

**NATIONAL CONSORTIUM FOR GRADUATE
DEGREES FOR MINORITIES IN
ENGINEERING AND SCIENCE, INC.**

FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

**NATIONAL CONSORTIUM FOR GRADUATE DEGREES FOR
MINORITIES IN ENGINEERING AND SCIENCE, INC.**

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YEARS ENDED JUNE 30, 2019 AND 2018

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Independent Auditors' Report

To the Board of Directors
National Consortium for Graduate Degrees for
Minorities in Engineering and Science, Inc.
Alexandria, Virginia

We have audited the accompanying financial statements of the National Consortium for Graduate Degrees for Minorities in Engineering and Science, Inc. (GEM), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, statements of functional expenses 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.

Auditors' 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Consortium for Graduate Degrees for Minorities in Engineering and Science, Inc. as of June 30, 2019 and 2018, 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.

To the Board of Directors
National Consortium for Graduate Degrees for
Minorities in Engineering and Science, Inc.
Alexandria, VA

Emphasis of a Matter

For the years ended June 30, 2019 and 2018, National Consortium for Graduate Degrees for Minorities in Engineering and Science, Inc. adopted new accounting guidance, implementing the FASB's ASU 2016-14 ("ASU 2016-14"), Not-for-Profit Entities (Topic 958); Presentation of Financial Statements for Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

For the year ended June 30, 2019, National Consortium for Graduate Degrees for Minorities in Engineering and Science, Inc. early implemented Accounting Standards Update No. 2018-08 ("ASU 2018-08"), Not-for-Profit Entities (Topic 958); Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. Our opinion is not modified with respect to this matter.

As discussed in Note M to the financial statements, National Consortium for Graduate Degrees for Minorities in Engineering and Science, Inc. is currently evaluating the effect of the spread of the COVID-19 coronavirus. National Consortium for Graduate Degrees for Minorities in Engineering and Science, Inc. cannot reasonably estimate the impact on its operations or financial results. The accompanying financial statements do not include any adjustments related to the subsequent event. Our opinion is not modified with respect to this matter.

As discussed in Note M to the financial statements, beginning September 1, 2019 National Consortium for Graduate Degrees for Minorities in Engineering and Science, Inc. received a grant from the National Science Foundation. The accompanying financial statements do not include any adjustments related to the subsequent event. Our opinion is not modified with respect to this matter.

As discussed in Note N to the financial statements, the June 30, 2018 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Limerick, Pennsylvania
_____, 2020

**NATIONAL CONSORTIUM FOR GRADUATE DEGREES FOR
MINORITIES IN ENGINEERING AND SCIENCE, INC.**

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and temporary cash investments	\$ 1,438,188	\$ 949,452
Membership fees and other receivables	851,005	1,121,661
Prepaid expenses	27,139	-
TOTAL CURRENT ASSETS	<u>2,316,332</u>	<u>2,071,113</u>
INVESTMENTS	4,770,647	3,822,012
PROPERTY AND EQUIPMENT, net	<u>710,035</u>	<u>739,323</u>
TOTAL ASSETS	<u>\$ 7,797,014</u>	<u>\$ 6,632,448</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts and fellowships payable	\$ 877,425	\$ 11,207
Future event donations	1,000	1,000
Unearned membership fees	-	12,500
Deferred revenue	193,800	373,550
Current portion of long-term debt	48,229	46,226
TOTAL CURRENT LIABILITIES	<u>1,120,454</u>	<u>444,483</u>
LONG-TERM DEBT	<u>238,969</u>	<u>286,930</u>
NET ASSETS		
Unrestricted		
Without donor restrictions	1,441,980	1,174,059
Board-designated	1,418,257	738,257
Funds functioning as endowment	3,577,354	3,988,719
TOTAL NET ASSETS	<u>6,437,591</u>	<u>5,901,035</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,797,014</u>	<u>\$ 6,632,448</u>

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See accompanying notes.

**NATIONAL CONSORTIUM FOR GRADUATE DEGREES FOR
MINORITIES IN ENGINEERING AND SCIENCE, INC.**

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions				Totals
	Board-Designated			Funds Functioning as Endowment	
	Without Donor Restrictions	Designated Fellowships	Other Designated		
REVENUE					
Contributions	\$ 3,937,500	\$ -	\$ -	\$ -	\$ 3,937,500
Events/conferences	347,185	-	-	-	347,185
Grant revenues	45,549	-	-	-	45,549
Investment income	186	-	-	283,788	283,974
Membership fees	450,675	-	-	-	450,675
Alumni giving	12,055	-	-	-	12,055
Other revenue	90,546	-	-	-	90,546
TOTAL REVENUE	4,883,696	-	-	283,788	5,167,484
AWARDED FELLOWSHIPS, net	(2,960,000)	2,960,000	-	-	-
EXPENSES					
Advertising	450	-	-	-	450
Bank service fees	9,158	-	-	-	9,158
Consulting fees	9,383	-	-	-	9,383
Depreciation	29,288	-	-	-	29,288
Events/conferences	233,588	-	-	-	233,588
Fellowship expenses	-	2,960,000	-	-	2,960,000
Insurance	8,401	-	-	-	8,401
Interest expense	13,457	-	-	-	13,457
Investment fees	-	-	-	15,153	15,153
Miscellaneous	41,909	-	-	-	41,909
Other benefits	188,243	-	-	-	188,243
Postage	2,588	-	-	-	2,588
Printing	5,328	-	-	-	5,328
Professional fees	265,887	-	-	-	265,887
Real estate taxes	10,052	-	-	-	10,052
Repairs and maintenance	27,007	-	-	-	27,007
Salaries and wages	708,324	-	-	-	708,324
Supplies	6,375	-	-	-	6,375
Travel	78,576	-	-	-	78,576
Utilities	17,761	-	-	-	17,761
TOTAL EXPENSES	1,655,775	2,960,000	-	15,153	4,630,928
CHANGE IN NET ASSETS	267,921	-	-	268,635	536,556
NET ASSETS AT BEGINNING OF YEAR	1,174,059	81,898	656,359	3,988,719	5,901,035
Board designation of funds functioning as endowment	-	680,000	-	(680,000)	-
NET ASSETS AT END OF YEAR	\$ 1,441,980	\$ 761,898	\$ 656,359	\$ 3,577,354	\$ 6,437,591

See accompanying notes.

NATIONAL CONSORTIUM FOR GRADUATE DEGREES FOR MINORITIES IN ENGINEERING AND SCIENCE, INC.

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2018

	Unrestricted				Totals
	Board-Designated			Funds Functioning as Endowment	
	Without Donor Restrictions	Designated Fellowships	Other Designated		
REVENUE					
Contributions	\$ 3,556,661	\$ -	\$ -	\$ -	\$ 3,556,661
Events/conferences	453,766	-	-	-	453,766
Grant revenues	20,000	-	-	-	20,000
Investment income	381	-	-	244,363	244,744
Membership fees	373,350	-	-	-	373,350
Alumni giving	12,627	-	-	-	12,627
Other revenue	55,800	-	-	-	55,800
TOTAL REVENUE	<u>4,472,585</u>	<u>-</u>	<u>-</u>	<u>244,363</u>	<u>4,716,948</u>
AWARDED FELLOWSHIPS, net	<u>(1,545,000)</u>	<u>1,545,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENSES					
Bank service fees	7,259	-	-	-	7,259
Consulting fees	10,352	-	-	-	10,352
Depreciation	28,708	-	-	-	28,708
Events/conferences	309,151	-	-	-	309,151
Fellowship expenses	-	1,546,502	-	-	1,546,502
Insurance	8,435	-	-	-	8,435
Interest expense	15,359	-	-	-	15,359
Investment fees	-	-	-	13,993	13,993
Miscellaneous	23,703	-	-	-	23,703
Other benefits	165,288	-	-	-	165,288
Postage	3,882	-	-	-	3,882
Printing	7,995	-	-	-	7,995
Professional fees	322,690	-	-	-	322,690
Real estate taxes	9,981	-	-	-	9,981
Repairs and maintenance	16,157	-	-	-	16,157
Salaries and wages	630,123	-	-	-	630,123
Supplies	5,061	-	-	-	5,061
Travel	50,420	-	-	-	50,420
Utilities	18,067	-	-	-	18,067
TOTAL EXPENSES	<u>1,632,631</u>	<u>1,546,502</u>	<u>-</u>	<u>13,993</u>	<u>3,193,126</u>
CHANGE IN NET ASSETS	1,294,954	(1,502)	-	230,370	1,523,822
NET ASSETS AT BEGINNING OF YEAR	<u>(120,895)</u>	<u>(18,600)</u>	<u>656,359</u>	<u>3,860,349</u>	<u>4,377,213</u>
Board designation of funds functioning as endowment	<u>-</u>	<u>102,000</u>	<u>-</u>	<u>(102,000)</u>	<u>-</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,174,059</u>	<u>\$ 81,898</u>	<u>\$ 656,359</u>	<u>\$ 3,988,719</u>	<u>\$ 5,901,035</u>

See accompanying notes.

**NATIONAL CONSORTIUM FOR GRADUATE DEGREES FOR
MINORITIES IN ENGINEERING AND SCIENCE, INC.**

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services			Supporting Services			Total Program and Supporting Services
	Fellowships	Program Activities	Totals	Management and General	Fund- Raising	Totals	
FUNCTIONAL EXPENSES							
Advertising	\$ -	\$ 450	\$ 450	\$ -	\$ -	\$ -	\$ 450
Bank service fees	-	-	-	9,158	-	9,158	9,158
Consulting fees	-	5,419	5,419	3,964	-	3,964	9,383
Depreciation	-	13,297	13,297	9,314	6,678	15,992	29,289
Events/conferences	-	223,743	223,743	9,845	-	9,845	233,588
Fellowship expenses	2,960,000	-	2,960,000	-	-	-	2,960,000
Insurance	-	3,814	3,814	2,672	1,915	4,587	8,401
Interest expense	-	6,109	6,109	4,279	3,068	7,347	13,456
Investment fees	-	-	-	15,153	-	15,153	15,153
Miscellaneous	-	1,406	1,406	10,448	30,055	40,503	41,909
Other benefits	-	95,439	95,439	52,520	40,284	92,804	188,243
Postage	-	-	-	2,588	-	2,588	2,588
Printing	-	-	-	5,328	-	5,328	5,328
Professional fees	-	33,377	33,377	211,510	21,000	232,510	265,887
Real estate taxes	-	4,564	4,564	3,197	2,292	5,489	10,053
Repairs and maintenance	-	12,261	12,261	8,588	6,158	14,746	27,007
Salaries and wages	-	359,819	359,819	197,227	151,278	348,505	708,324
Supplies	-	-	-	6,375	-	6,375	6,375
Travel	-	78,576	78,576	-	-	-	78,576
Utilities	-	8,062	8,062	5,648	4,050	9,698	17,760
TOTAL FUNCTIONAL EXPENSES	\$ 2,960,000	\$ 846,336	\$ 3,806,336	\$ 557,814	\$ 266,778	\$ 824,592	\$ 4,630,928

See accompanying notes.

**NATIONAL CONSORTIUM FOR GRADUATE DEGREES FOR
MINORITIES IN ENGINEERING AND SCIENCE, INC.**

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services			Supporting Services			Total Program and Supporting Services
	Fellowships	Program Activities	Totals	Management and General	Fund- Raising	Totals	
FUNCTIONAL EXPENSES							
Bank service fees	\$ -	\$ -	\$ -	\$ 7,259	\$ -	\$ 7,259	\$ 7,259
Consulting fees	-	8,102	8,102	2,250	-	2,250	10,352
Depreciation	-	13,033	13,033	9,129	6,545	15,674	28,707
Events/conferences	-	307,858	307,858	1,293	-	1,293	309,151
Fellowship expenses	1,546,502	-	1,546,502	-	-	-	1,546,502
Insurance	-	3,829	3,829	2,682	1,923	4,605	8,434
Interest expense	-	6,973	6,973	4,884	3,502	8,386	15,359
Investment fees	-	-	-	13,993	-	13,993	13,993
Miscellaneous	-	1,611	1,611	6,902	15,190	22,092	23,703
Other benefits	-	83,801	83,801	46,115	35,372	81,487	165,288
Postage	-	-	-	3,882	-	3,882	3,882
Printing	-	-	-	7,995	-	7,995	7,995
Professional fees	-	33,440	33,440	268,250	21,000	289,250	322,690
Real estate taxes	-	4,531	4,531	3,174	2,276	5,450	9,981
Repairs and maintenance	-	7,335	7,335	5,138	3,684	8,822	16,157
Salaries and wages	-	320,170	320,170	175,410	134,544	309,954	630,124
Supplies	-	-	-	5,061	-	5,061	5,061
Travel	-	50,420	50,420	-	-	-	50,420
Utilities	-	8,204	8,204	5,746	4,118	9,864	18,068
TOTAL FUNCTIONAL EXPENSES	\$ 1,546,502	\$ 849,307	\$ 2,395,809	\$ 569,163	\$ 228,154	\$ 797,317	\$ 3,193,126

See accompanying notes.

**NATIONAL CONSORTIUM FOR GRADUATE DEGREES FOR
MINORITIES IN ENGINEERING AND SCIENCE, INC.**

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 536,556	\$ 1,523,822
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	29,288	28,708
Unrealized gain on investments	(166,692)	(79,708)
(Increase) decrease in		
Membership fees and other receivables	270,656	(761,099)
Prepaid expenses	(27,139)	15,815
Increase (decrease) in		
Accounts payable	866,218	11,207
Unearned membership fees	(12,500)	10,500
Deferred revenue	(179,750)	(559,353)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,316,637</u>	<u>189,892</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(4,335)
Sale of investments	695,153	102,500
Purchase of investments	(1,477,096)	(150,662)
NET CASH USED BY INVESTING ACTIVITIES	<u>(781,943)</u>	<u>(52,497)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(45,958)	(44,056)
NET INCREASE IN CASH AND TEMPORARY CASH INVESTMENTS	488,736	93,339
CASH AND TEMPORARY CASH INVESTMENTS AT BEGINNING OF YEAR	<u>949,452</u>	<u>856,113</u>
CASH AND TEMPORARY CASH INVESTMENTS AT END OF YEAR	<u>\$ 1,438,188</u>	<u>\$ 949,452</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	\$ 13,457	\$ 15,359

See accompanying notes.

NATIONAL CONSORTIUM FOR GRADUATE DEGREES FOR MINORITIES IN ENGINEERING AND SCIENCE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE A - ORGANIZATION

The National Consortium for Graduate Degrees for Minorities in Engineering and Science, Inc. (GEM) is a separately incorporated not-for-profit organization whose purpose is to provide aid and support to minority students pursuing graduate degrees in the field of engineering and science. Revenue consists of corporate contributions and membership fees from corporate and university members.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the accounting policies adopted by GEM, which have a significant effect on the financial statements.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses when incurred.

Change in Accounting Principle

In August 2016, the FASB issued Accounting Standards Update No. 2016-14 ("ASU 2016 14"), *Not-for-Profit Entities (Topic 958); Presentation of Financial Statements for Not-for-Profit Entities*. GEM has implemented ASU 2016-14 for these financial statements dated June 30, 2019 and 2018 and for the years then ended.

In June 2018, the FASB issued Accounting Standards Update No. 2018-08 ("ASU 2018-08"), *Not-for-Profit Entities (Topic 958); Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. GEM has early implemented ASU 2018-08 for these financial statements dated June 30, 2019 and for the year then ended.

Financial Statement Presentation

The financial statements of GEM have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require GEM to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets without Donor Restrictions: Net assets that are subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of GEM. These net assets may be used at the discretion of GEM's management and the board of directors.

NATIONAL CONSORTIUM FOR GRADUATE DEGREES FOR MINORITIES IN ENGINEERING AND SCIENCE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets with Donor Restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of GEM or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

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

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the same reporting period in which the support is received and recognized.

Cash and Temporary Cash Investments

Resources invested in money market funds and short-term investments with maturities of three months or less at date of purchase are classified as temporary cash investments.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. 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 that are 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. At June 30, 2019 and 2018, there was no valuation allowance.

Investments

Investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains (losses) are included in the change in net assets.

Contributions

In accordance with FASB ASC 958-605, unconditional contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions received are accounted for as a liability or are unrecognized initially, that is, until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with restrictions or net assets without restrictions. GEM did not have any conditional contributions for the years ended June 30, 2019 and 2018.

NATIONAL CONSORTIUM FOR GRADUATE DEGREES FOR MINORITIES IN ENGINEERING AND SCIENCE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The general capitalization policy is that all equipment and other fixed assets costing in excess of \$1,000 will be recorded as an asset.

Tax Status

GEM is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code.

GEM takes the position that it has no net income derived from unrelated business activities and believes it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

Functional Allocation of Expenses

The cost of providing program services and other activities has been summarized on a functional basis in the statements of activities. Directly identifiable expenses are charged to programs and supporting services. Costs that constitute an appeal for financial support are charged to fundraising expenses. Expenses related to more than one function are charged to programs and supporting services based on estimates of time/expense incurred in each area. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide the overall support and direction of GEM. Such costs are expensed as incurred. These expenses are allocated based on a pro-rata share of the total payroll charged to each function.

Membership Fees

Membership fees, which are billed in advance, are recognized as revenue when earned. Unearned fee revenue represents membership fees billed for periods extending beyond year-end.

Awarded Fellowships, Net

As GEM fellowships are awarded, the amounts associated with each award are transferred to Board-designated net assets. These amounts are net of fellowship offers declined and amounts related to students who have withdrawn from a GEM fellowship program or who have graduated without expending the full designated amounts.

**NATIONAL CONSORTIUM FOR GRADUATE DEGREES FOR
MINORITIES IN ENGINEERING AND SCIENCE, INC.**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of Management's Review

Management has evaluated subsequent events through _____, 2020, the date which the financial statements were available to be issued.

NOTE C - FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

Financial Instruments

The carrying values of GEM's financial instruments approximate their estimated fair values. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- **Cash and Temporary Cash Investments** - The carrying amount approximates fair value due to the short-term maturity of these instruments.
- **Marketable Securities and Investments** - The fair value of marketable securities and investments held for investment purposes is based on quoted market prices.

Concentrations of Credit Risk

Financial instruments which potentially subject GEM to concentrations of credit risk consist principally of cash and accounts receivable. GEM places its cash with high credit quality institutions. At times, such amounts may be in excess of the FDIC insurance limits.

Concentrations of credit risk with respect to trade accounts receivable are generally diversified due to the large number of individuals comprising GEM's customer base.

**NATIONAL CONSORTIUM FOR GRADUATE DEGREES FOR
MINORITIES IN ENGINEERING AND SCIENCE, INC.**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE D - INVESTMENTS

Investments are carried at market. The following summarizes the relationship between cost and carrying values at market value at June 30, 2019 and 2018, and the related investment income included in the statements of activities.

	2019		2018	
	Cost	Market	Cost	Market
Mutual funds				
Equity	\$ 977,241	\$ 1,074,264	\$ 783,588	\$ 909,070
Fixed income	<u>2,905,653</u>	<u>3,696,383</u>	<u>2,317,362</u>	<u>2,912,942</u>
	<u>\$ 3,882,894</u>	<u>\$ 4,770,647</u>	<u>\$ 3,100,950</u>	<u>\$ 3,822,012</u>

The composition of investment return consists of:

	2019	2018
Interest income, cash and cash equivalents	\$ 186	\$ 381
Investment portfolio income	117,470	88,166
Realized gain (loss)	(374)	76,489
Unrealized gain	<u>166,692</u>	<u>79,708</u>
	<u>\$ 283,974</u>	<u>\$ 244,744</u>

It is GEM's intent to hold investments for long-term purposes.

NOTE E - FAIR VALUE MEASUREMENTS

FASB ASC 820-10 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets that GEM has the ability to access. *Level 2* inputs are other than quoted market prices that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. *Level 3* inputs are unobservable inputs based on GEM's assumptions used to measure assets and liabilities at fair value. The asset 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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE E - FAIR VALUE MEASUREMENTS (Continued)

The assets of GEM for which fair values are determined on a recurring basis are summarized as follows:

	Level 1	
	<u>2019</u>	<u>2018</u>
MUTUAL FUNDS		
International equity	\$ 1,074,264	\$ 909,070
Domestic equity	1,741,554	1,472,737
Short term fixed income	273,152	203,208
Intermediate term fixed income	399,786	285,763
International bond	591,453	447,751
Domestic bond	<u>690,438</u>	<u>503,483</u>
	<u>\$ 4,770,647</u>	<u>\$ 3,822,012</u>

Mutual funds are valued at quoted market prices, which represent the fair values of shares held by GEM at year end.

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NOTE F - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Fixtures and equipment	\$ 101,402	\$ 101,402
Website	172,199	172,199
Phone and security system equipment	19,143	19,143
Buildings	<u>950,983</u>	<u>950,983</u>
	1,243,727	1,243,727
Accumulated depreciation	<u>(533,692)</u>	<u>(504,404)</u>
	<u>\$ 710,035</u>	<u>\$ 739,323</u>

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NOTES TO FINANCIAL STATEMENTS

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NOTE G - LONG-TERM DEBT

Long-term debt is as follows:

	<u>2019</u>	<u>2018</u>
Mortgage payable, interest at 4.25%, monthly payments of \$4,952, payable to maturity in November 2024, secured by building	\$ 287,198	\$ 333,156
Current portion	<u>(48,229)</u>	<u>(46,226)</u>
	<u>\$ 238,969</u>	<u>\$ 286,930</u>

Future maturities of long-term debt are as follows:

<u>Year Ending June 30,</u>		
2020	draft	\$ 48,229
2021		50,319
2022		52,500
2023		54,775
2024		57,149
Thereafter		<u>24,226</u>
		<u>\$ 287,198</u>

NOTE H - NET ASSETS WITHOUT DONOR RESTRICTIONS

The board has committed to the following fellowships:

	<u>2019</u>	<u>2018</u>
GEM FELLOWSHIPS		
M.S. Engineering Fellowship Program	\$ -	\$ 1,680,000
Ph.D. Engineering & Science Fellowship Programs	-	1,680,000

Net assets of \$738,257 are designated for operations and fellowship expenses by the board.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE H - NETS ASSETS WITHOUT DONOR RESTRICTIONS (Continued)

Endowment

GEM classifies as endowment net assets (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts to the endowment and (3) enhancements or diminishment of the fund from investment income, loss and spending allowance.

Return Objectives and Risk Parameters

GEM has adopted investment and spending policies for endowment assets that attempt to provide a relatively predictable and growing stream of annual distributions in support of the institution while preserving the long-term, real purchasing power of assets.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, GEM 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). GEM's current assets allocation for endowment funds is structured to achieve the appropriate level of investment return.

Spending Policy and How the Investment Objectives Relate to Spending Policy

As of June 30, 2019, GEM's net asset endowment is invested in a diversified portfolio of equities and fixed assets. GEM intends to use endowment net assets to support operations in accordance with donor stipulations. Each year, the investment committee recommends expenditures based on portfolio growth and earnings. Half of the portfolio earnings, up to 3% of the portfolio value, may be distributed to the general operating accounts of GEM. Endowment expenditures totaled \$680,000 and \$102,000 for the years ended June 30, 2019 and 2018, respectfully.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE H - NET ASSETS WITHOUT DONOR RESTRICTIONS (Continued)

Endowment net assets consist of the following:

	<u>2019</u>	<u>2018</u>
BEGINNING BALANCE	\$ 3,988,719	\$ 3,860,349
Contributions		
Investment gain	283,788	244,363
Investment expenses	(15,153)	(13,993)
Operation expenditures	<u>(680,000)</u>	<u>(102,000)</u>
ENDING BALANCE	<u>\$ 3,577,354</u>	<u>\$ 3,988,719</u>

Endowment net assets are designated for the following purposes as of June 30, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Operations	<u>\$ 3,577,354</u>	<u>\$ 3,988,719</u>

NOTE I - PROGRAM INFORMATION

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GEM presently operates the following programs:

- ***GEM M.S. Engineering Fellowship Program*** - The objective of the master's program is to increase the pool of minority M.S. engineering graduates. Each participant is afforded a summer internship experience and a portable academic fellowship of tuition, fees and stipend. Fellows are supported for three semesters or four quarters.
- ***GEM Ph.D. Engineering Fellowship Program*** - This program's objective is to offer post-master's fellowships to under-represented minority students. Fellowships may be used at any participating GEM member university. Tuition, fees and an academic year stipend are provided, and the students are afforded a summer internship experience before the start of the first academic year under the program. Fellows may also be required to accept a research or teaching assistantship.
- ***GEM Ph.D. Science Fellowship Program*** - The goal of this program is to increase the number of minority students pursuing doctoral degrees in the natural, physical and life sciences (chemistry, physics, mathematics and computer science, as well as the earth, biological and pharmaceutical sciences). Fellowships are portable to any participating GEM member university and include a stipend, tuition and fees, along with an opportunity for a summer internship experience before the start of the first academic year under the program. Fellows may be required to accept a research or teaching assistantship.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE I - PROGRAM INFORMATION (Continued)

For the years ended June 30, 2019 and 2018, a GEM employer or university member pays a non-refundable annual membership fee of \$2,500 or \$5,000, respectively, to belong to the National GEM Consortium.

The membership fees and additional contributions are recorded as revenue for the purpose of funding GEM programs and extensions.

NOTE J - FUNCTIONAL CLASSIFICATION OF EXPENSES

The functional classification of expenses is as follows:

	<u>2019</u>	<u>2018</u>
PROGRAM EXPENSES		
Fellowships	\$ 2,483,773	\$ 1,546,502
Program activities	846,336	849,307
FUND-RAISING	266,778	228,154
GENERAL AND ADMINISTRATIVE	<u>557,814</u>	<u>569,163</u>
	<u>\$ 4,154,701</u>	<u>\$ 3,193,126</u>

NOTE K - 401(k) PLAN

GEM has a defined contribution plan (i.e., Section 401(k) under the Internal Revenue Code). GEM contributions are discretionary and determined annually by management. The plan also allows employee contributions through salary reduction. GEM's contributions for the years ended June 30, 2019 and 2018, were \$12,440 and \$11,272, respectively.

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NOTES TO FINANCIAL STATEMENTS

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NOTE L - LIQUIDITY

As part of the National Consortium for Graduate Degrees for Minorities' liquidity management, GEM's strategy is to structure financial assets to be available to satisfy cash needs for general expenditures and current liabilities with a goal to meet at least 30 days of normal operating expenses, which are on average \$11,400 per day. GEM's financial assets available to meet cash needs for general expenditure include:

	2019	2018
Cash	\$ 1,438,188	\$ 949,452
Membership fees and other receivables	851,005	1,121,661
	<u>\$ 2,289,193</u>	<u>\$ 2,071,113</u>

In addition, GEM has investments which may be drawn upon in the event of immediate liquidity need resulting from events outside the typical life cycle of converting financial assets or settling financial liabilities.

NOTE M – SUBSEQUENT EVENTS

GEM evaluated its June 30, 2019 financial statements for subsequent events through the date the financial statements were issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to have effect on daily operations. Financial impact could occur though such potential impact is unknown at this time.

Effective September 1, 2019, GEM received a grant from the National Science Foundation for *A National Initiative to Develop Diversity and Inclusion Infrastructure for the NSF I-Corps Program* for an amount up to \$3,498,254 that expires August 31, 2022.

NOTE N – PRIOR PERIOD RESTATEMENT

The 2018 financial statements have been restated to recognize fellowship contribution revenues from employers in prior years. The restatement increased membership fees and other receivables at June 30, 2018 by \$987,661, decreased deferred revenue at June 30, 2018 by \$476,500 and increased net assets at June 30, 2018 by \$1,464,161.