
- Requires charitable organizations to exercise control over fundraising activities conducted for them.
- Imposes on each commercial fundraiser highly detailed requirements for prompt deposit of charitable funds in a bank account in the name of the beneficiary charitable organization and controlled by it.
- Sets forth 12 prohibited acts in the planning and execution of fundraising by the charitable organization and others.
- Gives charitable organizations extensive rights to cancel or void contracts with commercial fundraisers and fundraising counsel.

The Foundation has addressed many of these requirements through the governance procedures currently in place such as the requirement of annual audited financial statements. It is our recommendation that the Board review the requirements for an audit committee and form such a committee prior to June 30, 2005, the fiscal year-end of the Foundation. Additionally, each Board member should become familiar with the requirements of SB 1262 as they relate to the operations of the Foundation.

ACCOUNT CODE STRUCTURE

Comment

The Foundation's current account code structure is not set up to record the fundraising activity with sufficient detail. While this level of reporting may be sufficient for the Foundation's purposes, it does not provide enough detail to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Recommendation

We recommend that the Foundation create additional accounts to record the fundraising activity of the Foundation, which will allow the activity to be extracted by natural revenue and expense categories in order to prepare GAAP financial statements when required.

OPERATING AGREEMENT

Comment

An operating agreement between the District and the Foundation does not currently exist.

Recommendation

We recommend that the Foundation develop an agreement with the District, which would detail the relationship between the entities, as well as the services provided to and received by each.

POLICIES AND PROCEDURES

Comment

The Foundation has not established any written accounting policies and procedures.

Recommendation

The Foundation should establish accounting policies and procedures.

DONATIONS

Comment

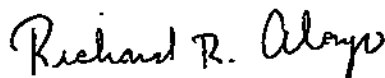
We noted that the donation list submitted to the Foundation Board does not match the list of donations reconciled by the District's Business Office, which provides the bookkeeping function for the Foundation.

Recommendation

We recommend that the Foundation review active donations as reconciled by the Business Office separate from committed donations yet to be received. We would suggest that the Foundation investigate the purchase of donor software in order to properly track donations, as well as assist in the maintenance of a donor database.

This report is intended solely for the information and use of Delta College Foundation's management and others within the organization and is not intended to be, and should not be, used by anyone other than these specific parties.

Yours very truly,



Richard R. Alonzo
of Vavrinek, Trine, Day & Co., LLP



Independent Auditors' Report

To the Board of Directors
Delta College Foundation
Stockton, California

We have audited the accompanying statement of financial position of the Delta College Foundation (a California Nonprofit Corporation) (the Foundation), a component unit of San Joaquin Delta Community College District, as of June 30, 2004, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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.

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 the Delta College Foundation as of June 30, 2004, and the changes in its net assets, its cash flows, and functional expenses for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP.

Rancho Cucamonga, California
October 5, 2004

DELTA COLLEGE FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004

ASSETS

Current Assets

Cash	\$ 283,530
Due from San Joaquin Delta Community College District	124,293
Interest receivable	2,938
Total Current Assets	<u>410,761</u>

Noncurrent Assets

Investments	1,682,198
Fixed assets, net of accumulated depreciation	1,172,748
Total Noncurrent Assets	<u>2,854,946</u>
Total Assets	<u><u>\$ 3,265,707</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	7,426
Total Current Liabilities	<u>7,426</u>

NET ASSETS

Unrestricted		32,974
Temporarily restricted	\$ 2,052,559	
Designated for investment in plant and equipment	<u>1,172,748</u>	<u>3,225,307</u>
Total Net Assets		<u>3,258,281</u>
Total Liabilities and Net Assets		<u><u>\$ 3,265,707</u></u>

See the accompanying notes to financial statements.

DELTA COLLEGE FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	Unrestricted	Temporarily Restricted	Total
Revenues			
Contributions	\$ 22,972	\$ 1,254,461	\$ 1,277,433
Special events	-	72,648	72,648
Memberships	-	2,830	2,830
Interest and dividends	127	71,670	71,797
Other income	-	4,086	4,086
Net assets released from restrictions	1,319,831	(1,319,831)	-
Total Revenues	1,342,930	85,864	1,428,794
Expenses			
Program expenses	1,310,886	-	1,310,886
Operating expenses	77,006	-	77,006
Fundraising expenses	23,048	-	23,048
Total Expenses	1,410,940	-	1,410,940
Other Gains and Transfers			
Gain on sale of investment	-	6,038	6,038
Unrealized gains	-	120,167	120,167
Transfers between funds	33,196	(33,196)	-
Total Other Gains	33,196	93,009	126,205
CHANGE IN NET ASSETS	(34,814)	178,873	144,059
NET ASSETS, BEGINNING OF YEAR	67,788	3,046,434	3,114,222
NET ASSETS, END OF YEAR	\$ 32,974	\$ 3,225,307	\$ 3,258,281

See the accompanying notes to financial statements.

**DELTA COLLEGE FOUNDATION
(A California Nonprofit Corporation)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in Net Assets	\$ 144,059
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities	
Depreciation	369,075
Noncash donation of equipment	(435,523)
Change in operating assets and liabilities	
Decrease in due from San Joaquin Delta Community College District	13,781
Decrease in accounts payable	(20,864)
Net Cash Flows Provided by Operating Activities	<u>70,528</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments (net)	<u>(4,063)</u>
Net Cash Flows Used by Investing Activities	<u>(4,063)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	66,465
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>217,065</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 283,530</u></u>

See the accompanying notes to financial statements.

DELTA COLLEGE FOUNDATION
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STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Program</u>	<u>Operating</u>	<u>Fundraising</u>	<u>Total</u>
Materials and supplies	\$ 216,729	\$ 1,424	\$ -	\$ 218,153
Other operating expenses	66,437	85	23,048	89,570
Classroom support equipment	506,894	-	-	506,894
Depreciation	369,075	-	-	369,075
Investment management fees	-	8,497	-	8,497
Lobbying expense	-	67,000	-	67,000
Student program	22,600	-	-	22,600
Student assistance	107,968	-	-	107,968
Staff travel	15,434	-	-	15,434
Field trips	5,749	-	-	5,749
Total Expenses	<u>\$ 1,310,886</u>	<u>\$ 77,006</u>	<u>\$ 23,048</u>	<u>\$ 1,410,940</u>

See the accompanying notes to financial statements.

**DELTA COLLEGE FOUNDATION
(A California Nonprofit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The San Joaquin Delta Community College Foundation (the Scholarship Foundation) originated in September 1973 as a private, nonprofit corporation. The Auxiliary Foundation of San Joaquin Delta Community College District (the Auxiliary Foundation) was established in 1984 and consisted of two operational components: an instructional support component and a commercial operations component. The instructional components were composed of individual councils for respective instructional programs. The Boards of Directors of the Scholarship Foundation and the Auxiliary Foundation approved a merger of the two separate foundations into one foundation in May of 2003. Additionally, the Boards of Directors approved renaming of the newly merged foundation to the Delta College Foundation (the Foundation). This merger took place on July 1, 2003. All assets, liabilities, and fund balances of the Scholarship Foundation, as well as the Auxiliary Foundation at June 30, 2003, were transferred to the newly named Delta College Foundation in total.

The Foundation is organized around the goals of advancing education and the charitable purposes related to education. The Foundation solicits and raises money for the purpose of supporting programs and services of the San Joaquin Delta Community College District (the District) including awarding scholarships to assist students to pursue their education. The Foundation is considered a component unit of, and is included in, the San Joaquin Delta Community College District's financial statements because the District has ultimate responsibility over the Foundation's operations. The Foundation is reported as part of the expendable trust funds of the District.

B. Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. The statement of activities is a statement of financial activities related to the current reporting period. Using this method, revenues are recognized when earned and expenses are recognized when incurred.

C. Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions. All contributions are considered available for unrestricted use unless specifically restricted by the donor.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions."

In accordance with Statement of Financial Accounting Standard (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made," donated materials and equipment are recorded as contributions based on the estimated fair value at the date of donation. Donated services are recorded as contributions at their estimated fair value only in those instances where the services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation.

DELTA COLLEGE FOUNDATION
(A California Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

E. Cash and Cash Equivalents

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

F. Investments

Investments are recorded at fair market value based upon published market prices and quotations from major investment brokers.

G. Equipment

Equipment is capitalized at cost. It is the Foundation's policy to capitalize all equipment purchased with a cost over \$5,000. Lesser amounts are expensed. Equipment is depreciated over its estimated useful life of three to ten years utilizing the straight-line method.

H. Income Taxes

The Foundation is a charitable, not-for-profit, tax-exempt organization qualified under provisions of Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. Accordingly, no provision for income taxes has been provided in the financial statements. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a). The Foundation annually files information returns (Forms 990, 199, and CT-2) with the appropriate agencies.

I. Statement of Functional Expenses

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

DELTA COLLEGE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE #2 - INVESTMENTS

Investments at June 30, 2004, consist of the following:

	Adjusted Cost	Fair Market Value	Unrealized Appreciation (Depreciation)
U.S. Treasury cash reserves	\$ 97,257	\$ 97,257	\$ -
Cash in county treasury	396,862	396,862	-
Bonds	105,316	108,000	2,684
Mutual funds	511,652	503,495	(8,157)
Equity securities	468,434	576,582	108,148
Sundry assets	103,498	2	(103,496)
	<u>\$ 1,683,019</u>	<u>\$ 1,682,198</u>	<u>\$ (821)</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2004:

	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 127	\$ 71,670	\$ 71,797
Net realized and unrealized gains	-	93,009	93,009
	<u>\$ 127</u>	<u>\$ 164,679</u>	<u>\$ 164,806</u>

NOTE #3 - INTEREST RECEIVABLE

As of June 30, 2004, the Foundation interest receivable consisted of fourth quarter interest from cash held by the Union Safe Deposit Bank for the Benerd Trust.

NOTE #4 - FIXED ASSETS

Fixed assets owned by the Foundation consists of the following at June 30, 2004:

	Fixed Assets		
	Balance June 30, 2003	Additions	Balance June 30, 2004
Equipment	<u>\$ 2,016,859</u>	<u>\$ 435,523</u>	<u>\$ 2,452,382</u>

	Accumulated Depreciation		
	Balance June 30, 2003	Depreciation	Balance June 30, 2004
Equipment	<u>\$ 910,559</u>	<u>\$ 369,075</u>	<u>\$ 1,279,634</u>

Depreciation expense for the year ended June 30, 2004, was \$369,075.

**DELTA COLLEGE FOUNDATION
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE #5 - RELATED PARTY TRANSACTIONS

The Foundation awards financial support for various programs and general support, along with grants and scholarships, to faculty and students of the District in accordance with donor instructions.

NOTE #6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2004, are as follows:

Restricted for the use of campus councils for respective instructional programs	\$ 761,975
Restricted for scholarships	1,290,584
	<u>\$ 2,052,559</u>

During the year ended June 30, 2004, temporarily restricted assets totaling \$1,319,831 were released to the unrestricted fund which records the restricted programs' expense.

NOTE #7 - SUBSEQUENT EVENT

On July 7, 2004, the Board of Directors of the Delta College Foundation approved the transfer of all fixed assets to the San Joaquin Delta Community College District effective July 1, 2004.