

PALOMAR COLLEGE FOUNDATION
FINANCIAL STATEMENTS
FOR YEARS ENDED
DECEMBER 31, 2010 AND 2009

**PALOMAR COLLEGE FOUNDATION
TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	5
Notes to Financial Statements	6



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors Palomar College Foundation

We have audited the accompanying statement of financial position of Palomar College Foundation, a non-profit organization, as of December 31, 2010 and 2009 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Palomar College Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palomar College Foundation as of December 31, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Wilkinson Hadley King & Co., LLP

El Cajon, California
March 21, 2011

**PALOMAR COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009**

	2010	2009
ASSETS		
Current Assets:		
Cash In Banks	\$ 225,745	\$ 244,636
Investments	2,901,915	2,718,185
Accounts Receivable	50,740	-
Total Current Assets	3,178,400	2,962,821
Non-current Assets:		
Property and Equipment, Net	2,109	4,339
Other Assets:		
Endowment Investments	2,238,577	2,120,807
Investments Held Under Split-Interest Agreements	225,431	130,013
Total Other Assets	2,464,008	2,250,820
TOTAL ASSETS	\$ 5,644,517	\$ 5,217,980
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accrued Expenses	\$ 2,329	\$ 812
Payable to Beneficiaries	12,424	6,656
Total Current Liabilities	14,753	7,468
Long-term Liabilities:		
Payable to Beneficiaries, Net of Current Portion	59,290	29,789
TOTAL LIABILITIES	74,043	37,257
NET ASSETS		
Unrestricted	980,253	964,692
Temporarily Restricted	2,290,421	1,916,231
Permanently Restricted	2,299,800	2,299,800
TOTAL NET ASSETS	5,570,474	5,180,723
TOTAL LIABILITIES AND NET ASSETS	\$ 5,644,517	\$ 5,217,980

The accompanying notes are an integral part of this statement

**PALOMAR COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Contributions	\$ 59,971	\$ 911,766	\$ -	\$ 971,737
Contributions From Fund Raising Events	589,530	13,285	-	602,815
Donated Services and Facilities	465,520	-	-	465,520
Grants	-	25,000	-	25,000
Investment Return	174,903	194,182	-	369,085
Increase in Value of Beneficial Interests in Remainder Trusts	-	4,397	-	4,397
Net Assets Released From Restrictions, Satisfaction of Program Restrictions	774,440	(774,440)	-	-
TOTAL REVENUE AND SUPPORT	2,064,364	374,190	-	2,438,554
EXPENSES				
Program Services:				
Grants/Allocations	810,529	-	-	810,529
Scholarships	395,601	-	-	395,601
Total Program Services	1,206,130	-	-	1,206,130
Supporting Services:				
Salaries	15,205	-	-	15,205
Software, Support and Training	11,017	-	-	11,017
Printing and Duplicating	13,582	-	-	13,582
Consulting Fees	17,450	-	-	17,450
Travel and Conference	10,824	-	-	10,824
Audit and Tax Preparation	10,400	-	-	10,400
Office Expenses	16,317	-	-	16,317
Investment Fees	20,405	-	-	20,405
Other Operating Expenses	44,967	-	-	44,967
Donated Services and Facilities	465,520	-	-	465,520
Special Events	214,756	-	-	214,756
Depreciation	2,230	-	-	2,230
Total Supporting Services	842,673	-	-	842,673
TOTAL EXPENSES	2,048,803	-	-	2,048,803
INCREASE (DECREASE) IN NET ASSETS	15,561	374,190	-	389,751
NET ASSETS, BEGINNING OF YEAR	964,692	1,916,231	2,299,800	5,180,723
NET ASSETS, END OF YEAR	\$ 980,253	\$ 2,290,421	\$ 2,299,800	\$ 5,570,474

The accompanying notes are an integral part of this statement

**PALOMAR COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions	\$ 44,458	\$ 932,891	\$ 141,000	\$ 1,118,349
Contributions From Fund Raising Events	431,172	-	-	431,172
Donated Services and Facilities	324,249	-	-	324,249
Grants	200	10,000	-	10,200
Investment Return	95,105	164,845	-	259,950
Increase in Value of Beneficial Interests in Remainder Trusts	-	2,765	-	2,765
Net Assets Released From Restrictions, Satisfaction of Program Restrictions	967,417	(967,417)	-	-
TOTAL REVENUE AND SUPPORT	1,862,601	143,084	141,000	2,146,685
EXPENSES				
Program Services:				
Grants/Allocations	1,057,840	-	-	1,057,840
Scholarships	354,025	-	-	354,025
Total Program Services	1,411,865	-	-	1,411,865
Supporting Services:				
Salaries	4,764	-	-	4,764
Software, Support and Training	8,421	-	-	8,421
Printing and Duplicating	10,203	-	-	10,203
Consulting Fees	-	-	-	-
Travel and Conference	8,934	-	-	8,934
Audit and Tax Preparation	9,900	-	-	9,900
Office Expenses	11,854	-	-	11,854
Investment Fees	12,989	-	-	12,989
Other Operating Expenses	26,007	-	-	26,007
Donated Services and Facilities	324,249	-	-	324,249
Special Events	135,327	-	-	135,327
Depreciation	2,428	-	-	2,428
Total Supporting Services	555,076	-	-	555,076
TOTAL EXPENSES	1,966,941	-	-	1,966,941
INCREASE (DECREASE) IN NET ASSETS	(104,340)	143,084	141,000	179,744
NET ASSETS, BEGINNING OF YEAR	1,069,032	1,773,147	2,158,800	5,000,979
NET ASSETS, END OF YEAR	\$ 964,692	\$ 1,916,231	\$ 2,299,800	\$ 5,180,723

The accompanying notes are an integral part of this statement

**PALOMAR COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 389,751	\$ 179,744
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	2,230	2,428
(Gain) Loss on Investments	(210,178)	(178,958)
Increase in Value of Beneficial Interests in Remainder Trusts	(4,397)	(2,765)
Distribution of Investments Under Split-Interest Agreements	11,053	9,000
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(50,740)	-
Accrued Expenses	1,517	812
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	139,236	10,261
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds From Sale of Investments	\$ 105,000	\$ 3,662,179
Purchases of Investments	(263,127)	(4,144,927)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(158,127)	(482,748)
NET INCREASE (DECREASE) IN CASH	(18,891)	(472,487)
CASH AT BEGINNING OF YEAR	244,636	717,123
CASH AT END OF YEAR	\$ 225,745	\$ 244,636

The accompanying notes are an integral part of this statement

**PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

A. Organization and Summary of Significant Accounting Policies:

Nature of Activities

Palomar College Foundation (Foundation) is a California nonprofit organization established in 1959 to secure supplemental funding and other resources for the benefit of the students and faculty of Palomar Community College District (District). The Foundation's programs include student scholarships, faculty grants, donor-designated funds, and special projects. The Foundation receives contributions to support the students and programs of the District.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities. Revenues are recorded in the accounting period they become both measurable and available. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

Use of 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. Accordingly, actual results could differ from those estimates.

Basis of Presentation

The Foundation reports information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Foundation may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

Cash and Cash Equivalents

For the purpose of the statement of financial position and the statement of cash flows, the Foundation considers all short-term investments with an original maturity of three months or less to be cash equivalents.

**PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

A. Organization and Summary of Significant Accounting Policies: (Continued)

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. 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 and reported in the statements of activities as net assets released from restrictions.

Investments

Investments are carried at market value and realized and unrealized gains and losses are reflected in the change in net assets in the statements of activities. The fair value of equity and debt securities is based on the quoted market price of the underlying securities. Investments acquired by gift are recorded at their market value at the date of the gift.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Foundation may be subject to tax on income which is not related to its exempt purpose. No such unrelated business taxable income was reported and, therefore, no provision for income taxes has been made. The Foundation is not a private foundation.

Property and Equipment

Acquisitions of property and equipment of \$500 or more are capitalized and are recorded at cost. Donated property and equipment are recorded at fair market value at the date of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from five to seven years.

Charitable Gift Annuities

Charitable gift annuities are established in connection with split-interest agreements, in which the donors or third-party beneficiaries receive specified distributions during the term of the agreements. All gift annuities are negotiated between the Foundation and the donor/annuitant, and based on the rate tables approved by the California Insurance Commissioner for gift annuity agreements. The assets are included in investments held under split-interest agreements and the liabilities for the net present value of the annuity payments are included in payable to beneficiaries in the statements of financial position.

**PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

B. Cash:

Cash balances on hand and in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by financial institutions is entirely insured or collateralized.

Cash consists of the following:

	2010	2009
Checking	\$ 190,656	\$ 205,945
Certificates of deposit/other accounts	35,089	38,691
	\$ 225,745	\$ 244,636

C. Investments:

Investments consists of the following:

	2010	2009
Mutual funds:		
Marketable securities	\$ 3,998,821	\$ 3,501,497
Real estate	250,000	55,285
Trust funds	112,600	35,000
Money market funds	1,004,502	1,377,223
	\$ 5,365,923	\$ 4,969,005

Investment return and its classification for the year ended December 31, 2010 included in the statement of activities is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 80,647	\$ 82,657	\$ -	\$ 163,304
Unrealized gain on investments	95,729	112,129	-	207,858
Unrealized loss on investments	(1,473)	(604)	-	(2,077)
	\$ 174,903	\$ 194,182	\$ -	\$ 369,085

Investment return and its classification for the year ended December 31, 2009 included in the statement of activities is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 34,636	\$ 49,121	\$ -	\$ 83,757
Realized gain on investments	-	1,486	-	1,486
Realized loss on investments	(2,768)	(19,837)	-	(22,605)
Unrealized gain on investments	93,920	135,258	-	229,178
Unrealized loss on investments	(30,683)	(1,183)	-	(31,866)
	\$ 95,105	\$ 164,845	\$ -	\$ 259,950

**PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

C. Investments (Continued)

Investment Accounting Policy

The Foundation's general policy is to report money market investments and short-term participating interest-earning investment contracts at cost with all other investments being reported at fair value unless a legal contract exists which guarantees a higher value. All funds of the Foundation are invested in a prudent manner with the intention to pursue a long-term investment objective of consistent capital growth through priority objectives of a) preservation of capital, b) liquidity sufficient for annual spending, and c) long-term income growth. Diversification policy states that no security shall exceed 2% of the portfolio (excluding treasury and agency securities commingled fund vehicles) and bond quality shall be a minimum weighted average fixed income rating of "A" grade with bond maturity having an average duration not to exceed seven years.

The Foundation's policy for endowments and endowed scholarship funds states that the endowed principal will be invested in those assets which have the highest statistical probability of preserving, in real rather than nominal terms, the corpus, while generating the maximum possible rate of return. Investment parameters include a) investing the funds on a long-term basis (five years or more), consistent capital growth, preserving the principal, and accepting minimal market risk.

D. Accounts Receivable:

There are no significant receivables which are not scheduled for collection within one year of year end. Accounts receivable at December 31, 2010 consists of the following:

Special event sponsorships	\$	35,500	
Auction items		11,040	
Osher scholarships		4,200	
Total	\$	50,740	

E. Property and Equipment:

Property and equipment consist of the following:

	2010	2009
Furniture and equipment	\$ 23,095	\$ 23,095
Less accumulated depreciation	(20,986)	(18,756)
	\$ 2,109	\$ 4,339

F. Functional Allocation of Expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

G. Restrictions on Net Assets:

Temporarily restricted net assets consist of the following:

	2010	2009
Departmental funds	\$ 735,865	\$ 633,806
Internal scholarships	647,395	561,588
Auxiliary organization funds	379,953	300,175
Foundation endowment #1	274,566	250,832
Charitable remainder trusts	146,098	81,557
Minkoff soccer field	34,759	33,195
Arboretum Hubbell structure	71,785	55,078
	\$ 2,290,421	\$ 1,916,231

Permanently restricted net assets consist of the following:

	2010	2009
Endowment funds	\$ 1,852,800	\$ 1,852,800
Scholarship funds	447,000	447,000
	\$ 2,299,800	\$ 2,299,800

H. Related Party Transactions:

The District is the primary beneficiary of the Foundation. To assist the Foundation in carrying out its purpose, the Foundation has a master agreement with the District whereby the District provides administrative support to the Foundation. The District pays 100% of the salaries and benefits of the Executive Director, Advancement Office and College Foundation Coordinator, and Accountant. In addition, the District pays 75% of the salaries and benefits of the Scholarship Coordinator and provides free use of facilities.

Donated services and facilities for the year ended December 31, 2010 and for the year ended December 31, 2009 was \$465,520 and \$324,249, respectively. These amounts are included as donated services and facilities and as operating expenses in the statements of activities for the years ended December 31, 2010 and 2009.

The Foundation currently has three checking accounts and two certificates of deposit with First National Bank. One member of the Foundation's board of directors is an employee of First National Bank; however, this individual is not directly involved or related with managing these accounts.

**PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

I. Split-Interest Agreements:

The Foundation receives contributions under charitable gift annuities. The Foundation agrees to pay a stated amount annually to the beneficiaries as long as they live, at which time, the remaining assets are available for use by the Foundation. Total assets held under split-interest agreements as of December 31, 2010 and 2009 are \$225,431 and \$130,013, respectively, and the actuarial present value of the Foundation's interest in the gift annuities are \$153,717 and \$93,568 respectively. At December 31, 2010, the amounts payable to beneficiaries are \$71,714, of which \$12,424 is current and \$59,290 is long-term. At December 31, 2009, the amounts payable to beneficiaries are \$36,445 of which \$6,656 is current and \$29,789 is long-term. Payable to beneficiaries is the present value of the expected future cash flows to be paid to the beneficiaries.

J. Endowment Funds:

Donors may designate current and future donations to the Foundation's endowment funds. Principal and income is governed by the terms of the endowment. The principal of each endowment is restricted in perpetuity until the occurrence of a specified event or for a specified period and the income is either restricted or available for current use. When restrictions on the principal fund balance end, the resources are transferred from the endowment fund to either the undesignated funds or a specific designated fund, in accordance with the terms of the gift or bequest. Income from the endowment funds is recorded in either designated or undesignated funds, depending on whether the donor has placed restrictions on the use of income.

As of December 31, 2010, the Foundation had six endowment accounts whereby the endowment fund balance was below the initial preserved principal amount; however, the Foundation has sufficient unrestricted funds that allow for temporary loan transfers to all 'underwater' endowments which will increase the fund balance to the initial preserved principal amount. The total endowment balance below the initial preserved principal amount for all accounts inclusive is \$49,930 as of December 31, 2010.

K. Subsequent Events:

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through March 21, 2011, the date the financial statements were available to be issued.