

NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION

Financial Statements

Years Ended June 30, 2022 and 2021



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Financial Statements
Years Ended June 30, 2022 and 2021

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NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
Roster of Board of Directors and Management
Year Ended June 30, 2022

Board of Directors

Board Chairperson

Peter Raber

Board Vice Chairperson

Jeff Dykes

Board Treasurer

Darla Scott

Board Secretary

Robert Arrington

Principal Official/Management

Northeast State Community College President

Dr. Jeff McCord

Chief Financial Officer

Chad Bailey

Director of Advancement Operations

Megan Almaroad

Director of Budgeting and Financial Analysis

Matt Kitzmiller

Independent Auditors' Report

To the Board of Directors
Northeast State Community College Foundation

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Northeast State Community College Foundation, (“the Foundation”) (a Tennessee organization), a component unit of Northeast State Community College as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Foundation’s basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022, and the changes in its net assets, functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Foundation's basic financial statements. The roster of those charged with governance and management officials is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The roster of those charged with governance and management officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2022, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Foundation's June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Rodger Messer & Co, PLLC

Kingsport, Tennessee
November 10, 2022



NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
 Statements of Financial Position
 June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 879,663	\$ 857,754
Pledges receivable, net of allowance	13,105	23,841
Other receivable	5,344	-
Total current assets	<u>898,112</u>	<u>881,595</u>
Non-current Assets		
Pledges receivable, net of present value discount	1,781	7,511
Long-term investments	15,391,705	17,372,372
Cash surrender value of life insurance	35,012	34,727
Land and buildings, net	527,463	541,134
Total non-current assets	<u>15,955,961</u>	<u>17,955,744</u>
Total assets	<u>\$ 16,854,073</u>	<u>\$ 18,837,339</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Due to college	\$ 88,486	\$ 5,267
Accounts payable and accrued expenses	500	-
Total current liabilities	<u>88,986</u>	<u>5,267</u>
Net Assets		
Without donor restrictions	1,454,676	1,661,500
With donor restrictions	15,310,411	17,170,572
Total net assets	<u>16,765,087</u>	<u>18,832,072</u>
Total liabilities and net assets	<u>\$ 16,854,073</u>	<u>\$ 18,837,339</u>

NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2022
(with summarized financial information for the year ended June 30, 2021)

	2022			2021 Total
	Without	With Donor	Total	
	Donor Restrictions	Restrictions		
Support and revenues				
Contributions	\$ 21,183	\$ 319,957	\$ 341,140	\$ 357,338
Community CARES Grant	-	-	-	251,467
Donated services and salaries	229,667	-	229,667	165,948
Other in - kind	-	4,960	4,960	68,176
Rental income	15,000	-	15,000	15,000
Miscellaneous income	-	5,300	5,300	3,013
Investment (loss) income, net (Note 6)	(180,719)	(1,797,720)	(1,978,439)	3,533,636
Released from restriction	392,658	(392,658)	-	-
Total support and revenues	<u>477,789</u>	<u>(1,860,161)</u>	<u>(1,382,372)</u>	<u>4,394,578</u>
Functional expenses				
Program services	637,897	-	637,897	1,030,266
Management and general	46,141	-	46,141	38,084
Fundraising	575	-	575	1,885
Total functional expenses	<u>684,613</u>	<u>-</u>	<u>684,613</u>	<u>1,070,235</u>
Change in net assets	(206,824)	(1,860,161)	(2,066,985)	3,324,343
Net assets at the beginning of the year	<u>1,661,500</u>	<u>17,170,572</u>	<u>18,832,072</u>	<u>15,507,729</u>
Net assets at the end of the year	<u>\$ 1,454,676</u>	<u>\$ 15,310,411</u>	<u>\$ 16,765,087</u>	<u>\$ 18,832,072</u>

NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
Statement of Functional Expenses
Year Ended June 30, 2022
(with summarized financial information for the year ended June 30, 2021)

	2022				Total	2021
	Program Services	Management and General	Fundraising	Total Support Services		
Expenses						
Salaries and Related Expenses						
Salaries	\$ 154,594	\$ 9,102	\$ -	\$ 9,102	\$ 163,696	\$ 118,424
Employee benefits	62,303	3,668	-	3,668	65,971	47,524
Total salaries and related expenses	216,897	12,770	-	12,770	229,667	165,948
Other Expenses						
Scholarships	329,680	-	-	-	329,680	407,165
Grants	65,349	-	-	-	65,349	426,933
Other expenses	4,856	11,403	515	11,918	16,774	5,984
Professional fees	4,444	11,020	60	11,080	15,524	23,369
Depreciation	13,671	-	-	-	13,671	13,671
Insurance	-	5,513	-	5,513	5,513	5,326
Service charges	-	3,736	-	3,736	3,736	2,842
Recognition and awards	3,000	-	-	-	3,000	3,000
Supplies	-	1,699	-	1,699	1,699	5,887
Bad debt expense	-	-	-	-	-	9,015
Advertising	-	-	-	-	-	1,095
Total other expenses	421,000	33,371	575	33,946	454,946	904,287
Total expenses	\$ 637,897	\$ 46,141	\$ 575	\$ 46,716	\$ 684,613	\$ 1,070,235

NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
 Statements of Cash Flows
 Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (2,066,985)	\$ 3,324,343
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	13,671	13,671
Bad debt expense	-	9,015
Unrealized loss (gain)	2,386,574	(2,544,481)
Investment income, net	(276,187)	(989,155)
(Increase) decrease in assets:		
Pledge receivables	16,466	949
Other receivables	(5,344)	-
Cash surrender value of life insurance	(285)	(347)
(Decrease) increase in liabilities:		
Due to college	83,219	-
Accounts payable	<u>500</u>	<u>2,215</u>
Net cash flows from operating activities	<u>151,629</u>	<u>(183,790)</u>
Cash Flows from Investing Activities		
Sale of investments	1,719,354	15,610,765
Purchase of investments	<u>(1,849,074)</u>	<u>(15,609,934)</u>
Net cash flows from investing activities	<u>(129,720)</u>	<u>831</u>
Change in cash and cash equivalents	21,909	(182,959)
Cash and cash equivalents at the beginning of the year	<u>857,754</u>	<u>1,040,713</u>
Cash and cash equivalents at the end of the year	<u>\$ 879,663</u>	<u>\$ 857,754</u>

NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
Notes to Financial Statements
June 30, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization - Northeast State Community College Foundation (“the Foundation”) was established on September 23, 1985. The Foundation is a nonprofit corporation under Internal Revenue Code Section 501(c)(3) and is exempt from federal income tax. The Foundation was formed to support academics, community service, educational scholarships, and other programs offered by Northeast State Community College (“the College”). The Foundation is presented as a component unit of the College for financial statement reporting purposes.

Basis of Accounting - The financial statements of the Foundation have been prepared on the accrual basis of accounting.

Basis of Presentation - The Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles (“GAAP”). Accordingly, such information should be read in conjunction with the Foundation’s financial statements for the year ended June 30, 2021, from which the summarized information was derived.

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, the disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could vary from those estimates.

Cash and Cash Equivalents - For purposes of the Statements of Cash Flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and money market funds held in investment accounts are classified as investments.

Included in cash and cash equivalents is the Foundation’s investment in Tennessee Department of Treasury’s Local Government Investment Pool (“LGIP”). The LGIP is not registered with the Securities and Exchange Commission but is overseen by the Tennessee Department of Treasury. The Treasury Department manages short-term investments for state and local governments through the LGIP.

Pledges Receivable - Unconditional promises to give (pledges receivable) that are 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 initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition.

The discount rate determined at initial recognition of the unconditional promises to give is based upon management’s assessment of many factors, including when the receivable is expected to be collected, the creditworthiness of the other parties, the Foundation’s past collection experience, and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the receivable’s collectability. Changes in the discounts are included in support from contributions. The Foundation uses a 5.20% discount rate.

The Foundation uses the allowance method to determine uncollectible pledges receivable. The allowance is based on prior experience and management’s analysis of specific pledges made. Periodically, management reviews pledges receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables based on individual credit evaluation and circumstances of the donor.

Conditional promises to give are recognized when the conditions on which they depend are substantially met.

NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Investments - Investments are stated at fair value. Investment return includes realized and unrealized gains and losses, investment income, and investment management fees, and is allocated proportionately to the individual endowment funds based on the average monthly fund balances for the year. Investment return is reflected in the statement of activities as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions. Investment return with donor-imposed restrictions is released to net assets without restrictions when the restrictions are met in the same reporting period.

Fair Value Measurement - FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable with little or no market data for the asset or liability.

Fair Value of Financial Instruments - The carrying amounts of the Foundation's cash, pledges receivable (net of present value discount), other assets, accounts payable and accrued expenses approximate fair value primarily because of the short term maturity of these instruments.

Advertising - Advertising costs are expensed as incurred. The Foundation incurred \$0 and \$1,095 in advertising expense for the years ended June 30, 2022 and 2021, respectively.

Property Held for College Purposes - Property held for College purposes represents property that is intended for current College use or in support of College purposes. The Foundation states property and equipment at fair value at the time of gift or at cost if purchased. All acquisitions or donations of property and equipment in excess of \$5,000 and major renewals and improvements are capitalized, while maintenance and repairs are expensed as incurred. When assets are retired or disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income. Depreciation expense for 2022 and 2021 was \$13,671 and \$13,671, respectively.

Property held for College purposes is depreciated using the straight-line method over the estimated useful lives of the respective assets as follows:

Building and building improvements	39 years
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NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Net Asset Classification - Net assets are classified into two components as defined below:

- *Without Donor Restrictions* - This component of net assets consists of net assets that do not meet the definition of “restricted”. These net assets are available for current use by the Board.
- *With Donor Restrictions* - This component of net assets consists of restrictions placed on net assets use through external constraints imposed by grantors, contributors, or laws or regulations. Some restrictions may be temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other restrictions are perpetual in nature, whereby the funds are to be maintained in perpetuity.

Revenue Recognition - Revenues are recognized in accordance with ASC 958-605, *Not-for-Profit Entities - Revenue Recognition*. The ASC provides a more robust framework for determining whether a transaction should be accounted for as a contribution, falling in scope of Topic 958, or as an exchange transaction, falling in scope of Topic 606, *Revenue From Contracts with Customers*. The ASC accomplishes this by clarifying how a NFP organization determines whether a resource provider is participating in an exchange transaction (i.e. receiving commensurate value).

Additionally, the ASC provides additional guidance to determine whether a contribution is conditional and more thoroughly distinguishes a donor-imposed condition from a donor-imposed restriction by requiring organizations to determine whether a contribution is conditional based on whether an agreement includes (1) a barrier that must be overcome and/or (2) either a right to return of assets transferred or a right of release of promisor’s obligation to transfer assets. Once conditionality has been determined, the organization must recognize contribution revenue or expense in line with when conditions have been met. Upon meeting conditions, the organization must then determine whether the contribution is of restricted nature and recognize in the appropriate net asset class.

Contributions - The Foundation records contributions received as without donor restrictions or with donor restrictions support depending on the existence and nature of any donor restrictions. When a restriction expires (i.e. when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as “assets released from restrictions.” The Foundation receives revenue mainly in the form of donor contributions and grants, along with generating revenue from merchandise sales.

Grants - The Foundation receives grant money from various entities for the purpose of reimbursing operating and support functions.

Fundraising Events - The Foundation charges registration and sponsorship fees for certain events while the other proceeds during the event can be attributed to contributions or merchandise sales. The registration and sponsorship fees are earned when the event occurs while contributions and merchandise sales are recognized when received.

Donated Property and Equipment - Donations of property and equipment are capitalized and recorded as support at fair value at the date of receipt. Such donations are reported as with or without restrictions based on the presence or absence of donor-imposed restrictions. Contributions of cash that must be used to acquire property and equipment are reported as restricted support. 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, unless other restrictions per agreement apply.

Donated Gifts, Services, and Salaries - Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. A number of unpaid volunteers, who serve in the capacity of Board members and various volunteer committees, have made significant contributions of their time in the furtherance of the Foundation’s programs. The value of this contributed time is not reflected in these financial statements since it does not meet the above recognition criteria.

NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Donated Gifts, Services, and Salaries (Continued) -The College provides donated services and salaries for Foundation administrative, finance, and development personnel. See Note 10 - Related Party Transactions for more information.

Functional Classification of Expenses - Functional classifications of expenses are based upon the guidance included in the Accounting Standards Codification (“ASC”) No. 958, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, issued by the American Institute of Certified Public Accountants. The Organization incurs costs and expenses related to its program services and supporting activities, such as fundraising and management. Expenses that are directly related to, and can be assigned to, program services or a single supporting activity are charged directly to such function. Expenses that are related to more than one function are allocated among the appropriate functions. The most significant of the Organization’s joint costs are the costs associated with salaries and payroll taxes. The Organization allocates these joint costs primarily using proportional methods based on the time expended by personnel on the various functions.

Income Taxes - The Foundation is a not-for-profit organization exempt from federal income taxes under Internal Revenue Code (“IRC”) §501(c)(3). Accordingly, no provision for federal income taxes has been made. Management is not aware of any uncertain tax positions as of June 30, 2022.

The Foundation’s Forms 990, Return of Organization Exempt from Income Tax, for the years ending 2019, 2020, and 2021 are subject to examination by the IRS, generally for three years after they were filed.

The Foundation is not aware of any unrelated business income that would trigger a taxable event for the tax years still open for examination.

Reclassifications - Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

Recently Issued Accounting Pronouncements Not Yet Adopted - In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The underlying principle of ASU 2016-02 is that lessees should recognize the assets and liabilities arising from leases in the statements of financial position. The guidance requires a lessee to recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous generally accepted accounting principles. There continues to be a differentiation between finance leases and operating leases. However, the principal difference from previous guidance is that the lease assets and liabilities arising from operating leases should be recognized in the statements of financial position. The guidance will be effective for the year ending June 30, 2023. Management is currently evaluating the potential effect of this ASU on the Foundation’s financial statements, including the potential amount of incremental lease assets and liabilities that are expected to be recognized upon adoption.

Date of Management’s Review - Management has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2022, for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through the date of the independent auditors’ report, which is the date these financial statements were available to be issued.

NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
Notes to Financial Statements (Continued)

NOTE 2 - PROPERTY HELD FOR COLLEGE PURPOSES

At June 30, 2022 and 2021, property held for College purposes consisted of:

	<u>2022</u>	<u>2021</u>
Land	\$ 172,000	\$ 172,000
Building and building improvements	<u>522,950</u>	<u>522,950</u>
Total property and equipment	694,950	694,950
Accumulated depreciation	<u>(167,487)</u>	<u>(153,816)</u>
Property and equipment, net	<u><u>\$ 527,463</u></u>	<u><u>\$ 541,134</u></u>

NOTE 3 - CONCENTRATIONS OF CREDIT RISK

The Foundation maintains its cash in financial institution accounts, which may at times, exceed the federally insured limit of \$250,000 set by the Federal Deposit Insurance Corporation. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash held in such institutions.

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist primarily of promises to give receivable. Concentrations of credit risk with respect to pledges receivable are limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from committed supporters of the College and Foundation. For the year ended June 30, 2022, five donors made up 74% of pledges receivable, and for the year ended June 30, 2021 three donors made up 46% of pledges receivable.

NOTE 4 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure within one year of the statement of financial position consist of the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 879,663	\$ 857,754
Pledges receivable, net	20,230	31,352
Long-term investments	<u>15,391,705</u>	<u>17,372,372</u>
Total financial assets at year-end	16,291,598	18,261,478
Less amounts not available to be used within one year:		
Purpose restrictions	(1,596,378)	(1,760,707)
Perpetual endowments	(13,186,571)	(14,868,731)
Board designated	<u>(1,167,820)</u>	<u>(1,435,489)</u>
Financial assets available to meet general expenditures in one year	<u><u>\$ 340,829</u></u>	<u><u>\$ 196,551</u></u>

NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
Notes to Financial Statements (Continued)

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable are as follows at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Unconditional pledges receivable expected to be collected in:		
Less than one year	\$ 35,620	\$ 46,356
One year to five years	<u>2,000</u>	<u>8,000</u>
Total financial assets at year-end	37,620	54,356
Less:		
Unamortized discount	(219)	(489)
Allowance for uncollectible contributions receivable	<u>(22,515)</u>	<u>(22,515)</u>
Net contributions receivable	<u>\$ 14,886</u>	<u>\$ 31,352</u>

NOTE 6 - LONG-TERM INVESTMENTS

Long-term investments consist primarily of mutual funds and money market funds that are recorded at fair market value based on current quoted market prices as provided by investment custodians.

Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that market fluctuations in the near term could materially affect account balances and amounts reported in the accompanying financial statements.

Investment activity for the years ended June 30, 2022 and 2021 consisted of:

	<u>2022</u>	<u>2021</u>
Dividends	\$ 317,610	\$ 176,464
Interest income	78,448	39,368
Unrealized gain	(2,386,574)	2,544,481
Realized gain	131,948	835,092
Investment expenses	<u>(119,871)</u>	<u>(61,769)</u>
	<u>\$ (1,978,439)</u>	<u>\$ 3,533,636</u>

NOTE 7 - FAIR VALUE MEASUREMENTS OF INVESTMENTS

Long-term investments consist primarily of mutual funds and money market funds that are recorded at fair market value based on current quoted market prices as provided by investment custodians. The following table represents the Foundation's investments at estimated fair value as of June 30, 2022:

	Total Fair Value	(Level 1)	(Level 2)	(Level 3)
Money market funds	\$ 354	\$ 354	\$ -	\$ -
Mutual funds - equity	9,902,255	9,902,255	-	-
Mutual funds - fixed income	<u>5,489,096</u>	<u>5,489,096</u>	-	-
Investments, end of year	<u>\$ 15,391,705</u>	<u>\$ 15,391,705</u>	<u>\$ -</u>	<u>\$ -</u>

NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
Notes to Financial Statements (Continued)

NOTE 7 - FAIR VALUE MEASUREMENTS OF INVESTMENTS (Continued)

The following table represents the Foundations investments at estimated fair value as of June 30, 2021:

	Total Fair Value	(Level 1)	(Level 2)	(Level 3)
Money market funds	\$ 711	\$ 711	\$ -	\$ -
Mutual funds - equity	11,326,015	11,326,015	-	-
Mutual funds - fixed income	<u>6,045,646</u>	<u>6,045,646</u>	-	-
Investments, end of year	<u>\$ 17,372,372</u>	<u>\$ 17,372,372</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 8 - NET ASSETS

Net assets with donor restrictions are available for the following purposes as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for a specific purpose:		
Scholarships	\$ 385,285	\$ 454,896
Instructional department uses	118,492	133,684
RCAM program	808,143	910,962
Technology building fundraiser	52,158	33,403
Other college support	190,864	172,308
Subject to passage of time:		
Pledges receivable	36,114	51,837
Restricted donations pending future action	5,005	3,187
Endowment		
Scholarships	13,186,571	14,868,731
Instructional department uses	527,462	541,134
Pledges to be invested in perpetuity	<u>317</u>	<u>430</u>
Total net assets with donor restrictions	<u>\$ 15,310,411</u>	<u>\$ 17,170,572</u>

Net assets without donor restrictions are available for the following purposes as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
RCAP	\$ 100,575	\$ 93,447
College programs	42,569	37,412
Operational reserves	1,024,676	1,304,630
Undesignated	<u>286,856</u>	<u>226,011</u>
Total net assets without donor restrictions	<u>\$ 1,454,676</u>	<u>\$ 1,661,500</u>

NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
Notes to Financial Statements (Continued)

NOTE 9 - ENDOWMENT

The Foundation's endowment consists of approximately 99 individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds and funds functioning as endowments. Net assets associated with endowment funds, including the quasi-endowment, are classified and reported based on the existence or absence of restrictions imposed by donors.

Interpretation of Relevant Law - Absent explicit donor stipulations to contrary, the board of directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment contribution absent explicit donor stipulations to the contrary. The permanent endowment portion of net assets with donor restrictions includes (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds are also classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with the UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) the duration and preservation of the fund, (2) the purpose of the donor-restricted endowment, (3) general economic conditions, (4) the possible effect on inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Investment Return Objectives, Risk Parameters and Strategies - The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment fund while also maintaining purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-costs total real rate of return, including capital appreciation (realized and unrealized) and current yield (interest and dividends) that meets or exceeds the benchmark values of passively managed indices over a 5-year time frame. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Investment risk is measured in terms of total endowment fund; investment assets and allocation between asset classes and strategies are managed to prevent exposing the fund to unacceptable levels of risk. The Investment Committee is responsible for making recommendations to investment managers to reallocate the assets in the portfolio.

Spending Policy - The Foundation's Investment Committee, with authority granted by the Board of Directors, established an endowment spending policy that limits withdrawals to no more than 3-6% of the rolling average fair market value of the total endowment assets over the previous twelve quarters. The Board has the authority to exceed that limitation. Both the current income and appreciation can be used with the intent that the original endowment funds are preserved. The spending rate and period of averaging is designed to provide a reasonable and reliable revenue stream to support operations of the Foundation. This is consistent with the Foundation's objective to maintain and grow endowment assets currently held, as well as to provide additional real growth through new gifts and investment return. The Board must approve all recommended withdrawals.

Funds with Deficiencies - From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the Foundation is required to retain in a fund of perpetual duration. No deficiencies occurred for any of the donor-restricted endowment funds or funds functioning as endowments for years ended June 30, 2022 and 2021, respectively.

NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
Notes to Financial Statements (Continued)

NOTE 9 - ENDOWMENT - (Continued)

Endowment net asset composition by type of fund as of June 30, 2022 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Endowment Net Assets
Donor restricted	\$ -	\$ 11,279,087	\$ 11,279,087
Board designated	-	2,434,947	2,434,947
Investments, end of year	<u>\$ -</u>	<u>\$ 13,714,034</u>	<u>\$ 13,714,034</u>

Endowment net asset composition by type of fund as of June 30, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Endowment Net Assets
Donor restricted	\$ -	\$ 12,654,388	\$ 12,654,388
Board designated	-	2,755,477	2,755,477
Investments, end of year	<u>\$ -</u>	<u>\$ 15,409,865</u>	<u>\$ 15,409,865</u>

Changes in endowment net assets for the year ended June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Endowment net assets, beginning of year	\$ 15,409,865	\$ 12,456,817
Investment return, net	(1,681,792)	2,997,175
Contributions	84,690	71,160
Depreciation	(13,671)	(13,671)
Appropriation of endowment assets for expenditure	<u>(85,058)</u>	<u>(101,616)</u>
Endowment net assets, end of year	<u>\$ 13,714,034</u>	<u>\$ 15,409,865</u>

NOTE 10 - RELATED PARTY TRANSACTIONS

The College provides a portion of the facilities and equipment used by the Foundation at no cost. These costs are not considered to be significant to operation of the Foundation and have not been recorded as support. Balance due to the College as of June 30, 2022 and 2021 was \$88,486 and \$5,267. The College provides donated services and salaries for Foundation administrative, finance, and development personnel. Donated salaries for the year ended June 30, 2022 and 2021 amounted to \$229,667 and \$165,948, respectively.

NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
Notes to Financial Statements (Continued)

NOTE 11 - BUSINESS RISKS AND UNCERTAINTIES

On March 11, 2020 the World Health Organization designated COVID-19 a world health pandemic. Our existing contingency and disaster preparedness plans gave management the tools necessary to guide the Foundation through such circumstances. We have evaluated the short-term and long-term impacts of this pandemic on the Foundation, the outcome of which is not predictable with assurance, and it is possible that the Foundation could be affected negatively by these circumstances. Although the ultimate financial impact of this pandemic cannot be ascertained, after an evaluation of cash, our donor base, and our overhead projections, management believes that any resulting financial impact should not materially affect the future financial position of the Foundation.

NOTE 12 - CARES ACT

On March 27, 2020, then President Trump signed into law the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property.



Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

To the Board of Directors
Northeast State Community College Foundation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northeast State Community College Foundation (a Tennessee organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and changes in net assets, statement of functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 10, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting ("internal control") as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rodger Moss & Co, PLLC

Kingsport, Tennessee
November 10, 2022



NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
Schedule of Prior Year Findings
June 30, 2022

Prior Year Financial Statement Findings

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
No findings reported		

