

**THE WALLACE STATE COMMUNITY COLLEGE
FUTURE FOUNDATION, INC.**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Wallace State Community College
Future Foundation, Inc.

We have audited the accompanying financial statements of The Wallace State Community College Future Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets and cash flows for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 The Wallace State Community College Future Foundation, Inc., as of June 30, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DiPiazza LaRocca Heeter & Co., LLC

DiPiazza LaRocca Heeter & Co., LLC
Birmingham, Alabama

December 20, 2018

**THE WALLACE STATE COMMUNITY COLLEGE
FUTURE FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2018 AND 2017**

ASSETS	2018	2017
CURRENT ASSETS		
Cash	\$ 284,190	\$ 429,534
Pledges receivable, net	626,194	535,651
Investments	2,858,927	1,740,958
Dividend receivable	443	883
Prepaid insurance	699	699
Total Current Assets	3,770,453	2,707,725
LAND	125,000	125,000
Total Assets	\$ 3,895,453	\$ 2,832,725
NET ASSETS		
Unrestricted	91,760	190,378
Temporarily restricted	1,309,388	1,010,670
Permanently restricted	2,494,305	1,631,677
Total Net Assets	3,895,453	2,832,725
Total Net Assets	\$ 3,895,453	\$ 2,832,725

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

**THE WALLACE STATE COMMUNITY COLLEGE
FUTURE FOUNDATION, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Contributions	\$ 237,549	\$ 372,320	\$ 862,628	\$ 1,472,497
Interest and dividends	-	82,741	-	82,741
Realized net investment gain	-	2,534	-	2,534
Unrealized net investment gain	-	18,046	-	18,046
Net assets released from restrictions	<u>176,923</u>	<u>(176,923)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	414,472	298,718	862,628	1,575,818
PROGRAM EXPENSES				
Scholarships, programs and special events for Wallace State Community College	421,770	-	-	421,770
Fundraising	9,241	-	-	9,241
Management and general	<u>82,079</u>	<u>-</u>	<u>-</u>	<u>82,079</u>
Total Expenses	<u>513,090</u>	<u>-</u>	<u>-</u>	<u>513,090</u>
Change in net assets	(98,618)	298,718	862,628	1,062,728
Net assets - beginning of year	<u>190,378</u>	<u>1,010,670</u>	<u>1,631,677</u>	<u>2,832,725</u>
Net assets - end of year	<u>\$ 91,760</u>	<u>\$ 1,309,388</u>	<u>\$ 2,494,305</u>	<u>\$ 3,895,453</u>

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

**THE WALLACE STATE COMMUNITY COLLEGE
FUTURE FOUNDATION, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Contributions	\$ 222,480	\$ 267,742	\$ 227,233	\$ 717,455
Interest and dividends	-	32,371	-	32,371
Realized net investment gain	-	3,440	-	3,440
Unrealized net investment gain	-	114,551	-	114,551
Net assets released from restrictions	<u>151,123</u>	<u>(151,123)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	373,603	266,981	227,233	867,817
PROGRAM EXPENSES				
Scholarships, programs and special events for Wallace State Community College	342,725	-	-	342,725
Fundraising	11,960	-	-	11,960
Management and general	<u>94,532</u>	<u>-</u>	<u>-</u>	<u>94,532</u>
Total Expenses	<u>449,217</u>	<u>-</u>	<u>-</u>	<u>449,217</u>
Change in net assets	(75,614)	266,981	227,233	418,600
Net assets - beginning of year	<u>265,992</u>	<u>743,689</u>	<u>1,404,444</u>	<u>2,414,125</u>
Net assets - end of year	<u>\$ 190,378</u>	<u>\$ 1,010,670</u>	<u>\$ 1,631,677</u>	<u>\$ 2,832,725</u>

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

**THE WALLACE STATE COMMUNITY COLLEGE
FUTURE FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 1,062,728	\$ 418,600
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Present value of pledges receivable	19,846	(38,826)
Realized net investment gain	(2,534)	(3,440)
Unrealized net investment gain	(18,046)	(114,551)
Change in pledges receivable	(110,389)	(16,079)
Change in dividends receivable	440	(440)
Net cash provided by operating activities	<u>952,045</u>	<u>245,264</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,308,330)	(568,809)
Proceeds from investments	210,941	10,056
Net cash used in investing activities	<u>(1,097,389)</u>	<u>(558,753)</u>
Net (decrease) increase in cash and cash equivalents	(145,344)	(313,489)
Cash and cash equivalents - beginning of the year	<u>429,534</u>	<u>743,023</u>
Cash and cash equivalents - end of the year	<u>\$ 284,190</u>	<u>\$ 429,534</u>

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

**The Wallace State Community College
Future Foundation, Inc.
Notes to Financial Statements
June 30, 2018 and 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Wallace State Community College Future Foundation, Inc. (the Foundation) is a nonprofit corporation that assists Wallace State Community College (the College), a public institution of higher education, in the advancement of the educational objectives of the College, including the encouragement and subsidization of its students and faculty.

Financial Statement Preparation

For financial statement presentation, the Foundation uses the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Foundation reports information regarding its financial position and activities according to three classes of net assets, unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. These three classifications are defined as follows:

- Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Foundation to use or expend the donated assets as specified and are satisfied either by the passage of time or by actions of the Foundation. These net assets are available for the purpose of providing scholarships to students of the College and other support for the College. Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors during 2018.
- Permanently restricted net assets contain donor-imposed restrictions that stipulate that resources be maintained permanently but permit the Foundation to use or expend part or all of the income derived from the donated assets for specified or unspecified purposes.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting which conforms to accounting principles generally accepted in the United States of America (U.S. GAAP). Revenues are recorded when pledged or when received if not pledged. Expenditures are recorded when materials are received or services are rendered.

Donated Services, Materials, and Facilities

Donated goods are reflected as contributions at their estimated fair market value at the date of donation. The Foundation receives donated services from a variety of unpaid volunteers assisting the Foundation in fundraising and other programs. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer efforts under U.S. GAAP has not been satisfied.

**The Wallace State Community College
Future Foundation, Inc.
Notes to Financial Statements
June 30, 2018 and 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Contributions and Pledges Receivable

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

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 temporarily restricted or permanently restricted support that increases those net assets. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Pledges receivable represent unconditional promises to give and are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discounts is included in contributions revenue. Conditional promises to give are not recorded as pledges receivable until such time as the conditions are substantially met.

Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable or pledges receivable. There was no valuation allowance for pledges receivable at June 30, 2018 and 2017.

Investment Valuation and Income Recognition

The Foundation follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* as well as subsequent guidance in Accounting Standards Update (ASU) 2015-12 *Plan Accounting Defined Contribution: (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, and (Part III) Measurement Date Expedient*.

The year to year increase or decrease in value of investments is reflected in the accompanying statements of activities and changes in net assets. Realized gains and losses on the sale of investments are calculated based on the specific identification method.

**The Wallace State Community College
Future Foundation, Inc.
Notes to Financial Statements
June 30, 2018 and 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Land

Land is carried at the estimated fair value at the date of the gift less depreciation, where applicable.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

Income Taxes

The Internal Revenue Service (IRS) has determined that the Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. The Foundation has no income from an unrelated trade or business and therefore there is no income tax provision provided for such activities.

The Foundation follows the provisions of FASB ASC Topic 740, *Accounting for Uncertainty in Income Taxes*. As of June 30, 2018, the Foundation had no uncertain tax positions that qualify for disclosure in financial statements. The Foundation files an annual Form 990 with the IRS and its tax returns for previous open tax years may be subject to examination by taxing authorities.

New Accounting Pronouncement

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities (Topic 958), which makes targeted changes to the not-for-profit financial reporting model. Under the new standard, the existing three-category classification of net assets will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called “net assets with donor restrictions.” New disclosures will highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. The standard also imposes several new requirements related to reporting expenses, including providing information about expenses by their natural classification. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The Foundation is evaluating the impact this will have on the consolidated financial statements beginning in fiscal year 2019.

**The Wallace State Community College
Future Foundation, Inc.
Notes to Financial Statements
June 30, 2018 and 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating the transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This standard is effective for fiscal years beginning after December 15, 2017. The Foundation is evaluating the impact this will have on the consolidated financial statements beginning in fiscal year 2019.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor’s Report, which is the date the financial statements were available to be issued.

NOTE 2 – INVESTMENTS

Investments are stated at fair value and are summarized as follows as of June 30, 2018:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation/ (Depreciation)</u>
Money market funds	\$ 85,957	\$ 85,957	\$ -
Mutual funds	2,627,128	2,772,970	145,842
Total	<u>\$ 2,713,085</u>	<u>\$ 2,858,927</u>	<u>\$ 145,842</u>

Investments are stated at fair value and are summarized as follows as of June 30, 2017:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation/ (Depreciation)</u>
Money market funds	\$ 19,786	\$ 19,786	\$ -
Mutual funds	1,601,752	1,721,172	119,420
Total	<u>\$ 1,621,538</u>	<u>\$ 1,740,958</u>	<u>\$ 119,420</u>

Investment expenses were \$10,095 and \$6,024 for the years ended June 30, 2018 and 2017, respectively, and are included in management and general expenses on the statement of activities and changes in net assets.

**The Wallace State Community College
Future Foundation, Inc.
Notes to Financial Statements
June 30, 2018 and 2017**

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation follows ASC 820, *Fair Value Measurements and Disclosures*. In accordance with ASC 820, fair value is defined as the price that the Foundation would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Foundation's own assumptions in determining the fair value of investments)

Assets and liabilities measured at fair value are based on one or more of the three valuation techniques noted in the guidance. The three techniques are as follows:

Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

Cost approach: Amount that would be required to replace the service capacity of an asset (i.e. replacement cost); and

Income approach: Techniques to convert future amounts to a single present amount based on market expectations utilizing present value techniques.

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 calculation methodologies 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.

**The Wallace State Community College
Future Foundation, Inc.
Notes to Financial Statements
June 30, 2018 and 2017**

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

The following tables set forth by level within the fair value hierarchy, the Foundation’s assets that are measured at fair value on a recurring basis as of June 30, 2018 and 2017:

	June 30, 2018	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Money market funds	\$ 85,957	\$ 85,957	\$ -	\$ -
Mutual funds	<u>2,772,970</u>	<u>2,772,970</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 2,858,927</u>	<u>\$ 2,858,927</u>	<u>\$ -</u>	<u>\$ -</u>

	June 30, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Money market funds	\$ 19,786	\$ 19,786	\$ -	\$ -
Mutual funds	<u>1,721,172</u>	<u>1,721,172</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 1,740,958</u>	<u>\$ 1,740,958</u>	<u>\$ -</u>	<u>\$ -</u>

The following is a summary of significant valuation techniques for assets and liabilities measured at fair value on a recurring basis:

Level 1 measurements

Mutual funds: Comprised of pools of money received from many investors which is managed by an investment company. Investments include stocks, bonds or other assets. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Foundation can access.

**The Wallace State Community College
Future Foundation, Inc.
Notes to Financial Statements
June 30, 2018 and 2017**

NOTE 4 – PLEDGES RECEIVABLE

Unconditional promises to give are as follows at June 30, 2018:

Receivable in less than one year	\$	166,965
Receivable in one to five years		<u>501,903</u>
Total unconditional promises to give		668,868
Less discounts to net present value at 4.0%		<u>(42,674)</u>
Net unconditional promises to give	\$	<u>626,194</u>

Unconditional promises to give are as follows at June 30, 2017:

Receivable in less than one year	\$	195,604
Receivable in one to five years		<u>362,875</u>
Total unconditional promises to give		558,479
Less discounts to net present value at 4.25%		<u>(22,828)</u>
Net unconditional promises to give	\$	<u>535,651</u>

NOTE 5 – ENDOWMENT

The Foundation’s endowment consists of donor-restricted funds established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Foundation has concluded that absent explicit donor stipulations to the contrary, fiduciary standards require the preservation of the “historic dollar value” of donor-restricted endowment funds. “Historic dollar value” as to any donor-restricted endowment fund means the aggregate fair value of (a) the original value of gifts donated to such fund, (b) the original value of subsequent gifts to the such fund, and (c) accumulations to such fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Accordingly, the Foundation classifies the historic dollar value of a donor-restricted endowment fund as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed in Alabama Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Notwithstanding the foregoing accounting classifications, unless the gift instrument creating a donor-restricted endowment fund expressly provides otherwise, the board of the Foundation may, as

**The Wallace State Community College
Future Foundation, Inc.
Notes to Financial Statements
June 30, 2018 and 2017**

NOTE 5 – ENDOWMENT – Continued

provided in Alabama UPMIFA, from time to time, appropriate for expenditure such portion of the permanently restricted net assets that it determines is prudent.

The Foundation has adopted investment and spending policies approved by the Board of Directors for endowment assets to be held with the intent to provide support for the Foundation’s mission over the long term. The primary investment objectives are to preserve the real purchasing power of the principal and provide a stable source of perpetual financial support to beneficiaries in accordance with the Foundation’s spending policy. In order to achieve these objectives, the long-term rate of return required is the inflation rate plus the Foundation’s current spending rate. Actual returns in any given year may vary from these established rates of return.

Under the terms of the Foundation’s governing documents, the Board of Directors has established an Investment Committee to ensure that endowment assets are invested with skill, care, prudence and diligence. This committee selects an external investment manager to manage endowment investments. The investment manager is subject to a standard of fiduciary prudence and responsibility and discretion over the investment of the funds they manage.

The Foundation’s spending policy mandates that the first 4% of endowment earnings be allocated to each endowment beneficiary and the next 2% be allocated to a corpus fund to offset inflation. Any amount over 6% goes into unrestricted funds. Regardless of the annual investment account performance, the current budget for the endowment income will be funded and the amount required to maintain corpus growth at the rate of inflation will be accrued.

The following analysis shows the changes in the endowment net assets for the year ended June 30, 2018:

Endowment net assets, beginning of year	\$ 1,631,677
Contributions	<u>862,628</u>
Endowment net assets, end of year	<u>\$ 2,494,305</u>

NOTE 6 – CONCENTRATION OF CREDIT RISK

The Foundation places its cash balances with financial institutions insured by the FDIC. At times, cash investments may exceed the insured limits.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Foundation utilizes office space and employees of the College. No rent or salary is paid to the College by the Foundation and no value has been recognized in the financial statements.