

DALTON STATE
FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 and 2017



NICHOLS, CAULEY & ASSOCIATES, LLC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Dalton State College Foundation, Inc.
Dalton, Georgia

We have audited the accompanying consolidated financial statements of the Dalton State College Foundation, Inc., (a nonprofit organization) and its subsidiary, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the consolidated 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 consolidated 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 consolidated financial statements.

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

Atlanta | Calhoun | Canton | Dalton | Dublin

Kennesaw | Rome | Warner Robins

The Board of Directors
Dalton State College Foundation, Inc.

Opinion

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Dalton State College Foundation, Inc. and its subsidiary, as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Richards, Cauley + Associates, LLC

Dalton, Georgia
October 30, 2019

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 and 2017

ASSETS	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 414,301	\$ 671,875
Investments	20,963,477	21,543,859
Alternative investments	3,710,964	4,598,656
Unconditional promises to give - current portion	2,560,526	1,334,395
Other receivables	-	50,000
Prepaid expenses	25,529	27,429
TOTAL CURRENT ASSETS	27,674,797	28,226,214
PROPERTY AND EQUIPMENT, NET	2,962,112	5,689,784
NON-CURRENT ASSETS		
Unconditional promises to give, less current portion	3,143,238	3,205,333
Deferred income tax benefit	-	77,401
TOTAL NON-CURRENT ASSETS	3,143,238	3,282,734
TOTAL ASSETS	\$ 33,780,147	\$ 37,198,732
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 161,242	\$ 614,115
Current portion of long term debt	1,500,000	2,916,670
TOTAL LIABILITIES	1,661,242	3,530,785
NET ASSETS		
Without donor restrictions	13,606,842	15,517,683
With donor restrictions	18,512,063	18,150,264
TOTAL NET ASSETS	32,118,905	33,667,947
TOTAL LIABILITIES AND NET ASSETS	\$ 33,780,147	\$ 37,198,732

See accompanying independent auditor's report and notes to consolidated financial statements

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 1,091,944	\$ 2,721,547	\$ 3,813,491
Dividends	354,165	409,734	763,899
Net realized gains on investments	229,402	265,141	494,543
Unrealized losses on investments	(976,849)	(1,136,032)	(2,112,881)
Change in net present value of pledges receivable	5,839	(77,907)	(72,068)
Assets without donor restrictions used to restore assets with donor restrictions	(186,458)	186,458	-
Net assets released from restriction	2,007,142	(2,007,142)	-
Net unrelated business loss	(79,301)	-	(79,301)
TOTAL SUPPORT AND REVENUE	2,445,884	361,799	2,807,683
EXPENSES			
Program service	3,854,199	-	3,854,199
General and administrative	348,620	-	348,620
Fundraising	153,906	-	153,906
TOTAL EXPENSES	4,356,725	-	4,356,725
INCREASE (DECREASE) IN NET ASSETS			
	(1,910,841)	361,799	(1,549,042)
NET ASSETS - Beginning of year	15,517,683	18,150,264	33,667,947
NET ASSETS - End of year	<u>\$ 13,606,842</u>	<u>\$ 18,512,063</u>	<u>\$ 32,118,905</u>

See accompanying independent auditor's report and notes to consolidated financial statements

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 1,324,154	\$ 2,012,743	\$ 3,336,897
Dividends	255,486	282,449	537,935
Net realized gains on investments	406,503	449,404	855,907
Unrealized gains on investments	792,124	875,725	1,667,849
Change in net present value of pledges receivable	(93,570)	(54,362)	(147,932)
Assets without donor restrictions used to restore assets with donor restrictions	(130,968)	130,968	-
Net assets released from restriction	3,930,546	(3,930,546)	-
Net unrelated business income	33,175	-	33,175
TOTAL SUPPORT AND REVENUE	<u>6,517,450</u>	<u>(233,619)</u>	<u>6,283,831</u>
EXPENSES			
Program service	7,247,639	-	7,247,639
General and administrative	266,660	-	266,660
Fundraising	157,439	-	157,439
TOTAL EXPENSES	<u>7,671,738</u>	<u>-</u>	<u>7,671,738</u>
TRANSFER OF NET ASSETS (NOTE 14)	<u>-</u>	<u>203,705</u>	<u>203,705</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(1,154,288)</u>	<u>(29,914)</u>	<u>(1,184,202)</u>
NET ASSETS - Beginning of year	<u>16,671,971</u>	<u>18,180,178</u>	<u>34,852,149</u>
NET ASSETS - End of year	<u>\$ 15,517,683</u>	<u>\$ 18,150,264</u>	<u>\$ 33,667,947</u>

See accompanying independent auditor's report and notes to consolidated financial statements

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Program Service</u>	<u>General & Administrative</u>	<u>Fundraising</u>	<u>Total</u>
WITHOUT DONOR RESTRICTIONS				
College support				
Capital projects	\$ 2,722,458	\$ -	\$ -	\$ 2,722,458
Scholarships and awards	656,335	-	-	656,335
Faculty support	152,872	-	-	152,872
Academic program support	41,689	-	-	41,689
Alumni relations	12,917	-	-	12,917
Athletic programs	42,619	-	-	42,619
Campus events	45,263	-	-	45,263
Salaries and benefits supplements	78,605	23,491	35,855	137,951
Donor relations and fund raising	-	-	12,735	12,735
Fees and commissions	-	113,002	-	113,002
Professional services	-	125,409	98,311	223,720
Meetings and events	-	694	124	818
Insurance and bonding	-	19,612	-	19,612
Database enhancement and support	25,581	2,000	6,881	34,462
Equipment and supplies	63,713	1,592	-	65,305
Dues and memberships	12,147	2,674	-	14,821
Bank and credit card fees	-	1,852	-	1,852
Depreciation expense	-	5,214	-	5,214
Interest expense	-	53,080	-	53,080
TOTAL FUNCTIONAL EXPENSES	<u>\$ 3,854,199</u>	<u>\$ 348,620</u>	<u>\$ 153,906</u>	<u>\$ 4,356,725</u>

See accompanying independent auditor's report and notes to consolidated financial statements

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Service	General & Administrative	Fundraising	Total
WITHOUT DONOR RESTRICTIONS				
College support				
Capital projects	\$ 5,104,563	\$ -	\$ -	\$ 5,104,563
Scholarships and awards	497,955	-	-	497,955
Faculty support	287,043	-	-	287,043
Academic program support	23,443	-	-	23,443
Alumni relations	40,709	-	-	40,709
Athletic programs	72,290	-	-	72,290
Campus events	40,235	-	-	40,235
Salaries and benefits supplements	84,954	30,304	34,845	150,103
Donor relations and fund raising	-	-	14,665	14,665
Fees and commissions	-	104,711	-	104,711
Professional services	-	72,776	96,350	169,126
Meetings and events	-	1,458	1,686	3,144
Insurance and bonding	-	10,820	-	10,820
Database enhancement and support	18,341	5,206	1,650	25,197
Equipment and supplies	1,041,413	-	-	1,041,413
Dues and memberships	36,693	2,761	-	39,454
Bank and credit card fees	-	3,425	-	3,425
Other	-	9,315	-	9,315
Depreciation expense	-	5,214	-	5,214
Interest expense	-	20,670	-	20,670
CRAT expenses	-	-	8,243	8,243
TOTAL FUNCTIONAL EXPENSES	\$ 7,247,639	\$ 266,660	\$ 157,439	\$ 7,671,738

See accompanying independent auditor's report and notes to consolidated financial statements

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (1,549,042)	\$ (1,184,202)
Adjustment to reconcile net assets to net cash provided by (used in) operating activities		
Depreciation	5,214	5,214
Transfer of capital projects for the benefit of the College	2,722,458	-
Deferred income tax	77,401	(43,221)
Net realized and unrealized (gains) losses on investments	1,618,338	(2,523,756)
Change in operating assets and liabilities		
Unconditional promises to give	(1,164,036)	(2,075,373)
Other receivables	50,000	(17,707)
Prepaid expenses	1,900	(12,044)
Accounts payable and accrued liabilities	(452,873)	488,167
CRAT payable	-	(4,127)
NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>1,309,360</u>	<u>(5,367,049)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from (purchase of) investments, net	(150,264)	1,131,420
Purchase of property and equipment	-	(33,732)
NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(150,264)</u>	<u>1,097,688</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term debt	-	2,500,000
Repayments of long term debt	(1,416,670)	(416,664)
NET CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(1,416,670)</u>	<u>2,083,336</u>
NET INCREASE (DECREASE) IN CASH	(257,574)	(2,186,025)
CASH AT BEGINNING OF YEAR	<u>671,875</u>	<u>2,857,900</u>
CASH AT THE END OF THE YEAR	<u>\$ 414,301</u>	<u>\$ 671,875</u>
SUPPLEMENTARY DISCLOSURES		
Interest paid	<u>\$ 54,873</u>	<u>\$ 16,216</u>

See accompanying independent auditor's report and notes to consolidated financial statements

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Dalton State College Foundation, Inc. (the Foundation), and its subsidiary Dalton State Acquisitions, Inc., have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America and the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605-05 and ASC 958-205-05. The most significant accounting policies followed by the Foundation are described below.

Consolidation

The accompanying financial statements include the accounts of Dalton State College Foundation, Inc., and its wholly owned subsidiary, Dalton State Acquisitions, Inc., for the years ended December 31, 2018 and 2017. Significant intercompany accounts and transactions have been eliminated in consolidation.

Reporting Entity and Nature of Operations

Dalton State College Foundation, Inc., was incorporated as a non-profit corporation under the Non-Profit Corporation Code of the State of Georgia on December 14, 1967. The Foundation's purpose is to secure private philanthropic support for the benefit of the students, faculty and staff, academic programs, and growth of Dalton State College.

On August 19, 2005, Dalton State Acquisitions, Inc., was incorporated as a wholly owned subsidiary of Dalton State College Foundation, Inc. Dalton State Acquisitions, Inc., was created to acquire certain parcels of real property that may be used for the future expansion of Dalton State College. The Wood Valley Apartments were located on these parcels and were operated by Dalton State Acquisitions, Inc., as residential rentals until July 1, 2009, at which time the complex was converted to student housing that was under lease by Dalton State College.

The Board of Regents of the University System of Georgia believes that Governmental Accounting Standards Board (GASB) 39 applies to its member colleges and their respective Foundations. As such, the Board of Regents has mandated its member colleges consolidate the activity of their Foundations in the College's annual report to the Board of Regents.

Cash and Cash Equivalents

The Foundation considers all certificates of deposit with maturities that do not exceed ninety days to be cash equivalents for financial statement purposes. The Foundation maintains its cash balances in accounts at a national bank. These balances are insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2018 and 2017, the amounts held in bank accounts were in excess of FDIC insurance. Management does not believe that there is significant credit risk associated with these amounts.

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNFICANT ACCOUNTING POLICIES

Unconditional Promises to Give

Unconditional promises to give are recognized as contributions and receivables when the promise is made. Conditional promises to give are recognized as contributions and receivables when all conditions required for the gift have been met except for the passage of time. The Foundation discounts its unconditional promises to give to their net realizable value utilizing the promises which are expected to be collected in periods exceeding one year.

Other Receivables

The other receivables amount consists of miscellaneous receivables that are due within one year.

Property and Equipment

The Foundation's policy is to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Property and equipment are depreciated over their useful life using the straight-line method.

Contributions

Contributions received are recorded as without donor restrictions or with donor restrictions. Donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies donor restricted net assets to net assets without donor restrictions at that time.

Donated Services

The Foundation receives various donated services that range from limited participation of individuals in fund raising and other services, to active participation in the administrative functions. These services are not recorded as support and revenue because these services do not meet the criteria for recognition under ASC 958-605.05.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require the directors and administrators to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNFICANT ACCOUNTING POLICIES

Fair Value Measurement

The Foundation has adopted the provisions of ASC 820-10-05. This standard defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I – Quoted prices are available in active markets for identical investments as of the reporting date. As required by ASC 820-10-05, the quoted prices for these investments are not adjusted.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment.

All alternative investments (See Note 4) held at December 31, 2018 and 2017, are classified as Level III investments.

Investment Strategy

The Foundation's Investment Committee manages the investment portfolio according to the Foundation's investment policy as approved by the Board of Directors. The long term objective of the Foundation is to earn a return sufficient to preserve the purchasing power of the Foundation for generations to come, as well as to provide for current needs. As a result, the annual return should at least equal the annual sum of distributions, inflation, administrative costs, and net of management fees. The Foundation portfolio has adopted a "total return" investment approach; current income is considered a secondary consideration. The portfolio must offer sufficient liquidity to meet payments of philanthropic endeavors and operating expenses, as well as principal and interest payments due on any outstanding debt. The investment policy has asset allocation guidelines that allow the Investment Committee to balance the portfolio for current market conditions to achieve a long term rate of return of approximately 7.5% on an annual basis, with a moderate level of risk. Actual results may vary from this amount. The Foundation's investment portfolio had a return (loss) of (3.36%) and 12.03% for the years ended December 31, 2018 and 2017, respectively.

The Foundation determines distribution rates based on the market values of investments at the end of the fiscal year. The investment policy specifies a maximum distribution rate of 4.00% of the average market value of investments at the fiscal year end calculated on a twelve quarter rolling average. At a minimum, the investment policy states that long term rates of return be equal to an amount sufficient to maintain the purchasing power of the Foundation's portfolio assets and provide necessary capital to fund a spending policy of 4.00% or an amount determined by the Executive Committee.

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Foundation has retained a professional investment consultant that assists the Foundation in meeting its investment objectives and monitoring compliance with the Foundation's investment policy. Fees and commissions paid to the investment consultant were \$113,002 and \$104,711 for the years ended December 31, 2018 and 2017, respectively.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. The expenses attributable to each category are based on actual expenses.

Impact of New Accounting Standards

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 addressed 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.

Reclassifications

Certain accounts for 2017 have been reclassified to conform to the current year presentation. The reclassifications have no effect on net income for 2017.

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 2 – AVAILABILITY AND LIQUIDITY

The following represents the Foundation’s financial assets at December 31, 2018:

Financial assets at year end:	
Cash and cash equivalents	\$ 414,301
Investments	20,963,477
Alternative investments	3,710,964
Unconditional promises to give	5,703,764
Total financial assets	<u>30,792,506</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	18,512,063
Board designated assets	86,000
Unconditional promises to give, noncurrent, without donor restrictions	1,322,174
	<u>19,920,237</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 10,872,269</u></u>

The Foundation invests excess cash in short-term investments such as money market funds, treasury notes, and commercial paper.

NOTE 3 - INVESTMENTS

Investments consist of net assets without donor restrictions and net assets with donor restrictions which the Foundation believes will not be needed for their restricted purposes or for operations for a period of at least 90 days. All investments are maintained in readily marketable securities at brokerage houses and custodial trust companies. All investments are stated at their fair market values. The Foundation is liable for any and all market losses. Cash in investments include instruments with a maturity of 30 days or less. The Foundation’s investments are exposed to various types of risk, including changes in interest rates, currency fluctuations, and credit risks. Changes in financial markets occur daily, and such changes could materially affect the amounts reported in the Foundation’s financial statements.

As of December 31, 2018 and 2017, investments consisted of the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 621,217	\$ 111,619
Equities	13,610,857	15,329,853
Bonds	6,731,403	6,102,387
	<u>\$ 20,963,477</u>	<u>\$ 21,543,859</u>

All investments referred to above are classified as Level I investments (See Note 1).

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 4 – ALTERNATIVE INVESTMENTS

The Foundation's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the movements of global equity, fixed income, real estate, commodities, and private equity markets. In addition, the Foundation seeks to produce consistent capital appreciation with controlled volatility and reduced risk of major down turns in the markets. The Foundation seeks to enhance the returns by focusing to a large extent on illiquid portfolio funds that the Foundation believes offer the potential for higher long-term returns than more liquid funds or investment vehicles. Accordingly, it is anticipated that there will be less liquidity associated with these investments than other investments of the same type.

Several of the financial instruments contained in this classification contain varying degrees of off-balance sheet risk whereby changes in market values of the securities underlying the financial instruments may be in excess of the amounts recorded on the balance sheet. However, due to the nature of the limited interests in these investee funds, the risk with respect to such transactions is limited to the capital balance in each investee fund.

Fair value for alternative investments is based on estimates provided by external investment managers. Management reviews and evaluates fair value provided by external investment managers, including valuation methods and assessments used in determining fair value. The ultimate realizable value of the alternative investments may differ from the estimated fair values provided by external investment managers and these differences may be material. There are currently no plans to sell these investments prior to their liquidation.

Alternative investments consist of two classes, private equity and hedge funds. These investments require that the Foundation make commitments for investments over the course of the investment's period. As of December 31, 2018 and 2017, approximately \$3,164,000 and \$2,114,000 of capital commitments remain outstanding.

Investments in private equity funds provide growth equity or take full ownership of the companies in which they invest. Portions of these investments are in start-up and early stage companies. Private investments also include positions in real assets, including real estate and commodities.

Investments in hedge funds take long and short positions largely in equity securities, credit securities, and event-driven situations. Managers vary in style, market cap focus, geographic focus, sectors of focus, and types of securities, with some having considerable flexibility. This fund of funds mechanism was chosen by the Foundation as the most practical approach to achieve diversification of the alternative investment portfolio.

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 4 – ALTERNATIVE INVESTMENTS

For the years ended December 31, 2018 and 2017, the changes in investments classified as Level III are as follows:

	Private Investments	Hedge Funds	Total
Balance, January 1, 2018	\$ 1,619,456	\$ 2,979,200	\$ 4,598,656
Realized or unrealized gains (losses)	83,781	23,541	107,322
Purchases	710,691	-	710,691
Sales	(255,705)	-	(255,705)
Transfers in and/or out of Level III	-	(1,450,000)	(1,450,000)
Balance, December 31, 2018	<u>\$ 2,158,223</u>	<u>\$ 1,552,741</u>	<u>\$ 3,710,964</u>

	Private Investments	Hedge Funds	Total
Balance, January 1, 2017	\$ 1,205,888	\$ 2,853,761	\$ 4,059,649
Realized or unrealized gains (losses)	132,863	125,439	258,302
Purchases	473,603	-	473,603
Sales	(192,898)	-	(192,898)
Transfers in and/or out of Level III	-	-	-
Balance, December 31, 2017	<u>\$ 1,619,456</u>	<u>\$ 2,979,200</u>	<u>\$ 4,598,656</u>

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 5 – UNCONDITIONAL PROMISES TO GIVE

As of December 31, 2018 and 2017, unconditional promises to give consisted of the following:

	<u>2018</u>	<u>2017</u>
Present value of unconditional promises to give	\$ 5,919,497	\$ 4,737,755
Less allowance for uncollectibles	50,000	50,000
	<u>5,869,497</u>	<u>4,687,755</u>
Less current portion	2,560,526	1,334,395
Non-current portion	<u>\$ 3,308,971</u>	<u>\$ 3,353,360</u>
Less than one year	\$ 2,560,526	\$ 1,334,395
One to five years	3,308,971	3,353,360
	<u>5,869,497</u>	<u>4,687,755</u>
Less discount to present value	165,733	148,027
Total expected to be collected	<u>\$ 5,703,764</u>	<u>\$ 4,539,728</u>

The discount rate used on the long-term promises to give was 2.51% and 2.20% as of December 31, 2018 and 2017, respectively. The promises to give were generated by commitments from corporations and individuals in the community. An allowance for uncollectible promises to give has been recorded of \$50,000 as of December 31, 2018 and 2017. There are no enforceable rights by the Foundation to collect these promises.

Management reviews all uncollected unconditional promises to give annually utilizing responses to audit confirmations and other information they are aware of concerning the ability and willingness of donors to honor their commitments. Promises determined to be uncollectible are written off when that determination is made. There were no promises written off during the years ended December 31, 2018 and 2017.

NOTE 6 – PROPERTY AND EQUIPMENT

As of December 31, 2018 and 2017, property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 2,957,084	\$ 2,957,084
Land - Wood Valley Apartments	-	2,722,458
Machinery and equipment	17,945	17,945
	<u>2,975,029</u>	<u>5,697,487</u>
Less accumulated depreciation	12,917	7,703
	<u>\$ 2,962,112</u>	<u>\$ 5,689,784</u>

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 6 – PROPERTY AND EQUIPMENT

The Foundation's real estate holdings are to be donated to Dalton State College for the College's benefit. Before the property can be transferred, there may be additional costs associated with conditioning the property for transfer. On September 11, 2014, the Foundation agreed, at the request of the College, to transfer 2.77 acres and two apartment buildings to the Board of Regents of the University System of Georgia for the construction of student housing. These two buildings were demolished in 2015 and new state of the art facilities were constructed in their place. The remaining eight buildings were demolished and removed by the Foundation in 2017. The remaining 8.1 acres was transferred to the Board of Regents on January 4, 2018. The total book value of the transferred assets included capitalized demolition and site preparation costs. The assets transferred had a book value of \$2,722,458 and are included in College Support on the Consolidated Statement of Functional Expenses.

For the years ended December 31, 2018 and 2017, depreciation expense was \$5,214.

NOTE 7 – CHARITABLE REMAINDER ANNUITY TRUST

On May 8, 2007, a charitable remainder annuity trust was established by a local family naming the Foundation as trustee and ultimate beneficiary of the trust. Under the terms of the trust, the grantor is paid an annuity amount equal to nine percent (9%) of the net fair market value of the assets of the trust as of the date of the trust in equal quarterly installments from trust income and, to the extent income is not sufficient, from principal for the lifetime of the last surviving grantor. The trust was initially funded with marketable securities with a fair market value of \$274,845 as of May 8, 2007.

The present value of the expected outflows from the trust were calculated using the 2004 period life tables issued by the Social Security Administration and was discounted using the 30-year Treasury bill interest rate in effect at May 8, 2007 (4.80%). The difference between the fair market value of the assets transferred to the trust and the present value of the expected outflows were recorded as contributions with donor restrictions as required by generally accepted accounting principles.

During the year ended December 31, 2017, the trust generated investment income of \$12, incurred no investment management fees and distributed payments to the grantor in the amount of \$12,368. The final beneficiary of the trust died during the year. The remaining \$26,147 was distributed to the Foundation and is included in contributions.

NOTE 8 – LONG TERM DEBT

On December 1, 2017 the Foundation entered into an agreement with a national bank to provide bridge financing so construction on a college building could begin. The Foundation was advanced \$2,500,000 bearing interest 0.80% above LIBOR. Interest is payable monthly beginning January 1, 2018, and principal is payable in full on February 1, 2018. The note was extended on February 1, 2018, and required a principal payment of \$1,000,000 by March 1, 2018. The note will bear interest at a rate of 1.05% above LIBOR and will mature on February 1, 2019. The interest rate as of December 31, 2018, was 3.55%.

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 8 – LONG TERM DEBT

On February 10, 2015, the Foundation entered into an agreement with a national bank to provide financing to assist with the repayment of the Wood Valley Apartments mortgage. The Foundation was advanced \$1,250,000 bearing interest 1.75% above LIBOR. Interest is payable monthly beginning March 1, 2015. Beginning February 1, 2016, principal is payable in annual installments of \$416,665 with all remaining principal and interest due upon maturity. The final payment of \$416,700 was made in 2018.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Endowments - Relevant Law

Under Uniform Prudent Management of Institutional Funds Act (UPMIFA), the Board of Trustees has the discretion to determine how much to appropriate of a donor-restricted endowment fund in accordance with a robust set of guidelines setting what constitutes prudent spending. UPMIFA permits the Foundation to appropriate or accumulate so much of an endowment fund as the Foundation determines to be prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Seven criteria are to be used to guide the Foundation in its yearly expenditure decisions: 1) duration and preservation of the endowment fund; 2) the purpose of the Foundation and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the Foundation; and, 7) the investment policy of the Foundation.

UPMIFA broadens and clarifies the latitude of institutions to manage overall endowment returns without specifically isolating those particular endowments, because of the timing of the gift and market conditions, are deemed underwater. Under UPMIFA, the Board is permitted to determine and continue a prudent payout amount, even if the market value of the endowment is below historic dollar value. The Board of Trustees has not identified any endowments which are deemed underwater.

Endowment Classifications

The principal of a donor-restricted endowment is: (a) the original value of initial and subsequent gifts restricted to the endowment, (b) accumulations or additions stipulated by the applicable donor gift instrument to be added to principal and (c) for perpetual endowments only, accumulations stipulated by UPMIFA, if any, to be held in perpetuity. The appreciation of donor-restricted endowment is: (a) accumulated net investment gains and losses, net of (b) amounts appropriated for spending by the Board of Directors. The fair value of donor-restricted endowment is the combination of principal and appreciation.

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Changes in Endowment Net Assets

	<u>With Donor Restrictions</u>
Endowment net assets as of December 31, 2017	\$ 11,596,256
Contributions	1,935,242
Donor redesignation	214,747
Investment returns (loss), net	(294,078)
Change in net present value of pledges receivable	(104,606)
Assets without donor restrictions used to restore assets with donor restrictions	398,684
Endowment net assets as of December 31, 2018	<u>\$ 13,746,245</u>

	<u>With Donor Restrictions</u>
Endowment net assets as of December 31, 2016	10,687,778
Contributions	1,463,341
Investment returns (loss), net	951,089
Change in net present value of pledges receivable	(21,372)
Assets without donor restrictions used to restore assets with donor restrictions	84,550
Allocation of endowment assets for expenditure	(1,569,130)
Endowment net assets as of December 31, 2017	<u>\$ 11,596,256</u>

As of December 31, 2018 and 2017, endowment funds consist of the following:

	<u>2018</u>	<u>2017</u>
Investments	\$ 7,846,593	\$ 6,018,972
Alternative investments	3,710,964	4,598,656
Promises to give	2,188,688	978,628
	<u>\$ 13,746,245</u>	<u>\$ 11,596,256</u>

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2018 and 2017, net assets with donor restrictions, non-endowed, consist of the following:

	2018	2017
Investments	\$ 3,115,916	\$ 4,033,593
Promises to give	1,649,902	2,520,415
	\$ 4,765,818	\$ 6,554,008

For the years ended December 31, 2018 and 2017, net assets released from restriction for the satisfaction of purpose restrictions were \$2,007,142 and \$3,930,546, respectively.

NOTE 10 – NET ASSETS WITHOUT DONOR RESTRICTIONS

As of December 31, 2018 and 2017, net assets without donor restrictions consist of the following:

	2018	2017
Cash	\$ 414,301	\$ 671,875
Promises to give	1,865,174	1,040,685
Deferred tax benefit	-	77,401
Investments	10,000,968	11,491,294
Other receivable	-	50,000
Prepaid expenses	25,529	27,429
Property and equipment	2,962,112	5,689,784
	15,268,084	19,048,468
Less accounts payable and accrued liabilities	161,242	614,115
Less outstanding debt	1,500,000	2,916,670
	\$ 13,606,842	\$ 15,517,683

The Foundation is a named beneficiary of various estates and charitable trusts. The income from these entities is distributed on an annual basis to various beneficiaries in amounts and proportions as determined by the trustees. The trust agreements provide that the principal will be distributed at the discretion of the trustee when certain triggering events occur. As of December 31, 2017, the Foundation received \$26,147 from one trust. See Note 7.

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 11 – RELATED PARTY TRANSACTIONS

The Dalton State College Foundation, Inc., was created expressly to provide support for the benefit of students, faculty and staff, academic programs, and growth of Dalton State College. The Foundation operates under an updated Memorandum of Agreement dated September 20, 2017, whereby the Foundation and College have made certain agreements that define the terms of the relationship. The term of the Agreement is five years.

The administrative offices of the Foundation are in facilities located on the campus of Dalton State College. The College provides clerical assistance, copying machines, computer equipment, phone service, and other administrative services at no fee to the Foundation. The Foundation leases administrative employees from the College. The total amount paid to or on behalf of Dalton State College for the year ended December 31, 2018 and 2017 was \$951,695 and \$6,066,238. Included in the amounts paid to Dalton State College are scholarships of \$647,457 and \$484,947 paid on behalf of students who are unrelated to the Foundation or the College for the years ended December 31, 2018 and 2017. The students are credited with the scholarships against tuition by the College during the registration process. In addition to amounts paid to or on behalf of the College, the Foundation transferred land with a book value of \$2,722,458 to the Board of Regents.

As described in Note 6, the Foundation transferred the remaining 8.1 acres of the Wood Valley Apartments to the Board of Regents on January 4, 2018, for the benefit of the College.

NOTE 12 – INCOME TAX STATUS

Dalton State College Foundation, Inc., is exempt from federal income taxes under Internal Revenue Code section 501(c)(3). Therefore, no provision for federal and state income taxes is included in the accompanying financial statements.

Dalton State Acquisitions, Inc., is classified as a C corporation for federal and state income taxes and files income tax returns separate from its parent. A provision for deferred federal and state income taxes (benefit) of \$78,401 and (\$43,221) is included in the financial statements related to the activity of Dalton State Acquisitions, Inc., for the years ended December 31, 2018 and 2017.

On April 1, 2009, the Foundation adopted the recognition requirements for uncertain income tax provisions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax provisions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more likely than not be sustained upon examination by taxing authorities. The Foundation has analyzed tax examination and does not anticipate any adjustment that would result in material adverse effect on the Foundation's financial condition, results of operations, or cash flows. Accordingly, the Foundation has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at December 31, 2018 and 2017.

Currently, there are no audits for any tax year in progress, and the Foundation believes that it is no longer subject to audits for periods prior to 2015.

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 13 – NET UNRELATED BUSINESS INCOME

Unrelated business income is derived from Dalton State Acquisitions, Inc.’s, operations of the Wood Valley Apartments. For the years ended December 31, 2018 and 2017, the income and expenses related to these operations are as follows:

	2018	2017
Operating revenues	\$ -	\$ -
Less operating expenses	900	10,046
Less depreciation and amortization expense	-	-
Income (loss) from operations	(900)	(10,046)
Loss on disposal of assets	-	-
Less income tax expense (benefit)	78,401	(43,221)
Net unrelated business income (loss)	\$ (79,301)	\$ 33,175

NOTE 14 – TRANSFER OF NET ASSETS

In October 2017, the Dalton State Athletic Club, Inc., (the Club) (an unrelated nonprofit organization established for the benefit of Dalton State College athletics) transferred cash in the amount of \$203,705 from assets restricted for athletics to the Dalton State College Foundation, Inc. The transfer of assets reflects the initial stages of dissolution of the Club. The Club expects to transfer some or all of its remaining assets to the Foundation during 2019.

NOTE 15 – SUBSEQUENT EVENTS

During 2019, the Dalton State Athletic Club Inc., a 501(c)(3) organization, dissolved and transferred its remaining assets to the Foundation. The cash assets reside in Foundation accounts and maintain their donor restrictions. The non-cash assets mainly consisting of property, a building, and its contents, at 730 College Drive, Dalton, as well as two automobiles, reside in a Foundation subsidiary, DSF Properties LLC, created early in 2019 for this purpose.

Management has evaluated subsequent events through October 30, 2019, the date which the financial statements were available to be issued, and has determined, other than mentioned above, there were no additional material events requiring recognition or disclosure in the Foundation’s financial statements.



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of the
Dalton State College Foundation, Inc.

We have audited the consolidated financial statements of the Dalton State College Foundation, Inc., and its subsidiary, as of and for the years ended December 31, 2018 and 2017, and have issued our report thereon dated October 30, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The supplemental information included in the accompanying consolidating statements of financial position as of December 31, 2018 and 2017, and schedule of operating expenses of Wood Valley Apartments, is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the aforementioned information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Nichols, Cauley & Associates, LLC

Dalton, Georgia
October 30, 2019

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

	DALTON STATE COLLEGE FOUNDATION	DALTON STATE ACQUISITIONS	ELIMINATIONS	CONSOLIDATED
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 414,301	\$ -	\$ -	\$ 414,301
Investments	20,963,477	-	-	20,963,477
Alternative investments	3,710,964	-	-	3,710,964
Unconditional promises to give	2,560,526	-	-	2,560,526
Prepaid expenses	25,529	-	-	25,529
TOTAL CURRENT ASSETS	27,674,797	-	-	27,674,797
PROPERTY AND EQUIPMENT, NET	2,962,112	-	-	2,962,112
NON-CURRENT ASSETS:				
Unconditional promises to give	3,143,238	-	-	3,143,238
TOTAL NON CURRENT ASSETS	3,143,238	-	-	3,143,238
TOTAL ASSETS	\$ 33,780,147	\$ -	\$ -	\$ 33,780,147
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	\$ 161,242	\$ -	\$ -	\$ 161,242
Current portion of long term debt	1,500,000	-	-	1,500,000
TOTAL LIABILITIES	1,661,242	-	-	1,661,242
NET ASSETS:				
Common stock	-	100,000	(100,000)	-
Additional paid in capital	-	2,658,724	(2,658,724)	-
Without donor restrictions (retained earnings)	13,606,842	(2,758,724)	2,758,724	13,606,842
With donor restrictions	18,512,063	-	-	18,512,063
TOTAL NET ASSETS	32,118,905	-	-	32,118,905
TOTAL LIABILITIES AND NET ASSETS	\$ 33,780,147	\$ -	\$ -	\$ 33,780,147

See accompanying independent auditor's report on supplementary information

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

	DALTON STATE COLLEGE FOUNDATION	DALTON STATE ACQUISITIONS	ELIMINATIONS	CONSOLIDATED
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 578,478	\$ 93,397	\$ -	\$ 671,875
Investments	21,543,859	-	-	21,543,859
Alternative investments	4,598,656	-	-	4,598,656
Unconditional promises to give	1,334,395	-	-	1,334,395
Other receivables	50,000	-	-	50,000
Prepaid expenses	25,529	1,900	-	27,429
TOTAL CURRENT ASSETS	<u>28,130,917</u>	<u>95,297</u>	<u>-</u>	<u>28,226,214</u>
PROPERTY AND EQUIPMENT, NET	<u>2,967,326</u>	<u>2,722,458</u>	<u>-</u>	<u>5,689,784</u>
NON-CURRENT ASSETS:				
Unconditional promises to give	3,205,333	-	-	3,205,333
Deferred income tax benefit	-	77,401	-	77,401
Investment in subsidiary	2,895,156	-	(2,895,156)	-
TOTAL NON CURRENT ASSETS	<u>6,100,489</u>	<u>77,401</u>	<u>(2,895,156)</u>	<u>3,282,734</u>
TOTAL ASSETS	<u>\$ 37,198,732</u>	<u>\$ 2,895,156</u>	<u>\$ (2,895,156)</u>	<u>\$ 37,198,732</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	\$ 614,115	\$ -	\$ -	\$ 614,115
Current portion of long term debt	2,916,670	-	-	2,916,670
TOTAL LIABILITIES	<u>3,530,785</u>	<u>-</u>	<u>-</u>	<u>3,530,785</u>
NET ASSETS:				
Common stock	-	100,000	(100,000)	-
Additional paid in capital	-	2,658,724	(2,658,724)	-
Without donor restrictions (retained earnings)	15,517,683	136,432	(136,432)	15,517,683
With donor restrictions	18,150,264	-	-	18,150,264
TOTAL NET ASSETS	<u>33,667,947</u>	<u>2,895,156</u>	<u>(2,895,156)</u>	<u>33,667,947</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 37,198,732</u>	<u>\$ 2,895,156</u>	<u>\$ (2,895,156)</u>	<u>\$ 37,198,732</u>

See accompanying independent auditor's report on supplementary information

DALTON STATE COLLEGE FOUNDATION, INC.

SCHEDULE OF OPERATING EXPENSES OF THE
WOOD VALLEY APARTMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

OPERATING EXPENSES	<u>2018</u>	<u>2017</u>
Repairs & maintenance	\$ -	\$ 4,857
Professional fees	-	3,950
Utilities	-	1,239
Insurance	<u>900</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>\$ 900</u>	<u>\$ 10,046</u>

See accompanying independent auditor's report on supplementary information