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IRVINE VALLEY COLLEGE FOUNDATION

AUDIT REPORT

FOR THE YEAR ENDED
JUNE 30, 2013



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IRVINE VALLEY COLLEGE FOUNDATION
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JUNE 30, 2013

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

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Board of Governors
Irvine Valley College Foundation
Irvine, California

We have audited the accompanying financial statements of Irvine Valley College Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, 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 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 Irvine Valley College Foundation as of June 30, 2013, and the changes 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.



San Diego, California
October 8, 2013

IRVINE VALLEY COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 402,983	\$ 177,465
Investments	1,140,772	1,018,290
Investments with the Foundation for California Community Colleges	398,237	377,726
Accounts receivable	755	2,716
Prepaid expense	12,751	2,633
Total current assets	<u>1,955,498</u>	<u>1,578,830</u>
 Total Assets	 <u>\$ 1,955,498</u>	 <u>\$ 1,578,830</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 174,502	\$ 6,405
Accrued liabilities	424	-
Total current liabilities	<u>174,926</u>	<u>6,405</u>
Total liabilities	<u>174,926</u>	<u>6,405</u>
 Net assets		
Unrestricted	287,702	188,173
Temporarily restricted	553,165	504,507
Permanently restricted	939,705	879,745
Total net assets	<u>1,780,572</u>	<u>1,572,425</u>
 Total Liabilities and Net Assets	 <u>\$ 1,955,498</u>	 <u>\$ 1,578,830</u>

The notes to financial statements are an integral part of this statement.

IRVINE VALLEY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Total 2012
SUPPORT					
Contributions	\$ 3,629	\$ 546,448	\$ 59,960	\$ 610,037	\$ 494,396
Special events - fundraising	54,924	-	-	54,924	50,955
In-kind donations	17,268	-	-	17,268	11,282
Donated services	452,741	-	-	452,741	394,787
Donated professional fees	12,811	-	-	12,811	13,216
REVENUES					
Interest and dividends	24,469	-	-	24,469	21,306
Realized gain (loss) on investment	34,871	34,921	-	69,792	8,652
Unrealized gain (loss) on investments	18,661	33,684	-	52,345	(31,388)
Sales & commission	3,052	61,390	-	64,442	98,553
Other revenue	27,043	-	-	27,043	10,115
Total Support and Revenues	649,469	676,443	59,960	1,385,872	1,071,874
 Net assets released from restrictions	 627,785	 (627,785)	 -	 -	 -
Total Support and revenue after net assets released from restriction	1,277,254	48,658	59,960	1,385,872	1,071,874
EXPENSES					
Program services	865,261	-	-	865,261	782,587
Supporting services					
Management and general activities	197,093	-	-	197,093	143,033
Fundraising	115,371	-	-	115,371	138,518
Total Expenses	1,177,725	-	-	1,177,725	1,064,138
CHANGE IN NET ASSETS	99,529	48,658	59,960	208,147	7,736
Net Assets - Beginning	188,173	504,507	879,745	1,572,425	1,564,689
Net Assets - Ending	\$ 287,702	\$ 553,165	\$ 939,705	\$ 1,780,572	\$ 1,572,425

The notes to financial statements are an integral part of this statement.

**IRVINE VALLEY COLLEGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013**

	Program Services	Management and General	Fundraising	Total 2013	Total 2012
EXPENSES					
Salaries and employee benefits	\$ 221,997	\$ 142,940	\$ 87,804	\$ 452,741	\$ 394,787
Scholarship payments	324,058	-	-	324,058	303,155
Program activities	48,917	-	-	48,917	92,269
Special events	-	-	27,567	27,567	26,026
Professional fees	12,811	-	-	12,811	13,216
Contract services	70,844	-	-	70,844	73,208
Supplies and printing	50,232	-	-	50,232	28,493
Seminars and conferences	93,770	-	-	93,770	37,494
Dues and memberships	2,645	-	-	2,645	2,015
In-kind donations	17,268	-	-	17,268	11,282
Program equipment and software	22,719	-	-	22,719	28,032
General operating	-	54,153	-	54,153	54,161
Total Expenses	865,261	197,093	115,371	1,177,725	1,064,138

The notes to financial statements are an integral part of this statement.

IRVINE VALLEY COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 208,147	\$ 7,736
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Realized loss/(gain) on investments	(94,261)	(8,652)
Unrealized loss/(gain) on investments	(52,345)	31,388
Changes in operating assets and liabilities		
Accounts receivable	1,961	2,898
Prepaid expense	(10,118)	1,988
Accounts payable	168,097	(105,458)
Accrued liabilities	424	-
Net cash provided by (used in) operating activities	<u>221,905</u>	<u>(70,100)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	(1,473,287)	(1,492,316)
Proceeds from sale of investments	<u>1,476,900</u>	<u>1,504,744</u>
Net cash provided by (used in) investing activities	<u>3,613</u>	<u>12,428</u>
NET INCREASE (DECREASE) IN CASH	225,518	(57,672)
Cash and cash equivalents - Beginning	<u>177,465</u>	<u>235,137</u>
Cash and cash equivalents - Ending	<u>\$ 402,983</u>	<u>\$ 177,465</u>

The notes to financial statements are an integral part of this statement.

IRVINE VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Irvine Valley College Foundation (the “Foundation”), was formed as a California nonprofit public benefit corporation on December 5, 2003. The public and charitable purposes for which this Foundation is organized are to further the educational purposes of the South Orange County Community College District (the “District”). The Foundation is a discretely presented component unit of the District and has been included in the District’s basic financial statements.

B. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures, such as depreciation expense and the net book value of capital assets. Accordingly, actual results could differ from those estimates.

C. Functional Expenses

The costs of providing services have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Certain costs and expenditures have been allocated between program and supporting services based on management’s estimates.

D. Basis of Accounting

The Foundation’s policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenues are recognized when earned rather than when cash is received and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

IRVINE VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Financial Statement Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include all resources available for use by the Board of Governors and management's discretion in carrying out the activities of the Foundation in accordance with its Bylaws. Temporarily or permanently restricted net assets are restricted by the donor or as matter of law. Temporarily restricted net assets are only expendable for the purposes specified by the donor or through the passage of time. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets. Permanently restricted net assets are required to be held by the organization in perpetuity while the earnings on those assets are available for use by the organization to support its activities. Donors can place restrictions on the earnings from permanently restricted contributions at the time the contributions are made or pledged.

F. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence or nature of any donor restrictions. A contribution is recognized as income at the date the contribution is received or pledged.

Non-cash contributions of goods and materials are recorded at fair value at the date of contribution. Contributed services are recorded at fair value at the date of contribution if they are used to create or enhance a non-financial asset or require specialized skills, are provided by someone who possesses those skills, and would have to be purchased by the organization if not donated.

G. Income Taxes

The Foundation is a 509(a)(1) publicly supported nonprofit organization that is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private organization. The Foundation is also exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code and is registered with the California Attorney General as a charity.

Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Foundation did not have any net unrelated business income for the year ended June 30, 2013. It is management's belief that the Foundation does not hold any uncertain tax positions that would materially impact the financial statements. The organization's foundation and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

IRVINE VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Property and Equipment

The SOCCCD has adopted a policy to capitalize purchases of \$5,000 or more of property and equipment used for administrative purposes. Title to property and equipment acquired with grant and contract funds generally revert to the funding agency when it is no longer needed for the applicable program; therefore, it is not capitalized.

Purchased property and equipment are recorded at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has placed a time or purpose restriction on the asset. Property and equipment are depreciated using the straight-line method. There are currently no fixed assets on the Foundation's records.

I. Deferred Revenue

Deferred revenue arises when potential revenue does not meet the criteria for recognition in the current period and when resources are received by the Foundation prior to the incurrence of expenses. In subsequent periods, when both revenue recognition criteria are met or when the Foundation has a legal claim to the resources, the liability for deferred revenue is removed from the statement of financial position and revenue is recognized.

J. Cash and Cash Equivalents

The Foundation considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents.

K. Investments

The Foundation's method of accounting for investments is the fair value method. Fair value is determined by published quotes when they are readily available. Unrealized gains and losses are included in the accompanying statement of activities.

IRVINE VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Fair Value Hierarchy

The Fair Value Measurements Topic of the FASB *Accounting Standards Codification* establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- | | |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. |
| Level 2 | Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2013, consist of amounts held in non-interest bearing checking, interest bearing checking, money market, and brokerage accounts totaling \$402,983.

Cash in Bank

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. The Foundation does not have a policy for custodial credit risk of deposits. Through December 31, 2012, the FDIC insured 100% of non-interest bearing accounts and up to \$250,000 per depositor of interest bearing accounts per insured bank. With the expiration of the Dodd-Frank Act, the Foundation had \$152,983 exposed to custodial credit risk as this amount was in excess of the \$250,000 FDIC insured amount.

IRVINE VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 3 – INVESTMENTS

The Foundation has entered into a partnership arrangement with the California Community Colleges Scholarship Endowment (the “Endowment”) through the Foundation for California Community Colleges (FCCC). The Endowment has been set up to provide matching scholarship funds for California community colleges. The Endowment was formed through a generous \$50 million matching commitment from the Bernard Osher Foundation and an initial contribution of \$25 million. The California Community Colleges and the FCCC had until June 2011 to raise an additional \$50 million. Beginning with the 2009-10 year, the Endowment distributed scholarship funding from the initial \$25 million gift to each participating community college. The allocation will be based on each college’s Full Time Equivalent Students (FTES) and each scholarship is valued at a maximum of \$1,000 per school year per student.

These funds are invested in a pooled investment fund held by the FCCC. At June 30, 2013, the fair value of this investment was \$398,238, and included an unrealized gain of \$25,535. The FCCC has assembled an investment advisory committee charged with the responsibility for directing and monitoring the investment management of the Endowment’s assets.

Investments are presented in the financial statements at their aggregate fair value. The fair value of investments at June 30, 2013, is as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	\$ 1,140,771	\$ 1,140,771	\$ -	\$ -
Investment with FCCC	398,238	-	398,238	-
Total	\$ 1,539,009	\$ 1,140,771	\$ 398,238	\$ -

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2013:

Net appreciation in fair value of investments	\$ 122,137
Interest and dividend income	24,469
Investment income, net	<u>\$ 146,606</u>

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2013 total \$755.

The Foundation has not historically had difficulty collecting amounts due from grantor agencies; therefore, no allowance for uncollectible accounts has been recorded.

IRVINE VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 5 – NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013, are restricted for the following purposes:

Program Services	\$	349,927
Scholarships		203,238
	\$	<u>553,165</u>

Permanently Restricted Net Assets

Permanently restricted net assets totaling \$939,705 are restricted for investment in perpetuity, which represents the Foundation's endowment funds.

Net Assets Released from Restrictions

Net assets of \$627,758 were released from temporarily restricted net assets during the fiscal year. The Foundation met donor imposed restrictions by incurring qualified expenses.

Program Services	\$	318,747
Scholarships		309,038
	\$	<u>627,785</u>

NOTE 6 – RELATED PARTIES

To assist the Foundation in carrying out its purpose, the District provides administrative services to the Foundation. The District pays salaries and benefits to the executive director and the senior accounting specialist and contributed to the Foundation's audit fee. In addition, working space for employees who perform administrative services for the Foundation is provided by the District at no charge. During the year ended June 30, 2013, the District contributed \$452,741 to these salaries and benefits. These donated services have been reflected in the accompanying statement of activities as revenues under donated services and donated professional fees and as expenses under salaries and benefits and contract services. The value of donated facilities has not been determined and is therefore not included in the accompanying financial statements; however, management does not believe the amount to be material.

IRVINE VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 7 – ENDOWMENT

The Foundation's endowment consists of 36 individual funds established for a variety of purposes. Its endowment includes both endowment funds held by the District and the Foundation for California Community Colleges. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation does not maintain any Board designated endowment funds, all endowments were external contributions.

Interpretation of Relevant Law

The Board of Governors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization 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 an income and appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

IRVINE VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 7 – ENDOWMENT (continued)

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 its 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(s) as well as board-designated funds. Under this policy, as approved by the Board of Governors, the endowment assets are invested in a manner that is intended to protect the principal, over the long term, and yet maximize the investment earnings so as to maximize the benefit provided by the endowment. Accordingly, funds are invested in a combination of fixed income funds and equity funds expected to provide an average rate of return of approximately 5 percent annually. Actual returns in any given year may vary from this amount. Returns for the fiscal year were:

	Fiscal Year
	Investment Earnings
Wells Fargo endowment	\$ 68,548
Osher endowment	12,904
Total endowment earnings	\$ 81,452

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 to achieve its long-term return objectives within reasonable and prudent levels of risk.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 3 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution was planned. While it is the Foundation's goal to distribute 3 percent, it is not guaranteed and is contingent upon current market conditions. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 2 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment net assets composition by fund as of June 30, 2013, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowments	\$ 23,242	\$ 12,783	\$ 939,705	\$ 952,488

IRVINE VALLEY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 7 – ENDOWMENT (continued)

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 of UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies as of June 30, 2013.

NOTE 8 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events for the period from June 30, 2013 through, the date the financial statements were available to be issued. Management did not identify any transactions that require disclosure or that would have an impact on the financial statements.

OTHER INDEPENDENT AUDITORS' REPORTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

Independent Auditors' Report

Governing Board
Irvine Valley College Foundation
Irvine, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of financial position of Irvine Valley College Foundation, as of and for the year ended June 30, 2013, the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Irvine Valley College Foundation's basic financial statements, and have issued our report thereon dated October 8, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Irvine Valley College Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Irvine Valley College Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of Irvine Valley College Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

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SAN DIEGO
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Corporate Office:
2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Questioned Costs that we consider to be significant deficiencies. See findings #2013-1, # 2013-2, and # 2013-3.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Irvine Valley College Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Irvine Valley College Foundation's Response to Findings

Irvine Valley College Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Irvine Valley College Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



San Diego, California
October 8, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**IRVINE VALLEY COLLEGE FOUNDATION
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Non-compliance material to financial statements noted?	<u>No</u>

**IRVINE VALLEY COLLEGE FOUNDATION
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

FINDING # 2013-1 CASH DISBURSEMENTS

Criteria:

Purchase requisitions and purchase orders should support all expenditure payments in order to demonstrate proper authorization prior to the purchase, and to properly procure the funds associated with a given purchase.

Condition:

In our testing of cash disbursements, we found that not all disbursements were approved before the time of purchase. We noted ten of twenty-five disbursements tested had purchase orders and approval come after the purchase was made.

Cause:

An internal control weakness exists with regard to the implementation of purchasing internal controls.

Recommendation:

We recommend that the Foundation follow District policies and procedures and enforce them in order to ensure that purchases are only being made when a purchase order exists. This will ensure that purchases are being preapproved and funds are properly encumbered.

Management Response:

The Foundation will work with the District to develop a process for approval of purchases before they are made and create a listing of exceptions to the normal process. The foundation director will ensure the approval process is followed by the departments responsible for the purchase of goods and services through the foundation.

**IRVINE VALLEY COLLEGE FOUNDATION
FINANCIAL STATEMENT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

FINDING #2013-2 BASIS FOR THE ALLOCATION OF FUNCTIONAL EXPENSES

Criteria:

Internal controls should be implemented to ensure that functional expenses are recorded accurately.

Condition:

Per Financial Accounting Standard Board (FASB) Accounting Standard Codification (ASC) 958-720 45-6, not-for-profit entities shall report their expenses by functional classification. A basis for allocation is required to be used for the functional expense classifications. This will ensure appropriate allocation of the expenses to each of the functions.

A reasonable basis or justification needs to support the allocation of costs to be properly reflected in the audit report and tax return. Currently, a documented basis does not exist and allocation percentages are provided by the Executive Director who is familiar with how time spent in order to allocate payroll, including in-kind payroll costs to program, general and administration and fundraising functions.

Cause:

Lack of internal control procedures regarding the tracking of functional expenses.

Recommendation:

We recommend that the Foundation develop a basis for their functional expense allocations. On a periodic basis, the Foundation should update the allocation percentage based on a reasonable criterion, such as labor effort from time records or activity reports of key personnel to ensure the allocation is equitable. Time records or activity reports can be maintained on a periodic basis however, the time period should be representative of how personnel normally spend their time. The allocation method should be reviewed by management and revised when necessary to reflect significant changes in the nature or level of the Foundation's current activities.

Management Response:

On July 1, 2013, the Foundation implemented an internal control for keeping track of functional expense time on a daily basis/weekly/monthly basis. This problem has been resolved moving forward.

**IRVINE VALLEY COLLEGE FOUNDATION
FINANCIAL STATEMENT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

FINDING #2013-3 RECORDING OF BOARD DESIGNATED FUNDS

Criteria:

Controls should be in place to prevent unrestricted funding from being placed at the discretion of any group or individual.

Condition:

We noted that the Board of the Governors (Board) designated unrestricted funds to be used at the discretion of the President of the College. These funds were accounted for as temporarily restricted funds. Board designated funds should not be accounted for as temporarily restricted accounts since these accounts are to be used for external restrictions by donors. The utilization of the funds must comply with the Board designations and the account should be part of unrestricted funds as the Board has the authority to "undesignate" them at any time.

Cause:

Lack of internal control procedures surrounding the recording of unrestricted funds.

Recommendation:

We recommend that the Foundation ensures that Board designated accounts are reported and tracked in the unrestricted fund to ensure that they are not commingled with temporarily restricted accounts.

Management Response:

The Foundation will provide the necessary paperwork to the District office to correct the classification of these funds from temporarily restricted to unrestricted. Future funds will be recorded as suggested per Generally Accepted Accounting Principles and not per Board designations.

**IRVINE VALLEY COLLEGE FOUNDATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

There were no formal audit findings for the fiscal year ended 2011-12.

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