

DELTA COLLEGE FOUNDATION
(A California Nonprofit Corporation)

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2005



October 14, 2005

Board of Directors
Delta College Foundation
Stockton, CA

Dear Board Members:

We have completed our audit of Delta College Foundation's (the Foundation) financial records for the year ended June 30, 2005, and have issued our report dated October 14, 2005. 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 14, 2005, on the financial statements of the Foundation. We will review the status of these matters during our next engagement.

Monthly Financial Statement Monitoring

Comment

The San Joaquin Delta Community College District's (the District) Business Office is involved in monthly support to the Foundation regarding routine cash collections and disbursements along with preparing the monthly financial statements. The monthly financials are created via a download from the Oracle software system to an excel report which is prepared by District personnel and presented to the Board of Directors and the Foundation Executive Director. During the audit of the Foundation, the Foundation Executive Director was not able to clarify some routine revenue and expense questions. Since the financials are reporting on the profitability of the Foundation, the Executive Director should be adequately aware of the various revenue and expense items presented on the financial statements.

Recommendation

The accounting activities of the Foundation should be reviewed on a monthly basis by the Executive Director in order to ensure that activity is posted in the proper accounts and all information has been reconciled. Whether the Foundation continues to outsource the accounting function to the District or maintains staff to perform these functions, the responsibility for the accuracy and completeness of the financial reports must remain with the Executive Director.

Account Reconciliations

Comment

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. The Foundation utilizes two software systems for the accounting and reporting of donations – The Oracle system maintained by the Business Office for complete financial reporting and an excel spreadsheet maintained by the Foundation Office. (Raiser's Edge donor software was purchased to assist with tracking of donors and contributions, but had not been implemented at year end.) These two systems were not reconciled before presenting to the Board. The original reports (not the reconciled reports) are what appears within the Board minutes. By presenting these reports to the Board members, it might appear the Foundation has received larger contributions than were actually recorded. Also, the reports presented in the Board minutes are accumulative, but change format and information each month per review of Board minutes. It is difficult to follow what was actually donated and if the amounts represented on the report are accurately reflected.

Recommendation

The proper principles for recognizing and classifying contributions must be understood and followed by the Foundation. The Foundation Executive Director is responsible to understand and follow FAS-116: *donor-imposed conditions and donor-imposed restrictions*. The Foundation is responsible to meet all donor-imposed conditions before recognizing the receipt of the assets. Also, on a monthly basis, contributions recorded within the Foundation's Office should be reconciled to the donations recorded within the financials and those monthly reports would be the report that is to be presented to the Board of Directors.

Operating Agreement

Comment

An operating agreement between the District and the Foundation does not currently exist. During the current fiscal year (2004-2005), a draft agreement was prepared by the District that addressed all the requirements for proper internal controls. At the current time, this agreement is being reviewed by legal council and has not been finalized.

Recommendation

We recommend that the Foundation finalize their draft agreement with the District and implement all recommendations within the agreement during the upcoming fiscal year.

Policies and Procedures

Comment

At the current time, the Foundation has not finalized any written accounting policies and procedures. A complete draft agreement was prepared by the District during the current fiscal year (2004-2005). However, the draft is currently being reviewed by legal council and has not been finalized.

Recommendation

The Foundation should finalize their draft of accounting policies and procedures during this upcoming fiscal year. These policies and procedures will then need to be approved by the Board of Directors of the Foundation.

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 some of the provisions of this act that will most affect the operations of the 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 Trustees 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. Should the Board determine that the use of a professional fundraiser would be in the best interest of the Foundation, care should be taken to ensure the requirements for registration and oversight are met.

Board of Directors
Delta College Foundation
October 14, 2005
Page 4

This letter does not affect our report on the financial statements of the Foundation.

We appreciate the time and assistance the staff of the Foundation and the San Joaquin Delta Community College District Business Office has provided during our audit. We will follow up each of the areas noted above during the early stages of our fieldwork for the 2005-2006 fiscal year.

This report is intended solely for the information and use of the Board, management, and others within the Foundation and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Richard R. Alonzo". The signature is written in a cursive style with a large, prominent initial "R".

Richard R. Alonzo
of VAVRINEK TRINE, DAY & CO., LLP

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

JUNE 30, 2005

Table of Contents

Independent Auditors' Report	1
Financial Statements	
Statement of Financial Position	2
Statement of Activities.....	3
Statement of Cash Flows.....	4
Statement of Functional Expenses	5
Notes to Financial Statements	6



Independent Auditors' Report

To the Board of Directors
Delta College Foundation
Stockton, California

We have audited the accompanying statements 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, 2005, and the related statements of activities, 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, 2005, 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 14, 2005

DELTA COLLEGE FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005

ASSETS

Current Assets

Cash and Cash Equivalents

 Restricted cash

\$ 131,442

 Due from San Joaquin Delta Community College District

42,438

 Interest receivable

806

 Total Current Assets

174,686

Noncurrent Assets

 Unrestricted investments

9,888

 Restricted investments

2,235,569

 Total Noncurrent Assets

2,245,457

 Total Assets

\$ 2,420,143

LIABILITIES AND NET ASSETS

Current Liabilities

 Accounts payable

136,336

 Total Current Liabilities

136,336

Noncurrent Liabilities

 Liability under split interest agreement

47,073

 Total Long-Term Liabilities

47,073

 Total Liabilities

183,409

NET ASSETS

 Unrestricted

47,762

 Temporarily restricted

2,167,651

 Permanently restricted

21,321

 Total Net Assets

2,236,734

 Total Liabilities and Net Assets

\$ 2,420,143

See the accompanying notes to financial statements.

DELTA COLLEGE FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions	\$ 18,972	\$ 213,087	\$ 22,927	\$ 254,986
Special events	-	67,799	-	67,799
In Memory Contribution	-	333,333	-	333,333
Memberships	-	3,125	-	3,125
Interest and dividends	158	59,153	919	60,230
Miscellaneous income	-	317	-	317
Net assets released from restrictions	564,859	(561,339)	(3,520)	-
Total Revenues	<u>583,989</u>	<u>115,475</u>	<u>20,326</u>	<u>719,790</u>
Expenses				
Program expenses	537,877	-	-	537,877
Operating expenses	15,172	-	-	15,172
Fundraising expenses	16,152	-	-	16,152
Total Expenses	<u>569,201</u>	<u>-</u>	<u>-</u>	<u>569,201</u>
Other Gains, Losses, and Transfers				
Realized and unrealized gain (loss) on investments	-	(383)	995	612
Transfer to San Joaquin Delta Community College	-	(1,172,748)	-	(1,172,748)
Total Other Gains, Losses, and Transfers	<u>-</u>	<u>(1,173,131)</u>	<u>995</u>	<u>(1,172,136)</u>
CHANGE IN NET ASSETS	14,788	(1,057,656)	21,321	(1,021,547)
NET ASSETS, BEGINNING OF YEAR	32,974	3,225,307	-	3,258,281
NET ASSETS, END OF YEAR	<u>\$ 47,762</u>	<u>\$ 2,167,651</u>	<u>\$ 21,321</u>	<u>\$ 2,236,734</u>

See the accompanying notes to financial statements.

DELTA COLLEGE FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ (1,021,547)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities	
Transfer of fixed assets	1,172,748
Change in operating assets and liabilities	
Decrease in due from San Joaquin Delta Community College District	81,855
Decrease in accounts receivable	2,132
Increase in accounts payable	128,910
Increase in liability under split-interest agreement	47,073
Net Cash Flows Provided by Operating Activities	<u>411,171</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments (net)	<u>(563,259)</u>
Net Cash Flows Used by Investing Activities	<u>(563,259)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(152,088)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>283,530</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 131,442</u>

DELTA COLLEGE FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Program</u>	<u>Operating</u>	<u>Fundraising</u>	<u>Total</u>
Materials and supplies	\$ 88,796	\$ -	\$ -	\$ 88,796
Other operating expenses	67,378	4,342	16,152	87,872
Classroom support equipment	18,721	-	-	18,721
Equipment	80,897	-	-	80,897
Investment management fees	-	10,830	-	10,830
Contracted services	23,001	-	-	23,001
Student training programs	6,015	-	-	6,015
Student assistance	230,986	-	-	230,986
Staff travel	6,826	-	-	6,826
Field trips	15,257	-	-	15,257
Total Expenses	<u>\$ 537,877</u>	<u>\$ 15,172</u>	<u>\$ 16,152</u>	<u>\$ 569,201</u>

See the accompanying notes to financial statements.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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 as a discretely presented component unit because the District has ultimate responsibility over the Foundation's operations.

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, 2005

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. The carrying value of cash and cash equivalents approximates fair value because of short maturities of those financial instruments.

F. Investments

The Foundation has adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

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 RRF-1) with the appropriate agencies. There was no unrelated business activity income.

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
(A California Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2 - CONCENTRATION

The Foundation maintains its accounts at two financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures accounts up to \$100,000. As of June 30, 2005, no deposits exceeded the FDIC limit.

NOTE #3 - INVESTMENTS

Investments at June 30, 2005, consist of the following:

	Adjusted Cost	Fair Market Value	Unrealized/ Realized Gains/(loss)
U.S. Treasury cash reserves	\$ 200,426	\$ 200,426	\$ -
Cash in county treasury	397,558	397,558	-
Bonds	180,068	180,068	-
U.S. Government agency	450,314	450,314	-
Equity securities	1,016,479	1,017,091	612
	<u>\$ 2,244,845</u>	<u>\$ 2,245,457</u>	<u>\$ 612</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2005:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 158	\$ 59,153	\$ 919	\$ 60,230
Net realized and unrealized gains	-	(383)	995	612
	<u>\$ 158</u>	<u>\$ 58,770</u>	<u>\$ 1,914</u>	<u>\$ 60,842</u>

NOTE #4 - INTEREST RECEIVABLE

As of June 30, 2005, the Foundation interest receivable consisted of fourth quarter interest from cash held by the Community Bank.

NOTE #5 - FIXED ASSETS

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.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Fixed assets owned by the Foundation consist of the following at June 30, 2005:

	Fixed Assets		
	Balance		Balance
	June 30, 2004	Deletions	June 30, 2005
Equipment	\$ 2,452,382	\$ 2,452,382	\$ -
	Accumulated Depreciation		
	Balance		Balance
	June 30, 2004	Deletions	June 30, 2005
Equipment	\$ 1,279,634	\$ 1,279,634	\$ -

Depreciation expense for the year ended June 30, 2005, was \$0.

NOTE #6 - SPLIT INTEREST AGREEMENT

The Foundation is the beneficiary of a Charitable Gift Annuity. The donated assets are held in trust by the Community College League on behalf of the Foundation. The basis used to recognize the asset is cost. The present value of the annuity is recorded as a liability using an eight percent interest factor. The contribution is recorded separately as permanently restricted assets. Quarterly payments of \$1,050 are to be made to the donor. The donor retains all income rights during their lifetime.

NOTE #7 - 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 #8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of June 30, 2005:

Restricted for the use of campus councils for respective instructional programs	\$ 722,999
Restricted for scholarships	1,444,652
Total Temporarily Restricted Net Assets	\$ 2,167,651

During the year ended June 30, 2005, temporarily restricted assets totaling \$561,339 were released to the unrestricted fund which records the restricted programs' expense.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Permanently restricted net assets consist of the following as of June 30, 2005:

Charitable Gift Annuity	<u>\$ 21,321</u>
-------------------------	------------------

During the year ended June 30, 2005, permanently restricted assets totaling \$3,520 were released to the unrestricted fund which records the restricted programs' expense.