

**PALOMAR COLLEGE FOUNDATION**  
**FINANCIAL STATEMENTS**  
**FOR YEARS ENDED**  
**DECEMBER 31, 2008 AND 2007**

**PALOMAR COLLEGE FOUNDATION  
TABLE OF CONTENTS**

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



Wilkinson Hadley King & Co. LLP  
CPAs and Advisors

218 W. Douglas Avenue • El Cajon, CA 92020  
Tel. (619) 447-6700 • Fax (619) 447-6707

P. Robert Wilkinson, CPA  
Brian K. Hadley, CPA

Aubrey W. King, CPA  
Richard K. Savage, CPA

## 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, 2008 and 2007 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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, 2008 and 2007 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 10, 2009

**PALOMAR COLLEGE FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2008 AND 2007**

	2008	2007
<b>ASSETS</b>		
Current Assets:		
Cash In Banks	\$ 717,123	\$ 212,855
Investments	2,139,483	3,452,085
Total Current Assets	2,856,606	3,664,940
Non-current Assets:		
Property and Equipment, Net	6,767	8,683
Other Assets:		
Endowment Investments	2,065,416	2,966,913
Investments Held Under Split-Interest Agreements	114,870	273,118
Total Other Assets	2,180,286	3,240,031
<b>TOTAL ASSETS</b>	<b>\$ 5,043,659</b>	<b>\$ 6,913,654</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts Payable	\$ -	\$ 53,828
Payable to Beneficiaries	6,235	9,341
Total Current Liabilities	6,235	63,169
Long-term Liabilities:		
Payable to Beneficiaries, Net of Current Portion	36,445	85,846
<b>TOTAL LIABILITIES</b>	42,680	149,015
<b>NET ASSETS</b>		
Unrestricted	1,069,032	1,720,729
Temporarily Restricted	1,773,147	2,885,110
Permanently Restricted	2,158,800	2,158,800
<b>TOTAL NET ASSETS</b>	5,000,979	6,764,639
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 5,043,659</b>	<b>\$ 6,913,654</b>

The accompanying notes are an integral part of this statement

**PALOMAR COLLEGE FOUNDATION  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>				
Contributions	\$ 128,870	\$ 910,910	\$ -	\$ 1,039,780
Contributions From Fund Raising Events	291,771	1,000	-	292,771
Donated Services and Facilities	199,111	-	-	199,111
Grants	1,000	1,600	-	2,600
Investment Return	(744,542)	(874,970)	-	(1,619,512)
Increase in Value of Beneficial Interests in Remainder Trusts	-	6,659	-	6,659
Net Assets Released From Restrictions, Satisfaction of Program Restrictions	<u>1,157,162</u>	<u>(1,157,162)</u>	<u>-</u>	<u>-</u>
<b>TOTAL REVENUE AND SUPPORT</b>	<b>1,033,372</b>	<b>(1,111,963)</b>	<b>-</b>	<b>(78,591)</b>
<b>EXPENSES</b>				
Program Services:				
Grants/Allocations	928,421	-	-	928,421
Scholarships	340,538	-	-	340,538
Total Program Services	<u>1,268,959</u>	<u>-</u>	<u>-</u>	<u>1,268,959</u>
Supporting Services:				
Operating Expense	243,388	-	-	243,388
Special Events	168,845	-	-	168,845
Depreciation	3,877	-	-	3,877
Total Supporting Services	<u>416,110</u>	<u>-</u>	<u>-</u>	<u>416,110</u>
<b>TOTAL EXPENSES</b>	<b><u>1,685,069</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>1,685,069</u></b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(651,697)</b>	<b>(1,111,963)</b>	<b>-</b>	<b>(1,763,660)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b><u>1,720,729</u></b>	<b><u>2,885,110</u></b>	<b><u>2,158,800</u></b>	<b><u>6,764,639</u></b>
<b>NET ASSETS, END OF YEAR</b>	<b><u>\$ 1,069,032</u></b>	<b><u>\$ 1,773,147</u></b>	<b><u>\$ 2,158,800</u></b>	<b><u>\$ 5,000,979</u></b>

The accompanying notes are an integral part of this statement

**PALOMAR COLLEGE FOUNDATION  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2007**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>				
Contributions	\$ 31,977	\$ 994,307	\$ 194,800	\$ 1,221,084
Contributions From Fund Raising Events	224,594	-	-	224,594
Donated Services and Facilities	160,792	-	-	160,792
Grants	5,250	400	-	5,650
Investment Return	314,628	268,500	-	583,128
Increase in Value of Beneficial Interests in Remainder Trusts	-	7,281	-	7,281
Net Assets Released From Restrictions, Satisfaction of Program Restrictions	1,059,720	(1,059,720)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>1,796,961</b>	<b>210,768</b>	<b>194,800</b>	<b>2,202,529</b>
<b>EXPENSES</b>				
Program Services:				
Grants/Allocations	990,028	-	-	990,028
Scholarships	195,574	-	-	195,574
Total Program Services	1,185,602	-	-	1,185,602
Supporting Services:				
Operating Expense	238,450	-	-	238,450
Special Events	124,844	-	-	124,844
Depreciation	3,393	-	-	3,393
Total Supporting Services	366,687	-	-	366,687
<b>TOTAL EXPENSES</b>	<b>1,552,289</b>	<b>-</b>	<b>-</b>	<b>1,552,289</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>244,672</b>	<b>210,768</b>	<b>194,800</b>	<b>650,240</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>1,476,057</b>	<b>2,674,342</b>	<b>1,964,000</b>	<b>6,114,399</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 1,720,729</b>	<b>\$ 2,885,110</b>	<b>\$ 2,158,800</b>	<b>\$ 6,764,639</b>

The accompanying notes are an integral part of this statement

**PALOMAR COLLEGE FOUNDATION  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (Decrease) in Net Assets	\$ (1,763,660)	\$ 650,240
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	3,877	3,393
(Gain) Loss on Investments	1,732,371	(396,361)
Increase in Value of Beneficial Interests in Remainder Trusts	(6,659)	(7,281)
Distribution of Investments Under Split-Interest Agreements	16,000	16,000
Changes in Operating Assets and Liabilities:		
Accounts Payable	(53,828)	4,702
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	(71,899)	270,693
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds From Sale of Investments	\$ 4,392,259	\$ 1,215,321
Purchases of Investments	(3,814,131)	(1,362,263)
Purchases of Property and Equipment	(1,961)	(1,398)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	576,167	(148,340)
<b>NET INCREASE (DECREASE) IN CASH</b>	504,268	122,353
<b>CASH AT BEGINNING OF YEAR</b>	212,855	90,502
<b>CASH AT END OF YEAR</b>	\$ 717,123	\$ 212,855

The accompanying notes are an integral part of this statement

**PALOMAR COLLEGE FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2008 AND 2007**

**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, 2008 AND 2007  
(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, 2008 AND 2007  
(Continued)**

**B. Cash:**

Cash consists of the following:

	2008	2007
Checking	\$ 682,091	\$ 188,355
Certificates of deposit/other accounts	35,032	24,500
	\$ 717,123	\$ 212,855

**C. Investments:**

Investments consists of the following:

	2008	2007
Mutual funds:		
Bonds	\$ -	\$ 1,991,952
Equity securities	-	3,333,222
Real estate	261,831	428,747
Trust funds	243,806	-
Money market funds	3,814,132	938,195
	\$ 4,319,769	\$ 6,692,116

Investment return and its classification for the year ended December 31, 2008 included in the statement of activities is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 57,419	\$ 55,440	\$ -	\$ 112,859
Realized gain on investments	-	275,522	-	275,522
Realized loss on investments	-	(534,906)	-	(534,906)
Unrealized loss on investments	(801,961)	(671,026)	-	(1,472,987)
	\$ (744,542)	\$ (874,970)	\$ -	\$ (1,619,512)

Investment return and its classification for the year ended December 31, 2007 included in the statement of activities is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 103,785	\$ 82,982	\$ -	\$ 186,767
Unrealized loss on investments	210,843	185,518	-	396,361
	\$ 314,628	\$ 268,500	\$ -	\$ 583,128

**PALOMAR COLLEGE FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2008 AND 2007  
(Continued)**

**D. Property and Equipment:**

Property and equipment consist of the following:

	2008	2007
Furniture and equipment	\$ 23,095	\$ 21,134
Less accumulated depreciation	(16,328)	(12,451)
	\$ 6,767	\$ 8,683

**E. 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.

**F. Restrictions on Net Assets:**

Temporarily restricted net assets consist of the following:

	2008	2007
Departmental funds	\$ 876,792	\$ 971,434
Internal scholarships	313,206	741,214
Auxiliary organization funds	251,529	486,255
Foundation endowment #1	201,061	289,267
Charitable remainder trusts	69,180	177,931
Minkoff soccer field	34,587	64,799
Arboretum Hubbell structure	26,792	64,727
External scholarships	-	89,483
	\$ 1,773,147	\$ 2,885,110

Permanently restricted net assets consist of the following:

	2008	2007
Endowment funds	\$ 1,627,800	\$ 1,627,800
Scholarship funds	531,000	531,000
	\$ 2,158,800	\$ 2,158,800

**PALOMAR COLLEGE FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2008 AND 2007**  
**(Continued)**

**G. 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 salaries and benefits of the Executive Director, Advancement Office and College Foundation Coordinator, Accountant, and Scholarship Coordinator. In addition, the District provides free use of facilities. Donated services and facilities currently valued at 50% for the years ended December 31, 2008 and 2007 was \$199,111 and \$160,792, 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, 2008 and 2007.

The Foundation currently has three checking accounts and a certificate 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.

**H. 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, 2008 and 2007 are \$114,870 and \$273,118, respectively, and the actuarial present value of the Foundation's interest in the gift annuities are \$72,190 and \$177,931 respectively. At December 31, 2008, the amounts payable to beneficiaries are \$42,680, of which \$6,235 is current and \$36,445 is long-term. At December 31, 2007, the amounts payable to beneficiaries are \$95,187 of which \$9,341 is current and \$85,846 is long-term. Payable to beneficiaries is the present value of the expected future cash flows to be paid to the beneficiaries.

**I. 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, 2008, 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 funds inclusive is \$78,800 as of December 31, 2008.