

Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

Heather Rubio

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Dr. Steven Crow
900 Otay Lakes Road
Chula Vista, CA 91910

Dr. Crow:

We have reviewed the trusts, including various groups and clubs, as well as scholarships currently maintained within the District's financial framework. This review included account activity as part of an overview of the trust's purpose.

After reviewing a sample of trust activity and interviews with a small sample of managers associated with these accounts we determined trusts are currently used to provide a funding and spending mechanism for activities or programs not generally allowed with traditional government funding. Funds appear to be solicited as donations or collections from individuals or organizations. We were not able to see any established manner in which solicited funds were handled from the point of solicitation to recording to ensure compliance with statutory requirements, both under the Internal Revenue Service and the Franchise Tax Board. While the District is a government agency under which individuals may donate funds to, in accordance with the local governing board's acceptance policy, the District does not typically issue a gift acknowledgement receipt in accordance with IRS regulations. As such, most trusts or groups typically use the entity's foundation tax ID number in order to solicit those gifts. The donor then can, in good faith, claim the donation as a tax deduction. Unfortunately, when the receipt of those donations is not running through the foundation or entity responsible for issuing those gift acknowledgements, the required communication is not happening, which puts the donor in jeopardy of filing incorrect tax reporting. In addition, this puts the trust or group, and ultimately the District, in a position of negative public perception for the potential mishandling of the funds.

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

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

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The IRS Publication 1771 details the requirements of receiving donations which include the following:

- ❖ Name of organization under the non-profit ID
- ❖ Amount of cash contribution
- ❖ Description (but not the value) of non-cash contributions
- ❖ Statement that no goods or services were provided by the organization in return for the contribution, if that was the case
- ❖ Description and good faith estimate of the value of the goods or services, if any, that an organization provided in return for the contribution
- ❖ Statement that goods or services, if any, that the organization provided in return for the contribution consisted entirely of intangible religious beliefs, if that was the case

If the trusts or groups are soliciting donations or receiving them using the Foundation's tax ID number, yet the above disclosures are not occurring, the Foundation may be in jeopardy of its status as a non profit, in addition to the undetermined negative impressions left within the community due to the improper handling of donations.

Our discussion with the various managers or individuals working with the noted trusts indicated cash collection varies significant from trust to trust, with many soliciting and handling the cash directly themselves, rather than cash being handled directly through the business office. The matter of having such a vast desegregated cash collection process is problematic. It is difficult, if not impossible to determine that all cash is accounted for and properly recorded and deposited in a timely fashion. Altering the current procedures to allow for all activity to be accounted for with a single office, recorded and deposited will promote consistent procedures, which reflect sound business practices, as well as provide a higher level of assurance that the assets of the various programs, donors and students are protected.

As of February 2015, the District maintained 110 trusts within the general ledger totaling \$652,622. Volume of activity ranged from greater than 20 transactions to no activity over the course of the current fiscal period. Twenty (20) trusts reflected over 20 transactions; 40 trusts reflected less than 20 transactions while the remaining 50 trusts did not have any activity.

	# Trusts	Balance
Transactions >20	20	\$ 460,773
Transactions <20	40	\$ 159,602
No activity	50	\$ 32,247

It is in our opinion that the funds associated with the various trusts as well as the scholarship activities would be better suited within the Foundation's financial processes in order to ensure the disclosure and notification requirements are met. For those accounts that have little to no activity, the Foundation should have processes or procedures in place to establish a trust and to dissolve trusts that are inactive.

It has been our experience that Foundations typically house and process the scholarship activity, in conjunction with the respective Financial Aid departments in order to keep aid awarded within the appropriate range. Many scholarships have significant restrictions upon them as to the timing and manner in which funds may be used. Foundations routinely deal with matters such as these and their reporting model is configured to accurately reflect the reporting of restrictions and endowments in accordance with Generally Accepted Accounting Principles. As such, we recommend the District move the scholarships, in addition to other trusts over to the foundation.

In regards to funds that are currently housed in the ASO (Student Government), Fiscal Crisis & Management Assistance Team, (FCMAT), indicates that the only funds that should remain within the ASO are those directly controlled by students, either the ASO or clubs/trusts. Any funds that are programmatic or related to any other activity other than those controlled by students, should be moved and housed within the Foundation, in order to avoid conflict or co-mingling of funds.

In closing, by moving these funds, both scholarships and trusts, to the Foundation, a bon-a-fid 501(c)3, donors or potential donors will be able to donate and receive the appropriate acknowledgement in accordance with IRS and FTB regulations. In addition this will also allow for the District and Foundation to better control who is soliciting for donations and for what purpose.

Please let us know if we can be of further assistance.

Respectfully,

A handwritten signature in cursive script that reads "Tanya M. Rogers". The signature is written in black ink and is positioned above the typed name.

Tanya Rogers, CPA, CFE