THE TYLER JUNIOR COLLEGE FOUNDATION

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
AUGUST 31, 2021 AND 2020

THE TYLER JUNIOR COLLEGE FOUNDATION
AUGUST 31, 2021 AND 2020
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ETERNAL VALUES INFINITE POTENTIAL

Prothro WILHELMI

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Tyler Junior College Foundation
Tyler, Texas

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of The Tyler Junior College Foundation (a non-profit organization) ("the Foundation") which comprise the statements of financial position as of August 31, 2021 and 2020 and the related statements of activities, 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.

PROTHRO, WILHELMI AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

6855 OAK HILL BOULEVARD • TYLER, TEXAS 75703 • TEL 903 534 8811 • FAX 903 534 8891 • WWW.PW-TX.COM

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of August 31, 2021 and 2020, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prothro, Wilhelmi & Company, PLLC

PROTHRO, WILHELMI, AND COMPANY, PLLC

Tyler, Texas
October 22, 2021

THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2021 AND 2020

	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 743,258	$ 1,151,522
Pledges receivable, net of allowance	675,721	727,941
Deferred expenses	1,787	2,438
Deferred construction costs	-	564,595
Deferred scholarships	759,722	594,783
Total current assets	2,180,488	3,041,279
Non-current assets:		
Pledges receivable, net of discount	3,066,745	3,476,937
Investments:		
Marketable securities	92,464,251	78,957,728
Funds held-in-trust	543,043	449,485
Annuity arbitrage	981,977	981,977
Charitable gift annuities	326,410	323,305
Real estate and mineral interests	605,624	610,354
Other investments	43,036	42,004
Total investments	94,964,341	81,364,853
Total non-current assets	98,031,086	84,841,790
Total assets	$ 100,211,574	$ 87,883,069
LIABILITIES AND NET ASSETS		
Current liabilities:		
Due to Tyler Junior College	$ 759,722	$ 1,159,384
Accounts payable	55,620	49,916
Accrued interest	28,119	-
Deferred revenue	92,120	86,845
Total current liabilities	935,581	1,296,145
Long-term liabilities:		
Line of credit	3,475,000	-
Total long-term liabilities	3,475,000	-
Total liabilities	4,410,581	1,296,145
Net assets:		
Without donor restrictions	28,159,766	17,891,830
With donor restrictions	67,641,227	68,695,094
Total net assets	95,800,993	86,586,924
Total liabilities and net assets	$ 100,211,574	$ 87,883,069

See accompanying notes and independent auditor’s report.

THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
SUPPORT AND REVENUE			
Contributions and fundraising	$ 242,966	$ 2,848,903	$ 3,091,869
Unrealized gain on investments	9,699,009	10,194	9,709,203
Realized gain	3,327,208	54,950	3,382,158
Investment income	1,325,383	78,393	1,403,776
Income from change in estimate	144,932	-	144,932
Reimbursement from TJC	-	326,025	326,025
Donor transfers in (out)	(4,077,986)	4,077,986	-
Total support and revenue	10,661,512	7,396,451	18,057,963
Net assets released from donor restrictions:			
Satisfaction of program restrictions	8,450,318	(8,450,318)	-
Total support, revenue, and net assets released from restrictions	19,111,830	(1,053,867)	18,057,963
EXPENSES			
Program	8,596,641	-	8,596,641
General and administrative	123,066	-	123,066
Fundraising	124,187	-	124,187
Total expenses	8,843,894	-	8,843,894
Change in net assets	10,267,936	(1,053,867)	9,214,069
NET ASSETS			
Balance, beginning of year	17,891,830	68,695,094	86,586,924
Balance, end of year	$ 28,159,766	$ 67,641,227	$ 95,800,993

See accompanying notes and independent auditor’s report.

THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
SUPPORT AND REVENUE			
Contributions and fundraising	$ 402,542	$ 4,275,662	$ 4,678,204
Unrealized gain (loss) on investments	5,949,826	(63,696)	5,886,130
Realized gain	519,473	8,224	527,697
Investment income	1,562,572	40,929	1,603,501
Donor transfers in (out)	(2,912,984)	2,912,984	-
Total support and revenue	5,521,429	7,174,103	12,695,532
Net assets released from donor restrictions:			
Satisfaction of program restrictions	4,681,399	(4,681,399)	-
Total support, revenue, and net assets released from restrictions	10,202,828	2,492,704	12,695,532
EXPENSES			
Program	5,179,283	-	5,179,283
General and administrative	127,125	-	127,125
Fundraising	62,091	-	62,091
Total expenses	5,368,499	-	5,368,499
Change in net assets	4,834,329	2,492,704	7,327,033
NET ASSETS			
Balance, beginning of year	13,057,501	66,202,390	79,259,891
Balance, end of year	$ 17,891,830	$ 68,695,094	$ 86,586,924

See accompanying notes and independent auditor's report.

THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2021

	Program	General & Administrative	Fundraising	Total Expenses
Accounting and professional services	$ -	$ 104,342	$ -	$ 104,342
Contract services	-	8,913	-	8,913
Golf tournament	-	-	5,935	5,935
Insurance	-	3,291	-	3,291
Interest	-	-	118,252	118,252
Other awards	84,322	-	-	84,322
Other costs	-	2,874	-	2,874
Real estate taxes	-	3,646	-	3,646
Scholarships	2,304,239	-	-	2,304,239
Support of Tyler Junior College	6,208,080	-	-	6,208,080
Total Expenses	$ 8,596,641	$ 123,066	$ 124,187	$ 8,843,894

See accompanying notes and independent auditor's report.

THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2020

	Program	General & Administrative	Fundraising	Total Expenses
Accounting and professional services	$ -	$ 86,295	$ -	$ 86,295
Contract services	-	7,720	-	7,720
Golf tournament	-	-	59,793	59,793
Insurance	-	21,305	-	21,305
Other awards	192,948	-	-	192,948
Other costs	-	4,618	-	4,618
Public relations and promotion	-	1,644	2,298	3,942
Real estate taxes	-	5,543	-	5,543
Scholarships	1,754,464	-	-	1,754,464
Support of Tyler Junior College	3,231,871	-	-	3,231,871
Total Expenses	$ 5,179,283	$ 127,125	$ 62,091	$ 5,368,499

See accompanying notes and independent auditor’s report.

THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	$ 9,214,069	$ 7,327,033
Contributions restricted by donors for permanent endowment	(753,540)	(897,285)
Contributions received in-kind	(609)	(1,850)
Realized and unrealized gain on investments	(13,091,361)	(6,413,827)
Appreciation in value of real estate and minerals	4,730	115,936
Change in estimate - bad debt expense	(144,932)	(17,221)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Pledges receivable	607,344	344,413
Deferred expense	651	(238)
Deferred construction costs	564,595	(564,595)
Deferred scholarships	(164,939)	27,176
Annuity arbitrage	-	(981,977)
Charitable gift annuities	(3,105)	(27,800)
Other assets	(1,032)	665
Funds held in trust	(93,558)	738
Increase (decrease) in:		
Due to Tyler Junior College	(399,662)	537,425
Accounts payable	5,704	2,463
Accrued interest	28,119	-
Deferred revenue	5,275	(14,024)
Net cash used in operating activities	(4,222,251)	(562,968)
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	20,464,839	25,398,165
Purchase of investments	(20,879,392)	(27,008,203)
Net cash used in investing activities	(414,553)	(1,610,038)
CASH FLOW FROM FINANCING ACTIVITIES:		
Contributions received for permanent endowment	753,540	897,285
Proceeds from construction line of credit	3,475,000	-
Net cash provided by financing activities	4,228,540	897,285
Net increase (decrease) in cash and cash equivalents	(408,264)	(1,275,721)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	1,151,522	2,427,243
CASH AND CASH EQUIVALENTS, AT END OF YEAR	$ 743,258	$ 1,151,522

See accompanying notes and independent auditor's report.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF ACTIVITIES

The Tyler Junior College Foundation ("the 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 ("TJC").

RECENTLY ADOPTED ACCOUNTING STANDARDS

There were no recently adopted accounting standards for the year ended August 31, 2021.

BASIS OF ACCOUNTING

The Foundation's financial statements are presented in accordance with Accounting Standards Codification (ASC) No. 958-205, *Not-for-Profit Entities, Presentation of Financial Statements.* Under ASC No. 958, the Foundation is required to report information regarding its financial position and activities by class.

- Net Assets without Donor Restrictions are amounts currently available at the discretion of the Board for use in the Foundation's operations and those resources invested in equipment or real estate.
- Net Assets with Donor Restrictions are stipulated by donors for specific operation purposes or for the acquisition of equipment.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents principally include cash and money market investments not held by trustees. For the purposes of presentation in the statement of cash flows, the Foundation considers cash equivalents to be short-term, highly liquid instruments that are readily convertible to cash and have original maturities of three months or less.

For the years ended August 31, 2021 and 2020, all cash and cash equivalents are without donor restrictions.

PLEDGES RECEIVABLE

Unconditional promises to give are recognized as contribution revenue when pledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met. It is the Foundation's internal policy that only those pledges with signed, multi-year agreements above $10,000 are recorded as receivables. Contributions other than cash are recorded at their estimated fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

PLEDGES RECEIVABLE - continued

The allowance for uncollectible amounts is based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fundraising activity. Currently, the Foundation maintains the allowance for uncollectible amounts at two percent of the discounted pledge receivable. Pledges receivable are discounted to net present value based upon an appropriate discount rate determined by management. Bad debt expense and the accretion of net present value affects net assets without donor restrictions.

DEFERRED EXPENSES, SCHOLARSHIPS, AND CONSTRUCTION COSTS

Deferred expenses are comprised of golf tournament costs paid prior to the period for which it relates. The golf tournament is an annual fundraising event held for the purpose of raising money for scholarships for TJC. Scholarships and construction costs to be paid to TJC that relate to future periods are recognized as deferred scholarships and deferred construction costs, respectively, and are offset by an equal liability to TJC.

MARKETABLE SECURITIES

All the Foundation's investments in marketable securities are with Goldman Sachs. Investments in marketable securities with readily determinable fair values are stated at fair value. Realized gains or losses on sales of investment securities are based upon the cost of the specific security sold. Unrealized gains and losses are included in the change in net assets. Income, realized, and unrealized gains and losses on investments of endowment and similar funds are reported as follows:

- As changes in net assets with donor restrictions if the terms of the gift require that they be added to the principal of a permanent endowment fund or if the terms of the gift impose restrictions on the use of income; or,
- As changes in net assets without donor restrictions in all other cases.

FUNDS HELD-IN-TRUST

The Foundation is the beneficiary of two trusts. These trusts are recorded at fair value, and the underlying assets are included in the fair value measurement in Note 12. For one of the trusts, which is managed by Southside Bank, the income and related gains and losses are without donor restriction. For the other trust, which is managed by Bank of America, the income and related gains and losses are restricted by the donor for a specific scholarship fund.

LIFE INSURANCE CONTRACTS

The Foundation is the primary beneficiary for three life insurance contracts. The Foundation records these life insurance contracts at their cash surrender value. One of the three life insurance contracts was structured as a charitable gift annuity by the donor to provide more favorable future payouts. The other two policies comprise other investments on the accompanying statements of financial position.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

ANNUITY ARBITRAGE

In December 2019, the Foundation designated $1 million to establish sustained cash flows for the Promise Program by entering into an annuity arbitrage. An annuity arbitrage pairs an annuity with a life insurance policy to establish sustained cash flows that are not attached to the market and its related risks.

The strategy employed to create an effective annuity arbitrage is to purchase an annuity with the highest payout available for principal allocated for the arbitrage. To offset the high cost of the annuity, a life insurance policy is also purchased with an equal or greater payout than the principal utilized to purchase the annuity. To achieve the maximum return, the highest annuity payout possible and the lowest life insurance premium possible are negotiated. The net effect of the annuity payout and the life insurance premium establishes sustained cash flows for the life of the annuitant. The principal invested in the annuity will be restored at the death of the annuitant by the payout of the life insurance policy. In effect, the arbitrage operates like a synthetic bond that matures at the death of the annuitant.

The Foundation expects the annuity arbitrage to return four percent annually for the life of the annuitant.

REAL ESTATE AND MINERAL INTERESTS

Real estate donated to the Foundation is stated at fair market value at the time of the gift, and real estate purchased by the Foundation is stated at cost. Depreciation of the Foundation’s real estate is not currently necessary because the Foundation’s real estate portfolio consists solely of land. All land held at August 31, 2021 is considered a part of net assets without donor restrictions.

Mineral interests have been donated to the Foundation for the purpose of growing the endowment. These mineral interests are managed and valuated by Argent Mineral Management. The valuation of these interests is based upon a multiple of net revenues. Any income from these interests is restricted by the donors to grow the endowment.

DEFERRED REVENUE

Deferred revenue is comprised of golf tournament revenue received prior to the period for which it relates. The golf tournament is an annual fundraising event held for the purpose of raising money for scholarships for TJC.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

LINE-OF-CREDIT

In June 2019, the Foundation formalized an agreement with a local bank to open a construction line-of-credit. This line of credit has a 4.11% interest rate and matures in 2026. The Foundation pays interest quarterly. The maximum draw on this line-of-credit is $6,976,660 and is to be used to fund the construction of a new performing arts center for TJC. Pledges receivable are pledged as collateral against the line-of-credit and any interest accrued will be paid from assets without donor restrictions. As of August 31, 2021, $3,475,000 is outstanding for the line-of-credit.

PROMISE PROGRAM

In September 2016, the Foundation announced a scholarship program as an incentive for students in high school to attend college after graduation. The Promise Program is a six-year comprehensive program that spans from ninth grade through the first two years of college. The Promise Program encourages students within the TJC tax district to perform well academically in high school and college, while limiting the number of missed school days and promoting community service. Students who fulfill the Promise requirements receive support and encouragement to obtain a college degree or certificate from TJC.

The Promise Program covers tuition and fees for up to two years through a combination of federal grants, TJC Foundation scholarships, and the TJC Promise. Scholarship funding specific to the Promise Program is awards through a last-in model after federal and other Foundation scholarships are applied to tuition and fees. For the year ended August 31, 2021, total Foundation scholarships of $616,045 were awarded for students participating in the Promise Program. Actuarial projections indicate approximately $1.1 million will be spent on Promise Program scholarships for the year ending August 31, 2022. Sufficient funding is available to fulfill this obligation for the upcoming years.

TJC NOW

TJC NOW was repurposed in response to the COVID-19 pandemic. The primary purpose of this program is to provide support to TJC students facing obstacles and restrictions due to the pandemic. Support to students from TJC NOW was originally focused on meeting the technology needs of students who were attending classes remotely. The TJC Foundation partnered with a local electronics retailer to provide discounted technology products to students taking advantage of the program. The original funds were expended for this purpose during 2020. The program was repurposed in 2021 with a renewed and limited purpose to support emergency and immediate needs of TJC students during 2021.

CONTRIBUTIONS

Contributions received are recorded as with or without donor restrictions depending on the existence and nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

IN-KIND GIFTS

Gifts of investments, real estate, mineral interests, and other properties contributed to the Foundation are recorded at estimated fair value at the date of contribution.

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.

USE OF ESTIMATES

The preparation of the 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

CHANGE IN ESTIMATE

During the fiscal year ended August 31, 2021, the Foundation reduced its allowance for doubtful accounts from five percent to two percent of pledges receivable, based on recent historical experience and an overall lack of true write-offs. The reduction in the Foundation’s allowance for doubtful accounts resulted in a cumulative increase of $144,932 in net assets. The change in estimate is reported in the statement of activities of the year in which it occurred.

FEDERAL INCOME TAX STATUS

The Foundation is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and classified as other than a private foundation; therefore, no provision for income taxes has been made in the financial statements, but the Foundation is required to file an annual information tax return. The Foundation is also required to review various tax positions it has taken with respect to its exempt status and to determine whether in fact it is a tax-exempt entity. The Foundation must also consider whether it has nexus in jurisdictions in which it has income and whether a tax return is required in those jurisdictions. In addition, as a tax-exempt entity, the Foundation must assess whether it has any tax positions associated with unrelated business income subject to income tax. The Foundation does not expect its positions to change significantly over the next twelve months. Any penalties related to late filing or other requirements would be recognized as penalties expense in the Foundation’s accounting records.

The Foundation files US Federal Form 990 for informational purposes. Although exempt from Federal income taxes, the Foundation is subject to examination by tax authorities for a period of three years after the due date of the Foundation's Federal information return. There were no uncertain tax positions for which the Foundation believes a liability should be recorded as of August 31, 2021 and 2020.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

NEW ACCOUNTING GUIDANCE NOT YET ADOPTED

In February 2016, the FASB issued ASU No. 2016-02, "*Leases*" (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- Lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Additional qualitative and quantitative disclosures will be required so users can understand more about the nature of an entity's leasing activities. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

ASU 2016-02 will be effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. The Foundation does not currently have any leases, but it is evaluating the potential future impact of adopting this guidance on its financial statements.

In September 2020, the FASB issued ASU No. 2020-07, "Not-For-Profit Entities" (Topic 958): Presentation And Disclosures By Not-For-Profit Entities For Contributed Nonfinancial Assets. ASU 2020-07 is effective for fiscal years beginning after June 15, 2021. Under the new guidance, contributed nonfinancial assets, including food, used clothing and household items, supplies, pharmaceuticals, medical equipment, intangibles, contributed use of long-lived assets, and contributed services, will be reported as a separate line item on the statement of activities, apart from contributions of cash and other financial assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

NEW ACCOUNTING GUIDANCE NOT YET ADOPTED - continued

The new standards require non-profit entities to disclose the total value recognized for each category of gifts-in-kind received in the notes to the financial statements. The total value should agree to the total value of gifts-in-kind recognized in the statement of activities. The following must be disclosed for each category:

- Qualitative information about whether the gift-in-kind was monetized (i.e., sold) or used during the reporting period. If it was used, also disclose a description of the programs or other activities in which the assets were used. A best practice is to use the same program or activity names in the disclosure that are used in the expense section of the statement of activities.
- The Foundation's policy, if applicable, regarding monetizing rather than using gifts-in-kind.
- A description of any donor-imposed restrictions associated with the gift-in-kind.
- A description of the valuation techniques and inputs used to arrive at the fair value measurement.
- The principal market (or most advantageous market) used to arrive at a fair value measurement if it is a market in which the Foundation is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

For contributed services, the disclosures above are in addition to the disclosures currently required for contributed services.

The Foundation is currently evaluating the potential financial statement impact of adopting this guidance.

NOTE 2 – RECLASSIFICATIONS

Certain reclassifications have been made to prior year financial statements to conform to classifications used in the current year. These reclassifications had no impact on net assets or changes in net assets.

NOTE 3 – AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Foundation's financial assets as of August 31, 2021 and 2020, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of August 31, 2021 and 2020, respectively:

	2021	2020
Financial assets, at year-end	$ 97,319,421	$ 84,679,437
Less those unavailable for general expenditures within one year, due to:		
Restrictions by donor	67,641,227	68,695,094
Charitable gift annuity	326,410	323,305
Pledge receivable due in more than one year	3,066,745	3,476,937
Board designations	3,500,000	1,000,000
Financial assets available to meet cash needs for general expenditures within one year	$ 22,785,039	$ 11,184,101

As part of the Foundation's liquidity management, it has net assets without donor restrictions of $28,159,766 at August 31, 2021. Although the Foundation does not intend to spend the full amount of its net assets without donor restrictions on general expenditures within the next year, these amounts could be made available if considered necessary.

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable, net, is summarized as follows as of August 31, 2021 and 2020:

	2021	2020
Pledges due within one year	$ 752,098	$ 983,597
Pledges due in one to five years	3,491,061	3,934,388
	4,243,159	4,917,985
Discount at present value at 4.481%	(424,316)	(491,798)
	3,818,843	4,426,187
Allowance for uncollectible pledges	(76,377)	(221,309)
Discounted pledges receivable, net	$ 3,742,466	$ 4,204,878

NOTE 5 – MARKETABLE SECURITIES

Marketable securities are reported at fair value, which is determined using the market valuations provided. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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 fair value measurement at the reporting date.

Marketable securities, reported at fair market value at August 31, 2021 and 2020 include the following:

	2021	2020
Money market	$ 908,979	$ 739,782
Common stock	7,691,576	7,239,505
Mutual funds	48,410,857	40,677,740
Corporate bonds	16,745,564	12,168,737
Federal bonds	17,611,057	18,131,964
Real estate investment trust	1,096,218	-
	$ 92,464,251	$ 78,957,728

NOTE 6 – REAL ESTATE AND MINERAL INTERESTS

Real estate and mineral interests amounted to $605,624 and $610,354 at August 31, 2021 and 2020, respectively. 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 7 – RESTRICTIONS ON NET ASSETS

The Foundation's net assets are comprised of the following:

	2021	2020
Net assets without donor restrictions:		
Undesignated	$ 1,265,464	$ 5,247,349
Endowment, net of board designations	22,978,771	11,228,950
Real estate	415,531	415,531
Board designations	3,500,000	1,000,000
Total net assets without donor restrictions	28,159,766	17,891,830
Net assets (deficits) with donor restrictions for:		
Scholarships (includes marketable securities, funds held-in-trust, and oil and gas properties)	64,089,460	61,883,091
Student and campus enrichment	3,689,069	2,973,668
Performing arts complex	(407,077)	3,568,560
Staff awards	269,775	269,775
Total net assets with donor restrictions	67,641,227	68,695,094
Total net assets	$ 95,800,993	$ 86,586,924

NOTE 8 – ENDOWMENTS

The Foundation's endowments consist 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 Foundation's governing board 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 net assets with donor restrictions (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.

NOTE 8 – ENDOWMENTS - continued

Funds that are donor restricted, but not permanently endowed, are held in restriction 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 duration and preservation of the fund and the purposes of the Foundation and the donor restricted endowment fund in deciding to appropriate or accumulate donor-restricted endowment funds.

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 to be reported in net assets with donor restrictions. These deficiencies result from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Board of Directors. There were no such deficiencies as of August 31, 2021 and 2020.

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 TJC 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 4.07% and a floor of 0.00% of its endowment funds' 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.

NOTE 8 – ENDOWMENTS - continued

Endowment fund net asset composition as of August 31, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning balance (9/1/20)	$ 12,228,950	$ 68,695,094	$ 80,924,044
Contributions	242,966	2,848,903	3,091,869
Investment return	4,652,591	133,343	4,785,934
Net appreciation	9,699,009	10,194	9,709,203
Expenditures	(393,576)	(8,450,318)	(8,843,894)
Other changes	48,831	4,404,011	4,452,842
Ending balance (8/31/21)	$ 26,478,771	$ 67,641,227	$ 94,119,998

Endowment fund net asset composition as of August 31, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning balance (9/1/19)	$ 7,945,263	$ 66,202,390	$ 74,147,653
Contributions	402,542	4,275,662	4,678,204
Investment return	2,082,045	49,153	2,131,198
Net appreciation (depreciation)	5,949,826	(63,696)	5,886,130
Expenditures	(687,100)	(4,681,399)	(5,368,499)
Other changes	(3,463,626)	2,912,984	(550,642)
Ending balance (8/31/20)	$ 12,228,950	$ 68,695,094	$ 80,924,044

NOTE 9 – INVESTMENT INCOME

Investment income, unrealized gains (losses), and realized gains (losses) on investments recognized during the years ended 2021 and 2020 were as follows:

	2021		
	Investment income (loss)	Unrealized gain	Realized gain
Brokerage account	$ 1,625,722	$ 9,592,245	$ 3,327,692
Other	(221,946)	116,958	54,466
Total	$ 1,403,776	$ 9,709,203	$ 3,382,158

NOTE 9 – INVESTMENT INCOME - continued

	2020		
	Investment income (loss)	Unrealized gain (loss)	Realized gain
Brokerage account	$ 1,820,175	$ 5,970,363	$ 519,396
Other	(216,674)	(84,233)	8,301
Total	$ 1,603,501	$ 5,886,130	$ 527,697

Charitable gift annuities of $326,410 and $323,305 for 2021 and 2020, respectively, are reported at surrender value. Investment income is net of brokerage fees of $334,698 and $298,083 for 2021 and 2020, respectively.

Funds held in trust are investments held by Bank of America 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 $38,019 and $40,323 for 2021 and 2020, respectively.

NOTE 10 – RELATED PARTY TRANSACTIONS

The Foundation expended approximately $8,596,641 and $5,179,283 to TJC for scholarships, support, and awards in 2021 and 2020, respectively. TJC provides substantially all administrative staff and supplies to the Foundation at no cost. The Foundation incurs no payroll expense because it is managed by personnel employed and paid by TJC. The Foundation's obligation to TJC was $759,722 and $1,159,384 at August 31, 2021 and 2020, respectively.

NOTE 11 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk include cash deposited in banks of $1,241,898 at August 31, 2021.

For the Foundation's demand deposits held with various banks, $991,570 was in excess of Federal Deposit Insurance Corporation (FDIC) coverage. Risks related to amounts in excess of FDIC coverage are mitigated by maintaining deposits in only well-capitalized financial institutions.

NOTE 12 – FAIR VALUE MEASUREMENTS

The Foundation adopted FASB Accounting Standards Codification Topic 820, "Fair Value Measurements" (Topic 820). Topic 820 requires disclosures that stratify balance sheet amounts measured at fair value based on the inputs used to derive fair value measurements. These strata included:

- Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),
- Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market, and
- Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Foundation-specific data. These unobservable assumptions reflect the Foundation's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models, and similar techniques, but also may include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

A description of the valuation methodologies used for assets measured as fair value as of August 31, 2021 and 2020 follows:

- Money market – valued at a net asset value ("NAV") of one dollar per share.
- Exchange traded funds – valued at the closing price reported on the active market in which the individual securities are traded.
- Common stock – valued at the closing price reported on the active market in which the individual securities are traded.
- Mutual funds – valued at the NAV of shares held at year end.
- Corporate bonds – valued based on yields currently available on comparable securities of issuers with similar credit ratings.
- Federal bonds – valued based on yields currently available on comparable securities of issuers with similar credit ratings.
- Common trust funds – valued at the NAV of shares held in the trust at year end.
- Oil and gas properties – valued at a multiple of five times the trailing 12-month net revenue from producing properties. Non-producing properties are not included in the estimation.
- Real estate – valued at the cost at time of purchase or at appraised value if contributed at time of donation.
- Life insurance contracts – valued at cash surrender value, which approximates fair value.

NOTE 12 – FAIR VALUE MEASUREMENTS - continued

The Foundation's assets measured on a recurring basis at August 31, 2021 and 2020 are reported at fair value in the accompanying financial statements as follows:

	2021			
		Fair Value Measurements at the End of the Reporting Period Using		
	Total	(Level 1)	(Level 2)	(Level 3)
Money market	$ 913,963	$ 913,963	$ -	$ -
Common stock	7,867,442	7,867,442	-	-
Exchange traded funds	82,942	82,942	-	-
Mutual funds	48,487,395	48,487,395	-	-
Corporate bonds	16,745,564	-	16,745,564	-
Federal bonds	17,611,057	-	17,611,057	-
Real estate investment trust	1,096,218	-	1,096,218	-
Common trust funds	202,613	-	202,613	-
Oil and gas properties	190,193	-	-	190,193
Real estate	415,531	-	-	415,531
Life insurance contracts	1,351,423	-	-	1,351,423
Total	$ 94,964,341	$ 57,351,742	$ 35,655,452	$ 1,957,147

	2020			
		Fair Value Measurements at the End of the Reporting Period Using		
	Total	(Level 1)	(Level 2)	(Level 3)
Money market	$ 743,722	$ 743,722	$ -	$ -
Common stock	7,367,021	7,367,021	-	-
Exchange traded funds	75,718	75,718	-	-
Mutual funds	40,759,038	40,759,038	-	-
Corporate bonds	12,168,737	-	12,168,737	-
Federal bonds	18,131,964	-	18,131,964	-
Common trust funds	160,913	-	160,913	-
Oil and gas properties	194,923	-	-	194,923
Real estate	415,531	-	-	415,531
Life insurance contracts	1,347,286	-	-	1,347,286
Total	$ 81,364,853	$ 48,945,499	$ 30,461,614	$ 1,957,740

NOTE 12 – FAIR VALUE MEASUREMENTS - continued

Investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	2021	2020
Beginning balance	$ 1,957,740	$ 1,064,564
Gains (losses) realized and unrealized	(593)	(88,801)
Purchases, issuances, and settlements	-	981,977
Ending balance	$ 1,957,147	$ 1,957,740

NOTE 13 – JOINT COST ALLOCATION

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function; therefore, the expenses are allocated on the basis of estimates of time, effort, or other reasonable bases.

NOTE 14 – BOARD DESIGNATED NET ASSETS

The Foundation's governing board voted and approved to designate, from net assets without donor restrictions, $3,000,000 to be used in support of the Promise Program and $500,000 to be used in support of TJC NOW. These funds designated by the board will remain designated for the purpose described unless the board obtains a majority vote to remove the designation from these funds or designate these funds for another purpose.

NOTE 15 – SUBSEQUENT EVENTS

In accordance with FASB Accounting Standards Codification Topic 740 "Subsequent Events," the Foundation evaluated events and transactions that occurred after the statement of financial position date, but before the financial statements were made available for issuance for potential recognition or disclosure in the financial statements.

The Foundation evaluated events related to significant areas through October 22, 2021 and noted no such subsequent events to be disclosed in the notes to the financial statements.