

DALTON STATE
FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 and 2018

DALTON STATE COLLEGE FOUNDATION, INC.

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DECEMBER 31, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Dalton State College Foundation, Inc., (a nonprofit organization) and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, 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.

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 subsidiaries, as of December 31, 2019 and 2018, 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.

Nichols, Cauley + Associates, LLC

Dalton, Georgia
October 30, 2020

DALTON STATE COLLEGE FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 1,331,941	\$ 414,301
Investments	23,882,301	20,963,477
Alternative investments	4,672,635	3,710,964
Unconditional promises to give - current portion	1,309,839	2,560,526
Prepaid expenses	25,529	25,529
Total current assets	31,222,245	27,674,797
Property and equipment, net	4,051,162	2,962,112
Non-current assets		
Unconditional promises to give, less current portion	4,190,661	3,143,238
Total non-current assets	4,190,661	3,143,238
Total assets	\$ 39,464,068	\$ 33,780,147
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 200,747	\$ 161,242
Current portion of long term debt	-	1,500,000
Total liabilities	200,747	1,661,242
Net assets		
Without donor restrictions	16,774,771	13,606,842
With donor restrictions	22,488,550	18,512,063
Total net assets	39,263,321	32,118,905
Total liabilities and net assets	\$ 39,464,068	\$ 33,780,147

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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions	\$ 9,252	\$ 3,149,051	\$ 3,158,303
Dividends	301,044	428,170	729,214
Net realized gains on investments	194,886	285,071	479,957
Unrealized gains on investments	1,251,015	1,779,293	3,030,308
Change in net present value of pledges receivable	50,009	(7,253)	42,756
Net assets released from restriction	2,801,871	(2,801,871)	-
Net unrelated business loss	(69,288)	-	(69,288)
Total support and revenue	4,538,789	2,832,461	7,371,250
Expenses			
Program service	1,063,484	-	1,063,484
General and administrative	221,917	-	221,917
Fundraising	85,459	-	85,459
Total expenses	1,370,860	-	1,370,860
Transfer of net assets (note 12)	-	1,144,026	1,144,026
Increase in net assets	3,167,929	3,976,487	7,144,416
Net assets - beginning of year	13,606,842	18,512,063	32,118,905
Net assets - end of year	<u>\$ 16,774,771</u>	<u>\$ 22,488,550</u>	<u>\$ 39,263,321</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, 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 income	(79,301)	-	(79,301)
Total support and revenue	<u>2,445,884</u>	<u>361,799</u>	<u>2,807,683</u>
Expenses			
Program service	3,854,199	-	3,854,199
General and administrative	348,620	-	348,620
Fundraising	153,906	-	153,906
Total expenses	<u>4,356,725</u>	<u>-</u>	<u>4,356,725</u>
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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Program Service	General & Administrative	Fundraising	Total
Without donor restrictions				
College support				
Scholarships and awards	\$ 581,865	\$ -	\$ -	\$ 581,865
Faculty support	119,833	-	-	119,833
Academic program support	34,874	-	-	34,874
Alumni relations	20,938	-	-	20,938
Athletic programs	836	-	-	836
Campus events	40,231	-	-	40,231
Salaries and benefits supplements	83,749	14,603	29,861	128,213
Donor relations and fund raising	-	-	14,806	14,806
Fees and commissions	-	122,014	-	122,014
Professional services	-	59,241	33,911	93,152
Meetings and events	-	1,069	-	1,069
Insurance and bonding	-	3,709	-	3,709
Database enhancement and support	26,232	-	6,881	33,113
Equipment and supplies	110,629	2,866	-	113,495
Dues and memberships	17,334	288	-	17,622
Automobile expense	3,325	-	-	3,325
Bad debt expense	23,638	-	-	23,638
Bank and credit card fees	-	1,854	-	1,854
Depreciation expense	-	4,361	-	4,361
Interest expense	-	11,912	-	11,912
Total functional expenses	<u>\$ 1,063,484</u>	<u>\$ 221,917</u>	<u>\$ 85,459</u>	<u>\$ 1,370,860</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

	Program Service	General & Administrative	Fundraising	Total
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 supplement	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 supp	25,581	2,000	6,881	34,462
Equipment and supplies	63,713	-	-	63,713
Dues and memberships	12,147	2,674	-	14,821
Bank and credit card fees	-	1,852	-	1,852
Other	-	1,592	-	1,592
Depreciation expense	-	5,214	-	5,214
Interest expense	-	53,080	-	53,080
Total functional expenses	\$ 3,854,199	\$ 348,620	\$ 153,906	\$ 4,356,725

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, 2019 AND 2018

	2019	2018
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 7,144,416	\$ (1,549,042)
Adjustment to reconcile net assets to net cash provided by (used in) operating activities:		
Depreciation	58,664	5,214
Transfer of capital projects for the benefit of the College	-	2,722,458
Transfer from Dalton State Athletic Club, Inc.	(1,144,026)	-
Deferred income tax	-	77,401
Net realized and unrealized (gains) losses on investments	(3,510,265)	1,618,338
Change in operating assets and liabilities"		
Unconditional promises to give	203,264	(1,164,036)
Other receivables	-	50,000
Prepaid expenses	-	1,900
CRAT payable	-	-
Net cash flows provided by operating activities	2,791,558	1,309,360
Cash flows from investing activities		
Proceeds from (purchase of) investments, net	(370,230)	(150,264)
Purchase of property and equipment	(3,688)	-
Net cash used in investing activities	(373,918)	(150,264)
Proceeds from long term debt	-	-
Repayments of long term debt	(1,500,000)	(1,416,670)
Net cash used in financing activities	(1,500,000)	(1,416,670)
Net increase (decrease) in cash	917,640	(257,574)
Cash at beginning of year	414,301	671,875
Cash at end of year	\$ 1,331,941	\$ 414,301
Supplementary disclosures		
Interest paid	\$ 7,511	\$ 54,873

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

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

On April 1, 2019, Dalton State Properties, LLC., was incorporated as a wholly owned subsidiary of Dalton State College Foundation, Inc. Dalton State Properties, LLC, was created to hold certain property to be used 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.

Basis of Presentation

The consolidated financial statements of Dalton State College Foundation, Inc. (the Foundation), and its subsidiaries Dalton State Acquisitions, Inc. and Dalton State Properties, LLC., 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.

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Under the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605-05 and ASC 958-205-05, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified as follows:

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. The Foundation's Board may designate assets without restrictions for specific operational purposes from time to time.

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, where by the donor has stipulated the funds be maintained in perpetuity.

Consolidation

The accompanying financial statements include the accounts of Dalton State College Foundation, Inc., and its wholly owned subsidiaries, Dalton State Acquisitions, Inc. and Dalton State Properties, LLC, for the years ended December 31, 2019 and 2018. Significant intercompany accounts and transactions have been eliminated in consolidation.

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, 2019 and 2018, 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.

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.

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT 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, 2019 and 2018, 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 15.93% and (3.36%) for the years ended December 31, 2019 and 2018, 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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment Strategy

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. Investment fees and commissions incurred were \$122,014 and \$113,002 for the years ended December 31, 2019 and 2018, 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.

Reclassifications

Certain accounts for 2018 have been reclassified to conform to the current year presentation. The reclassifications have no effect on net assets for 2018.

NOTE 2 – AVAILABILITY AND LIQUIDITY

The following represents the Foundation's financial assets at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 1,331,941	\$ 414,301
Investments	23,882,301	20,963,477
Alternative investments	4,672,635	3,710,964
Unconditional promises to give	<u>5,500,500</u>	<u>5,703,764</u>
Total financial assets	<u>35,387,377</u>	<u>30,792,506</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions	22,488,550	18,512,063
Board designated assets	111,000	86,000
Unconditional promises to give, noncurrent, without donor restrictions	<u>1,082,183</u>	<u>1,322,174</u>
	<u>23,681,733</u>	<u>19,920,237</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 11,705,644</u>	<u>\$ 10,872,269</u>

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

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, investments consisted of the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 78,335	\$ 621,217
Equities	16,620,820	13,610,857
Bonds	7,183,146	6,731,403
	<u>\$ 23,882,301</u>	<u>\$ 20,963,477</u>

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

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.

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 4 – ALTERNATIVE INVESTMENTS

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, 2019 and 2018, approximately \$3,846,453 and \$3,164,000 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.

For the years ended December 31, 2019 and 2018, the changes in investments classified as Level III are as follows:

	Private Investments	Hedge Funds	Total
Balance, January 1, 2019	\$ 2,158,223	\$ 1,552,741	\$ 3,710,964
Realized or unrealized gains (losses)	163,998	116,671	280,669
Purchases	941,480	-	941,480
Sales	(260,478)	-	(260,478)
Tranfers in and/or out of Level III	-	-	-
Balance, December 31, 2019	<u>\$ 3,003,223</u>	<u>\$ 1,669,412</u>	<u>\$ 4,672,635</u>

	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)
Tranfers 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>

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 5 – UNCONDITIONAL PROMISES TO GIVE

As of December 31, 2019 and 2018, unconditional promises to give consisted of the following:

	<u>2019</u>	<u>2018</u>
Present value of unconditional promises to give	\$ 5,673,477	\$ 5,919,497
Less allowance for uncollectibles	<u>50,000</u>	<u>50,000</u>
	5,623,477	5,869,497
Less current portion	<u>1,309,839</u>	<u>2,560,526</u>
Non-current portion	<u>\$ 4,313,638</u>	<u>\$ 3,308,971</u>
Less than one year	\$ 1,309,839	\$ 2,560,526
One to five years	<u>4,313,638</u>	<u>3,308,971</u>
	5,623,477	5,869,497
Less discount to present value	<u>122,977</u>	<u>165,733</u>
Total expected to be collected	<u>\$ 5,500,500</u>	<u>\$ 5,703,764</u>

The discount rate used on the long-term promises to give was 1.70% and 2.51% as of December 31, 2019 and 2018, 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, 2019 and 2018. 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. Promises written off were \$23,638 and \$0 for the years ended December 31, 2019 and 2018, respectively.

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 6 – PROPERTY AND EQUIPMENT

As of December 31, 2019 and 2018, property and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 3,057,084	\$ 2,957,084
Buildings	1,028,601	-
Machinery and equipment	21,633	17,945
Computers and equipment	326,896	-
Automobiles	<u>42,596</u>	<u>-</u>
	4,476,810	2,975,029
Less accumulated depreciation	<u>425,648</u>	<u>12,917</u>
	<u>\$ 4,051,162</u>	<u>\$ 2,962,112</u>

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, 2019 and 2018, depreciation expense was \$58,664,361 and \$5,214, respectively.

NOTE 7 – 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 matured on February 1, 2019. The interest rate as of December 31, 2018, was 3.55%. The final payment of \$1,500,000 was made in 2019.

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 8 – ENDOWMENTS

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.

Changes in Endowment Net Assets

	<u>With Donor Restrictions</u>
Endowment net assets as of December 31, 2018	\$ 13,746,245
Contributions	2,834,444
Investment returns (loss), net	1,862,969
Change in net present value of pledges receivable	(10,641)
Allocation of endowment assets for expenditure	<u>(1,862,969)</u>
Endowment net assets as of December 31, 2019	<u>\$ 16,570,048</u>

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 8 – ENDOWMENTS

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	<u>398,684</u>
Endowment net assets as of December 31, 2018	<u>\$ 13,746,245</u>

As of December 31, 2019 and 2018, endowment funds consist of the following:

	<u>2019</u>	<u>2018</u>
Investments	\$ 8,120,499	\$ 7,846,593
Alternative investments	4,672,635	3,710,964
Promises to give	<u>3,776,914</u>	<u>2,188,688</u>
	<u>\$ 16,570,048</u>	<u>\$ 13,746,245</u>

NOTE 9 – 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, 2019 and 2018 was \$798,577 and \$951,695. Included in the amounts paid to Dalton State College are scholarships of \$574,199 and \$647,457 paid on behalf of students who are unrelated to the Foundation or the College for the years ended December 31, 2019 and 2018. 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 in 2018.

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 9 – RELATED PARTY TRANSACTIONS

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 10 – 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 \$- and \$78,401 is included in the financial statements related to the activity of Dalton State Acquisitions, Inc., for the years ended December 31, 2019 and 2018.

Dalton State Properties, LLC, 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 (\$18,708) is fully offset by a valuation offset and not included in the financial statements related to the activity of Dalton State Properties, LLC, for the year ended 2019.

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, 2019 and 2018.

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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 11 – NET UNRELATED BUSINESS INCOME

Unrelated business income is derived from Dalton State Properties, LLC, in 2019 and Dalton State Acquisitions, Inc.'s, operations of the Wood Valley Apartments in 2018. For the years ended December 31, 2019 and 2018, the income and expenses related to these operations are as follows:

	2019	2018
Operating revenues	\$ 20,708	\$ -
Less operating expenses	35,693	900
Less depreciation and amortization expense	54,303	-
Income (loss) from operations	(69,288)	(900)
Loss on disposal of assets	-	-
Less income tax expense (benefit)	-	78,401
Net unrelated business income (loss)	\$ (69,288)	\$ (79,301)

NOTE 12 – TRANSFER OF NET ASSETS

In April 2019, the Dalton State Athletic Club, Inc., (the Club) (an unrelated nonprofit organization established for the benefit of Dalton State College athletics) transferred assets in the amount of \$1,144,026 from assets restricted for athletics to the Dalton State College Foundation, Inc. The assets transferred are detailed as follows:

Land	\$ 100,000
Buildings	1,028,601
Computers and equipment	326,896
Automobiles	42,596
	1,498,093
Less accumulated depreciation	354,067
	\$ 1,144,026

NOTE 13 – SUBSEQUENT EVENTS

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred domestically in the United States and globally, including mandates from federal, state and local authorities, leading to an overall decline in economic activity. The ultimate impact of the epidemic on the financial performance of the Foundation cannot be reasonably estimated at this time.

Management has evaluated subsequent events through October 30, 2020 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 subsidiaries, as of and for the years ended December 31, 2019 and 2018, and have issued our report thereon dated October 30, 2020 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, 2019 and 2018, and schedule of operating expenses for Wood Valley Apartments and schedule of operating expenses for Dalton State Properties, LLC, 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 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, 2020

DALTON STATE COLLEGE FOUNDATION, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

	Dalton State College Foundation	Dalton State Acquisitions	Dalton State Properties	Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	\$ 1,313,386	\$ -	\$ 18,555	\$ -	\$ 1,331,941
Investments	23,882,301	-	-	-	23,882,301
Alternative investments	4,672,635	-	-	-	4,672,635
Unconditional promises to give	1,309,839	-	-	-	1,309,839
Prepaid expenses	25,529	-	-	-	25,529
Total current assets	<u>31,203,690</u>	<u>-</u>	<u>18,555</u>	<u>-</u>	<u>31,222,245</u>
Property and equipment, net	<u>2,961,439</u>	<u>-</u>	<u>1,089,723</u>	<u>-</u>	<u>4,051,162</u>
Non-current assets					
Unconditional promises to give	4,190,661	-	-	-	4,190,661
Due from related party	33,540	-	-	(33,540)	-
Investment in subsidiary	1,074,738	-	-	(1,074,738)	-
Total non-current assets	<u>5,298,939</u>	<u>-</u>	<u>-</u>	<u>(1,108,278)</u>	<u>4,190,661</u>
Total assets	<u>\$ 39,464,068</u>	<u>\$ -</u>	<u>\$ 1,108,278</u>	<u>\$ (1,108,278)</u>	<u>\$ 39,464,068</u>
Liabilities and net assets					
Current liabilities					
Accounts payable and accrued liabilities	\$ 200,747	\$ -	\$ -	\$ -	\$ 200,747
Due to related party	-	-	33,540	(33,540)	-
Current portion of long term debt	-	-	-	-	-
Total liabilities	<u>200,747</u>	<u>-</u>	<u>33,540</u>	<u>(33,540)</u>	<u>200,747</u>
Net assets					
Common stock	-	100,000	-	(100,000)	-
Additional paid in capital	-	2,658,724	1,144,026	(3,802,750)	-
Without donor restrictions (retained earnings)	16,774,771	(2,758,724)	(69,288)	2,828,012	16,774,771
With donor restrictions	22,488,550	-	-	-	22,488,550
Total net assets	<u>39,263,321</u>	<u>-</u>	<u>1,074,738</u>	<u>(1,074,738)</u>	<u>39,263,321</u>
Total liabilities and net assets	<u>\$ 39,464,068</u>	<u>\$ -</u>	<u>\$ 1,108,278</u>	<u>\$ (1,108,278)</u>	<u>\$ 39,464,068</u>

See accompanying independent auditor's report on supplementary information

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	<u>27,674,797</u>	<u>-</u>	<u>-</u>	<u>27,674,797</u>
Property and equipment, net	<u>2,962,112</u>	<u>-</u>	<u>-</u>	<u>2,962,112</u>
Non-current assets				
Unconditional promises to give	3,143,238	-	-	3,143,238
Total non-current assets	<u>3,143,238</u>	<u>-</u>	<u>-</u>	<u>3,143,238</u>
Total assets	<u><u>\$ 33,780,147</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 33,780,147</u></u>
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	<u>1,661,242</u>	<u>-</u>	<u>-</u>	<u>1,661,242</u>
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	<u>32,118,905</u>	<u>-</u>	<u>-</u>	<u>32,118,905</u>
Total liabilities and net assets	<u><u>\$ 33,780,147</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 33,780,147</u></u>

See accompanying independent auditor's report on supplementary information

DALTON STATE COLLEGE FOUNDATION, INC.
SCHEDULE OF OPERATING EXPENSES FOR THE WOOD VALLEY APARTMENTS
FOR THE PERIODS ENDING DECEMBER 31, 2019 AND 2018

Operating expenses	<u>2019</u>	<u>2018</u>
Repairs & maintenance	\$ -	\$ -
Professional fees	-	-
Utilities	-	-
Insurance	-	900
Total operating expenses	<u>\$ -</u>	<u>\$ 900</u>

See accompanying independent auditor's report on supplementary information

DALTON STATE COLLEGE FOUNDATION, INC.
SCHEDULE OF OPERATING EXPENSES FOR THE DALTON STATE PROPERTIES, LLC
FOR THE PERIOD ENDING DECEMBER 31, 2019

Operating expenses	<u>2019</u>
Repairs & maintenance	\$ 2,423
Rent expense	9,898
Utilities	14,712
Insurance	3,727
Depreciation expense	54,303
Other operating expense	<u>4,933</u>
Total operating expenses	<u><u>\$ 89,996</u></u>

See accompanying independent auditor's report on supplementary information