

**PORTLAND COMMUNITY
COLLEGE FOUNDATION**

**Audited Financial
Statements**

**For the Year Ended
June 30, 2006**



MCDONALD JACOBS

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Portland Community College Foundation
Portland, Oregon

We have audited the accompanying statement of financial position of Portland Community College Foundation (a nonprofit corporation) as of June 30, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the 2005 financial statements of Portland Community College Foundation which were audited by other auditors whose report dated August 12, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 Portland Community College Foundation as of June 30, 2006, and changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

McDonald Jacobs, P.C.

August 3, 2006

Strength in Numbers

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PORTLAND COMMUNITY COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2006
(With comparative totals for 2005)

	2006	2005
ASSETS		
Cash and cash equivalents	\$ 1,613,771	\$ 899,253
Contributions and grants receivable	27,000	20,000
Investments	1,552,430	1,644,263
Assets held in trust	7,937	7,764
Equipment, net	335,168	489,560
 TOTAL ASSETS	 \$ 3,536,306	 \$ 3,060,840
 LIABILITIES AND NET ASSETS		
Liabilities:		
Scholarships and grants payable	\$ 51,926	\$ 15,000
Deferred revenue	24,559	-
Obligations under split-interest agreements	17,281	17,843
Total liabilities	93,766	32,843
Net assets:		
Unrestricted		
Available for programs and operations	225,294	189,036
Board designated	61,156	56,366
Cumulative endowment adjustment	(2,243)	(23,988)
Total unrestricted	284,207	221,414
Temporarily restricted	1,678,652	1,468,254
Permanently restricted	1,479,681	1,338,329
Total net assets	3,442,540	3,027,997
 TOTAL LIABILITIES AND NET ASSETS	 \$ 3,536,306	 \$ 3,060,840

See notes to financial statements.

PORTLAND COMMUNITY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006
(With comparative totals for 2005)

	2006				2005 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Support and revenues:					
Grants and contributions	\$ 53,270	\$ 751,396	\$ 171,876	\$ 976,542	\$ 757,579
College in-kind support	349,781	-	-	349,781	345,448
Other in-kind contributions	-	60,502	-	60,502	50,886
Special events revenue, net of direct costs of \$28,634 for 2006 and \$22,341 for 2005	49,741	-	-	49,741	55,923
Investment income	32,922	44,886	152	77,960	49,276
Net appreciation in fair value of investments	4,987	151,267	708	156,962	91,264
Net change in fair value of split interest agreements	345	-	-	345	(5,009)
	<u>491,046</u>	<u>1,008,051</u>	<u>172,736</u>	<u>1,671,833</u>	<u>1,345,367</u>
Net assets released from restrictions and other transfers	829,037	(797,653)	(31,384)	-	-
Total support and revenues	<u>1,320,083</u>	<u>210,398</u>	<u>141,352</u>	<u>1,671,833</u>	<u>1,345,367</u>
Expenses:					
Scholarships, grants and other distributions	642,815	-	-	642,815	561,230
Program expenses - depreciation	154,392	-	-	154,392	154,389
Supporting services:					
College in-kind supporting services	349,781	-	-	349,781	345,448
Administration	51,675	-	-	51,675	44,539
Fundraising	46,543	-	-	46,543	-
Investment fees	12,084	-	-	12,084	10,635
Total expenses	<u>1,257,290</u>	<u>-</u>	<u>-</u>	<u>1,257,290</u>	<u>1,116,241</u>
Change in net assets	62,793	210,398	141,352	414,543	229,126
Net assets:					
Beginning of year	<u>221,414</u>	<u>1,468,254</u>	<u>1,338,329</u>	<u>3,027,997</u>	<u>2,798,871</u>
End of year	<u>\$ 284,207</u>	<u>\$ 1,678,652</u>	<u>\$ 1,479,681</u>	<u>\$ 3,442,540</u>	<u>\$ 3,027,997</u>

See notes to financial statements.

PORTLAND COMMUNITY COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2006
(With comparative totals for 2005)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from grantors and contributors	\$ 900,600	\$ 696,655
Cash received from interest and dividends	77,808	48,445
Cash paid for scholarships, grants and other disbursements	(545,387)	(509,849)
Cash paid for administrative and other costs	<u>(138,936)</u>	<u>(78,569)</u>
Net cash provided by operating activities	<u>294,085</u>	<u>156,682</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	1,119,796	619,084
Purchase of investments and reinvested income	<u>(868,643)</u>	<u>(718,275)</u>
Net cash provided by (used in) investing activities	<u>251,153</u>	<u>(99,191)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	171,876	110,188
Investment income restricted for long-term investment	152	831
Payments to beneficiaries under split-interest agreements	<u>(2,748)</u>	<u>(2,768)</u>
Net cash provided by financing activities	<u>169,280</u>	<u>108,251</u>
 Net increase in cash and cash equivalents	 714,518	 165,742
 Cash and cash equivalents - beginning of year	 <u>899,253</u>	 <u>733,511</u>
 Cash and cash equivalents - end of year	 <u>\$ 1,613,771</u>	 <u>\$ 899,253</u>

See notes to financial statements.

PORTLAND COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Portland Community College Foundation (the "Foundation") was established in 1982 to provide support for the private fundraising efforts of Portland Community College (the "College"). The Foundation aids and promotes excellence at the College by providing scholarships, equipment for teaching and training, special academic opportunities for students and support for outstanding faculty.

The goals of the Foundation are to:

- Increase private funding to support students' scholarships and special needs of the college;
- Increase the public's awareness of the College's and students' financial needs;
- Communicate the strong relationships between the college and the business community;
- Work to finance educational areas that enhance the growth of the Portland metro area economy;
- Establish the College as the premier training and education center of the area; and
- Increase the self-sufficiency of the Foundation.

Basis of Presentation

The Foundation reports 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 represent net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time.
- Permanently restricted net assets represent net assets subject to donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

PORTLAND COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2006

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents included in investments are considered investments.

Investments

Investments are carried at fair value. Net assets of all funds are pooled to maximize the return on investments. Investment income is allocated monthly in proportion to the balance in each fund at the end of the prior month.

Income, realized net gains, unrealized net gains on the investment of endowment and similar funds are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift require that they be added to principal of a permanent endowment.
- As increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of income.
- As increases in unrestricted net assets in all other cases.

Equipment

Equipment purchased are recorded at cost. Donated assets are reflected as contributions at their estimated values on the date received. Depreciation of equipment is calculated using the straight-line method over the estimated useful lives of the assets which is generally 5 years.

Scholarships and Grants Payable

Scholarships and grants are accrued when awarded by the Foundation and are unconditional. Scholarship and grants are made from available income and principal in accordance with restrictions imposed by donors.

Deferred Revenue

Proceeds received for events are recognized as revenue in the period the event occurs. Amounts received in advance for events occurring in the subsequent year are reflected as deferred revenue on the statement of financial position.

PORTLAND COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2006

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Income Tax Status

Portland Community College Foundation is a nonprofit corporation exempt from income tax under section 501(c)(3) of the Internal Revenue Code. No provision for income taxes is made in the accompanying financial statements, as the Foundation has no activities subject to unrelated business income tax. The Foundation is not a private foundation.

Obligations under Split-Interest Agreements

Obligations under split-interest agreements, including charitable remainder trusts and gift annuities, are recorded when incurred at the present value of the distributions to be made to the donor-designated beneficiaries. Distributions are paid over the lives of the beneficiaries or another specified period. Present values are determined using discount rates established by the Internal Revenue Service and actuarially determined expected lives. Obligations under split-interest agreements are revalued annually to reflect actual experience; the discount rate is not changed. The net revaluations, together with any remaining recorded obligations after all trust or gift obligations under terminated agreements have been satisfied, are recorded as net changes in the value of split-interest agreements.

Donated Assets and Services

Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

The Foundation recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

PORTLAND COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2006

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Contributions

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the Foundation is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Bequests are recorded as revenue at the time the Foundation has an established right to the bequest and the proceeds are measurable.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. 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 statement of activities as net assets released from restrictions.

Expense Allocation

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Summarized Financial Information for 2005

The financial information as of June 30, 2005 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

PORTLAND COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2006

2 INVESTMENTS

Investments at June 30, 2006 and 2005 are carried at fair value and consist of the following:

	2006	2005
Common stock	\$ 1,128,989	\$ 1,252,837
Bonds	420,084	357,335
Convertible securities	-	33,174
Cash equivalents	3,357	917
Total investments	\$ 1,552,430	1,644,263

3. EQUIPMENT

Equipment consists of the following at June 30, 2006 and 2005:

	2006	2005
Classroom equipment	\$ 771,947	\$ 771,947
Less accumulated depreciation	436,779	282,387
Equipment, net	\$ 335,168	\$ 489,560

PORTLAND COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2006

4. OBLIGATIONS UNDER SPLIT-INTEREST AGREEMENTS

The Foundation holds a charitable gift annuity, whereby the Foundation has agreed, in return for the gifted assets, to make payments to gift beneficiaries for the balance of their lives. The liability under this agreement totaling \$12,754 and \$13,158 at June 30, 2006 and 2005, respectively, represents the actuarially determined present value of the estimated future payments to be made to the beneficiaries using a discount rate of 9.6%. Upon death of the beneficiaries, the Foundation will receive the balance of the remaining assets. At June 30, 2006 and 2005, the assets associated with the annuity totaled \$15,397 and \$13,819, respectively.

The Foundation is also trustee and the remainderman of a charitable remainder unitrust. The terms of the agreement require that the income earned by the trust's assets be paid annually to the trust's current beneficiaries in the amount of 8.5% of the fair value of the trust. The liability under this agreement totaling \$4,527 and \$4,686 at June 30, 2006 and 2005, respectively, represents the future payments to be made to current beneficiaries, using a discount rate of 7.7%. Upon death of the beneficiaries, the remaining assets will revert to the Foundation. At June 30, 2006 and 2005, the assets held associated with the unitrust agreement totaled \$7,937 and \$7,764, respectively.

5. BOARD DESIGNATED NET ASSETS

Board designated net assets totaling \$61,156 and \$56,366, respectively, consist of unrestricted net assets designated by the Board for scholarships.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2006 and 2005:

	2006	2005
Scholarships	\$ 713,716	\$ 610,332
Programs	629,768	368,362
Net investment in equipment	335,168	489,560
Total temporarily restricted net assets	\$ 1,678,652	\$ 1,468,254

PORTLAND COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2006

7. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2006 and 2005 consist of restricted endowment funds totaling \$1,479,681 and \$1,338,329, respectively. The principal portion of the endowment is permanently restricted and income on the principal is either unrestricted or restricted to scholarships and programs.

As of June 30, 2006 and 2005, the Foundation had incurred cumulative investment losses on its endowments totaling \$2,243 and \$23,988, respectively, in excess of available temporarily restricted net asset balances. Accordingly, in order to maintain the historical cost basis of the Foundation's endowment funds in accordance with state law and to report losses as required by SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, the losses have been reported as transactions of the unrestricted net asset class and will be reinstated out of future endowment earnings.

The incremental gain reported for the year ended June 30, 2006 and 2005 totaled \$21,745 and \$6,550, respectively.

PORTLAND COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2006

8. NET ASSETS RELEASED FROM RESTRICTIONS AND OTHER TRANSFERS

During the years ended June 30, 2006 and 2005, the Foundation incurred expenses in satisfaction of the restricted purposes specified by donors, or satisfied the restrictions by the occurrence of other events. Accordingly, a corresponding amount has been reported as a reclassification from temporarily restricted and permanently restricted net assets to unrestricted net assets in the statement of activities as follows:

	2006	2005
Temporarily restricted net assets:		
Satisfaction of program and/or time restrictions	\$ 759,192	\$ 721,695
Endowment management fee	19,599	16,396
Gift administrative fee	7,117	5,472
Transfer	(10,000)	-
Cumulative endowment adjustment	21,745	6,550
Total temporarily restricted net assets released	797,653	750,113
Permanently restricted net assets:		-
Transfer to correct temporarily restricted net assets treated as permanently restricted	31,384	-
Total net assets released from restrictions and other transfers	\$ 829,037	\$ 750,113

9. ADMINISTRATIVE ASSESSMENTS

The Foundation makes administrative assessments on income-producing assets held for the benefit of Portland Community College as follows:

- Endowment assets - an assessment of 1.0% annually of the fair value of endowments.
- Gifts - A one-time assessment of 1.0% on all restricted gifts of cash.

**PORTLAND COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2006**

10. FOUNDATION EXPENSES

Details of Foundation expenses are as follows:

Program expenses - depreciation totaling \$154,392 for 2006 and \$154,389 for 2005 represents depreciation of classroom equipment owned by the Foundation and made available to the College.

Financial development and administrative expenses provided in-kind by Portland Community College for the years ended June 30, 2006 and 2005 are as follows:

	2006	2005
Payroll and related costs	\$ 280,867	\$ 278,763
Contracted services	38,484	25,614
Travel	9,455	16,547
Printing and postage	16,367	14,733
Other	4,608	9,791
Total College in-kind supporting services	\$ 349,781	\$ 345,448

Administrative expenses incurred by the Foundation for the years ended June 30, 2006 and 2005 are as follows:

	2006	2005
Professional services	\$ 29,534	\$ 27,805
Insurance	4,368	4,377
Other	17,773	12,357
Total administration	\$ 51,675	\$ 44,539

11. CONCENTRATIONS OF CREDIT RISK

The Foundation's investments consist primarily of financial instruments including cash equivalents, equity securities and fixed income investments. These financial instruments may subject the Foundation to concentrations of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation; the market value of securities are dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to change in market values.

PORTLAND COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2006

12. STATEMENT OF CASH FLOWS RECONCILIATION

The following presents a reconciliation of the change in net assets (as reported on the statement of activities) to net cash provided by operating activities (as reported on the statement of cash flows):

	<u>2006</u>	<u>2005</u>
Change in net assets	\$ 414,543	\$ 229,126
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	154,392	154,389
Net realized and unrealized gains on investments	(156,962)	(91,264)
Contributions restricted for long-term investment	(171,876)	(110,188)
Investment income restricted for long-term investment	(152)	(831)
Net change in fair value of split-interest agreements	(345)	5,009
(Increase) decrease in:		
Contributions and grants receivable	(7,000)	(20,000)
Increase (decrease) in:		
Scholarships and grants payable	36,926	(559)
Deferred revenue	<u>24,559</u>	<u>(9,000)</u>
Net cash provided by operating activities	<u>\$ 294,085</u>	<u>\$ 156,682</u>