

**THE FOUNDATION FOR
SANTA BARBARA CITY COLLEGE
JUNE 30, 2013
FINANCIAL STATEMENTS**



BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

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BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

December 2, 2013

INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of
The Foundation for Santa Barbara City College**

Report on the Financial Statements

We have audited the accompanying financial statements of The Foundation for Santa Barbara City College (the Foundation) which comprise the statement of financial position as of June 30, 2013 and the related statements of activities and changes in net assets, and cash flows for the year ended June 30, 2013, 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 of 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, 2013 and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Foundation for Santa Barbara City College June 30, 2012 financial statements, and we expressed an unqualified audit opinion on those audited financial statements in our report dated October 12, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bartlett, Pringle & Wolf, LLP

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

STATEMENT OF FINANCIAL POSITION

June 30, 2013

With Summarized Information as of June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total All Funds 2013</u>	<u>Total All Funds 2012</u>
<u>ASSETS</u>					
Current Assets:					
Cash	\$ 1,692,791	\$ 278,211	\$ -	\$ 1,971,002	\$ 1,398,610
Short term investments	-	6,733,192	-	6,733,192	2,865,345
Current portion of pledges receivable	-	755,867	170,660	926,527	588,892
Other assets	<u>216,303</u>	<u>-</u>	<u>-</u>	<u>216,303</u>	<u>168,107</u>
Total current assets	<u>1,909,094</u>	<u>7,767,270</u>	<u>170,660</u>	<u>9,847,024</u>	<u>5,020,954</u>
Pledges receivable - long term portion, net	-	507,694	282,674	790,368	990,586
Long term investments	1,846,792	3,288,572	21,648,528	26,783,892	27,424,748
Assets held in FCCC-Osher	-	76,527	759,035	835,562	795,965
Office equipment, net	20,372	-	-	20,372	22,977
Assets held in charitable remainder trusts	-	66,247	6,818,114	6,884,361	6,431,405
Assets of pooled income fund	-	-	180,741	180,741	184,207
Contributions receivable from remainder trusts	<u>-</u>	<u>2,413,537</u>	<u>1,459,016</u>	<u>3,872,553</u>	<u>3,562,164</u>
Total assets	<u>\$ 3,776,258</u>	<u>\$ 14,119,847</u>	<u>\$ 31,318,768</u>	<u>\$ 49,214,873</u>	<u>\$ 44,433,006</u>

See Accompanying notes

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

STATEMENT OF FINANCIAL POSITION

June 30, 2013

With Summarized Information as of June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total All Funds 2013</u>	<u>Total All Funds 2012</u>
<u>LIABILITIES AND NET ASSETS</u>					
Current Liabilities:					
Accounts payable and accrued expenses	\$ 615,630	\$ -	\$ -	\$ 615,630	\$ 538,629
Scholarships Payable	<u>677,675</u>	<u>-</u>	<u>-</u>	<u>677,675</u>	<u>438,025</u>
Total current liabilities	<u>1,293,305</u>	<u>-</u>	<u>-</u>	<u>1,293,305</u>	<u>976,654</u>
Liability under Unitrust Agreements	-	32,947	3,995,444	4,028,391	3,729,134
Discount for future interest - pooled income funds	-	-	137,634	137,634	140,231
Refundable advances - Revocable split interest agreements	<u>-</u>	<u>-</u>	<u>48,692</u>	<u>48,692</u>	<u>100,158</u>
Total liabilities	<u>1,293,305</u>	<u>32,947</u>	<u>4,181,770</u>	<u>5,508,022</u>	<u>4,946,177</u>
Net assets:					
Unrestricted	2,482,953	-	-	2,482,953	2,417,228
Temporarily restricted	-	14,086,900	-	14,086,900	10,484,893
Permanently restricted	<u>-</u>	<u>-</u>	<u>27,136,998</u>	<u>27,136,998</u>	<u>26,584,708</u>
Total net assets	<u>2,482,953</u>	<u>14,086,900</u>	<u>27,136,998</u>	<u>43,706,851</u>	<u>39,486,829</u>
Total liabilities and net assets	<u>\$ 3,776,258</u>	<u>\$ 14,119,847</u>	<u>\$ 31,318,768</u>	<u>\$ 49,214,873</u>	<u>\$ 44,433,006</u>

See Accompanying notes

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2013

With Summarized Information for the Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total All Funds 2013</u>	<u>Total All Funds 2012</u>
Revenues, gains, and other support:					
Contributions and bequests	\$ 757,820	\$ 4,536,466	\$ 221,093	\$ 5,515,379	\$ 3,839,636
Interest and dividends	61,668	269,038	-	330,706	443,248
Gains and (losses) on investments	321,330	2,669,954	-	2,991,284	(1,871,301)
Other income	457,745	111,005	-	568,750	455,576
Net assets released from restrictions:					
Satisfaction of program restrictions	4,174,677	(4,174,677)	-	-	-
Change in value of split interest agreements	-	190,862	338,856	529,718	(263,824)
Total revenues, gains, and other support	<u>5,773,240</u>	<u>3,602,648</u>	<u>559,949</u>	<u>9,935,837</u>	<u>2,603,335</u>
Expenses:					
College programs and other designated disbursements	3,052,981	-	-	3,052,981	2,900,162
Scholarships and awards	1,217,014	-	-	1,217,014	911,123
Fundraising expense	870,576	-	-	870,576	652,095
Administrative expense	575,244	-	-	575,244	535,276
Total expenses	<u>5,715,815</u>	<u>-</u>	<u>-</u>	<u>5,715,815</u>	<u>4,998,656</u>
Change in net assets	57,425	3,602,648	559,949	4,220,022	(2,395,321)
Transfers	8,300	(641)	(7,659)	-	-
Net assets at beginning of year	2,417,228	10,484,893	26,584,708	39,486,829	41,882,150
Net assets at end of year	<u>\$ 2,482,953</u>	<u>\$ 14,086,900</u>	<u>\$ 27,136,998</u>	<u>\$ 43,706,851</u>	<u>\$ 39,486,829</u>

See Accompanying notes

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2013

With Summarized Information for the Year Ended June 30, 2012

	Total All Funds	
	2013	2012
Cash Flows from Operating Activities		
Change in net assets	\$ 4,220,022	\$ (2,395,321)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	8,960	27,531
(Gains) and losses on investments	(2,991,284)	1,871,301
Contributions restricted for investment in endowment	(221,093)	(159,043)
Decrease (Increase) in:		
Pledges receivable	(137,417)	220,484
Split-interest agreements	(759,879)	651,527
Other assets	(48,196)	271,584
Increase (decrease) in:		
Accounts payable and accrued liabilities	316,651	31,694
Liability under split-interest agreements	245,194	(377,687)
Net cash provided by operating activities	<u>632,958</u>	<u>142,070</u>
Cash Flows from Investing Activities		
Purchase of investments	(65,011,166)	(14,377,466)
Proceeds from sale of investments	64,735,862	14,461,534
Purchase of office equipment	(6,355)	(15,018)
Net cash provided (used) by investing activities	<u>(281,659)</u>	<u>69,050</u>
Cash Flows from Financing Activities:		
Proceeds from contributions restricted for investment in endowment	<u>221,093</u>	<u>159,043</u>
Net cash provided by financing activities	<u>221,093</u>	<u>159,043</u>
Increase in cash and cash equivalents	572,392	370,163
Cash and cash equivalents at beginning of year	<u>1,398,610</u>	<u>1,028,447</u>
Cash and cash equivalents at end of year	<u>\$ 1,971,002</u>	<u>\$ 1,398,610</u>

Supplemental disclosure of noncash investing and financing activities:

There were no interest or taxes paid by the Foundation for the years ended June 30, 2013 and 2012.

See accompanying notes

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 Foundation has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605, *Contributions Received*, and ASC 958-205, *Financial Statements of Not-for-Profit Organizations*. ASC 958-205 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to donor imposed restrictions. ASC 958-605 requires that unconditional promises to give (pledges) be recorded as receivables and revenue and for the organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. A description of the three net asset categories follows:

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.

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.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Note 2- Summary of Significant Accounting Policies (continued)

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 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 and cash equivalents for the purpose of the statement of cash flows.

D) Investments

The Foundation follows ASC 958-320, *Investments Held by Not-for-Profit Organizations*. Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in marketable debt securities are valued at their fair values in the statement of financial position. The fair value of marketable 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.

Investments in investment partnerships and collateralized debt obligations are carried at estimated fair value in the absence of readily determinable fair values. Management's estimates are based on information provided by the investment/fund managers or the general partners. Actual results could differ from those estimates.

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.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Note 2- Summary of Significant Accounting Policies (continued)

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.

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% which is based on an average of uncollectible pledges over the past five years.

	<u>2013</u>	<u>2012</u>
Gross pledges	\$ 1,777,190	\$ 1,657,269
Less cancelled pledges	-	(3,363)
Less present value discount	(24,752)	(41,351)
Less allowance for uncollectible pledges	<u>(35,543)</u>	<u>(33,077)</u>
Net pledges	<u>\$ 1,716,895</u>	<u>\$ 1,579,478</u>

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

Due in one year or less	\$ 926,527	\$ 588,892
Due between one and ten years	<u>790,368</u>	<u>990,586</u>
	<u>\$ 1,716,895</u>	<u>\$ 1,579,478</u>

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Note 3- Pledges Receivable (continued)

Pledges receivable at June 30 have the following restrictions:

	<u>2013</u>	<u>2012</u>
Student support	\$ 332,641	\$ 431,195
Departmental programs and activities	1,379,097	1,141,809
General operating support	<u>5,157</u>	<u>6,474</u>
	<u>\$ 1,716,895</u>	<u>\$ 1,579,478</u>

Note 4- Conditional Promises

Effective July 1, 2001, 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 is set to expire 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 years ended June 30, 2013 and 2012 were \$468,000 and \$540,000, respectively, and the unpaid amounts are included in pledges receivable. Anticipated support for the academic year 2013-2014 is \$400,000.

Note 5- Investments

Investments are presented in the financial statements at fair value. At June 30, 2013 and 2012, investments consist of the following:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gain (Loss)</u>
<u>2013</u>			
Cash and cash equivalents	\$ 5,303,936	\$ 5,303,936	\$ -
Marketable funds	26,077,575	25,768,713	(308,862)
Equity securities	100,380	100,380	-
Alternative investments	<u>3,571,316</u>	<u>3,179,617</u>	<u>(391,699)</u>
Total	<u>\$ 35,053,207</u>	<u>\$ 34,352,646</u>	<u>\$ (700,561)</u>

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

Note 5- Investments (continued)

<u>2012</u>	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gain (Loss)</u>
Cash and cash equivalents	\$ 1,447,352	\$ 1,447,352	\$ -
Marketable funds	21,744,175	21,983,694	239,520
Equity securities	100,380	100,380	-
Alternative investments	8,641,723	7,554,632	(1,087,092)
Total	<u>\$ 31,993,630</u>	<u>\$ 31,086,058</u>	<u>\$ (847,572)</u>

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 unrestricted, temporarily restricted or permanently restricted net assets as stipulated in the Foundation's investment policy.

Note 6- Assets Held in FCCC - Osher

During 2010, the Foundation invested \$676,679 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. In participating, the Foundation for SBCC received an initial allocation of \$338,140 for its exclusive endowment, and following successfully meeting its match has received an additional \$338,140. The funds invested in the Challenge 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 Endowment's assets. The funding of scholarships began with the 2009-2010 academic year. The Foundation made an additional investment of \$81,502 at the end of fiscal year 2010-2011.

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 years ended June 30, 2013 and 2012. The aggregate future minimum lease payments for the remaining years of the lease are approximately \$2,361,000.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Note 7- Investment in Commercial Real Estate (continued)

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

2013	\$ 136,752
2014	136,752
2015	136,752
2016	136,752
2017	136,752

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 remainder trust during the year ended June 30, 2013 in the amount of \$211,709. The total fair market value of all trusts at June 30, 2013 and 2012 was \$15,182,551 and \$14,157,577, respectively. The net asset value of all trusts at June 30, 2013 and 2012 was \$6,722,938 and \$6,208,253, respectively.

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: Three 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.”

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Note 9 – Fair Value Measurements (continued)

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 years ended June 30, 2013 and 2012, 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, 2013 and 2012.

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.

Pledges Receivable

Pledges receivable consist of short and long-term pledges and are reported using a present value technique.

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.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Note 9 – Fair Value Measurements (continued)

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.

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, 2013 and 2012:

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

Note 9 – Fair Value Measurements (continued)

	June 30, 2013			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pledges receivable	\$ 1,716,895	\$	\$ 1,716,895	\$
Assets held in charitable remainder trusts	6,884,361			6,884,361
Assets of pooled income fund	180,741			180,741
Contributions receivable from remainder trusts	3,872,553			3,872,553
Cash equivalents included in investments	5,303,818	5,303,818		
Marketable funds	25,768,831	25,768,713	118	
Equity securities	100,380		100,380	
Alternative investments	2,162,934		2,162,934	
Nonmarketable securities	1,016,683			1,016,683
Total assets	<u>\$ 47,007,196</u>	<u>\$ 31,072,531</u>	<u>\$ 3,980,327</u>	<u>\$ 11,954,338</u>
Liability under unitrust agreements	\$ 4,028,391	\$	\$	\$ 4,028,391
Discount for future interest - pooled income funds	137,634			137,634
Refundable advances - revocable split interest agreements	48,692			48,692
Total liabilities	<u>\$ 4,214,717</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,214,717</u>

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

Note 9 – Fair Value Measurements (continued)

	June 30, 2012			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pledges receivable	\$ 1,579,478	\$	\$ 1,579,478	\$
Assets held in charitable remainder trusts	6,431,405			6,431,405
Assets of pooled income fund	184,207			184,207
Contributions receivable from remainder trusts	3,562,164			3,562,164
Cash equivalents included in investments	1,447,352	1,437,534	9,818	
Marketable funds	21,983,695	2,285,510	19,698,185	
Equity securities	100,380		100,380	
Alternative investments	6,560,607		6,560,607	
Nonmarketable securities	994,025			994,025
Total assets	<u>\$ 42,843,313</u>	<u>\$ 3,723,044</u>	<u>\$ 27,948,468</u>	<u>\$ 11,171,801</u>
Liability under unitrust agreements	\$ 3,729,134	\$	\$	\$ 3,729,134
Discount for future interest - pooled income funds	140,231			140,231
Refundable advances - revocable split interest agreements	100,158			100,158
Total liabilities	<u>\$ 3,969,523</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,969,523</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, 2013 and 2012.

June 30, 2013				
	Fair Value	Unfunded Commitment	Redemption Frequency (if currently eligible)	Redemption Notice Period
Marketable funds				
Fixed Income Funds	\$ 788,897	\$ -	Weekly	5 business days (excluding trade date)
All other	24,979,934	-	Daily	None
Alternative investments				
SSG Relative Value & Event Driven	2,162,934	-	Annually	95 calendar days- the 1st calendar quarter that is at least 12 months subsequent to Investor's subscription date
Nonmarketable securities				
Capital Partners IV	401,279	118,750		
Global Distressed Investors	607,357	76,300		
Realty Investors 2007-6	8,047	-		
Total	<u>\$ 28,948,448</u>	<u>\$ 195,050</u>		
June 30, 2012				
	Fair Value	Unfunded Commitment	Redemption Frequency (if currently eligible)	Redemption Notice Period
Marketable funds				
Multi-Strategy Equity Fund	\$ 5,015,997	\$ -	Monthly	5 business days (excluding trade date)
Core Equity Fund	1,935,705	-	Weekly	5 business days (excluding trade date)
Strategic Solutions Equity Fund	1,562,704	-	Weekly	5 business days (excluding trade date)
CFI all Cap Fund	548,244	-	Monthly	5 business days (excluding trade date)
Equity opportunities Fund	736,537	-	Monthly	5 business days (excluding trade date)
International equity Fund	1,683,437	-	Monthly	5 business days (excluding trade date)
Emerging Markets Investors	2,840,931	-	Monthly	30 calendar days
Fixed Income Funds	6,059,160	-	Weekly	5 business days (excluding trade date)
All other	1,600,980	-	Daily	None
Alternative investments				
Global Hedged Equity	1,889,896	-	Quarterly	95 calendar days
CFI Multi-strategy Commodities Fund	809,893	-	Monthly	5 business days (excluding trade date)
SSG Diversifying Company	1,317,975	-	Quarterly	95 calendar days
SSG Relative Value & Event Driven	1,822,503	-	Annually	95 calendar days- the 1st calendar quarter that is at least 12 months subsequent to Investor's subscription date
SSgA Global Natural Resource	720,340	-	Daily	By 5:00 pm EST 2 business days before trade date
Nonmarketable securities				
Capital Partners IV	360,490	177,500		
Global Distressed Investors	527,073	95,600		
Realty Investors 2007-6	106,462	-		
Total	<u>\$ 29,538,327</u>	<u>\$ 273,100</u>		

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Note 9 – Fair Value Measurements (continued)

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 the years ended June 30, 2013 and 2012:

	<u>Split - Interest Agreements</u>	<u>Marketable Funds</u>	<u>Alternative Investments</u>	<u>Total</u>
Balance, June 30, 2011	\$ 10,829,303	\$ 822,110	\$ 1,640,118	\$ 13,291,531
Total unrealized gains		-	110,428	110,428
Purchases		-	109,350	109,350
Change in fair market value	(651,527)			(651,527)
Transfers out of level 3		(822,110)	(865,871)	(1,687,981)
Balance, June 30, 2012	10,177,776	-	994,025	11,171,801
Total unrealized gains		-	112,427	112,427
Purchases		-	78,800	78,800
Redemptions			(168,569)	(168,569)
Change in fair market value	759,879	-	-	759,879
Balance, June 30, 2013	<u>\$ 10,937,655</u>	<u>\$ -</u>	<u>\$ 1,016,683</u>	<u>\$ 11,954,338</u>

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Note 9 – Fair Value Measurements (continued)

The following is a reconciliation of the beginning and ending balances for liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended June 30, 2013 and 2012:

	<u>Split - Interest Agreements</u>	<u>Total</u>
Balance, July 1, 2011	\$ 4,347,210	\$ 4,347,210
Change in fair market value	<u>(377,687)</u>	<u>(377,687)</u>
Balance, July 1, 2012	3,969,523	3,969,523
Change in fair market value	<u>245,194</u>	<u>245,194</u>
Balance, July 1, 2013	<u>\$ 4,214,717</u>	<u>\$ 4,214,717</u>

The valuation techniques noted above have been consistently applied to similar assets and liabilities for the years ended June 30, 2013 and 2012.

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 (depreciated) in value by \$3,521,002 and \$(2,135,125) for the years ended June 30, 2013 and 2012 as follows:

	<u>2013</u>	<u>2012</u>
Cash equivalents included in		
investments	\$ 604	\$ 420
Marketable funds	2,285,434	(1,456,158)
Alternative investments	592,819	(525,992)
Nonmarketable securities	112,427	110,429
Refundable advances - revocable		
split interest agreements	<u>529,718</u>	<u>(263,824)</u>
Total net gain (loss)	<u>\$ 3,521,002</u>	<u>\$ (2,135,125)</u>

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Note 10- Assets Released from Donor Restrictions

Net assets during 2013 and 2012 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2013</u>	<u>2012</u>
College Programs	\$ 2,957,663	\$ 2,800,040
Scholarships and Awards	<u>1,217,014</u>	<u>911,123</u>
	<u>\$ 4,174,677</u>	<u>\$ 3,711,163</u>

Note 11 - Board Designated Net Assets

In 1994, the Board of Directors adopted a policy designating any unrestricted gifts or bequests in excess of \$10,000 as board designated net assets. During the years ending June 30, 2013 and 2012 \$789,322 and \$50,000 were 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.

Note 12 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2013 and 2012 are available for the following purposes or periods:

	<u>2013</u>	<u>2012</u>
Available after June 30, for:		
Scholarships and student support	\$ 3,474,376	\$ 2,236,283
Department support	9,781,338	7,745,962
Equipment	42,038	42,038
Instructions	717,787	379,702
Capital improvements	<u>71,361</u>	<u>80,908</u>
Total	<u>\$ 14,086,900</u>	<u>\$ 10,484,893</u>

Note 13 - Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Scholarships and student support	\$ 7,264,550	\$ 7,174,144
Department support	19,492,572	19,030,688
Instructions	268,600	268,600
Capital improvements	<u>111,276</u>	<u>111,276</u>
	<u>\$ 27,136,998</u>	<u>\$ 26,584,708</u>

Earnings on permanently restricted investments that are restricted for various purposes and are maintained in the temporarily restricted investment accounts until those restrictions are met.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Note 14 - Endowment

The Foundation's endowment consists of approximately 172 individual funds established for a variety of purposes. The endowment includes 170 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 14 - Endowment (continued)

Endowment net asset composition by type of fund, excluding split-interest agreements, as of June 30, 2013:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 20,900,960	\$ 20,900,960
Board-designated endowment funds	2,315,994	-	2,315,994
Total endowment	<u>\$ 2,315,994</u>	<u>\$ 20,900,960</u>	<u>\$ 23,216,954</u>

Changes in endowment net assets for the year ended June 30, 2013 were as follows:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,025,600	\$ 20,980,231	\$ 23,005,831
Contributions	470,794	171,295	1,063,809
Appropriation of endowment assets for expenditure	(180,400)	(672,286)	(852,686)
Endowment net assets, end of year	<u>\$ 2,315,994</u>	<u>\$ 20,900,960</u>	<u>\$ 23,216,954</u>

Endowment net asset composition by type of fund, excluding split-interest agreements, as of June 30, 2012:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 20,980,321	\$ 20,980,321
Board-designated endowment funds	2,025,600	-	2,025,600
Total Endowment	<u>\$ 2,025,600</u>	<u>\$ 20,980,321</u>	<u>\$ 24,012,844</u>

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Note 14 - Endowment (continued)

Changes in endowment net assets for the year ended June 30, 2012 were as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,612,384	\$ 21,400,460	\$ 24,012,844
Contributions	50,000	171,295	221,295
Appropriation of endowment assets for expenditure	<u>(636,784)</u>	<u>(591,524)</u>	<u>(1,228,308)</u>
Endowment net assets, end of year	<u>\$ 2,025,600</u>	<u>\$ 20,980,231</u>	<u>\$ 23,005,831</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 \$10,600 and \$65,510 as of June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations.

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.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Note 14 - Endowment (continued)

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 15- 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, 2013 and 2012, these costs were approximately \$122,570 and \$98,788, respectively. 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 \$25,000 for fiscal years 2013 and 2012.

Certain services are also provided by the Foundation to the Santa Barbara City College. Such services included Centennial Program/Event development, assistance in scholarship processing and marketing, and overseeing internship funding and distribution. For the years ended June 30, 2013 and 2012, these costs amounted to \$86,000 and \$70,000, respectively.

Note 16- 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 employer matches voluntary contributions to the plan by the employee, up to 6% of compensation. Pension expense for the years ended June 30, 2013 and 2012 was \$30,455 and \$35,506, respectively.

THE FOUNDATION FOR SANTA BARBARA CITY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Note 17- Income Tax Matters

On July 1, 2009, The Foundation adopted FASB ASC Subtopic 740-10, Accounting for Uncertainty in Income Taxes. This guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Foundation's financial statements to determine whether the tax positions are more likely than not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or expense in the current year. Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. However, the conclusions regarding accounting for uncertainty in income taxes will be subject to review and may be adjusted at a later date based on factors including, but not limited to, ongoing analysis of tax laws, regulations, and interpretations thereof.

The Foundation's informational returns are no longer subject to income tax examinations by tax authorities for years prior to 2008.

Note 18- Comparative Amounts

The amounts shown for 2012 in the accompanying financial statements are included to provide a basis for comparison with 2012 and are not intended to present all information necessary for a fair presentation of the 2013 financial statements in conformity with generally accepted accounting principles.

Note 19- 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.

Note 20- Subsequent Events

Subsequent events have been evaluated through December 2, 2013, the date that the financial statements were available to be issued. There were no additional subsequent events noted that required disclosures.