

CHESAPEAKE COLLEGE FOUNDATION, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

CHESAPEAKE COLLEGE FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Chesapeake College Foundation, Inc.
Wye Mills, Maryland

We have audited the accompanying financial statements of Chesapeake College Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of Matter

As discussed in the notes to the financial statements, in 2018 the Chesapeake College Foundation, Inc. adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-profit Entities (Topic 958): Presentation of Financial Statements of Not-for-profit Entities*. Our opinion is not modified with respect to this matter.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
September 11, 2019

CHESAPEAKE COLLEGE FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

ASSETS

ASSETS

Cash and cash equivalents	\$	60,257
Pledges receivable, net of discount		225,166
Due from related party		1,234
Prepaid expense		11,780
Investments		5,900,993
Artwork		6,000
Total assets	\$	<u>6,205,430</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$	155,163
Total liabilities		<u>155,163</u>

NET ASSETS

Without donor restrictions		
Board designated		288,778
Undesignated		116,798
Artwork		6,000
Total without donor restrictions		<u>411,576</u>
With donor restrictions		5,638,691
Total net assets		<u>6,050,267</u>
Total liabilities and net assets	\$	<u>6,205,430</u>

The accompanying notes are an integral part of these financial statements.

CHESAPEAKE COLLEGE FOUNDATION, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Contributions	\$ 463,164	\$ 577,745	\$ 1,040,909
Investment gain	16,619	327,012	343,631
Net assets released from restrictions	<u>799,266</u>	<u>(799,266)</u>	
Total revenues and other support	<u>1,279,049</u>	<u>105,491</u>	<u>1,384,540</u>
EXPENSES			
Program services	904,517		904,517
General and administrative	141,939		141,939
Fundraising	<u>142,084</u>		<u>142,084</u>
Total expenses	<u>1,188,540</u>		<u>1,188,540</u>
Change in net assets	90,509	105,491	196,000
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	<u>321,067</u>	<u>5,533,200</u>	<u>5,854,267</u>
NET ASSETS, END OF YEAR	<u>\$ 411,576</u>	<u>\$ 5,638,691</u>	<u>\$ 6,050,267</u>

The accompanying notes are an integral part of these financial statements.

CHESAPEAKE COLLEGE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Program Services				
	Scholarships	College Program Support	General and Administrative	Fundraising	Total
Asset impairment	\$	\$	\$ 29,700	\$	\$ 29,700
Banking fees			29,281		29,281
Consultants		500	12,819	24,087	37,406
Donated services	50,725	6,104	63,475	106,990	227,294
Postage	110			249	359
Printing	1,025			21	1,046
Refreshments/awards	1,050	711	156	4,043	5,960
Rent				4,579	4,579
Scholarships	519,876				519,876
Subscriptions			300		300
Supplies		483	812	2,115	3,410
Transfers to the College		321,933			321,933
Travel		2,000			2,000
Uncollectible pledges			5,396		5,396
Total functional expenses	\$ 572,786	\$ 331,731	\$ 141,939	\$ 142,084	\$ 1,188,540

The accompanying notes are an integral part of these financial statements.

CHESAPEAKE COLLEGE FOUNDATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 196,000
Adjustments to reconcile changes in net assets to net cash used by operating activities:	
Realized and unrealized gains on investments, net	(135,831)
Restricted contribution	(54,279)
Change in assets and liabilities:	
Pledges receivable	14,329
Prepaid expense	(6,264)
Accounts payable and accrued expenses	14,687
Net cash provided by operating activities	<u>28,642</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(3,503,650)
Proceeds from sale of investments	<u>3,388,022</u>
Net cash used by investing activities	<u>(115,628)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net payments from related party	1,740
Collection of restricted contribution	<u>54,279</u>
Net cash provided by financing activities	<u>56,019</u>
Net decrease in cash and cash equivalents	(30,967)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>91,224</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 60,257</u>

The accompanying notes are an integral part of these financial statements.

CHESAPEAKE COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

SIGNIFICANT ACCOUNTING POLICIES

Nature of the organization

The Chesapeake College Foundation, Inc. (the “Foundation”) is a not-for-profit corporation established exclusively for charitable and educational purposes to benefit the students and faculty of Chesapeake College (the “College”). Support is derived through solicitation of contributions and grants.

The Foundation is considered a component unit of the College and is discretely presented in the College’s financial statements due to its significant operational and financial relationship. The Foundation reports under Financial Accounting Standards Board (“FASB”) guidance.

Basis of presentation

The Foundation reports information regarding its financial position and operations according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. In addition, the Board of Directors has designated certain investments for use at their discretion.

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions be designated for specific purposes by action of the Board of Directors and, accordingly, include “quasi” endowment investments.

Net assets with donor restrictions – Net assets whose use by the Foundation is subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation pursuant to those restrictions or that expire by the passage of time, such as term endowments. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity and are primarily comprised of original endowment gifts given to the Foundation by donors. Generally, the donors of these assets permit the Foundation to use all or part of the income on these assets.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates are the valuation of pledges receivable and the fair market valuation of investments.

CHESAPEAKE COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

The Foundation considers all highly liquid investments with maturity of three months or less to be cash equivalents.

Investments

The Foundation's investments are stated at fair value. The fair values of equity and bond mutual funds are based on quoted prices in active markets. Changes in unrealized gains and losses are included in investment (loss) gain. Realized gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by the donor or by law. Other investment income, such as dividends and interest, is recognized in the period earned as increases in net assets without donor restrictions unless the use is limited by donor-imposed restrictions.

The Foundation's principal financial instruments subject to credit risk are its investments. The investments are managed by professional advisors subject to the College's investment policy. The degree and concentration of credit risk varies by type of investment. The fair values reported in the statement of financial position are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

Contributions and promises to give

Unconditional promises to give, which are recorded as pledges receivable, that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk adjusted interest rates applicable to the year in which the promises are received. Amortization of the discount is recognized as contribution revenue over the life of the pledge. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

CHESAPEAKE COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-cash donations

Donated assets, including securities and property and equipment, are recorded as support at their estimated fair values at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as support with donor restrictions. Absent donor stipulations regarding how long the 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 at which time net asset with donor restrictions are reclassified to net assets without donor restrictions. Donated services that require specialized skills or enhance nonfinancial assets are recorded as support at fair value at the time of donation with a corresponding charge to expense.

Net asset classification and endowments

The Foundation complies with FASB guidance on net asset classification of donor-restricted endowment funds and related disclosures. The Foundation's endowment funds include both donor-restricted endowment funds and funds designated by the Board of Directors to function as an endowment (board designated funds). As required by accounting standards generally accepted in the United States of America, net assets associated with endowment funds, including board designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Maryland complies with the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), replacing the 1974 Uniform Management of Institutional Funds Act ("UMIFA"). UPMIFA was issued by the National Conference of Commissioners on Uniform State Laws to, among other things, improve (a) protection of donor intent with respect to expenditures from endowments and (b) the endowment spending rule by eliminating the historic dollar value concept and provide better guidance regarding the operation of the prudence standard. The Maryland Law is called the Maryland Uniform Prudent Management of Institutional Funds Act ("MUPMIFA"). Under MUPMIFA, the term "endowment funds" does not include assets that an institution designates as an endowment fund for its own use. However, the disclosures required under FASB guidance applies to both donor-restricted and board designated endowment funds.

CHESAPEAKE COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donor restricted gifts

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as an increase in net assets with donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from donor restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as without donor restrictions.

Income tax status

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its exempt income under Section 501(a) of the Internal Revenue Code. However, some of its income may be subject to taxation as unrelated business income.

The Foundation accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold.

Functional expenses

The costs of providing program and other activities have been summarize on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program functions. Such allocations are determine by management on an equitable basis. The only allocated expense is donated services. Donated services has been allocated on a time and effort basis.

Subsequent events

The Foundation has evaluated subsequent events for the recognition or disclosure through September 11, 2019, the date the financial statements were available to be issued.

CHESAPEAKE COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

SIGNIFICANT ACCOUNTING POLICIES (Continued)

New accounting pronouncement

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

AVAILABILITY AND LIQUIDITY

The following represents Chesapeake College Foundation, Inc.'s financial assets at June 30, 2019:

Financial assets at year end:	
Cash and cash equivalents	\$ 60,257
Pledges receivable, current portion	187,684
Investments, at fair value	5,900,993
Total financial assets	<u>6,148,934</u>
Less amounts not available to be used for general expenditures:	
Net assets with donor restrictions	<u>5,638,691</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 510,243</u>

The Foundation follows an investment policy to preserve the long-term, real purchasing power of their investments while providing a relatively predictable and growing stream of annual distributions in support of the mission of the Foundation.

The Foundation Board has designated various funds for future purposes. These funds, although currently designated for specific use by the Board, can be removed from Board designation at any time with a majority vote from the Board. Thus, we have considered these funds as available for use.

CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash accounts at a commercial bank. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000.

CHESAPEAKE COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

PLEDGES RECEIVABLE

Pledges receivable consist of the following as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Less than 1 year	\$ 60	\$ 187,624	\$ 187,684
1 to 5 years		41,000	41,000
	<u>60</u>	<u>228,624</u>	<u>228,684</u>
Discount to present value		(3,518)	(3,518)
	<u>\$ 60</u>	<u>\$ 225,106</u>	<u>\$ 225,166</u>

Pledges receivable are discounted using a 5% discount rate.

The Foundation utilizes the allowance method to determine the estimated uncollectible pledges receivable. The allowance is based on prior years' experience and management's analysis of specific promises to give. Management has not established an allowance for doubtful collections at June 30, 2019 based upon information currently known. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. However, events impacting donors can occur in subsequent years that may cause a material change.

FAIR VALUE MEASUREMENTS AND INVESTMENTS

The Foundation measures its investments at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance established for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

CHESAPEAKE COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Foundation for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the same term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows and other similar techniques.

The following tables present the investments measured at fair value as of June 30, 2019 by caption on the statement of financial position by the valuation hierarchy defined above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Assets, recurring fair value measurements:				
Investments:				
Cash and cash equivalents	\$ 69,779	\$	\$	\$ 69,779
Fixed income	348,600			348,600
Bond funds	1,329,011			1,329,011
Equities	1,646,637			1,646,637
Exchange traded funds	2,493,239			2,493,239
Total assets, recurring at fair value	5,887,266			5,887,266
Investments reported at net asset value	<u>13,727</u>			<u>13,727</u>
Total	<u>\$ 5,900,993</u>	<u>\$</u>	<u>\$</u>	<u>\$ 5,900,993</u>

The Foundation did not have any financial instruments whose fair values were measured using either Level 2 or Level 3 inputs at June 30, 2019.

CHESAPEAKE COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

Valuation methodologies

The carrying value of cash and cash equivalents approximates fair value due to the short-term nature of these instruments. Mutual funds are actively traded with values based on quoted market prices in active markets.

Investments reported at net asset value: Valued at net asset value based primarily on observable inputs. Net asset values are based upon the fair value of the underlying assets of the investments derived principally from or corroborated by observable market data.

Investment gain consists of the following for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	\$ 9,819	\$ 197,982	\$ 207,801
Realized gain	1,248	22,358	23,606
Unrealized gain	5,552	106,672	112,224
Total	\$ 16,619	\$ 327,012	\$ 343,631

The following presents the nature and risk of the investments reported at net asset value and whether they have redemption restrictions as of June 30, 2019:

Name of Investment	Fair Value	Investment Strategy	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Mid Shore Community Foundation	\$ 13,727	The objective is to preserve and enhance the value of the fund's assets by achieving the target return over the long-term	N/A	N/A	N/A

CHESAPEAKE COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

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

NET ASSETS

Net assets with donor restrictions were as follows as of June 30, 2019:

Specific Purpose:	
General Scholarships	\$ 2,411,411
Workforce Training Scholarships	13,517
Athletic Programs Scholarships	20,362
Endowed Program Support	408,365
Annual College Program Support	34,814
Capital Support	125,960
Held in perpetuity	2,624,262
	<u>\$ 5,638,691</u>

Net assets without donor restrictions consisted of the following as of June 30, 2019:

Board designated	\$ 288,778
Undesignated	116,798
Artwork	6,000
	<u>\$ 411,576</u>

Board designated funds consists of matching funds from the State of Maryland. Under the terms of a Private Donation Incentive Program (the "Incentive Program") with the State of Maryland, the Foundation received matching funds of \$250,000 for the Foundation's endowments. The Board has determined that the matching funds, including investment return thereon, are not restricted, but has elected to designate such funds for future purposes.

CHESAPEAKE COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NET ASSETS (Continued)

Net assets released from donor restrictions were used for the following purposes for the year ended June 30, 2019:

Scholarships for Chesapeake College	\$	507,876
Pass-through funds to Chesapeake College		205,078
Other		86,312
	<u>\$</u>	<u>799,266</u>

NET ASSET RECLASSIFICATION

Net assets previously released from restrictions, have been reclassified as with donor restrictions as restated in these financial statements.

	Unrestricted	Temporarily/ Permanently Restricted	Without Donor Restrictions	With Donor Restrictions	Total
Balances, previously reported	\$ 670,461	\$ 5,183,806	\$	\$	\$ 5,854,267
Reclassification	(670,461)	(5,183,806)	321,067	5,533,200	
Balances, as restated	<u>\$</u>	<u>\$</u>	<u>\$ 321,067</u>	<u>\$ 5,533,200</u>	<u>\$ 5,854,267</u>

RESTRICTED AND BOARD DESIGNATED ENDOWMENT FUNDS

The Foundation’s Board of Directors has interpreted the Maryland state law (“MUPMIFA”) as a guide for prudent spending of the fair value of endowed funds, according to the donor directives when each fund was established. The Board is responsible for using prudence when determining expenditures for endowments and to consider the net appreciation, realized and unrealized, in the fair value of assets of an endowment fund over the historic dollar value of the fund. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the fair value of the original gifts donated to the endowment (b) the fair value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the directions of the applicable donor gift instrument at the time the accumulation is added to the fund.

CHESAPEAKE COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

RESTRICTED AND BOARD DESIGNATED ENDOWMENT FUNDS (Continued)

In accordance with MUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the fund; (b) the purpose of the organization and the donor-restricted endowment funds; (c) general economic conditions; (d) the possible effect of inflation and deflation; (e) the expected total return from income and the appreciation of investments; (f) other resources of the organization; and (g) the investment policies of the organization.

From time to time, the fair value of assets associated with donor restricted endowment funds may fall below the level the Organization is required to retain by donor stipulation or by law. The Foundation has interpreted MUPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of June 30, 2019, the Foundation had no underwater endowments.

The Foundation's donor restricted and board designated endowment funds consisted of the following for the year ended June 30, 2019:

	Unrestricted Board Designated	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 272,538	\$ 3,494,083	\$ 3,766,621
Contributions to the endowment fund		54,279	54,279
Investment return:			
Interest and dividends	9,819	197,982	207,801
Net appreciation (realized and unrealized)	6,800	129,030	135,830
Release of endowment assets to specific scholarships		(73,125)	(73,125)
Release of endowment assets for current expenditures	(379)	(150,698)	(151,077)
Change in net assets	16,240	157,468	173,708
Endowment net assets, end of year	\$ 288,778	\$ 3,651,551	\$ 3,940,329

CHESAPEAKE COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

RESTRICTED AND BOARD DESIGNATED ENDOWMENT FUNDS (Continued)

The Foundation has a policy of appropriating for distribution each year 3-5% of the fair market value of the endowed scholarship funds, based upon a rolling 20 quarter market value of the funds. Therefore, the financial objective is to earn a total return (net of all fees and expenses) equal to or exceeding the spending rate plus the inflation rate - as measured by the Consumer Price Index. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Expenditure from the board designated net assets is released as approved by the Foundation's Board of Directors. The earnings on the endowments with donor restrictions are released from restricted funds in accordance with donor stipulations as per agreements. The Foundation's primary investment objective is to achieve a long-term total return from capital market investments that exceeds the 3-5% annual scholarship distribution plus inflation, in order to maintain the real-dollar level of support. A secondary objective is the preservation of capital.

The Foundation's asset allocation by class and composition guideline is as follows:

	IPS Ranges		
	Minimum	Long-term Target	Maximum
Equities:	55.00%	65.00%	70.00%
Large cap	30.00%	40.00%	50.00%
International	5.00%	12.00%	18.00%
Small cap	2.00%	7.00%	12.00%
Mid cap	4.00%	6.00%	10.00%
Fixed income	25.00%	33.00%	45.00%
High yield	0.00%	2.00%	5.00%
Cash equivalent, money market	0.00%	2.00%	10.00%

A balanced investment approach is used. In as much as preservation of capital is an objective, quality securities will be emphasized. High risk-taking is not in the best interest of the Foundation and should be avoided. Management of assets shall be executed so as to provide reasonably consistent performance by achieving better than average results within an acceptable level of risk over a minimum of a 3 to 5 year time horizon.

CHESAPEAKE COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

RELATED PARTY

The Foundation was established to solicit support for Chesapeake College from the general public and the business community. The Foundation's Board of Directors periodically determines its support for various Chesapeake College programs, based upon the amount and type of support received.

The Foundation receives administrative support services and use of facilities from Chesapeake College. There are no charges for these services, and there are no long-term commitments for these services.

The following is a summary of transactions between the Foundation and the College as of and for the year ended June 30, 2019:

Contributions to the College:	
Scholarships	\$ 519,876
Other transfers	321,933
	<u>\$ 841,809</u>
In-kind services performed by the College for the Foundation	<u>\$ 227,294</u>
Due from the College	<u>\$ 1,234</u>

COMMITMENTS

The Foundation awards various scholarships to students that are due to the recipient once certain criteria are met after being awarded the scholarship. These criteria must be met within five years of being awarded the scholarship. If the criteria are not met and submitted, the previously awarded scholarship remains in the scholarship fund for future use. The total amount of scholarships that have been awarded, but are not payable to the recipients as of June 30, 2019 was \$1,959.

During the year ended June 30, 2019 the Board committed to the purchase of security cameras for the Health Professions and Athletics building for the benefit of the College in the amount not to exceed \$15,000. The purchase and expenditure of these funds will occur during the fiscal year ending June 30, 2020.