

**FOUNDATION FOR  
CALIFORNIA COMMUNITY  
COLLEGES**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED  
JUNE 30, 2012 AND 2011**

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## TABLE OF CONTENTS JUNE 30, 2012 AND 2011

---

	<u>PAGE</u>
Independent Auditor's Report .....	1
Financial Statements:	
Statements of Financial Position .....	3
Statements of Activities .....	4
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7
Supplemental Schedules:	
Schedule of Expenditures of Federal Awards .....	15
Notes to Schedule of Expenditures of Federal Awards .....	16
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	17
Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	19
Schedule of Findings and Questioned Costs .....	21



## INDEPENDENT AUDITOR'S REPORT

**Board of Directors  
Foundation for California Community Colleges  
Sacramento, California**

We have audited the accompanying statements of financial position of Foundation for California Community Colleges (Foundation) as of June 30, 2012 and 2011, and the related statements of activities and of cash flows for the years 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 audits.

We conducted our audits 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our report dated October 6, 2011, we expressed an opinion that the 2011 financial statements did not fairly present financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America (GAAP) because the financial statements did not account for the funded status of the Foundation's defined benefit plan. In 2012, it was determined the Foundation's defined benefit plan qualified as a multiemployer plan, and therefore in accordance with GAAP, the Foundation would not account for the funded status of its defined benefit plan. Accordingly, our present opinion on the 2011 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation for California Community Colleges as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years 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 October 25, 2012, on our consideration of the 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Gilbert Associates, Inc." The signature is written in black ink and is positioned above the printed name of the firm.

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**October 25, 2012**

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## STATEMENTS OF FINANCIAL POSITION JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 4,483,027	\$ 3,309,160
Accounts receivable	4,896,686	6,346,092
Current portion of contributions receivable	2,101,475	8,202,666
Prepaid expenses and other assets	<u>307,744</u>	<u>88,484</u>
Total current assets	<u>11,788,932</u>	<u>17,946,402</u>
<b>NONCURRENT ASSETS:</b>		
Investments	50,285,399	44,619,680
Investments held on behalf of others	28,403,227	28,948,480
Contributions receivable, net	569,000	1,544,000
Facility Program (FUSION) development costs, net	394,116	432,303
Property and equipment, net	84,796	146,690
Deposits	<u>4,147</u>	<u>14,086</u>
Total noncurrent assets	<u>79,740,685</u>	<u>75,705,239</u>
<b>TOTAL ASSETS</b>	<u>\$ 91,529,617</u>	<u>\$ 93,651,641</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 2,145,685	\$ 2,750,432
Accrued expenses	1,621,631	2,658,260
Grants payable	2,051,662	1,672,923
Deferred revenue	794,231	1,175,012
Funds held on behalf of others	<u>59,252</u>	<u>79,422</u>
Total current liabilities	6,672,461	8,336,049
<b>INVESTMENTS HELD ON BEHALF OF OTHERS</b>	<u>28,403,227</u>	<u>28,948,480</u>
<b>TOTAL LIABILITIES</b>	<u>35,075,688</u>	<u>37,284,529</u>
<b>NET ASSETS:</b>		
Unrestricted	1,620,890	1,060,559
Temporarily restricted	17,315,014	15,623,263
Permanently restricted	<u>37,518,025</u>	<u>39,683,290</u>
Total net assets	<u>56,453,929</u>	<u>56,367,112</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 91,529,617</u>	<u>\$ 93,651,641</u>

The accompanying notes are an integral part of these financial statements.

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, SUPPORT AND INCOME:</b>				
Government service contracts	\$ 19,460,350			\$ 19,460,350
Fees for service activities and programs	15,684,331			15,684,331
Foundation grants and contributions		\$ 5,286,052	\$ 33,294	5,319,346
Investment income		9,044	236,066	245,110
Contributions and donations	63,500			63,500
Return of donor funds			(386,556)	(386,556)
Net assets released from restrictions	5,651,414	(3,603,345)	(2,048,069)	
Total revenues	<u>40,859,595</u>	<u>1,691,751</u>	<u>(2,165,265)</u>	<u>40,386,081</u>
<b>EXPENSES:</b>				
Program services:				
Workforce development	22,160,650			22,160,650
Community college campus services	8,128,125			8,128,125
Student learning	5,875,725			5,875,725
Total program services	<u>36,164,500</u>			<u>36,164,500</u>
Supporting services:				
General and administrative	3,953,101			3,953,101
Fundraising expenses	181,663			181,663
Total supporting services	<u>4,134,764</u>			<u>4,134,764</u>
Total expenses	<u>40,299,264</u>			<u>40,299,264</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	560,331	1,691,751	(2,165,265)	86,817
<b>NET ASSETS, Beginning of Year</b>	<u>1,060,559</u>	<u>15,623,263</u>	<u>39,683,290</u>	<u>56,367,112</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 1,620,890</u>	<u>\$ 17,315,014</u>	<u>\$ 37,518,025</u>	<u>\$ 56,453,929</u>

The accompanying notes are an integral part of these financial statements.

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, SUPPORT AND INCOME:</b>				
Government service contracts	\$ 23,275,319			\$ 23,275,319
Fees for service activities and programs	15,234,801			15,234,801
Foundation grants and contributions		\$ 5,353,132	\$ 7,763,185	13,116,317
Investment income		2,373,167	2,816,039	5,189,206
Contributions and donations	57,535			57,535
Net assets released from restrictions	4,583,097	(3,979,441)	(603,656)	
Total revenues	<u>43,150,752</u>	<u>3,746,858</u>	<u>9,975,568</u>	<u>56,873,178</u>
<b>EXPENSES:</b>				
Program services:				
Workforce development	21,371,943			21,371,943
Community college campus services	8,866,056			8,866,056
Student learning	8,850,613			8,850,613
Total program services	<u>39,088,612</u>			<u>39,088,612</u>
Supporting services:				
General and administrative	2,957,220			2,957,220
Fundraising expenses	982,022			982,022
Total supporting services	<u>3,939,242</u>			<u>3,939,242</u>
Total expenses	<u>43,027,854</u>			<u>43,027,854</u>
<b>INCREASE IN NET ASSETS</b>	122,898	3,746,858	9,975,568	13,845,324
<b>NET ASSETS, Beginning of Year</b>	<u>937,661</u>	<u>11,876,405</u>	<u>29,707,722</u>	<u>42,521,788</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 1,060,559</u>	<u>\$ 15,623,263</u>	<u>\$ 39,683,290</u>	<u>\$ 56,367,112</u>

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 86,817	\$ 13,845,324
Reconciliation to net cash provided (used) by operating activities:		
Net realized and unrealized (gain) loss on investments	729,845	(4,334,232)
Depreciation and amortization	105,174	137,002
Permanently restricted contributions	(33,294)	(7,763,185)
Changes in:		
Accounts receivable	1,449,406	(76,998)
Contributions receivable	7,076,191	(3,505,371)
Prepaid expenses and other assets	(219,260)	10,644
Deposits and other assets	9,939	(2,258)
Accounts payable	(604,747)	(309,076)
Accrued expenses	(1,036,629)	856,071
Grants payable	378,739	37,580
Deferred revenue	(380,781)	(2,049,634)
Funds held on behalf of others	(20,170)	(30,831)
Net cash provided (used) by operating activities	<u>7,541,230</u>	<u>(3,184,964)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(8,226,658)	(6,397,860)
Proceeds from sale of investments	1,831,094	1,828,919
Purchases of property and equipment	<u>(5,093)</u>	<u>(18,515)</u>
Net cash used by investing activities	<u>(6,400,657)</u>	<u>(4,587,456)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Permanently restricted contributions	<u>33,294</u>	<u>7,763,185</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	1,173,867	(9,235)
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<u>3,309,160</u>	<u>3,318,395</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<u>\$ 4,483,027</u>	<u>\$ 3,309,160</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	<u>\$</u>	<u>\$ 2,619</u>

The accompanying notes are an integral part of these financial statements.



# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

---

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Foundation for California Community Colleges (Foundation) is the official foundation of the California Community Colleges Board of Governors and System Office. Its mission is to benefit, support and enhance the missions of the California Community Colleges. Areas of service include program and grant management, resource development, fiscal sponsorship services, workforce development/career training programs, research and information systems, system wide purchasing contracts, and administration of the California Community Colleges Scholarship Endowment.

**Basis of accounting and financial statement presentation** – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

**Revenue recognition** – Major revenue sources, by program, are as follows:

#### Government service contracts

Grant and contract revenues are awarded from the State of California and federal agencies and require the Foundation to provide specific services for the agencies. The Foundation enters into a contractual agreement with each agency that sets out the terms, including the work plan and required services to be performed, total contract revenues, a cost budget, and other items.

Youth and Adult Services programs develop and administer community service, workforce training and educational programs targeting aspiring teachers and foster youth. These programs enhance existing services that help youth and adults in pursuing their academic goals, in launching career paths, and in shaping roles as active citizens.

In partnership with the California Department of Consumer Affairs-Bureau of Automotive Repair, the Foundation creates career training opportunities for students on community college campuses. Students gain real work experience working alongside experienced Smog Check Referee staff. Campuses benefit from the use of modern equipment and receive financial support for space sharing.

The Career Pathway program provides life-shaping career opportunities for students and recruitment solutions for government and nonprofit agencies. The program pairs qualified students with agencies for work and job training. Students are recruited by the Foundation, individually selected by contracting agencies, and then hired by the Foundation on behalf of the agencies.

The California Connects program offers a multi-pronged approach to increasing digital literacy and broadband access for underserved communities for whom computer and internet access is still a challenge. Funded by a Broadband Technology Opportunities Program grant from the U.S. Department of Commerce's National Telecommunications and Information Administration, California Connects provides intensive outreach and hands-on training to students, who will, in turn, educate over 60,000 new broadband users and influence nearly 10,000 new broadband adopters over three years.

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

---

Revenues from government service contracts are recognized over the term of the project administered or as services are provided.

### Fees for service activities and programs

CollegeBuys program revenues are derived from the sale of products and services to Community Colleges, staff, faculty and students under cooperative purchasing programs. The Foundation arranges special pricing with major suppliers under purchasing contracts on behalf of the colleges and related educational institutions. Revenues are recognized when the related sales or services occur. Amounts collected in advance of such sales or services are recorded as deferred revenue until earned.

Through a grant from the Reformulated Gasoline Settlement Fund, the VRRRM (Vehicle Repair, Retirement, and Replacement for Motorists) program provides California motorists with approved emissions-related diagnostics and repairs that result in a significant and durable emissions reduction. Revenues are recognized when the related sales or services occur. Amounts collected in advance of such sales or services are recorded as deferred revenue until earned.

The Foundation derives fees from facilities management services provided to colleges and educational institutions. These services include facility assessments and the use of FUSION (Facilities Utilization, Space Inventory Options Net), a proprietary database with information reporting systems. Revenues are recognized when the related services occur. Amounts collected in advance of such services are recorded as deferred revenue until earned.

The Foundation serves as a fiscal sponsor overseeing program operations and receiving and administering funds for projects and grants associated with the California Community Colleges and related public agencies in California. Revenues are recognized as program expenses are incurred over the term of the project administered.

### Contributions and donations

The Foundation receives contributions from private foundations, organizations, corporations, and individuals. Some of these contributions are temporarily or permanently restricted by the donor; other contributions are received without restriction and can be used for any Foundation purpose. Grants from private foundations are treated as contributions and recognized in full when received or unconditionally promised, in accordance with professional standards. Such contributions are initially reported as an increase in temporarily or permanently restricted net assets. When a restriction expires (generally as payments are made to fulfill the grantor-imposed purpose of the contribution), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Cash and cash equivalents** – For financial statement purposes, the Foundation considers all investments with an initial maturity of three months or less to be cash equivalents, unless held for long-term purposes.

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

---

The Foundation minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and management believes the Foundation is not exposed to any significant credit risk related to cash.

**Accounts receivable** 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. Management believes that all accounts are collectible and no allowance is necessary. Accounts receivable includes amounts owed on grants and contracts.

**Contributions receivable** consist of unconditional promises to give from private foundation grants. Long-term contributions receivable totaling \$569,000 and \$1,544,000 at June 30, 2012 and 2011, respectively, are expected to be collected within 1-5 years. No discount was applied to long-term contributions receivable as it was considered immaterial.

**Investments** are stated at fair value.

**Investments held on behalf of others** – The Foundation holds investments on behalf of various California Community Colleges for the purpose of generating investment income to fund scholarships for their students. At June 30, 2012, these investments were co-invested with funds held by the Foundation and remain permanently restricted net assets of the Colleges. Investments held on behalf of others are stated at fair value and classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

**Funds held on behalf of others** – The Foundation receives and disburses funds on behalf of two organizations. The balance of these funds is included as a liability in the Foundation's statement of financial position.

**Property and equipment** are stated at cost or, if donated, at the estimated fair market value at the date of donation. The Foundation capitalizes all expenditures for property and equipment in excess of \$5,000. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from three to seven years.

**FUSION Program development costs** – Software development costs, including costs to acquire software for programs and services provided by the Foundation, are capitalized. These costs are amortized over the twenty year estimated useful life of the program, commencing in the period the project is completed. Other costs and indirect costs associated with the development project are expensed when incurred. Accumulated amortization at June 30, 2012 and 2011 totaled \$346,963 and \$308,776, respectively.

**Income taxes** – The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation has implemented the amended accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements.

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

---

**Functional allocation of expenses** – The costs of providing the program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated based on employees' time incurred and management's estimates of the usage of resources.

**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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Subsequent events** have been reviewed through October 25, 2012, the date the financial statements were issued.

**Fair value measurements** – The Foundation values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value in three broad levels, as follows:

- Level 1 Inputs    Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 Inputs    Inputs other than quoted prices in active markets that are observable either directly or indirectly.
- Level 3 Inputs    Unobservable inputs in which there is little or no market data, which requires management to develop its own assumptions.

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

### 2. INVESTMENTS

The Foundation's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

Investments consist of the following:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 7,110,613	\$ 5,410,522
Common stocks:		
US large cap	9,843,250	8,350,313
Mutual funds:		
Fixed income	17,515,869	15,777,604
International equity	8,062,443	8,064,951
US large cap equity	4,779,964	3,941,582
US mid cap equity	2,522,462	2,596,750
US small cap equity	<u>450,798</u>	<u>477,958</u>
Total	<u>\$ 50,285,399</u>	<u>\$ 44,619,680</u>

Investment income consists of the following:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 974,955	\$ 854,974
Net realized and unrealized gain (loss)	<u>(729,845)</u>	<u>4,334,232</u>
Total	<u>\$ 245,110</u>	<u>\$ 5,189,206</u>

### 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2012</u>	<u>2011</u>
Software	\$ 213,203	\$ 219,969
Computers	193,997	226,920
Furniture and fixtures	125,048	125,048
Equipment	95,250	131,609
Tenant improvements	<u>52,986</u>	<u>52,986</u>
Total	680,484	756,532
Less accumulated depreciation and amortization	<u>(595,688)</u>	<u>(609,842)</u>
Property and equipment, net	<u>\$ 84,796</u>	<u>\$ 146,690</u>

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

---

### 4. LINE OF CREDIT

The Foundation has a \$4,500,000 line of credit agreement with a bank. Interest on borrowings varies based on the balance outstanding and the bank's broker call rates. At June 30, 2012, these rates ranged from 2.5% to 3.75%. Borrowings are collateralized by certain investments of the Foundation. There was no balance owed at June 30, 2012 and 2011.

### 5. NET ASSETS

Temporarily restricted net assets are to be used for the following programs:

	<u>2012</u>	<u>2011</u>
Nursing education	\$ 10,683,413	\$ 10,833,632
Career Ladders	6,230,345	3,940,237
Other	<u>401,256</u>	<u>849,394</u>
Total	<u>\$ 17,315,014</u>	<u>\$ 15,623,263</u>

Permanently restricted net assets totaling \$37,518,025 and \$39,683,290 as of June 30, 2012 and 2011, respectively, consist of the donor-restricted funds received from the Bernard Osher Foundation and other private grantors to fund student scholarships through the California Community Colleges Scholarship Endowment. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation classifies as permanently restricted net assets, the original value of all gifts donated to the permanent endowment. All accumulated unrealized appreciation and depreciation of endowment investments are recorded to temporarily restricted net assets to the extent that the original value of donated principal has not decreased. Accumulated unrealized appreciation of endowment investments is recorded as an increase to permanently restricted net assets to the extent that the principal has been reduced through previous unrealized losses or funding endowment expenditures. Accumulated unrealized depreciation of endowment investments is recorded as a decrease to permanently restricted net assets to the extent that there are no offsetting accumulated endowment earnings in temporarily restricted net assets.

Permanently restricted net assets as of June 30, 2012 and 2011 consist of one endowment fund. The funds are to be invested in perpetuity and interest and dividends are to be used per donor intent. The endowment investment policy, approved by the Board of Directors, emphasizes preservation of capital as its primary objective and growth and income as secondary objectives. The principal of the endowment fund may be used to fund expenditures if earnings are not sufficient to meet payout requirements, however, prior consent from the Bernard Osher Foundation is mandatory.

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Changes in permanently restricted endowment net assets are as follows:

	<u>2012</u>	<u>2011</u>
Endowment net assets, beginning of year	\$ 39,683,290	\$ 29,707,722
Contributions	33,294	7,763,185
Return of donor funds	(386,556)	
Investment gain (loss):		
Investment income	744,954	618,863
Realized/unrealized gain (loss)	<u>(508,888)</u>	<u>3,144,106</u>
Total investment gain:	236,066	3,762,969
Approved endowment expenditures	<u>(2,048,069)</u>	<u>(1,550,586)</u>
Endowment net assets, end of year	<u>\$ 37,518,025</u>	<u>\$ 39,683,290</u>

Scholarship awards payable to California Community College students are funded through the endowment and through investments held on behalf of various California Community Colleges. Scholarship awards payable are included in the statements of financial position liability balances as follows:

	<u>2012</u>	<u>2011</u>
Grants payable	\$ 2,051,662	\$ 1,550,586
Investments held on behalf of others	<u>1,435,338</u>	<u>612,414</u>
Total	<u>\$ 3,487,000</u>	<u>\$ 2,163,000</u>

### 6. OPERATING LEASE OBLIGATION

The Foundation leases office space, operating space for their Smog Referee Program and equipment under operating leases expiring in various years through 2015. Total expenses under the operating leases were \$1,039,216 and \$1,024,998 for the years ended June 30, 2012 and 2011, respectively. Future minimum lease payments are as follows:

#### Year ending June 30:

2013	\$ 935,882
2014	393,657
2015	<u>392,400</u>
Total	<u>\$ 1,721,939</u>

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

---

### 7. DEFINED BENEFIT PENSION PLAN

#### Plan Description

All full-time employees are covered under a defined benefit pension plan maintained by an agency of the State of California. The Foundation's employees are members of the California Public Employees' Retirement System (CalPERS).

The CalPERS Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. The Plan is part of the Public Agency portion of CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. The Plan selects optional benefit provisions by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office at 400 P Street, Sacramento, California 95814.

#### Funding Policy

Active plan members are required to contribute 8% of their annual covered salary. In addition, the Foundation is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates for the fiscal years ended June 30, 2012, 2011 and 2010 were 14.15%, 12.05% and 11.69%, respectively, of annual covered payroll. The Foundation's contributions to CalPERS for the years ending June 30, 2012, 2011 and 2010 were \$964,400, \$822,496 and \$767,940, respectively, and equal 100% of the required contributions for each year.

### 8. DEFERRED COMPENSATION AND OTHER RETIREMENT PLANS

The Foundation offers a defined contribution plan (the "Plan") to employees in accordance with Internal Revenue Code Section 403(b). The Plan is available to all full-time employees of the Foundation. This Plan allows for employee deferrals, employer matching, and elective employer contributions. Participants are immediately 100% vested in all contributions to the Plan. The Foundation also has an IRS Section 457 deferred salary plan for certain employees. The Foundation made no contributions to these plans in 2012 and 2011.



## **SUPPLEMENTAL SCHEDULES**

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2012

---

	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Commerce:		
ARRA - Broadband Technology Opportunities Program	11.557	\$ 3,405,974
National Science Foundation:		
From Pipeline to Pathways	47.076	171,458
U.S. Department of State:		
California Community Colleges Initiative for Egypt	19.009	82,775
California Community Colleges Initiative for Egypt	19.012	<u>18,045</u>
Total expenditures of federal awards		<u>\$ 3,678,252</u>

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2012

---

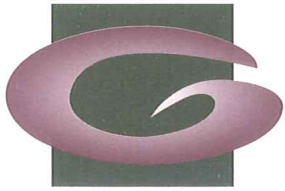
### 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards of Foundation for California Community Colleges (Foundation) is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### 2. PASS-THROUGH AWARDS

Federal assistance provided to subrecipients is treated as expenditures when it is paid to the subrecipient and is summarized as follows:

<u>Program</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Broadband Technology Opportunities Program	11.557	\$ 735,226
National Science Foundation – From Pipeline to Pathways	47.076	103,110
California Community Colleges Initiative for Egypt	19.009	<u>40,779</u>
Total federal assistance provided to subrecipients		<u>\$ 879,115</u>



**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***

**Board of Directors  
Foundation for California Community Colleges  
Sacramento, California**

We have audited the financial statements of Foundation for California Community Colleges (Foundation) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 25, 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

In planning and performing our audit, we considered the 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 the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 significant deficiency, or combination of significant 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 deficiencies, 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 above.

Compliance and Other Matters

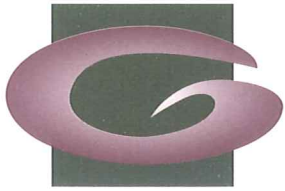
As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 Foundation's Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Gilbert Associates, Inc.".

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**October 25, 2012**



**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

**Independent Auditor's Report**

**Board of Directors  
Foundation for California Community Colleges  
Sacramento, California**

Compliance

We have audited the Foundation for California Community Colleges' (Foundation) compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended June 30, 2012. The Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Foundation's compliance with those requirements.

In our opinion, Foundation for California Community Colleges complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

## Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Foundation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Foundation's Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**October 25, 2012**

# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2012

---

### A. SUMMARY OF AUDITOR'S RESULTS

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

#### Federal Awards

Internal control over major programs:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Type of auditor's report issued: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  Yes  No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
---	--------------------

Broadband Technology Opportunities Program	11.557
--	--------

Dollar threshold used to identify Type A programs: \$300,000

Auditee qualified as low-risk auditee?  Yes  No



# FOUNDATION FOR CALIFORNIA COMMUNITY COLLEGES

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2012

---

### **B. FINDINGS – AUDIT OF FINANCIAL STATEMENTS**

None noted.

### **C. FINDINGS AND QUESTIONED COSTS – AUDIT OF MAJOR FEDERAL AWARDS PROGRAMS**

None noted.

### **D. FOLLOW-UP ON PRIOR YEAR FINDINGS AND QUESTIONED COSTS – AUDIT OF MAJOR FEDERAL AWARDS PROGRAMS**

None noted.