

THE TYLER JUNIOR COLLEGE FOUNDATION

**Financial Statements
(with Independent Auditors' Report thereon)**

August 31, 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Tyler Junior College Foundation

We have audited the accompanying financial statements of The Tyler Junior College Foundation (a nonprofit organization), which comprise the statements of financial position as of August 31, 2017 and 2016, and the related statements of activities, 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 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 of 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 Tyler Junior College Foundation as of August 31, 2017 and 2016, 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.



ACKER & COMPANY
Certified Public Accountants, PC
Tyler, Texas
October 17, 2017

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THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and Cash Equivalents (Note 5)	1,513,041	1,838,336
Investments (Notes 2 and 5)	45,972,423	42,708,319
Funds Held in Trust (Note 2)	485,643	456,005
Charitable Gift Annuities (Note 2)	318,423	301,776
Other Assets	50,279	52,901
Total Invested Funds	<u>48,339,809</u>	<u>45,357,337</u>
Contributions Receivable (Net of allowance for uncollectible pledges)	752,733	659,878
Real Estate and Mineral Interests	692,750	599,221
Deferred Expense	908,475	779,983
Total Assets	<u><u>\$ 50,693,767</u></u>	<u><u>\$ 47,396,419</u></u>
LIABILITIES		
Accounts Payable - Tyler Junior College and Others (Note 3)	744,878	729,690
Deferred Revenue	95,112	108,893
Total Liabilities	<u>839,990</u>	<u>838,583</u>
NET ASSETS		
Unrestricted	10,327,995	8,699,646
Temporarily Restricted (Note 6)	4,930,190	5,426,982
Permanently Restricted (Note 6)	34,595,592	32,431,208
Total Net Assets	<u>49,853,777</u>	<u>46,557,836</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>\$ 50,693,767</u></u>	<u><u>\$ 47,396,419</u></u>

See accompanying notes to financial statements.

THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2017 and 2016

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support:								
Contributions and Fundraising	256,957	1,855,013	1,763,219	3,875,189	255,414	1,606,494	939,086	2,800,994
Unrealized Gain (loss)								
on Investments	1,151,257	12,355	110,177	1,273,789	1,303,484	17,530	(201,845)	1,119,169
Net Gain (loss) on Sales	1,115,404	11,825	-	1,127,229	494,137	(5,616)	-	488,521
Investment Income	1,008,971	12,721	47,441	1,069,133	803,351	10,944	39,627	853,922
Donor Transfers	(1,708,781)	1,465,234	243,547	-	(1,496,431)	1,333,476	162,955	-
Net Assets								
Released from Restrictions	3,853,940	(3,853,940)	-	-	3,246,393	(3,246,393)	-	-
Total Revenues	5,677,748	(496,792)	2,164,384	7,345,340	4,606,348	(283,565)	939,823	5,262,606
Administrative								
Fundraising	52,847	-	-	52,847	23,781	-	-	23,781
Golf Tournament	61,203	-	-	61,203	56,567	-	-	56,567
Special Event	87,720	-	-	87,720	-	-	-	-
Real Estate	4,053	-	-	4,053	5,685	-	-	5,685
Scholarships & Awards								
Support of TJC	2,112,006	-	-	2,112,006	1,518,593	-	-	1,518,593
Scholarships	1,705,332	-	-	1,705,332	1,747,159	-	-	1,747,159
Other Awards	26,238	-	-	26,238	41,835	-	-	41,835
Total Expenditures	4,049,399	-	-	4,049,399	3,393,620	-	-	3,393,620
Change in Net Assets	1,628,349	(496,792)	2,164,384	3,295,941	1,212,728	(283,565)	939,823	1,868,986
Net Assets, September 1	8,699,646	5,426,982	32,431,208	46,557,836	7,486,918	5,710,547	31,491,385	44,688,850
Net Assets, August 31 (Note 6)	\$10,327,995	\$ 4,930,190	\$34,595,592	\$49,853,777	\$8,699,646	\$5,426,982	\$32,431,208	\$46,557,836

See accompanying notes to financial statements.

THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 3,295,941	\$ 1,868,986
Change in Operating Assets and Liabilities:		
Contributions and Investment Earnings Restricted for Long-Term Purposes	(1,920,837)	(776,868)
(Increase) Decrease in Value of Investments	(1,078,354)	(741,691)
(Increase) Decrease in Value of Real Estate and Minerals	(93,529)	212,386
Decrease (Increase) in:		
Contributions Receivable	(92,855)	268,994
Deferred Expense	(128,492)	(15,465)
Charitable Gift Annuities	(16,647)	(10,542)
Other Assets	2,622	1,669
Funds Held in Trust	(29,638)	(11,473)
Increase (Decrease) in:		
Deferred Revenue	(13,781)	21,179
Accounts Payable - Tyler Junior College and Others	15,188	(5,355)
Net Cash Provided by Operating Activities	<u>(60,382)</u>	<u>811,820</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of Investments	19,535,578	61,149,164
Purchase of Investments	<u>(21,721,328)</u>	<u>(62,999,118)</u>
Net Cash Used by Investing Activities	<u>(2,185,750)</u>	<u>(1,849,954)</u>
 CASH FLOW FROM FINANCING ACTIVITIES		
Contributions Restricted for Permanent Endowment	1,763,219	939,086
Investment Earnings Restricted for Permanent Endowment	<u>157,618</u>	<u>(162,218)</u>
Net Cash Provided by Financing Activities	<u>1,920,837</u>	<u>776,868</u>
 Decrease in Cash and Cash Equivalents	(325,295)	(261,266)
 Cash and Cash Equivalents - September 1	<u>1,838,336</u>	<u>2,099,602</u>
Cash and Cash Equivalents - August 31	<u><u>\$ 1,513,041</u></u>	<u><u>\$ 1,838,336</u></u>

See accompanying notes to financial statements.

**THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization

The Tyler Junior College Foundation is a nonprofit corporation organized under the Texas Nonprofit Corporation Act. It is exempt from Federal income tax under Section 501 (c)(3) of the Internal Revenue Code. The purpose of the Foundation is to strengthen the higher educational resources of Texas by encouraging a program of benefactions to Tyler Junior College.

Basis of Accounting

The Financial statements for the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows generally accepted accounting principles for Not-for-Profit Organizations. The Organization is required to report 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.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions.

All 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 (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Contributions Receivable

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as revenue 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 when the condition on which they depend are substantially met. Only those pledges with signed agreements were recorded as receivables.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Revenue and Expenses

Revenue received for future events is deferred and recognized in the periods to which it relates. Scholarships and other disbursements paid that relate to future periods are recognized as deferred expenses.

Cash and Cash Equivalents

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

Donated Services

Unpaid volunteers conduct a portion of the Foundation's activity. The value of this contributed time is not reflected in the accompanying financial statements since it does not meet the criteria for recognition under generally accepted accounting principles.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – INVESTMENTS

Investments, reported at fair market value at August 31 include the following:

	<u>2017</u>	<u>2016</u>
Interest Program	\$ 976,281	\$ 1,994,883
Corporate Equities	25,126,503	21,863,959
Mutual Funds	1,039,381	-
Fixed Income	18,724,540	18,749,496
Other	105,718	99,981
Total	<u>\$ 45,972,423</u>	<u>\$ 42,708,319</u>

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – INVESTMENTS (continued)

Investment income, unrealized gains (losses), and realized gains (losses) on investments recognized during the current year were as follows:

	2017		
	Investment Income	Unrealized Gain (Loss)	Realized Gain (Loss)
Brokerage Account	\$ 1,014,571	\$ 1,134,232	\$ 1,115,300
Other	54,562	139,557	11,929
Total	<u>\$ 1,069,133</u>	<u>\$ 1,273,789</u>	<u>\$ 1,127,229</u>

	2016		
	Investment Income	Unrealized Gain (Loss)	Realized Gain (Loss)
Brokerage Account	\$ 808,869	\$ 1,278,020	\$ 494,035
Other	45,053	(158,851)	(5,514)
Total	<u>\$ 853,922</u>	<u>\$ 1,119,169</u>	<u>\$ 488,521</u>

Charitable gift annuities of \$318,423 for 2017 and \$301,776 for 2016 are reported at surrender value. Investment income is net of brokerage fees of \$216,339 for 2017 and \$208,887 for 2016.

“Funds Held in Trust” are investments held by U.S. Trust in the M.C. Batey Trust and Southside Bank in the Gollob Charitable Trust. Under terms of the trusts, all distributions from the trusts go to the TJC Foundation for scholarships.

Other investment income includes Oil and Gas royalties of \$50,063 for 2017 and \$41,296 for 2016.

NOTE 3 – RELATED PARTY TRANSACTION

The Foundation expended approximately \$3,843,576 and \$3,307,587 to Tyler Junior College for scholarships, support and awards in 2017 and 2016 respectively. Tyler Junior College provides substantially all administrative staff and supplies to the Foundation at no cost. The Foundation owed the College \$705,523 and \$729,690 at August 31, 2017 and 2016 respectively.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – REAL ESTATE AND MINERAL INTERESTS

Real estate and mineral interests is summarized as follows:

	<u>2017</u>	<u>2016</u>
Real Estate and Mineral Interest Held for Future Use or Investment	<u>\$ 692,750</u>	<u>\$ 599,221</u>

Real Estate held for future use has been recorded at cost or at appraised value if contributed, and consists of numerous parcels of land.

NOTE 5 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk include cash deposited in banks of \$1,341,961 and investments in brokerage accounts totaling \$45,972,423 at August 31, 2017.

The Foundation also maintains demand deposits with various banks. Approximately \$1,100,000 was in excess of Federal Deposit Insurance Corporation (FDIC) coverage.

NOTE 6 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the purposes designated by the donor, primarily scholarships.

Permanently restricted net assets are to provide a permanent endowment, with investment income restricted for scholarship purposes.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 7 – FAIR VALUE MEASUREMENTS

The Foundation's investments at August 31, 2017 are reported at fair value in the accompanying financial statements as follows:

2017				
Fair Value Measurements Using:				
	Fair Value	Quoted Prices in Active market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt and Equity				
Investments	\$ 46,458,066	\$46,458,066	\$ -	\$ -
Oil and Gas Property	277,219	-	277,219	-
Land	415,531	-	415,531	-
Total	<u>\$ 47,150,816</u>	<u>\$46,458,066</u>	<u>\$ 692,750</u>	<u>\$ -</u>

The Foundation's investments at August 31, 2016 are reported at fair value in the accompanying financial statements

2016				
Fair Value Measurements Using:				
	Fair Value	Quoted Prices in Active market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt and Equity				
Investments	\$ 43,164,324	\$43,164,324	\$ -	\$ -
Oil and Gas Property	183,690	-	183,690	-
Land	415,531	-	415,531	-
Total	<u>\$ 43,763,545</u>	<u>\$43,164,324</u>	<u>\$ 599,221</u>	<u>\$ -</u>

Generally Accepted Accounting Principles relating to Fair Value Measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable information for similar items in active or inactive markets and have a lower priority and Level 3 inputs have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

**THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 – TAX POSITIONS

As discussed in Note 1, the Foundation is exempt from Federal Income taxes. There were no uncertain tax positions for which the Foundation believes a liability should be accrued at August 31, 2017. The years 2014 through 2017 remain open for examination by taxing authorities.

NOTE 9 – DATE OF MANAGEMENT’S REVIEW

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 17, 2017, the date that the financial statements were available to be issued.

NOTE 10 – ENDOWMENTS

The Foundation’s endowment consists of funds established for a variety of purposes. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment 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, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment 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 UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment fund: The duration and preservation of the fund and the purposes of the Foundation and the donor restricted endowment fund.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There were no such deficiencies as of August 31, 2017.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – ENDOWMENTS (continued)

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. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to provide income for the benefit of Tyler Junior College at a consistent level as adjusted for inflation annually, but preserve principal.

To satisfy its long-term 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). The Foundation targets a diversified asset allocation with fixed income and equity-based investments to achieve its long-term return objectives within prudent risk constraints. Target asset allocations are set in its investment policy.

The Foundation has set a spending cap of 4% and a floor of 0% of its endowment fund's earnings. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

A reconciliation of endowment investments is as follows:

	Total	Permanently Restricted Net Assets	Unrestricted Net Assets	Temporarily Restricted Net Assets
Balance 9/1/16	\$45,357,337	\$32,431,208	\$7,499,147	\$5,426,982
Contributions	3,875,189	1,763,219	256,957	1,855,013
Investment Return	2,196,362	47,441	2,124,375	24,546
Net Appreciation	1,273,789	110,177	1,151,257	12,355
Expenditures	(4,049,399)	-	(195,459)	(3,853,940)
Other Changes	(313,469)	243,547	(2,022,250)	1,465,234
Balance 8/31/17	<u>\$48,339,809</u>	<u>\$34,595,592</u>	<u>\$8,814,027</u>	<u>\$4,930,190</u>

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – ENDOWMENTS (continued)

	Total	Permanently Restricted Net Assets	Unrestricted Net Assets	Temporarily Restricted Net Assets
Balance 9/1/15	\$43,006,612	\$31,491,385	\$5,804,680	\$5,710,547
Contributions	2,800,994	939,086	255,414	1,606,494
Investment Return	1,342,443	39,627	1,297,488	5,328
Net Appreciation	1,119,169	(201,845)	1,303,484	17,530
Expenditures	(3,393,620)	-	(147,227)	(3,246,393)
Other Changes	481,739	162,955	(1,014,692)	1,333,476
Balance 8/31/16	<u>\$45,357,337</u>	<u>\$32,431,208</u>	<u>\$7,499,147</u>	<u>\$5,426,982</u>

NOTE 11 – PLEDGES RECEIVABLE

Pledges receivable at August 31, 2017 are as follows:

Pledges Due in 2018	\$ 171,200
Pledges Due 2019 to 2022	684,800
	<u>856,000</u>
Allowance for Uncollectible Pledges	39,618
	<u>816,382</u>
Discount to Present Value at 2.6%	(63,649)
	<u>\$ 752,733</u>

NOTE 12 – SUBSEQUENT EVENTS

On or about June 30, 2017, the Foundation filed a lawsuit to protect its rights as beneficiary of an estate. A settlement was agreed upon and signed by both parties on September 1, 2017. As part of the settlement the Defendants agreed to restore \$16.2 million to the estate and pay the Foundation's attorney fees. The Foundation expects a distribution of approximately \$18 million from the estate.

NOTE 13 – NEWLY ISSUED ACCOUNTING STANDARDS

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*. Accounting Standards Update 2016-14 is effective for fiscal years that begin after December 15, 2017. This update will impact the presentation of the Foundation's financial statements by changing from three categories of net assets to two categories of net assets. The Foundation will report amounts for net assets with donor restrictions and net assets without donor restrictions rather than for the currently required unrestricted, temporarily restricted, and permanently restricted net assets.