

**THE FOUNDATION FOR
SANTA BARBARA CITY COLLEGE**

FINANCIAL STATEMENTS

JUNE 30, 2014

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

JUNE 30, 2014

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Foundation for Santa Barbara City College
Santa Barbara, California

We have audited the accompanying statement of financial position of the Foundation for Santa Barbara City College (a non-profit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation for Santa Barbara City College as of June 30, 2014, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

McGowan Guntermann

October 21, 2014

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

STATEMENT OF FINANCIAL POSITION

June 30, 2014

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CURRENT ASSETS				
Cash and equivalents	\$ 197,355	\$ 1,069,866	\$ -	\$ 1,267,221
Short-term investments	602,133	3,463,293	5,033,116	9,098,542
Accounts receivable	-	602,683	-	602,683
Pledges receivable	-	609,369	2,354,495	2,963,864
Prepaid expenses	57,519	-	-	57,519
Total Current Assets	<u>857,007</u>	<u>5,745,211</u>	<u>7,387,611</u>	<u>13,989,829</u>
OTHER ASSETS				
Pledges receivable	-	286,575	-	286,575
Long-term investments	2,265,166	8,389,517	18,934,105	29,588,788
Assets held in FCCC-Osher	-	-	928,561	928,561
Office equipment, net	114,430	-	-	114,430
Assets held in charitable remainder trusts	-	2,698,349	4,932,784	7,631,133
Assets of pooled income fund	-	51,715	71,419	123,134
Contributions receivable from remainder trusts	-	3,986,791	490,140	4,476,931
Total Other Assets	<u>2,379,596</u>	<u>15,412,947</u>	<u>25,357,009</u>	<u>43,149,552</u>
TOTAL ASSETS	<u>\$ 3,236,603</u>	<u>\$ 21,158,158</u>	<u>\$ 32,744,620</u>	<u>\$ 57,139,381</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 931,877	\$ -	\$ -	\$ 931,877
Scholarships payable	876,125	-	-	876,125
Total Current Liabilities	<u>1,808,002</u>	<u>-</u>	<u>-</u>	<u>1,808,002</u>
OTHER LIABILITIES				
Liability under unitrust agreements	-	917,359	1,925,575	2,842,934
Discount for future interest - pooled income funds	-	28,028	16,809	44,837
Refundable advances - revocable split interest agreements	-	10,968	-	10,968
Total Other Liabilities	<u>-</u>	<u>956,355</u>	<u>1,942,384</u>	<u>2,898,739</u>
TOTAL LIABILITIES	<u>1,808,002</u>	<u>956,355</u>	<u>1,942,384</u>	<u>4,706,741</u>
NET ASSETS				
Unrestricted	1,428,601	-	-	1,428,601
Temporarily restricted	-	20,201,803	-	20,201,803
Permanently restricted	-	-	30,802,236	30,802,236
Total Net Assets	<u>1,428,601</u>	<u>20,201,803</u>	<u>30,802,236</u>	<u>52,432,640</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,236,603</u>	<u>\$ 21,158,158</u>	<u>\$ 32,744,620</u>	<u>\$ 57,139,381</u>

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

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS, AND OTHER SUPPORT				
Contributions and bequests	\$ 343,984	\$ 2,792,538	\$ 4,283,590	\$ 7,420,112
Interest and dividends	33,220	994,891	174,999	1,203,110
Gains on investments	4,956	3,050,125	-	3,055,081
Other income	265,865	-	-	265,865
Change in value of split-interest agreements	-	901,891	539,342	1,441,233
Net assets released from restrictions	<u>4,178,423</u>	<u>(4,096,423)</u>	<u>(82,000)</u>	<u>-</u>
Total Revenue, Gains, and Other Support	<u>4,826,448</u>	<u>3,643,022</u>	<u>4,915,931</u>	<u>13,385,401</u>
EXPENSES				
College programs and other designated disbursements	2,393,949	-	-	2,393,949
Scholarships and awards	1,276,497	-	-	1,276,497
Fundraising	919,274	-	-	919,274
Administrative	<u>1,291,080</u>	<u>-</u>	<u>-</u>	<u>1,291,080</u>
Total Expenses	<u>5,880,800</u>	<u>-</u>	<u>-</u>	<u>5,880,800</u>
CHANGE IN NET ASSETS	<u>(1,054,352)</u>	<u>3,643,022</u>	<u>4,915,931</u>	<u>7,504,601</u>
NET ASSETS, BEGINNING OF YEAR	2,482,953	14,086,900	27,136,998	43,706,851
Prior period adjustment - correction of an error (Note 16)	-	-	1,221,188	1,221,188
Reclassification - correction of an error (Note 16)	<u>-</u>	<u>2,471,881</u>	<u>(2,471,881)</u>	<u>-</u>
NET ASSETS, BEGINNING OF YEAR - as restated	<u>2,482,953</u>	<u>16,558,781</u>	<u>25,886,305</u>	<u>44,928,039</u>
NET ASSETS, END OF YEAR	<u>\$ 1,428,601</u>	<u>\$ 20,201,803</u>	<u>\$ 30,802,236</u>	<u>\$ 52,432,640</u>

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

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 7,504,601
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization	28,385
Contributions restricted for long-term investment	(4,283,590)
Gains on long-term investments	(3,055,081)
Increase in pledges and accounts receivable	(1,955,534)
Increase in split-interest agreements	(1,293,543)
Increase in accounts payable and accrued expenses	492,792
Decrease in liability under split-interest agreements	(94,790)
NET CASH USED BY OPERATING ACTIVITIES	<u>(2,656,760)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of equipment	(122,443)
Proceeds from sale of investments	18,363,026
Purchase of investments	(20,571,194)
NET CASH USED BY INVESTING ACTIVITIES	<u>(2,330,611)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Contributions restricted for long-term investment	<u>4,283,590</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>4,283,590</u>
NET DECREASE IN CASH	(703,781)
CASH, BEGINNING OF YEAR	<u>1,971,002</u>
CASH, END OF YEAR	<u>\$ 1,267,221</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Non-cash transactions consisted of the following:

In-kind contribution of rents for administrative offices	\$ 50,000
In-kind services provided to Santa Barbara City College	\$ 76,000

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

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 1- Nature of Activities

The Foundation for Santa Barbara City College (the Foundation), a not-for-profit organization, was formed for the purpose of encouraging voluntary private gifts, trusts, and bequests for the benefit of Santa Barbara City College (the College). The Foundation provides financial support for various college-related programs including student scholarships and awards, general department and program support, equipment purchases and capital improvements, and faculty research and teaching activities.

Note 2- Summary of Significant Accounting Policies

A) Presentation

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting. The Foundation reports information regarding its financial position and activities in three classes of net assets - unrestricted, temporarily restricted, and permanently restricted - based on the existence or absence of donor-imposed restrictions.

Unrestricted Net Assets

The unrestricted group of net assets represents unrestricted resources available for current support of Foundation and College activities. Board designated funds are unrestricted net assets and are included in this group.

Temporarily Restricted Net Assets

Temporarily restricted net assets include gifts that may be fully expended but have been restricted by donors for programs and activities of the College. Earnings on donor-restricted endowment funds that have not yet been appropriated are also classified as temporarily restricted net assets.

Permanently Restricted Net Assets

Permanently restricted net assets include outright gifts, charitable remainder unitrusts and pledges receivable that require by donor restriction that the corpus be invested in perpetuity and only the income be made available for expenditure in accordance with donor restrictions for programs and activities of the College. The spendable, or distributable, portion of each endowment fund is included with temporarily restricted net assets.

B) Donor Restrictions

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 2- Summary of Significant Accounting Policies (continued)

B) Donor Restrictions (continued)

The Foundation reports gifts of property and equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, as well as gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations regarding how long such assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

C) Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less at the date of purchase are considered cash equivalents. Amounts held as investments are not considered cash or cash equivalents for the purpose of the statement of cash flows.

D) Investments

The Foundation records investments in debt and equity securities with readily determinable market values at fair value. The fair value of investments in securities traded on national securities exchanges is valued at the closing price on the last business day of the year. The investments in hedge funds, partnerships and private equity, for which quoted market prices are not readily available, are determined by management in good faith with the assistance of third-party investment managers using methods they consider appropriate. The Foundation defines real assets as investments in real estate and other commodities. Realized and unrealized gains and losses are included in the change in net assets.

E) Donated Property and Investments

Donated property and investments are reflected as contributions in the accompanying statements at their fair market value at date of receipt.

F) Income Taxes

The Foundation is exempt from both federal and state income taxes under Section 501(c) (3) and 23701(d), respectively.

G) Use of Estimates

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

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 3- Pledges Receivable

Unconditional promises are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges not anticipated to be received in the next twelve months are recorded after discounting at 2% to the net present value of the pledge. The allowance for uncollectible pledges is based on the Foundation's estimate of 2%, consistent with the average of uncollectible pledges over the past five years.

Gross pledges	\$ 3,284,287
Less cancelled pledges	(5,594)
Less present value discount	(9,667)
Less allowance for uncollectible pledges	<u>(18,587)</u>
Net pledges	<u>\$ 3,250,439</u>

Unconditional promises are expected to be realized in the following periods:

Due in one year or less	\$ 2,963,864
Due between one and ten years	<u>286,575</u>
	<u>\$ 3,250,439</u>

Pledges receivable at year end have the following restrictions:

Student support	\$ 2,547,440
Departmental programs and activities	670,717
General operating support	<u>32,282</u>
	<u>\$ 3,250,439</u>

Note 4- Conditional Promises

The Foundation and Cottage Health System (CHS) entered into an agreement to expand Santa Barbara City College's Associate Degree Nursing Program with financial assistance from CHS. This agreement was effective July 1, 2009 and expired June 30, 2014.

To qualify for funding under the agreement the College agreed to expand the Nursing Program faculty and work towards meeting agreed-upon enrollment and completion rates. Conditional promises to pay are not included in the financial statements as receivables or revenue of the appropriate net asset category until the conditions are met. The amounts earned for fiscal year ended June 30, 2014 was \$523,000, and the unpaid amount of \$148,000 is included in accounts receivable. A new contract commenced on August 1, 2014.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 5- Investments

Investments are presented in the financial statements at fair value. At year end investments consist of the following:

	Cost	Fair Market Value	Unrealized Gain (Loss)
Marketable funds:			
Short-term portfolio	\$ 2,415,615	\$ 2,415,615	\$ -
Fixed income	16,742,652	16,771,815	29,163
Domestic equities	10,214,673	11,844,423	1,629,750
International equities	6,135,577	6,887,725	752,148
Alternative investments	687,689	767,752	80,063
Total	\$ 36,196,206	\$ 38,687,330	\$ 2,491,124

Investments held by the restricted and permanently restricted group of net assets are placed in an investment pool. Investment income, gains and losses are allocated to the various restricted net assets as stipulated in the Foundation's investment policy.

Note 6- Assets Held at FCCC – Osher

The Foundation has invested \$759,035 in the California Community Colleges Endowment Challenge managed by the Foundation for California Community Colleges (FCCC). The purpose of the Challenge is to create a \$100 million permanent scholarship fund for California community college students, the California Community Colleges Scholarship Endowment (CCCSE). In participating, the Foundation for SBCC was allocated \$379,517 in matching funds. The funds invested in CCCSE remain the Foundation's permanently restricted assets. Earnings on both the Foundation's investment and the match funds will be distributed as scholarship funds to the Foundation for distribution to SBCC students in accordance with the terms in the Partnership agreement dated June 2010. The FCCC has assembled an Investment Advisory Committee to direct and monitor the investment of the CCCSE assets. The funding of scholarships began with the 2009-2010 academic year.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 7- Investment in Commercial Real Estate

Buildings and improvements suitable for a motel operation were donated to the Foundation in December 1983, and recorded at the estimated fair market value as of that date in the amount of \$945,000. These buildings and improvements have been leased to Motel 6 since 1971. The lease is for sixty-five years and the terms call for periodic adjustments based on changes in the Consumer Price Index. Annual lease income was \$136,752 for the year ended June 30, 2014. The aggregate future minimum lease payments for the 22 remaining years of the lease are approximately \$3 million.

The expected future minimum lease payments to be received for the next five years are as follows:

2014	\$ 136,752
2015	136,752
2016	136,752
2017	142,222
2018	142,222

The Foundation received an income increase on January 1, 2012; the next increase is scheduled to take effect January 1, 2017.

As of June 30, 2012 the building and improvements were fully depreciated.

Note 8- Split-Interest Agreements

The Foundation is the remainderman for various charitable remainder trusts, gift annuity contracts and interests in pooled income funds that have been established by donors to provide income or benefits, generally for life, to designated beneficiaries. The remainder of the trusts will be distributed to the Foundation for the purposes designated in the trust agreements, generally for unrestricted, restricted or endowment purposes. Each year beneficiaries receive a percentage of the trust's fair market value, payable quarterly; some of the trusts are further limited to net income or net-income-with-make-up provisions. The Foundation received a donation of a charitable gift annuity during the year in the amount of \$19,739. The total fair market value of all trusts at year end was \$7,631,133 with a corresponding present value liability of \$2,887,771.

The trusts are separate legal entities, created under the provisions of Section 664 of the Internal Revenue Code, and have a calendar year end as required by the Tax Reform Act of 1986. The trusts are exempt from Federal and California income taxes on investment income accumulated for future distribution and any net capital gains.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 8- Split-Interest Agreements – (continued)

Foundation as Trustee: In certain cases, the Foundation acts as trustee at no charge as a service to the donors. As trustee, the Foundation has fiduciary control over the trust assets and responsibility over the life of the trust for the payments to the income beneficiaries. For financial statement presentation, the interest in these trusts is presented at fair value as “Assets held in charitable remainder trusts.” The fair value of amounts payable to trust income beneficiaries over the life of the trusts is based on their present value using discount rates ranging from 5% to 8% and the life expectancy of each trust’s income beneficiaries. Based on the estimated life of the trust, each year a portion of the net change in asset value is recognized as revenue under “Change in value of split-interest agreements.”

Pooled Income Fund: Two donors have contributed assets to the Foundation’s pooled income fund and one donor has contributed assets to a pooled income fund administered by another charitable organization. For financial statement presentation, this fund is presented at fair value of the assets and the amounts payable to the income beneficiaries are recorded at their fair value based on their present value using discount rates ranging from 5% to 6%. These are reflected as “Discount for future interest-pooled income.” As pooled income interests mature, a portion of the net change in asset value is recognized as revenue under “Change in value of split-interest agreements.”

Other Trusts and Deferred Gifts: The Foundation does not act as trustee for certain other trusts which are also included in the financial statements; the Foundation has neither fiduciary control of the trust assets nor a liability for the distributions payable to the income beneficiaries. The fair value of the interest in these trusts is calculated based on the net present value of the estimated future benefits to be received when the assets are distributed, using discount rates ranging from 5% to 11.382% and the life expectancy of each trust’s income beneficiaries. These are reflected as “Contributions receivable from remainder trusts.”

Note 9 – Fair Value Measurements

Under the Financial Accounting Standards Board’s authoritative guidance on fair value measurements, fair value is 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 uses various methods including market, income and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 9 – Fair Value Measurements (continued)

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1: Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.
- Level 3: Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

The Foundation has various processes and controls in place to ensure that fair value is reasonably estimated. A model validation policy governs the use and control of valuation models used to estimate fair value. This policy requires review and approval of models, and periodic re-assessments of models to ensure that they are continuing to perform as designed. The Foundation performs due diligence procedures over third-party pricing service providers in order to support their use in the valuation process. Where market information is not available to support internal valuations, independent reviews of the valuations are performed and any material exposures are escalated through a management review process.

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the year ended June 30, 2014, there were no changes to the Foundation's valuation techniques that had, or are expected to have, a material impact on its financial position or results of operations.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2014.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 9 – Fair Value Measurements (continued)

Equity Securities

The fair value of equity securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Marketable Funds

Marketable funds are valued at the net asset value (“NAV”) of shares held at year end. The NAV is based on the value of the underlying securities which are valued based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Alternative Investments

The fair value of alternative investments is valued at the net asset value (“NAV”) of shares held at year end. The NAV is based on the value of the underlying securities which are valued based on quoted market prices. If quoted market prices are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Assets Held in Charitable Remainder Trusts and Liability under Unitrust Agreements

The fair value of perpetual investment trusts is based on the fair value of the Foundation’s interest in the trusts’ underlying investments.

Assets Held in Charitable Remainder Trusts and Liability under Unitrust Agreements (continued)

The underlying investments are valued based on quoted market prices, when available, or market prices provided by recognized broker dealers. The liability under unitrust agreements is based on the discounted present value of future annuities due.

Assets of Pooled Income Funds and Discount for Future Interest

The fair value of assets of pooled income funds is based on the fair value of the Foundation’s interest in the funds’ underlying investments. The underlying investments are valued based on quoted market prices, when available, or market prices provided by recognized broker dealers. The fair value of the discount for future interest is based on the discounted present value.

Contributions Receivable from Remainder Trusts and Refundable Advances

The fair value of contributions receivable from remainder trusts is based on the fair value of the Foundation’s interest in the trusts’ underlying investments. The underlying investments are valued based on quoted market prices, when available, or market prices provided by recognized broker dealers. The fair value of the refundable advances is based on the discounted present value.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 9 – Fair Value Measurements (continued)

Nonmarketable Securities

The fair value of nonmarketable securities is estimated based on the information obtained from the investment manager. Net asset value and entity level attributes are considered when estimating.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets and liabilities at fair value as of June 30, 2014:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets held in charitable remainder trusts	\$ 7,631,133	\$ -	\$ -	\$ 7,631,133
Assets of pooled income fund	123,134	-	-	123,134
Contributions receivable from remainder trusts	4,476,931	-	-	4,476,931
Marketable funds:				
Short-term	9,098,542	9,098,542	-	-
Long-term	29,749,597	29,749,597		
Nonmarketable securities	<u>767,752</u>	-	-	<u>767,752</u>
Total assets	<u>\$51,847,089</u>	<u>\$38,848,139</u>	<u>\$ -</u>	<u>\$12,998,950</u>
Liability under unitrust agreements	\$ 2,842,934	-	\$ -	\$ 2,842,934
Discount for future interest - pooled income funds	44,837	-	-	44,837
Refundable advances - revocable				
Split-interest agreements	<u>10,968</u>	-	-	<u>10,968</u>
Total liabilities	<u>\$ 2,898,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,898,739</u>

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 9 – Fair Value Measurements (continued)

The following table sets forth additional disclosures of the Foundation’s investments whose fair values are estimated using net asset value per share as of June 30, 2014.

	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>
Marketable funds	\$28,821,036	\$ -	Daily
Nonmarketable securities			
Capital Partners IV	458,393	85,000	
Global Distressed Investors	308,095	76,300	
Realty Investors 2006-7	<u>1,264</u>	<u>-</u>	
Total	<u>\$29,588,788</u>	<u>\$161,300</u>	

Marketable funds: The pricing and valuation processes are built upon a base of independent third-party pricing for the majority of fund holdings. Independent third-party pricing sources are used to price all security positions for which a readily determinable market price is available. Securities for which third-party pricing sources are not available are priced on “fair value” basis, subject to review and approval by the Fair Value Committee.

Alternative investments: These are investments in hedge funds. The pricing and valuation processes are built upon the independent receipt and extensive review of pricing and performance information, which is supplemented by a broad and rigorous due diligence process.

Nonmarketable securities: This class includes several real estate funds. The fair values of this class have been estimated using information obtained from the investment manager. The net asset value should be considered in the fair value process but the entity level attributes should also be considered. These investments are illiquid and cannot be redeemed within the next five years. These investments are audited annually.

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2014

	<u>Split- Interest Agreements</u>	<u>Alternative Investments</u>	<u>Total</u>
Balance, June 30, 2013	\$10,937,655	\$1,016,683	\$11,954,338
Net gains and losses	-	147,019	147,019
Purchases	-	33,750	33,750
Redemptions	-	(429,701)	(429,701)
Change in fair market value	<u>1,293,544</u>	<u>-</u>	<u>1,293,544</u>
Balance, June 30, 2014	<u>\$12,231,199</u>	<u>\$ 767,752</u>	<u>\$12,998,950</u>

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 9 – Fair Value Measurements (continued)

The valuation techniques noted above have been consistently applied to similar assets and liabilities for the year ended June 30, 2014.

Changes in Fair Value and Related Gains and Losses

The Foundation's investments (including losses on investments bought and sold, as well as held during the year) appreciated in value by \$4,496,314 for the year ended June 30, 2014 as follows:

Cash equivalents included in investments	\$ (3,003)
Marketable funds	2,913,408
Alternative investments	107,516
Nonmarketable securities	37,160
Change in value of split-interest agreements	<u>1,441,233</u>
	<u>\$ 4,496,314</u>

Note 10- Assets Released from Donor Restrictions

Net assets during 2014 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

College Programs	\$ 2,779,925
Scholarships and Awards	<u>1,316,498</u>
	<u>\$ 4,096,423</u>

Note 11 - Board Designated Net Assets

In 1994, the Board of Directors adopted a policy designating any bequests in excess of \$10,000 as board designated net assets. During 2014 \$239,925 was transferred to board designated net assets. The Foundation uses the income generated from board designated net assets for operations and the principal is maintained under the discretion of the Board.

At year end, unrestricted net assets consisted of the following:

Board designated funds	\$ 2,867,299
Undesignated funds	(1,280,863)
Donor-restricted endowment deficit	<u>(157,835)</u>
Total unrestricted net assets	<u>\$ 1,428,601</u>

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 12 - Endowment

The Foundation's endowment consists of approximately 180 individual funds established for a variety of purposes. The endowment includes 178 donor-restricted endowment funds and 2 funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Effective January 1, 2009, an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) became effective for all non-profit organizations within California. The Board of Directors of the Foundation follows UPMIFA while continuing to emphasize that for true endowments, those funds designated as endowment by the donor, the amount of the original gift will never be withdrawn from principal without agreement from the donor. For quasi-endowment funds, those funds designated as endowment by the Board, withdrawals from principal may be made only with the approval of the Foundation Board of Directors.

As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 12 - Endowment – (continued)

Endowment net asset composition by type of fund, as of June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets Including board designated, beginning of year	\$ 2,645,538	\$ 5,645,858	\$25,886,305	\$34,177,701
Net investment return (investment income, realized and unrealized gains and losses)	596,050	3,260,298	714,339	4,570,687
Contributions	-	-	4,283,590	4,283,590
Appropriation of endowment assets for expenditure	<u>(374,289)</u>	<u>(890,537)</u>	<u>(82,000)</u>	<u>(1,346,826)</u>
Endowment net assets, end of year	<u>\$ 2,867,299</u>	<u>\$ 8,015,619</u>	<u>\$30,802,234</u>	<u>\$41,685,152</u>

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as board-designated funds. As approved by the Board of Directors, the endowment assets are invested with the expectation of generating a long-term rate of total return in excess of the spending allocation percentage above the rate of inflation. The Foundation will make an annual spending allocation of not more than 5% of the average fair market value of each endowment fund, based on the thirteen quarter average as of June 30th of each fiscal year to be available for the subsequent fiscal year.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$157,835 as of June 30, 2014. These deficiencies resulted from unfavorable market fluctuations.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 12 - Endowment – (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year up to 5 percent of its endowment fund's average fair value over the prior thirteen quarters, unless prohibited by donor stipulations. Such appropriations are not taken from deficient funds as described above. All such distributions are classified as temporarily restricted net assets until appropriated for expenditure. All other income or appreciation remains classified as permanently restricted. In establishing this policy, the Foundation considered the long-term expected return on its endowment. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment returns.

Note 13 - Related Party Transactions

Santa Barbara City College provides certain services to the Foundation. Such costs that are directly attributable to the support program are charged to the Foundation. For the years ended June 30, 2014, these costs were approximately \$158,913. The College also provides facility use and maintenance, computing and communication services, and other services to the Foundation, which are not included in the Foundation's financial statements. Such costs attributable to these services were estimated to be approximately \$50,000 for the year ended June 30, 2014.

Certain services are also provided by the Foundation to the Santa Barbara City College. Such services included program/event development, assistance in scholarship processing and marketing, and overseeing internship funding and distribution. For the year ended June 30, 2014, these costs amounted to \$76,000.

Note 14 - Defined Contribution Plan

Effective July 1, 1994, the Board of Directors established a defined contribution retirement plan for permanent employees. The tax deferred group annuity plan covers all employees who work at least 1,000 hours in a 12-month period commencing with his or her date of employment. The Foundation matches voluntary contributions to the plan by the employee, up to 6% of compensation. Pension expense for the year was \$27,159.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

Note 15 - Income Tax Matters

The Foundation is a California nonprofit public benefit corporation, which is exempt from income taxes therefore no provision for income taxes is required. The Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Foundation evaluate uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2014, the Foundation has no uncertain tax positions requiring accrual.

The Foundation files tax returns in California and U.S. federal jurisdictions. The Foundation is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2010 and 2009, respectively.

Note 16 - Corrections of an Error

At June 30, 2013 the unitrust agreement liability was overstated by \$1,221,188 due to incorrectly using life expectancy rather than the term of the agreement. Additionally restrictions on net assets were improperly stated by \$2,471,881 due to certain unitrusts misclassified as permanently restricted instead of temporarily restricted.

Note 17 - Risks and Uncertainties

The Foundation invests in investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of activities and changes in net assets.

The Foundation maintains cash balances at several banks insured by the Federal Deposit Insurance Corporation (FDIC). The Federal Deposit Insurance Corporation (FDIC) only insures the first \$250,000 of funds on deposit at any one institution. The Foundation had uninsured cash of approximately \$695,077 deposited with two different banks. In addition, the Foundation maintains significant cash balances in money market funds. Such balances are not fully insured.

Note 18 - Subsequent Events

Subsequent events have been evaluated through October 21, 2014, the date that the financial statements were available to be issued. There were no additional subsequent events noted that required disclosures.