

**RANCHO SANTIAGO COMMUNITY COLLEGE
DISTRICT FOUNDATION**
(A Component Unit of the Rancho Santiago
Community College District)

**Audited Financial Statements, Single Audit Reports
And Independent Auditor's Reports
For the Fiscal Year Ended June 30, 2006**

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT FOUNDATION
Audited Financial Statements, Single Audit Reports
And Independent Auditor's Reports
For the Fiscal Year Ended June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rancho Santiago Community College District Foundation
Santa Ana, California

We have audited the accompanying statement of financial position of the Rancho Santiago Community College District Foundation (Foundation) as of June 30, 2006, and the related statements of activities, functional expenses 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 Foundation's 2005 financial statements and, in our report dated October 11, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Foundation as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Foundation taken as a whole. The accompanying schedule of expenditures of federal award is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Macias Fini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
August 25, 2006

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2006
(with comparative totals as of June 30, 2005)

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents	\$ 92,414	\$ 100,406
Accounts receivable	677	734
Prepaid expenses	4,640	4,366
Investments, at fair value	3,544,518	3,225,032
Total assets	<u>\$ 3,642,249</u>	<u>\$ 3,330,538</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 36,606	\$ 16,645
Trust account	4,079	4,079
Total liabilities	40,685	20,724
Net assets		
Unrestricted	20,547	37,104
Temporarily restricted:		
Programmatic support	5,824	6,000
Endowment	3,575,193	3,266,710
Total temporarily restricted	<u>3,581,017</u>	<u>3,272,710</u>
Total net assets	<u>3,601,564</u>	<u>3,309,814</u>
Total liabilities and net assets	<u>\$ 3,642,249</u>	<u>\$ 3,330,538</u>

The accompanying notes are an integral part of these financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(with comparative totals for the fiscal year ended June 30, 2005)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2006</u>	<u>2005</u>
Support and revenue				
Support:				
Contributions	\$ -	\$ 52,000	\$ 52,000	\$ 6,000
Fundraising (net of expenses of \$47,348)	103,578	-	103,578	83,109
Donated services	9,458	-	9,458	7,593
Total support	<u>113,036</u>	<u>52,000</u>	<u>165,036</u>	<u>96,702</u>
Revenue:				
Interest and dividends	838	-	838	639
Realized loss on investments	-	-	-	(2,387)
Unrealized gain on investments	5	-	5	2,397
Other revenue	<u>11,183</u>	<u>-</u>	<u>11,183</u>	<u>12,524</u>
Total revenue	<u>12,026</u>	<u>-</u>	<u>12,026</u>	<u>13,173</u>
Total support and revenue before net assets released from restrictions	125,062	52,000	177,062	109,875
Net assets released from restrictions	<u>63,160</u>	<u>(63,160)</u>	<u>-</u>	<u>-</u>
Total support and revenue after net assets released from restrictions	188,222	(11,160)	177,062	109,875
Expenses				
Program services	198,575	-	198,575	111,747
Supporting services:				
Management and general	3,481	-	3,481	2,836
Fundraising	<u>2,723</u>	<u>-</u>	<u>2,723</u>	<u>7,919</u>
Total program and supporting services	<u>204,779</u>	<u>-</u>	<u>204,779</u>	<u>122,502</u>
Support and revenue under expenses before capital additions	(16,557)	(11,160)	(27,717)	(12,627)
Capital additions on Endowment Grant				
Interest and dividends	-	81,342	81,342	70,660
Realized gain on investments	-	195,421	195,421	94,797
Unrealized gain (loss) on investments	-	42,704	42,704	(55,850)
Total capital additions	<u>-</u>	<u>319,467</u>	<u>319,467</u>	<u>109,607</u>
Change in net assets	(16,557)	308,307	291,750	96,980
Net assets				
Beginning, July 1	37,104	3,272,710	3,309,814	3,212,834
Ending, June 30	<u>\$ 20,547</u>	<u>\$ 3,581,017</u>	<u>\$ 3,601,564</u>	<u>\$ 3,309,814</u>

The accompanying notes are an integral part of these financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(with comparative totals for the fiscal year ended 2005)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Totals</u>	
				<u>2006</u>	<u>2005</u>
Salaries and benefits	\$ 5,675	\$ 2,837	\$ 946	\$ 9,458	\$ 7,593
Payments to affiliated foundations	105,578	-	-	105,578	85,360
Professional fees	3,513	586	1,757	5,856	5,278
Program activities	83,692	-	-	83,692	19,284
General operating expenses	117	58	20	195	4,987
	<u>\$ 198,575</u>	<u>\$ 3,481</u>	<u>\$ 2,723</u>	<u>\$ 204,779</u>	<u>\$ 122,502</u>

The accompanying notes are an integral part of these financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(with comparative totals for the fiscal year ended 2005)

	2006	2005
Cash flows from operating activities		
Change in net assets	\$ 291,750	\$ 96,980
Adjustments to reconcile the change in net assets to net cash provided by operating activities		
Unrealized (gain)/loss on investments	(42,709)	53,453
Changes in operating assets and liabilities:		
Decrease in accounts receivable	57	27
(Increase)/decrease in prepaid expenses	(274)	233
Increase in accounts payable	19,961	12,528
Net cash provided by operating activities	268,785	163,221
Cash flows from investing activities		
Reinvested interest and dividends	(82,180)	(70,633)
Purchase of investments	(214,863)	(215,377)
Proceeds from the sale of investments	20,266	122,931
Net cash used by investing activities	(276,777)	(163,079)
Net (decrease)/increase in cash and cash equivalents	(7,992)	142
Cash and cash equivalents, July 1	100,406	100,264
Cash and cash equivalents, June 30	\$ 92,414	\$ 100,406

The accompanying notes are an integral part of these financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 - ORGANIZATION

The Rancho Santiago Community College District Foundation (Foundation) is a nonprofit organization, which operates as an auxiliary organization of the Rancho Santiago Community College District (the District), a component unit of the Rancho Santiago Community College District. The primary functions of the Foundation are community and institutional development and administration of the Endowment Challenge Grant.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Classification of Net Assets

The Foundation reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Recognition of Donor Restricted Contributions

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, temporarily restricted net assets are reclassified to unrestricted net assets.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

At June 30, 2006, cash and cash equivalents consisted of cash in checking and savings accounts.

Investments

Investments are recorded at fair value.

Trust Accounts

The Foundation acts as a fiscal agent for departments and groups of the Rancho Santiago Community College District.

Donated Services

The Foundation records the value of donated services when there is an objective basis available to measure their value. Donated services are reflected in the financial statements at fair value when a specialized skill is provided that would have otherwise been purchased or paid.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fundraising

Gross fundraising revenue is reduced by expenses directly related to the fundraising events. All other expenses associated with fundraising are included in the statements of activities and functional expenses as fundraising costs.

Functional Allocations of Expenses

The costs of providing the various programs and supporting services 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.

Income Taxes

The Foundation is a nonprofit foundation exempt from federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summarized Financial Information of the Prior Year

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation’s financial statements for the year ended June 30, 2005, from which the summarized information was derived.

NOTE 3 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets of \$63,160 were released from temporary donor restrictions during the fiscal year. The Foundation met donor imposed restrictions by incurring qualified expenses.

NOTE 4 – TRUST ACCOUNT

The Foundation acts as a fiscal agent for one department of the District. The balance at June 30, 2006 is \$4,079.

NOTE 5 – INVESTMENTS

The Foundation has adopted a statement of investment policy to maintain a balanced return of current income and modest growth of principal, to preserve purchasing power of assets and to ensure the ability to meet expected cash flow needs. Investments are presented in the financial statements at their aggregate fair value. Investments are comprised of money market funds, certificates of deposit and marketable equity securities. The fair value of the marketable equity securities is based on quoted market values. The cost and fair values at June 30, 2006 are as follows:

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 361,234	\$ 361,234
Marketable equity securities	2,187,749	2,850,300
Debt equity	145,000	140,610
Certificates of deposit	195,000	192,374
	<u>\$ 2,888,983</u>	<u>\$ 3,544,518</u>

NOTE 6 - ENDOWMENT GRANT

The Foundation received an Endowment Challenge Grant from the Department of Education in the amount of \$1,000,003 in fiscal year 1992. The corpus of the endowment is to be invested over a period of twenty years and the Foundation may not spend more than fifty percent of the aggregate income earned for allowable expenditures. At the end of twenty years, the Foundation may use the corpus for any educational purpose. At June 30, 2006, the fair value of the endowment grant is \$3,575,193.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 7 – INSURED DEPOSITS

As of June 30, 2006, the Foundation has cash deposits in aggregate of \$95,164 with one financial institution. The National Credit Union Association (NCUA) limits each corporation to a recovery of \$100,000 for all accounts at one financial institution. Therefore, the Foundation is not subject to the risk of loss.

NOTE 8 - 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 of the accountant. Donated salaries and benefits were \$9,458 and have been reflected in the financial statements as donated services.

During the fiscal year, the Foundation distributed in equal shares the net proceeds from a special event in the amount of \$103,578 to Santa Ana College Foundation (SACF) and Santiago Canyon College Foundation (SCCF) of which a combined total of \$30,000 to be used for scholarship and \$23,700 is to be used to purchase text books. In addition, the Foundation distributed \$1,000 each to SACF and SCCF for scholarships. These amounts are reflected on the statement of functional expenses as payments to affiliated foundations.

NOTE 9 – CONTINGENCIES

The Foundation has received federal funds for specific purposes that are subject to review and audit by the grantor agency. Although such audits could generate expenditure disallowances under the terms of the grant, it is believed that any required reimbursements will not be material.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARD
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

<u>Program</u>	<u>CFDA Number</u>	<u>Award Amount</u>	<u>Program Expenditures</u>
Department of Education Endowment Challenge Grant	84.031	\$ 1,000,003	\$ 10,985

The cumulative earnings from inception of the grant are \$3,097,064. In accordance with the grant agreement, fifty percent of the cumulative earnings may be used for allowable expenditures. At June 30, 2006, total cumulative expenditures from inception of the grant were \$1,021,874 leaving an available balance of \$526,658. For the fiscal year ended June 30, 2006, the Foundation incurred allowable expenditures of \$10,985.



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**INDEPENDENT AUDITOR'S 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***

To the Board of Directors
Rancho Santiago Community College District Foundation
Santa Ana, California

We have audited the financial statements of the Rancho Santiago Community College District Foundation (Foundation) as of and for the year ended June 30, 2006, and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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*.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Macias Fini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
August 25, 2006



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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH *OMB CIRCULAR A-133***

To the Board of Directors
Rancho Santiago Community College District Foundation
Santa Ana, California

Compliance

We have audited the compliance of the Rancho Santiago Community College District Foundation (Foundation) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal program for the year ended June 30, 2006. The Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Foundation's compliance with those requirements.

In our opinion, the Foundation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Foundation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Macias Fini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
August 25, 2006

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes No

Reportable condition(s) identified not considered
to be material weaknesses?

_____ Yes None reported

Noncompliance material to financial statements noted?

_____ Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ Yes No

Reportable condition(s) identified not considered
to be material weaknesses?

_____ Yes None reported

Type of auditors' report issued on compliance for
major programs:

Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section .510(a)

_____ Yes No

Identification of major programs

CFDA Number

Name of Federal Program or Cluster

84.031

Endowment Challenge Grant

Dollar threshold used to distinguish between Type A
and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

Yes _____ No

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.