

MERCER COUNTY COMMUNITY COLLEGE FOUNDATION
(A Component Unit of Mercer County Community College)

FINANCIAL STATEMENTS

June 30, 2018 and 2017

MERCER COUNTY COMMUNITY COLLEGE FOUNDATION

(A Component Unit of Mercer County Community College)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Mercer County Community College Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Mercer County Community College Foundation (the "Foundation"), a component Unit of Mercer County Community College, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

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, 2018, 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.

Other Matter

The financial statements of the Foundation, as of and for the year ended June 30, 2017, were audited by other auditors, whose report, dated September 13, 2017, expressed an unmodified opinion on those statements.

Mercedien, P.C.

Certified Public Accountants

November 9, 2018

MERCER COUNTY COMMUNITY COLLEGE FOUNDATION
(A Component Unit of Mercer County Community College)

STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 513,912	\$ 514,695
Investments	11,259,761	10,336,340
Pledges receivable, net of discount	113,428	196,187
Accounts receivable and other current assets	<u>10,543</u>	<u>-</u>
Total Assets	<u>\$11,897,644</u>	<u>\$11,047,222</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 24,278	\$ 22,053
Due to Mercer County Community College	<u>62,701</u>	<u>88,738</u>
Total Liabilities	<u>86,979</u>	<u>110,791</u>
Net Assets		
Unrestricted	3,029,624	2,744,633
Temporarily restricted	5,917,717	5,595,600
Permanently restricted	<u>2,863,324</u>	<u>2,596,198</u>
Total Net Assets	<u>11,810,665</u>	<u>10,936,431</u>
Total Liabilities and Net Assets	<u>\$11,897,644</u>	<u>\$11,047,222</u>

MERCER COUNTY COMMUNITY COLLEGE FOUNDATION
(A Component Unit of Mercer County Community College)

STATEMENTS OF ACTIVITIES
Years Ended June 30, 2018 and 2017

	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenues					
Gifts/contributions	\$ 101,571	\$ 283,226	\$ 203,710	\$ 588,507	\$ 1,481,462
Gifts/contributions - capital campaign	-	96,594	-	96,594	179,435
Interest and dividend income	112,641	148,056	-	260,697	218,253
Fundraising					
Special event - spring event	151,504	-	-	151,504	111,401
Special event - golf outing	54,222	-	-	54,222	40,942
Special event - other events	625	-	-	625	723
Realized gain	128,548	113,401	-	241,949	96,344
Unrealized gain	183,878	125,802	-	309,680	646,547
Net assets released from restrictions	381,546	(381,546)	-	-	-
Total support and revenues	<u>1,114,535</u>	<u>385,533</u>	<u>203,710</u>	<u>1,703,778</u>	<u>2,775,107</u>
Expenses					
Scholarships	485,300	-	-	485,300	501,783
Fundraising					
Special event - spring event	41,484	-	-	41,484	36,736
Special event - golf outing	26,526	-	-	26,526	21,831
Special event - other events	610	-	-	610	723
Allocations	141,036	-	-	141,036	69,365
Operating					
Capital campaign	21,800	-	-	21,800	103,253
Senior giving officer	32,700	-	-	32,700	32,360
Professional fees	15,000	-	-	15,000	14,000
Investment fees	57,158	-	-	57,158	49,507
Bank fees	3,701	-	-	3,701	3,983
Other operating expenses	4,229	-	-	4,229	5,823
Total expenses	<u>829,544</u>	<u>-</u>	<u>-</u>	<u>829,544</u>	<u>839,364</u>
Reclassifications	-	(63,416)	63,416	-	-
Change in net assets	284,991	322,117	267,126	874,234	1,935,743
Net assets, beginning of year	<u>2,744,633</u>	<u>5,595,600</u>	<u>2,596,198</u>	<u>10,936,431</u>	<u>9,000,688</u>
Net assets, end of year	<u>\$ 3,029,624</u>	<u>\$ 5,917,717</u>	<u>\$ 2,863,324</u>	<u>\$ 11,810,665</u>	<u>\$ 10,936,431</u>

MERCER COUNTY COMMUNITY COLLEGE FOUNDATION
(A Component Unit of Mercer County Community College)

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 874,234	\$ 1,935,743
Adjustments to reconcile change in net assets to net cash from operating activities:		
Realized and unrealized gains	(551,629)	(742,891)
Contributions restricted for long-term purposes	(203,710)	(1,105,416)
Increase (decrease) in cash from		
Pledges receivable	82,759	(75,758)
Accounts receivable and other current assets	(10,543)	-
Accounts payable	2,225	(42,540)
Due to Mercer County Community College	(26,037)	73,536
Net cash from operating activities	<u>167,299</u>	<u>42,674</u>
Cash Flows from Investing Activities		
Proceeds from sales of investments	4,758,798	4,421,962
Purchases of investments	<u>(5,130,590)</u>	<u>(5,631,928)</u>
Net cash from investing activities	<u>(371,792)</u>	<u>(1,209,966)</u>
Cash Flows from Financing Activities		
Contributions restricted for long-term purposes	<u>203,710</u>	<u>1,105,416</u>
Net cash from financing activities	<u>203,710</u>	<u>1,105,416</u>
Net change in cash and cash equivalents	(783)	(61,876)
Cash and cash equivalents, beginning of year	<u>514,695</u>	<u>576,571</u>
Cash and cash equivalents, end of year	<u>\$ 513,912</u>	<u>\$ 514,695</u>

MERCER COUNTY COMMUNITY COLLEGE FOUNDATION
(A Component Unit of Mercer County Community College)

NOTES TO FINANCIAL STATEMENTS

A. NATURE OF ORGANIZATION

The Mercer County Community College Foundation (the "Foundation"), is a not-for-profit foundation organized in the State of NJ and exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code"). It is operated exclusively for the purpose of assisting the board of directors of Mercer County Community College (the "College") in holding, investing and administering property and making expenditures to or for the benefit of the College, its students and its faculty.

The activities of the Foundation are considered to be a component unit of the College due to the fact that the Foundation's activities are entirely for the direct benefit of the College. The financial statements for the Foundation are included in the College's financial statements as a component unit.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets - net assets not subject to donor-imposed stipulations, and therefore, expendable for operating purposes. Unrestricted assets include both designated and undesignated funds
- Temporarily restricted net assets - net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or by the passage of time.
- Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. This includes the funds passed through the College to the Foundation for Title III monies, which must be permanently restricted for 20 years. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or donor-specified purposes.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Financial Information

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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

MERCER COUNTY COMMUNITY COLLEGE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents includes unrestricted time deposits, certificates of deposit and highly liquid instruments with initial maturities of 90 days or less.

Cash balances maintained at financial institutions may exceed federally insured limits. The Foundation monitors the health of these banking institutions. Historically, the Foundation has not experienced any credit related losses.

Pledges Receivable

The Foundation considers all pledges receivable to be fully collectible; accordingly, no allowances for doubtful amounts is required. If amounts become uncollectible, they will be charged to the change in net assets when that determination is made. Pledge receivables with expected collection terms of greater than two years are presented at their net present value.

Public Support and Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable values. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present values of their net realizable values, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts.

Conditional promises to give are recognized when the conditions on which they are dependent are substantially satisfied.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions.

Endowment contributions and investments are permanently restricted by the donor. Title III funds are recorded as an increase in permanently restricted net assets as the match requirement is met. Investment earnings available for distribution are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Special events revenue is recognized when the event occurs.

Investments

The Foundation carries investments at fair market value. All interest, dividends, and unrealized gains and losses occurring during the years ended June 30, 2018 and 2017, are presented in the accompanying statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

MERCER COUNTY COMMUNITY COLLEGE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law. Income generated by activities that would be considered unrelated to the Foundation's mission would be subject to tax, which, if incurred, would be recognized as a current expense. No such tax has been recognized for the years ended June 30, 2018 or 2017.

U.S. GAAP requires management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

The Foundation did not record any interest or penalties on uncertain tax positions in the accompanying statements of financial position as of June 30, 2018 or 2017, or in the accompanying statements of activities for the years then ended. If the Foundation were to incur any income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax liability would be reported as income taxes.

Recent Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") has issued Accounting Standards Updates ("ASU") through the date of these financial statements which may be applicable to the Foundation and for which the Foundation is currently evaluating the effect that each will have on the financial statements and related disclosures.

ASU 2016-14, issued in August 2016, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, requires net assets to be presented in two classes, instead of three. The two classes will be net assets with donor restrictions and net assets without donor restrictions. Additional enhanced disclosures will be required to present the amounts and purposes of board designations, composition of net assets with donor restrictions, and how the restrictions affect the use of resources. ASU 2016-14 requires the entity to communicate qualitative and quantitative information on how it manages its liquid resources available to meet the cash flow needs for general expenditures within one year of the statement of financial position date, including disclosure of the availability of financial assets at the statement of financial position date, affected by 1) its nature, 2) external limits imposed by donors, grantors, laws and contracts with others, and 3) internal limits imposed by governing board decisions. ASU 2016-14 also requires reporting of investment returns net of external and direct internal investment expenses and removes the requirement to disclose the netting of such investment expenses. ASU 2016-14 will be effective for the Foundation for the year ending June 30, 2019.

ASU 2018-08, issued in June 2018, *Not-For-Profit Entities (Topic 958): Clarifying Scope and the Accounting Guidance for Contributions Received and Contributions Made*, clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments assist entities in 1) evaluating whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions subject to other guidance and 2) determining whether a contribution is conditional.

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NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

ASU 2018-08 requires that the Foundation apply this amendment for contributions received in which the Foundation serves as the resource recipient for the year ending June 30, 2020, and for contributions made in which the Foundation serves as the resource provider for the year ending June 30, 2021.

Subsequent Events

Management has evaluated subsequent events for potential recognition and disclosure through November 9, 2018, the date the financial statements were available to be issued. No items were determined by management to require disclosure.

C. INVESTMENTS

Investments at June 30, 2018 and 2017, are as follows:

	<u>2018</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Corporate fixed income	\$ 4,563,136	\$ 4,425,109	\$ (138,027)
Mutual funds	<u>5,620,020</u>	<u>6,834,652</u>	<u>1,214,632</u>
	<u>\$10,183,156</u>	<u>\$11,259,761</u>	<u>\$ 1,076,605</u>

	<u>2017</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Corporate fixed income	\$ 4,029,713	\$ 4,028,590	\$ (1,123)
Mutual Funds	<u>5,537,431</u>	<u>6,307,750</u>	<u>770,319</u>
	<u>\$ 9,567,144</u>	<u>\$10,336,340</u>	<u>\$ 769,196</u>

The following schedule summarizes the investment return and its classification in the statements of activities:

	<u>Year Ended June 30, 2018</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 112,641	\$ 148,056	\$ -	\$ 260,697
Net realized/unrealized gains	<u>312,426</u>	<u>239,203</u>	<u>-</u>	<u>551,629</u>
Total investment return	<u>\$ 425,067</u>	<u>\$ 387,259</u>	<u>\$ -</u>	<u>\$ 812,326</u>

	<u>Year Ended June 30, 2017</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 107,453	\$ 110,800	\$ -	\$ 218,253
Net realized/unrealized gains	<u>333,890</u>	<u>409,001</u>	<u>-</u>	<u>742,891</u>
Total investment return	<u>\$ 441,343</u>	<u>\$ 519,801</u>	<u>\$ -</u>	<u>\$ 961,144</u>

MERCER COUNTY COMMUNITY COLLEGE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

D. FAIR VALUE MEASUREMENT

Fair value is 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. In determining fair value, the Foundation uses various methods including market, income and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 — Quoted prices for identical assets and liabilities traded in active exchange markets.
- Level 2 — Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.
- Level 3 — Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

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 estimate of fair value at the reporting date.

During the years ended June 30, 2018 and 2017, there were no changes to the Foundation's valuation techniques that had, or are expected to have, a material impact on its financial position or changes in net assets.

The following is a description of the valuation methodologies used for instruments measured at fair value: *Corporate fixed income and Mutual funds* - The fair value is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

MERCER COUNTY COMMUNITY COLLEGE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

D. FAIR VALUE MEASUREMENT (CONTINUED)

Assets measured at fair value on a recurring basis as of June 30, 2018 and 2017, are summarized as follows:

	2018			Total
	Level 1	Level 2	Level 3	
Corporate fixed income	\$ 4,425,109	\$ -	\$ -	\$ 4,425,109
Mutual funds	6,834,652	-	-	6,834,652
	<u>\$ 11,259,761</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,259,761</u>

	2017			Total
	Level 1	Level 2	Level 3	
Corporate fixed income	\$ 4,028,590	\$ -	\$ -	\$ 4,028,590
Mutual funds	6,307,750	-	-	6,307,750
Total	<u>\$ 10,336,340</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,336,340</u>

The primary objective of the Foundation's investments is capital appreciation and return without undue exposure to risk. Investment funds are selected to support long term goals, and provide growth of endowment assets at a rate that that will provide available funds for expenses and scholarships and growth to endowment assets.

E. PLEDGES RECEIVABLE

Pledges receivable are as follows:

	June 30,	
	2018	2017
Pledges receivable	\$ 113,428	\$ 198,256
Less: unamortized discount	-	(2,069)
Net unconditional promises to give	<u>\$ 113,428</u>	<u>\$ 196,187</u>
Amounts due:		
Within one year	\$ 113,428	\$ 110,925
One to five years	-	87,331
	<u>\$ 113,428</u>	<u>\$ 198,256</u>

Outstanding unconditional promises to give are expected to be collected, accordingly, there is no allowance for uncollectible reflected. Unconditional promises to give, which are due in more than one year, are discounted at a risk-free rate of return appropriate for the expected term of the promise to give.

MERCER COUNTY COMMUNITY COLLEGE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

F. RELATED-PARTY TRANSACTIONS

The books of the Foundation are maintained through accounting and administrative services provided by the College. The fair value of these services has not been determined. Therefore, no amounts for these services have been recognized in the statements of activities. "Due to and from Mercer County Community College" accounts are set up to record related-party activity between the College and the Foundation. Due to Mercer County Community College was \$62,701 and \$88,738 at June 30, 2018 and 2017, respectively.

G. NET ASSETS

Unrestricted

The Foundation's board of directors has chosen to place the following limitations on unrestricted net assets:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Designated for scholarships and programs	\$ 36,169	\$ 12,319
Designated for student assistance	1,000,000	1,000,000
Designated for major gifts campaign	474,170	471,329
Designated for athletic fund	1,072,012	996,594
Undesignated	<u>447,273</u>	<u>264,391</u>
Total	<u>\$ 3,029,624</u>	<u>\$ 2,744,633</u>

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Scholarships	\$ 4,860,038	\$ 4,347,099
Programs	597,049	586,069
Capital improvements	460,630	662,432
Total	<u>\$ 5,917,717</u>	<u>\$ 5,595,600</u>

Net assets were released from donor restrictions as follows:

	<u>Year Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Expenses incurred to satisfy donor requirements	<u>\$ 381,546</u>	<u>\$ 421,453</u>

Permanently Restricted

Permanently restricted net assets are endowment funds restricted in perpetuity to continue the purpose of the Foundation. Interest and dividend income along with investment gains and losses generated by these assets are temporarily restricted or unrestricted based on donor designation and available for use by the Foundation.

MERCER COUNTY COMMUNITY COLLEGE FOUNDATION

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NOTES TO FINANCIAL STATEMENTS

H. ENDOWMENT FUNDS

The Foundation's endowment funds consist of approximately four (4) individual funds established for a variety of purposes. The endowment funds include both donor restricted endowment funds and funds designated by the Foundation's Board of Directors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Foundation's Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation has interpreted state law as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by state law.

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 purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

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 while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is as follows:

<u>Fund Investment Objectives</u>	<u>Investment Policy</u>	<u>Target Return</u>
Foundation Board Designated Account	Moderate to High risk	8%
Foundation Student Assistance Account	Low to Moderate Risk	7% - 8%
Foundation Athletic Account	Low to Moderate Risk	7% - 8%
Foundation Capital Campaign Account	Low to Moderate Risk	7% - 8%

MERCER COUNTY COMMUNITY COLLEGE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

H. ENDOWMENT FUNDS (CONTINUED)

The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7 - 8 percent annually. 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).

Endowment net asset composition by type of fund at:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Unrestricted board designated net assets	\$ 1,017,167	\$ 993,317
Temporarily restricted net assets	252,283	170,236
Permanently restricted net assets	<u>2,863,324</u>	<u>2,596,198</u>
Total	<u>\$ 4,132,774</u>	<u>\$ 3,759,751</u>

Changes in endowment funds for the years ended June 30, 2018 and 2017 are as follows:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, June 30, 2016	\$ 1,074,574	\$ 149,774	\$ 1,490,782	\$ 2,715,130
Contributions	403,272	-	1,105,416	1,508,688
Investment return	-	62,293	-	62,293
Appropriated for expenditures	(761,872)	(41,831)	-	(803,703)
Other changes				
Reclassification	125,000	-	-	125,000
Board designated endowments	<u>152,343</u>	<u>-</u>	<u>-</u>	<u>152,343</u>
Balance, June 30, 2017	<u>\$ 993,317</u>	<u>\$ 170,236</u>	<u>\$ 2,596,198</u>	<u>\$ 3,759,751</u>
Contributions	381,546	-	203,710	585,256
Investment return	-	134,347	-	134,347
Appropriated for expenditures	(664,048)	(52,300)	-	(716,348)
Other changes				
Reclassifications	100,000	-	63,416	163,416
Board designated endowments	<u>206,352</u>	<u>-</u>	<u>-</u>	<u>206,352</u>
Balance, June 30, 2018	<u>\$ 1,017,167</u>	<u>\$ 252,283</u>	<u>\$ 2,863,324</u>	<u>\$ 4,132,774</u>

I. LITIGATION AND CONTINGENT LIABILITIES

From time to time, the Foundation may be subject to litigation, claims and contingent liabilities incidental to the ordinary course of business. In the opinion of management, claims or lawsuits incidental to the business of the Foundation have been adequately provided for in the financial statements.