Northwestern Michigan College Foundation

Financial Report

June 30, 2019

Contents

Northwestern Michigan College Foundation

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as of June 1, 2019

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Independent Auditor's Report

To the Board of Directors
Northwestern Michigan College Foundation

We have audited the accompanying financial statements of Northwestern Michigan College Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2019 and 2018 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwestern Michigan College Foundation as of June 30, 2019 and 2018 and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the Foundation adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, for the year ended June 30, 2019 on a fully retrospective basis to the earliest period presented. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

October 7, 2019

Statement of Financial Position

June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 3,567,135	$ 2,299,425
Investments (Note 4)	40,589,791	38,815,641
Receivables - Net of allowances (Note 3)	5,617,706	4,247,715
Cash surrender value of life insurance	446,853	414,066
Prepaid expenses and other assets	5,094	6,296
Total assets	**$ 50,226,579**	**$ 45,783,143**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 9,936	$ 6,158
Deferred revenue	80,602	58,581
Payable to Northwestern Michigan College (Note 5)	892,625	1,049,706
Split-interest agreements payable (Note 6)	80,442	82,175
Total liabilities	1,063,605	1,196,620
Net Assets		
Without donor restrictions	4,462,425	4,619,586
With donor restrictions	44,700,549	39,966,937
Total net assets	49,162,974	44,586,523
Total liabilities and net assets	**$ 50,226,579**	**$ 45,783,143**

Statement of Activities and Changes in Net Assets

Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Contributions	$ 198,896	$ 6,340,658	$ 6,539,554	$ 564,277	$ 3,592,474	$ 4,156,751
In-kind donations	417,828	-	417,828	444,771	-	444,771
Special event revenue - Net	-	291,290	291,290	-	280,903	280,903
Net realized and unrealized gains on investments	167,180	687,516	854,696	356,011	1,404,569	1,760,580
Investment income	151,517	789,418	940,935	137,217	579,082	716,299
Change in value of split-interest agreements	-	(8,222)	(8,222)	-	12,875	12,875
Net assets released from restrictions	3,409,743	(3,409,743)	-	2,452,384	(2,452,384)	-
Total revenue, gains, and other support	4,345,164	4,690,917	9,036,081	3,954,660	3,417,519	7,372,179
Expenses						
Program expenses	3,374,069	-	3,374,069	2,426,651	-	2,426,651
Support services:						
Management and general	74,958	-	74,958	97,220	-	97,220
Fundraising	1,010,603	-	1,010,603	1,036,209	-	1,036,209
Total support services	1,085,561	-	1,085,561	1,133,429	-	1,133,429
Total expenses	4,459,630	-	4,459,630	3,560,080	-	3,560,080
(Decrease) Increase in Net Assets - Before transfers	(114,466)	4,690,917	4,576,451	394,580	3,417,519	3,812,099
Transfers	(42,695)	42,695	-	81,725	(81,725)	-
(Decrease) Increase in Net Assets	(157,161)	4,733,612	4,576,451	476,305	3,335,794	3,812,099
Net Assets - Beginning of year	4,619,586	39,966,937	44,586,523	4,143,281	36,631,143	40,774,424
Net Assets - End of year	**$ 4,462,425**	**$ 44,700,549**	**$ 49,162,974**	**$ 4,619,586**	**$ 39,966,937**	**$ 44,586,523**

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Incease in net assets	$ 4,576,451	$ 3,812,099
Adjustments to reconcile incease in net assets to net cash and cash equivalents from operating activities:		
Bad debt expense	9,822	9,113
Change in value of split-interest agreements	8,222	(12,875)
Change in cash surrender value of life insurance	(32,787)	(37,261)
Net realized and unrealized gain on investments	(854,696)	(1,760,580)
Contributions restricted for long-term investment	(658,669)	(1,133,836)
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Receivables	(1,379,813)	(1,181,453)
Prepaid expenses and other assets	1,202	10,191
Accounts payable	3,778	(25,883)
Payable to Northwestern Michigan College	(157,081)	174,493
Deferred revenue	22,021	8,019
Net cash and cash equivalents provided by (used in) operating activities	1,538,450	(137,973)
Cash Flows from Investing Activities		
Proceeds from sale of investments	15,307,659	7,530,594
Purchase of investments	(16,227,113)	(8,104,814)
Net cash and cash equivalents used in investing activities	(919,454)	(574,220)
Cash Flows from Financing Activities		
Cash contributions for endowments	658,669	1,133,836
Payments to split-interest beneficiaries	(9,955)	(9,999)
Receipts from split-interest beneficiaries	-	50,000
Net cash and cash equivalents provided by financing activities	648,714	1,173,837
Net Increase in Cash and Cash Equivalents	1,267,710	461,644
Cash and Cash Equivalents - Beginning of year	2,299,425	1,837,781
Cash and Cash Equivalents - End of year	**$ 3,567,135**	**$ 2,299,425**

See notes to financial statements.

Note 1 - Nature of Business

Northwestern Michigan College Foundation (the "Foundation") was incorporated on July 8, 1981. The Foundation was organized to provide support exclusively for the objectives and purposes of Northwestern Michigan College (the "College") and to augment the facilities of the College in such a manner as may be designated by its board of directors, whose members are appointed by the College's board of trustees, creating a voting majority. The Foundation is a discretely presented component unit of the College. All distributions made out of the Foundation, other than normal operating expenses, are to be made to or for the benefit of the College. Upon dissolution of the Foundation, its remaining assets will be distributed to the College.

Note 2 - Significant Accounting Policies

Basis of Presentation

The financial statements of the Foundation have been prepared on the basis of generally accepted accounting principles (GAAP).

Classification of Net Assets

Net assets of the Foundation are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Foundation.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

The Foundation has interpreted donor restrictions to also include related earnings as restricted for the intended purpose of the original donation.

Contributions

Contributions of cash and other assets, including unconditional promises to give in the future and in-kind contributions, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Contributions resulting from split-interest agreements, measured at the time the agreements are entered into, are based on the difference between the fair value of the assets received or promised and the present value of the obligation to the third-party recipient(s) under the contract.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as contributions without donor restrictions.

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible.

Note 2 - Significant Accounting Policies (Continued)

Cash Equivalents

The Foundation considers all investments with an original maturity of three months or less when purchased to be cash equivalents. The Foundation maintains cash at various banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. The Foundation had $3,110,928 and $1,932,605 in uninsured deposits as of June 30, 2019 and 2018, respectively. The Foundation evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

Investment Valuation and Income Recognition

Investments held by the Foundation are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for further discussion of fair value measurements.

Investment income or loss and unrealized gains and losses are included in the statement of activities and changes in net assets as increases or decreases in net assets without donor restrictions unless income or loss is restricted by donor or law. Realized gains or losses on investments sold are determined using the specific identification method. Included in investment income is commission and administrative fees related to investment management totaling approximately $120,000 and $100,000 for the years ended June 30, 2019 and 2018, respectively.

Risks and Uncertainties

The Foundation invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the financial statements.

Deferred Revenue

Deferred revenue consists of advance receipts for the Foundation’s annual fundraiser in August.

Functional Expenses

Costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Costs are reported between the various programs and support services on a direct basis.

Net Asset Transfers

During the years ended June 30, 2019 and 2018, net assets were transferred between net assets with donor restrictions and net assets without donor restrictions as the result of further analysis of documents and donor classifications on contributions received by the Foundation in prior and current years.

Income Taxes

The Foundation is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In June 2018, the Finacial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Foundation's year ending June 30, 2020 and will be applied on a modified prospective basis. The Foundation does not expect the standard to have a significant impact on the timing of revenue recognition for individual grants and contributions.

Adoption of New Accounting Pronouncement

For the year ended June 30, 2019, the Foundation adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, on a fully retrospective basis. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Foundation, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, the financial information for the year ended June 30, 2018 has been restated, as follows: management and general expenses has decreased $656,958 from the amount previously reported; fundraising expenses have increased $444,115 from the amount previously reported; and program expenses have increased $113,309 from the amount previously reported. Additionally as of June 30, 2018, net assets of $26,616,238 previously reported as temporarily restricted net assets and net assets of $13,350,699 previously reported as permanently restricted net assets have been combined into net assets with donor restrictions. Finally, investment expense of $99,534 has been combined with investment income for June 30, 2018.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 7, 2019, which is the date the financial statements were available to be issued.

Note 3 - Contributions Receivable

Included in contributions receivable are several unconditional promises to give generated from a capital campaign. They are included as follows:

	2019	2018
Gross promises to give before unamortized discount	$ 5,918,839	$ 4,459,631
Less allowance for uncollectible contributions	(15,000)	(15,000)
Less allowance for net present value discount	(286,133)	(196,916)
Net contributions receivable	$ 5,617,706	$ 4,247,715
Amounts due in:		
Less than one year	$ 2,425,224	$ 1,812,675
One to five years	3,192,482	2,435,040
Total	$ 5,617,706	$ 4,247,715

Note 4 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Foundation’s assets measured at fair value on a recurring basis at June 30, 2019 and 2018 and the valuation techniques used by the Foundation to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management’s own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Note 4 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2019		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Balance at June 30, 2019
Assets			
Mutual funds:			
Domestic equity	$ 15,612,039	$ -	$ 15,612,039
International equity	9,284,306	-	9,284,306
Alternative strategies	5,963,100	-	5,963,100
Money market mutual funds	266,613	-	266,613
Total mutual funds	31,126,058	-	31,126,058
Fixed income:			
U.S. Treasury securities	3,518,934	-	3,518,934
Corporate bonds	-	5,944,799	5,944,799
Total fixed income	3,518,934	5,944,799	9,463,733
Total assets	$ 34,644,992	$ 5,944,799	$ 40,589,791

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2018		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Balance at June 30, 2018
Assets			
Mutual funds:			
Domestic equity	$ 15,574,361	$ -	$ 15,574,361
International equity	8,328,701	-	8,328,701
Alternative strategies	5,754,214	-	5,754,214
Money market mutual funds	16,455	-	16,455
Total mutual funds	29,673,731	-	29,673,731
Fixed income:			
U.S. Treasury securities	3,408,420	-	3,408,420
Corporate bonds	-	5,733,490	5,733,490
Total fixed income	3,408,420	5,733,490	9,141,910
Total assets	$ 33,082,151	$ 5,733,490	$ 38,815,641

The fair value of fixed-income securities at June 30, 2019 and 2018 was determined primarily based on Level 2 inputs. The Foundation estimates the fair value of these investments based on quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, and credit spreads.

Note 5 - Related Party Transactions

Northwestern Michigan College is a public higher education institution offering a broad array of programs. During the years ended June 30, 2019 and 2018, the Foundation made payments to the College in the amount of $3,354,064 and $3,180,437, respectively, primarily for scholarships, foundation expenses, and college programs. Amounts payable to the College were $892,625 and $1,049,706 at June 30, 2019 and 2018, respectively. The College also provides personnel services to the Foundation. These personnel services are measured by the Foundation at the cost recognized by the College for the personnel providing those services. Amounts totaling approximately $418,000 and $445,000 for such services for supervisory and clerical staff provided by the College to the Foundation are included in contributions without donor restrictions for 2019 and 2018, respectively, of which $42,000 and $39,000 are included in management and general expenses for 2019 and 2018, respectively, while $376,000 and $406,000 are included in fundraising expenses for 2019 and 2018, respectively.

Note 6 - Liability for Split-interest Agreements

The Foundation is party to split-interest agreements with certain donors. Under the agreements, the donor contributed funds to be held in trust, with the Foundation as the beneficiary. As a condition of accepting the gift, the Foundation is required to pay a specified amount each year to the donors or a designated beneficiary until his or her death. Payments to beneficiaries were $9,955 and $9,999 in 2019 and 2018, respectively. Upon the death of the beneficiaries, the remaining funds become the property of the Foundation. Obligations under the split-interest agreements represent the present value of future payments required to be paid to beneficiaries under the agreements. The present value is computed based on the normal life expectancy of the beneficiaries, using discount rates ranging from 1.8 percent to 7.0 percent.

Note 7 - Net Assets

Net assets without donor restrictions consist of the following as of June 30:

	2019	2018
Board-designated net assets	$ 1,203,702	$ 1,176,034
Undesignated net assets	3,258,723	3,443,552
Total net assets without donor restrictions	$ 4,462,425	$ 4,619,586

Net assets with donor restrictions as of June 30 are available for the following purposes:

	2019	2018
Subject to expenditures for a specified purpose or the passage of time:		
University Center	$ 1,741,771	$ 1,742,404
Programs and scholarships	21,088,674	17,112,174
Dennos Museum	7,859,397	7,760,626
Great Lakes Campus	1,035	1,034
Total subject to expenditures for a specified purpose or the passage of time	30,690,877	26,616,238
Not subject to appropriation or expenditure:		
Endowment - Programs and scholarships	9,823,803	9,182,136
Endowment - Dennos Museum Center	4,185,869	4,168,563
Total not subject to appropriation or expenditure	14,009,672	13,350,699
Total	$ 44,700,549	$ 39,966,937

Note 8 - Donor-restricted and Board-designated Endowments

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of trustees appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of trustees of the Foundation had interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

	Endowment Net Asset Composition by Type of Fund as of June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 1,203,702	$ -	$ 1,203,702
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	14,009,672	14,009,672
Accumulated investment gains	-	6,780,074	6,780,074
Total	$ 1,203,702	$ 20,789,746	$ 21,993,448

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ 1,176,034	$ 19,822,509	$ 20,998,543
Investment return:			
Investment income	38,684	666,254	704,938
Net appreciation (realized and unrealized)	13,490	217,733	231,223
Total investment return	52,174	883,987	936,161
Contributions	-	666,412	666,412
Appropriation of endowment assets for expenditure	(24,506)	(583,730)	(608,236)
Other changes - Transfers for changes in donor intent	-	568	568
Endowment net assets - End of year	$ 1,203,702	$ 20,789,746	$ 21,993,448

	Endowment Net Asset Composition by Type of Fund as of June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 1,176,034	$ -	$ 1,176,034
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	13,350,699	13,350,699
Accumulated investment gains	-	6,471,810	6,471,810
Total	$ 1,176,034	$ 19,822,509	$ 20,998,543

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ 1,094,587	$ 18,021,056	$ 19,115,643
Investment return:			
Investment income	80,083	1,069,468	1,149,551
Net appreciation (realized and unrealized)	5,364	59,178	64,542
Total investment return	85,447	1,128,646	1,214,093
Contributions	-	1,136,566	1,136,566
Appropriation of endowment assets for expenditure	(4,000)	(541,465)	(545,465)
Other changes - Transfers for changes in donor intent	-	77,706	77,706
Endowment net assets - End of year	$ 1,176,034	$ 19,822,509	$ 20,998,543

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature exist in one donor-restricted endowment fund, which has an original gift value of $23,494 and $24,527, a current fair value of $49 and $1,033, and a deficiency of $23,445 and $23,494 as of June 30, 2019 and 2018, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the board of trustees.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to achieve a return of 5 percent, net of inflation and investment expenses. The secondary investment objective is to earn a total return, net of expenses, at least equal to the portfolio's composite benchmark, as defined in its investment policy statement. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

In the absence of unique or special circumstances and subject to the determination of the Foundation finance and audit committee, distributions from donor restricted funds held in perpetuity or any funds treated as donor-restricted funds held in perpetuity (DRFHP) will be determined according to the following formula and will occur on a monthly or quarterly basis:

70% (up to 5 percent of the five-year moving average market value of DRFHP as of prior fiscal year end)
+ 30% (prior year spending level) (prior year CPI + 1%)
= Annual target spending

Additionally, the treatment and accounting of with donor restrictions versus without donor restriction gifts to the Foundation will be managed by college staff. The Foundation's board of directors will periodically review and approve policies and procedures governing gifts to the Foundation.

Note 9 - Liquidity and Availability of Resources

The following reflects the Foundation's financial assets as of the statement of position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of position date:

	2019	2018
Cash and cash equivalents	$ 3,567,135	$ 2,299,425
Receivables	5,617,706	4,247,215
Investments	40,589,791	38,815,641
Financial assets - At year end	49,774,632	45,362,281
Less those unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	23,910,803	20,144,428
Subject to appropriation and satisfaction of donor restrictions	20,789,746	19,822,509
Board designations - Quasi-endowment fund, primarily for long-term investing	1,203,702	1,176,034
Financial assets available to meet cash needs for general expenditures within one year	$ 3,870,381	$ 4,219,310

The Foundation is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors.

The Foundation has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 90 days of normal operating expenses, which, on average, can range from approximately $600,000 to $1,000,000 at June 30, 2019 and 2018. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in various short-term investments, including short-term treasury instruments.

The Foundation also realizes there could be unanticipated liquidity needs.

Note 10 - Functional Expenses

The Foundation's expenses by nature and function are as follows for June 30, 2019:

	Program Expenses	Support Services - Management and General	Support Services - Fundraising	Total
Grants to the College	$ 2,331,273	$ -	$ -	$ 2,331,273
Gifts in kind	1,042,796	-	-	1,042,796
Direct special events	-	-	132,635	132,635
Advertising	-	-	38,878	38,878
Salaries, benefits, and taxes	-	41,752	825,361	867,113
Consulting	-	27,460	-	27,460
Supplies and software	-	-	64,428	64,428
Travel	-	-	23,610	23,610
Professional development	-	4,056	9,916	13,972
Insurance premiums	-	-	38,588	38,588
Bad debt expense	-	-	9,822	9,822
Other	-	1,690	-	1,690
Total	$ 3,374,069	$ 74,958	$ 1,143,238	$ 4,592,265

Note 10 - Functional Expenses (Continued)

The Foundation's expenses by nature and function are as follows for June 30, 2018:

	Program	Support Services - Management and General	Support Services - Fundraising	Total
Grants to the College	$ 2,313,342	$ -	$ -	$ 2,313,342
Gifts in kind	113,309	-	-	113,309
Direct special events	-	-	159,439	159,439
Advertising	-	-	37,551	37,551
Salaries, benefits, and taxes	-	38,937	856,144	895,081
Consulting	-	54,516	-	54,516
Supplies and software	-	-	75,363	75,363
Travel	-	-	16,022	16,022
Professional development	-	2,331	12,848	15,179
Insurance premiums	-	-	29,168	29,168
Bad debt expense	-	-	9,113	9,113
Other	-	1,436	-	1,436
Total	$ 2,426,651	$ 97,220	$ 1,195,648	$ 3,719,519