

**THE NORTH CAROLINA COMMUNITY COLLEGES
FOUNDATION, INC.**

Financial Statements

June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The North Carolina Community Colleges Foundation, Inc.
Raleigh, North Carolina

We have audited the accompanying financial statements of The North Carolina Community Colleges Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The North Carolina Community Colleges Foundation, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Thomas, Judy & Duck, P.A.

February 3, 2020
Durham, North Carolina

THE NORTH CAROLINA COMMUNITY COLLEGES FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<u>ASSETS</u>			
Current Assets:			
Cash and Cash Equivalents	\$ 501,301	\$ 64,903	\$ 566,204
Grants Receivable		500,000	500,000
Prepaid Expenses	5,000		5,000
Investments	6,970,656	3,020,819	9,991,475
Total Current Assets	7,476,957	3,585,722	11,062,679
Fixed Assets, Net	5,306		5,306
Other Assets:			
Perpetual Trust		99,648	99,648
Charitable Remainder Unitrust		89,987	89,987
Total Other Assets		189,635	189,635
Total Assets	\$ 7,482,263	\$ 3,775,357	\$ 11,257,620
<u>LIABILITIES AND NET ASSETS</u>			
Liabilities:			
Accounts Payable	\$ 479,689	\$	\$ 479,689
Net Assets:			
Without Donor Restrictions:			
Designated	1,390,265		1,390,265
Undesignated	5,612,309		5,612,309
With Donor Restrictions:		3,775,357	3,775,357
Total Net Assets	7,002,574	3,775,357	10,777,931
Total Liabilities and Net Assets	\$ 7,482,263	\$ 3,775,357	\$ 11,257,620

See Accompanying Notes

THE NORTH CAROLINA COMMUNITY COLLEGES FOUNDATION, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenues:			
Contributions	\$ 7,650	\$ 3,200,165	\$ 3,207,815
Contributed Services	61,587		61,587
Investment Income, net of fees of \$37,719	<u>577,294</u>	<u>(1,347)</u>	<u>575,947</u>
Total Support and Revenues	<u>646,531</u>	<u>3,198,818</u>	<u>3,845,349</u>
Net Assets Released from Restrictions	<u>1,803,781</u>	<u>(1,803,781)</u>	
Total Support, Revenues and Net Assets Released from Restrictions	<u>2,450,312</u>	<u>1,395,037</u>	<u>3,845,349</u>
Expenses:			
Program Services:			
Community College Support	2,192,541		2,192,541
Management and General	<u>60,963</u>		<u>60,963</u>
Total Expenses	<u>2,253,504</u>		<u>2,253,504</u>
Change in Net Assets	196,808	1,395,037	1,591,845
Net Assets, Beginning of Year	<u>6,805,766</u>	<u>2,380,320</u>	<u>9,186,086</u>
Net Assets, End of Year	<u>\$ 7,002,574</u>	<u>\$ 3,775,357</u>	<u>\$ 10,777,931</u>

See Accompanying Notes

THE NORTH CAROLINA COMMUNITY COLLEGES FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019

	<u>Program Services</u>		
	Community College Support	Management and General	Total
Salaries	\$ 21,119	\$ 40,468	\$ 61,587
Scholarships and Awards	1,065,750		1,065,750
Materials and Supplies	5,177		5,177
Software	418		418
Meals and Entertainment	10,296		10,296
Advertising and Marketing	1,025,000		1,025,000
Professional Services		9,500	9,500
Insurance		2,344	2,344
Registration Fees	5,314		5,314
Strategic Engagement	22,583		22,583
Student Projects	31,161		31,161
Donations	4,975		4,975
Travel	159		159
Postage	274		274
Printing and Copying	315		315
Bank Fees		431	431
Miscellaneous		8,220	8,220
	<u> </u>	<u> </u>	<u> </u>
Total Expenses	<u>\$ 2,192,541</u>	<u>\$ 60,963</u>	<u>\$ 2,253,504</u>

See Accompanying Notes

THE NORTH CAROLINA COMMUNITY COLLEGES FOUNDATION, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

Cash Flows from Operating Activities:	
Change in Net Assets	\$ 1,591,845
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Stock Donations	(444,839)
Realized and Unrealized Gains on Investments	(275,423)
Changes in Assets and Liabilities:	
Decrease in Prepaids	1,818
Decrease in Perpetual Trust	1,787
Increase in Charitable Remainder Unitrust	(440)
Increase in Grants Receivable	(500,000)
Increase in Accounts Payable	478,941
	<hr/>
Net Cash Provided by Operating Activities	853,689
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Cash Flows from Investing Activities:	
Purchase of Investments	(1,425,967)
Proceeds from Sale of Investments	836,046
	<hr/>
Net Cash Used in Investing Activities	(589,921)
	<hr/>
Net Increase in Cash and Cash Equivalents	263,768
Cash and Cash Equivalents, Beginning of Year	302,436
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Cash and Cash Equivalents, End of Year	\$ 566,204
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Supplemental Disclosures of Noncash Transactions:	
Donated Services	\$ 61,587
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See Accompanying Notes

THE NORTH CAROLINA COMMUNITY COLLEGES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

1. Business Operations and Summary of Significant Accounting Policies

Business Operations

The North Carolina Community Colleges Foundation, Inc. (the "Foundation") was incorporated on September 11, 1986, and became operational in early 1987. The Foundation was established to support, promote, and assist the mission of the community college system through study and evaluation of the present and future role of community colleges, their impact on small businesses, and to support the continued training and development of the community college system.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*. ASC 958-205 requires that not-for-profit organizations provide a statement of financial position, a statement of activities, a statement of functional expenses, and a statement of cash flows. Also, ASC 958-205 requires classification of an organization's net assets, revenues and expenses according to the following net asset classifications:

Net Assets without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and the board of trustees.

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 the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Contributions

The Foundation has adopted FASB ASC 958-605 and subsections. Contributions received are recorded as net assets with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets released from restriction. Unconditional promises to give are recorded as revenue when promised. All contributions are available for unrestricted use unless specifically restricted by the donor.

THE NORTH CAROLINA COMMUNITY COLLEGES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

1. Business Operations and Summary of Significant Accounting Policies (Continued)

Donated Facilities, Services and Materials

The Foundation records the value of donated facilities, services and materials when there is an objective basis available to measure their value.

The Foundation has adopted FASB 958-720-50-3, and subsections as it relates to *Related Party Transactions and Common Control* and Accounting Standards Update (“ASU”) 2013-06, *Not-for-Profit Entities: Services Rendered from Personnel of an Affiliate*. Under these provisions, the Foundation is required to report information regarding its services received from personnel of the North Carolina Community College System and the services are to be recognized at fair market value.

Fixed Assets

The Foundation’s fixed assets consist of software and artwork. Software assets are stated at original cost and are depreciated over their estimated useful life. Artwork is recorded at its fair value at the date of donation and is not depreciated. There was no depreciation expense for the year ended June 30, 2019.

Income Taxes

The Foundation is exempt from income taxes as a not-for-profit organization under Internal Revenue Service (“IRS”) code section 501(c)(3). During the year ended June 30, 2019, the Foundation reported no unrelated business taxable income which is defined by the IRS as gross income derived from any unrelated trade or business that is not substantially related to the organization’s tax-exempt purpose. Accordingly, no provision for income taxes has been recorded.

The Foundation adopted the provisions of FASB ASC 740-10-25. Under ASC 740-10-25, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. The implementation had no impact on the Foundation’s financial statements.

The Foundation does not believe there are any material uncertain tax positions and, accordingly, no liability for unrecognized tax benefits will be recorded. For the year ended June 30, 2019, there were no interest or penalties recorded or included in its financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax years in progress.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers short-term, highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. The Foundation had \$358,928 of cash equivalents at June 30, 2019.

THE NORTH CAROLINA COMMUNITY COLLEGES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

1. Business Operations and Summary of Significant Accounting Policies (Continued)

Investments

The Foundation accounts for investments in accordance with FASB ASC 958-320 and subsections. This standard requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the statement of financial position. Fair value of marketable equity and debt securities is based on quoted market prices. The realized and unrealized gain or loss on investments is reflected in the statement of activities.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Functional Allocations of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services based on percentages provided by management. All other expenses are directly identified with either program or management and general. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries	Time and Effort

Use of Estimates

The preparation of the Foundation's financial statements in conformity with accounting principles generally accepted in the United States of America 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 statement of financial position and the reported amounts of revenues and expenses included in the statement of activities. Actual results could differ from those estimates.

New Accounting Pronouncement

On August 18, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly.

THE NORTH CAROLINA COMMUNITY COLLEGES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

2. Concentration of Credit Risk

The Foundation occasionally maintains deposits in excess of federally insured limits. FASB ASC 825, *Financial Instruments*, identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The uninsured cash balance at June 30, 2019 was \$222,258.

3. Availability and Liquidity

The following represents the Foundation's financial assets at June 30, 2019:

Cash and Cash Equivalents	\$ 566,204
Grants Receivable	500,000
Investments	<u>9,991,475</u>
 Total Financial Assets	 11,057,679
 Less Amounts not Available to Meet General Expenditures over the Next Twelve Months:	
Net Assets with Donor Restrictions	3,775,357
Board Designated Funds	<u>1,390,265</u>
 Financial Assets Available to Meet General Expenditures over the Next Twelve Months	 <u>\$ 5,892,057</u>

The Foundation's board designated funds of \$1,390,265 as of June 30, 2019 are subject to the Board's spending policy. Although the Foundation does not intend to spend from board-designated funds (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

The Foundation's goal is to maintain a minimum of \$200,000 in long-term reserves for operating cash and capital needs. The Foundation does not have a formal liquidity policy.

THE NORTH CAROLINA COMMUNITY COLLEGES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

4. Fair Value Measurements

FASB ASC 820-10 and subsections, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date. As of June 30, 2019, all investments are assessed at Level 1.

The following table sets forth the Foundation's investments at fair value as of June 30, 2019:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Total
Government Bonds	\$ 378,730	\$ 378,730
Mutual Funds	<u>9,612,745</u>	<u>9,612,745</u>
Total Investments at Fair Value	<u>\$ 9,991,475</u>	<u>\$ 9,991,475</u>

THE NORTH CAROLINA COMMUNITY COLLEGES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

5. Investments

Investments are reported at fair market values based on quotation from national securities exchanges or brokerage firms. The fair value of investments at June 30, 2019 is comprised of the following:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gain</u>
Government Bonds	\$ 378,730	\$ 363,919	\$ 10,081
Mutual Funds	<u>9,612,745</u>	<u>8,177,847</u>	<u>1,434,898</u>
Total Investments	<u>\$ 9,991,475</u>	<u>\$ 8,541,766</u>	<u>\$ 1,444,979</u>

The following schedule summarized the investment return and its classification in the statement of activities for the year ended June 30, 2019:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Dividends	\$ 325,967	\$	\$ 325,967
Investment Fees	(37,719)		(37,719)
Interest Income	13,623		13,623
Realized and Unrealized Gains	275,423		275,423
Decrease in Value of Trusts		<u>(1,347)</u>	<u>(1,347)</u>
	<u>\$ 577,294</u>	<u>\$ (1,347)</u>	<u>\$ 575,947</u>

6. Perpetual Trust and Charitable Remainder Unitrust

On January 2, 2000, the donor of a charitable remainder unitrust passed away and the unitrust has been recognized as a perpetual trust for the Foundation. The fair value of the trust at June 30, 2019 was \$99,648. Interest received from the trust for the period ended June 30, 2019 totaled \$5,070.

On March 26, 1997, the Foundation became a 50% beneficiary in an irrevocable charitable remainder unitrust. A bank is the trustee of the funds. Upon the death of the last surviving non-charitable income beneficiary, the trust shall distribute 50% of the principal and income of the trust to the Foundation. The Foundation has recognized \$89,987 as its present value interest in the trust as of June 30, 2019. The present value of the future cash flows is based on applicable federal rates as well as life expectancy tables to value the unitrust.

THE NORTH CAROLINA COMMUNITY COLLEGES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

7. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30, 2019:

Subject to Expenditure for Specified Purpose:	
Teacher Prep Programs	\$ 1,798,197
John M. Belk Endowment Marketing Campaign	850,000
Technology Scholarships	443,453
Dallas Herring Leadership	151,318
50 th Anniversary Programs	124,510
IIANC	100,500
Technology Training	35,000
Student Leadership Development Program	28,895
Foundation for the Carolinas Scholarships	24,531
Sandhills Community College	15,000
Biotech Initiatives	11,063
Minority Male	3,150
Hurricane Relief	<u>105</u>
	3,585,722
Not Subject to Spending Policy or Appropriation:	
Perpetual Trust	99,648
Charitable Remainder Unitrust	<u>89,987</u>
Total	<u>\$ 3,775,357</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors as follows for the year ended June 30, 2019:

Satisfaction of Purpose Restrictions:	
Foundation for the Carolinas Scholarships	\$ 1,000,468
John M. Belk Endowment Marketing Campaign	750,000
Student Leadership Development Program	25,524
Technology Scholarships	17,750
Hispanic Initiative	5,064
Hurricane Relief	<u>4,975</u>
Total	<u>\$ 1,803,781</u>

THE NORTH CAROLINA COMMUNITY COLLEGES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

8. Designated Net Assets

The Foundation has designated contributions to provide annual awards to teachers, staff, college presidents, and instructors in training. Investment earnings will be used to fund the awards on an annual basis. The following contributions and pledges are classified as board designated net assets as of June 30, 2019:

Marketing Campaign	\$ 750,000
RJR Tobacco Excellence in Teaching Award	296,436
50 th Anniversary	250,000
Wells Fargo N.C. Community College President of the Year Award	249,714
BB&T N.C. Community College System Staff Award	247,655
Bank of America Award for Teacher Training in North Carolina	101,714
Blue Cross Blue Shield of North Carolina Health Career Awards	100,000
Rex Healthcare Health Career Awards	100,000
UNC Hospitals Health Career Awards	100,000
Wake Medical Center Health Career Awards	100,000
ACS Health Career IT Awards	50,000
Craven Regional Medical Center Health Career Awards	30,000
Mayview Convalescent Home Health Career Awards	<u>10,000</u>
	2,385,519
Less: Expended through June 30	<u>(995,254)</u>
Total	<u>\$ 1,390,265</u>

9. Donated Facilities, Services and Materials

The Foundation received administrative support from the North Carolina Community College System Office through contributions of staff time, office space, equipment, supplies and services in accordance with North Carolina General Statute 115D-7. The estimated value of staff time was \$61,587 for the year ended June 30, 2019. Office space, equipment and supplies were not valued because no objective basis was available.

10. Related Party Transaction

During the year ended June 30, 2019, the Foundation received contributions of \$16,335 in cash and received investments with a fair value of \$444,841 from the North Carolina Community College System. These contributions are restricted for the purpose of providing technology scholarships.

THE NORTH CAROLINA COMMUNITY COLLEGES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

11. Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through February 3, 2020, which is the date the financial statements were available to be issued.