THE TYLER JUNIOR COLLEGE FOUNDATION

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
AUGUST 31, 2019 AND 2018

THE TYLER JUNIOR COLLEGE FOUNDATION
AUGUST 31, 2019 AND 2018
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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 statement of financial position as of August 31, 2019 and 2018 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our 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

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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, 2019 and 2018, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PROTHRO, WILHELMI, AND COMPANY, PLLC

Tyler, Texas
October 25, 2019

THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2019 AND 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,427,243	$ 2,451,995
Pledges receivable, net	525,873	339,411
Deferred expenses	2,200	53,932
Deferred scholarships	621,959	827,823
Total current assets	3,577,275	3,673,161
Non-current assets:		
Pledges receivable	4,006,197	1,243,694
Investments:		
Marketable securities	70,932,013	57,753,391
Funds held-in-trust	450,223	485,234
Charitable gift annuities	295,505	294,072
Real estate and mineral interests	726,290	720,442
Other investments	42,669	46,623
Total investments	72,446,700	59,299,762
Total non-current assets	76,452,897	60,543,456
Total assets	$ 80,030,172	$ 64,216,617
LIABILITIES AND NET ASSETS		
Current liabilities:		
Due to Tyler Junior College	$ 621,959	$ 827,823
Accounts payable	47,453	-
Deferred revenue	100,869	100,731
Total current liabilities	770,281	928,554
Net assets:		
Without donor restrictions	13,057,501	11,547,243
With donor restrictions	66,202,390	51,740,820
Total net assets	79,259,891	63,288,063
Total liabilities and net assets	$ 80,030,172	$ 64,216,617

See accompanying notes and independent auditor's report.

THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
SUPPORT AND REVENUE			
Contributions and fundraising	$ 262,997	16,843,185	$ 17,106,182
Unrealized gain (loss) on investments	(347,836)	(1,452)	(349,288)
Realized gain	1,869,681	5,382	1,875,063
Investment income	1,727,427	66,043	1,793,470
Donor transfers in (out)	(1,800,862)	1,800,862	-
Total support and revenue	1,711,407	18,714,020	20,425,427
Net assets released from donor restrictions:			
Satisfaction of program restrictions	4,252,450	(4,252,450)	-
Total support, revenue, and net assets released from restrictions	5,963,857	14,461,570	20,425,427
EXPENSES			
Program	4,252,924	-	4,252,924
General and administrative	79,362	-	79,362
Fundraising	121,313	-	121,313
Total expenses	4,453,599	-	4,453,599
Change in net assets	1,510,258	14,461,570	15,971,828
NET ASSETS			
Balance, beginning of year	11,547,243	51,740,820	63,288,063
Balance, end of year	$ 13,057,501	$ 66,202,390	$ 79,259,891

THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
SUPPORT AND REVENUE			
Contributions and fundraising	$ 257,702	$ 13,188,217	$ 13,445,919
Unrealized gain on investments	244,298	7,145	251,443
Realized gain	1,034,159	20,712	1,054,871
Investment income	1,523,804	83,137	1,606,941
Donor transfers in (out)	(1,601,222)	1,601,222	-
Total support and revenue	1,458,741	14,900,433	16,359,174
Net assets released from donor restrictions:			
Satisfaction of program restrictions	2,685,395	(2,685,395)	-
Total support, revenue, and net assets released from restrictions	4,144,136	12,215,038	16,359,174
EXPENSES			
Program	2,748,574	-	2,748,574
General and administrative	54,412	-	54,412
Fundraising	121,902	-	121,902
Total expenses	2,924,888	-	2,924,888
Change in net assets	1,219,248	12,215,038	13,434,286
NET ASSETS			
Balance, beginning of year	10,327,995	39,525,782	49,853,777
Balance, end of year	$ 11,547,243	$ 51,740,820	$ 63,288,063

See accompanying notes and independent auditor’s report.

THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2019

	Program	General & Administrative	Fundraising	Total Expenses
Accounting and professional services	$ -	$ 48,098	$ -	$ 48,098
Contract services	-	7,600	-	7,600
Golf tournament	-	-	51,525	51,525
Insurance	-	6,161	-	6,161
Interest	-	4,225	-	4,225
Other awards	35,488	-	-	35,488
Other costs	-	4,536	-	4,536
Public relations and promotion	-	1,026	26,238	27,264
Real estate taxes	-	7,716	-	7,716
Scholarships	1,651,096	-	-	1,651,096
Special events	-	-	43,550	43,550
Support of Tyler Junior College	2,566,340	-	-	2,566,340
Total Expenses	$ 4,252,924	$ 79,362	$ 121,313	$ 4,453,599

See accompanying notes and independent auditor's report.

THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2018

	Program	General & Administrative	Fundraising	Total Expenses
Accounting and professional services	$ -	$ 28,425	$ -	$ 28,425
Contract services	-	7,600	-	7,600
Golf tournament	-	-	57,992	57,992
Insurance	-	2,933	-	2,933
Other awards	28,902	-	-	28,902
Other costs	-	4,988	-	4,988
Public relations and promotion	-	6,067	63,910	69,977
Real estate taxes	-	4,399	-	4,399
Scholarships	1,574,818	-	-	1,574,818
Support of Tyler Junior College	1,144,854	-	-	1,144,854
Total Expenses	$ 2,748,574	$ 54,412	$ 121,902	$ 2,924,888

See accompanying notes and independent auditor’s report.

THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	$ 15,971,828	$ 13,434,286
Contributions restricted by donors for permanent endowment	(1,110,930)	(1,430,065)
Contributions received in-kind	(9,879,428)	(9,048,512)
Realized and unrealized (gain) loss on investments	(1,525,775)	(1,306,314)
Appreciation in value of real estate and minerals	(5,848)	(27,692)
Bad debt expense	155,208	43,704
Change in operating assets and liabilities:		
(Increase) decrease in:		
Pledges receivable	(3,336,186)	161,774
Deferred expense	51,732	(53,932)
Deferred scholarships	205,864	80,652
Charitable gift annuities	(1,433)	24,351
Other assets	3,954	3,656
Funds held in trust	35,011	409
Increase (decrease) in:		
Due to Tyler Junior College	(205,864)	82,945
Deferred revenue	138	5,619
Accounts payable	47,453	-
Net cash provided by operating activities	405,724	1,970,881
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	79,175,860	44,671,469
Purchase of investments	(80,949,279)	(46,097,611)
Net cash (used) by investing activities	(1,773,419)	(1,426,142)
CASH FLOW FROM FINANCING ACTIVITIES:		
Contributions received for permanent endowment	1,342,943	394,215
Net cash provided by financing activities	1,342,943	394,215
Net increase (decrease) in cash and cash equivalents	(24,752)	938,954
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	2,451,995	1,513,041
CASH AND CASH EQUIVALENTS, AT END OF YEAR	$ 2,427,243	$ 2,451,995

See accompanying notes and independent auditor's report.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018

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.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU is effective for the Foundation's year ended June 30, 2019. The ASU required significant changes to the financial reporting model, including moving from three classes of net assets down to two classes, net assets with donor restrictions and net assets without donor restrictions and expanded disclosures concerning expenses and liquidity. The ASU also required changes to the way certain information was aggregated and reported.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

PLEDGES RECEIVABLE

Unconditional promises to give are recognized as contribution revenue when pledged. Conditional promises to give are recognized when the condition 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.

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 five percent of the discounted pledge receivable. Pledges receivable are discounted to net present value based upon an appropriate discount rate determined by management. The Foundation includes both bad debt expense and the accretion of net present value in contribution revenue in the accompanying statement of activities.

DEFERRED EXPENSES

Scholarships to be paid to Tyler Junior College that relate to future periods are recognized as deferred scholarships and are offset by an equal liability to Tyler Junior College.

MARKETABLE SECURITIES

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, the income and related gains and losses are without donor restriction. For the other trust, the income and related gains and losses are restricted by the donor for a specific scholarship fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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 assets on the statement of financial position.

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, 2019 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 an independent mineral management firm. 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 and is held in a demand deposit account where the income earns interest.

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 Tyler Junior College.

NOTES PAYABLE AND LINES-OF-CREDIT

In June 2019, the Foundation formalized an agreement with a local bank to open a construction line-of-credit. 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 Tyler Junior College. 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, 2019, no draws had been made on this line-of-credit.

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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 U.S. 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, 2019 and 2018.

NEW ACCOUNTING GUIDANCE NOT YET ADOPTED

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers*," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. This standard is effective for fiscal years beginning after December 15, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. The Foundation is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures. The Foundation has not yet selected a transition method, nor has it determined the effect of the standard on its ongoing financial reporting.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

NEW ACCOUNTING GUIDANCE NOT YET ADOPTED - continued

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, 2019, and interim periods within fiscal years beginning after December 15, 2020. 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.

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, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of August 31, 2019:

	2019	2018
Financial assets, at year-end	$ 78,229,500	$ 62,129,186
Less those unavailable for general expenditures within one year, due to:		
Restrictions by donor	66,202,390	51,740,820
Charitable gift annuity	295,505	294,072
Pledge receivable due in more than one year	4,006,197	1,243,694
Board designations:		
Match designated for scholarship program	1,000,000	-
Financial assets available to meet cash needs for general expenditures within one year	$ 6,725,408	$ 8,850,600

As part of the Foundation's liquidity management, it has net assets without donor restrictions of $13,057,501 at August 31, 2019. 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, 2019:

Pledges due in 2020	$ 847,838
Pledges due 2021 to 2025	4,445,333
	5,293,171
Discount at present value at 3.26%	(522,571)
	4,770,600
Allowance for uncollectible pledges	(238,530)
Discounted pledges receivable, net	$ 4,532,070

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 include the following:

	2019	2018
Money market	$ 995,438	$ 2,056,620
Common stock	6,402,812	34,532,804
Mutual funds	35,493,623	-
Corporate bonds	14,493,682	6,753,170
Federal bonds	13,546,458	14,410,797
	$ 70,932,013	$ 57,753,391

NOTE 6 – REAL ESTATE AND MINERAL INTERESTS

Real estate and mineral interests amounted to $726,290 and $720,442 at August 31, 2019 and 2018, 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:

	2019	2018
Net assets without donor restrictions:		
Undesignated	$ 3,696,707	$ 1,841,217
Endowment	7,945,263	9,290,495
Real estate	415,531	415,531
Board designated net assets:		
Match designated for scholarship program	1,000,000	-
Total net assets without donor restrictions	13,057,501	11,547,243
Net assets with donor restrictions for:		
Scholarships (includes marketable securities, funds held-in-trust, and oil and gas properties)	59,597,968	48,242,701
Student and campus enrichment	2,873,588	2,729,453
Performing arts complex	3,461,059	504,991
Staff awards	269,775	263,675
Total net assets with donor restrictions	66,202,390	51,740,820
Total net assets	$ 79,259,891	$ 63,288,063

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 was deemed prudent by the Board of Directors. There were no such deficiencies as of August 31, 2019 and 2018.

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 four percent and a floor of zero percent 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, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning balance (9/1/18)	$ 9,290,495	$ 51,740,820	$ 61,031,315
Contributions	262,997	16,843,185	17,106,182
Investment return	3,597,108	71,425	3,668,533
Net depreciation	(347,836)	(1,452)	(349,288)
Expenditures	(201,149)	(4,252,450)	(4,453,599)
Other changes	(4,656,352)	1,800,862	(2,855,490)
Ending balance (8/31/19)	$ 7,945,263	$ 66,202,390	$ 74,147,653

Endowment fund net asset composition as of August 31, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning balance (9/1/17)	$ 8,814,027	$ 39,525,782	$ 48,339,809
Contributions	257,702	13,188,217	13,445,919
Investment return	2,557,963	103,849	2,661,812
Net appreciation	244,298	7,145	251,443
Expenditures	(239,493)	(2,685,395)	(2,924,888)
Other changes	(2,344,002)	1,601,222	(742,780)
Ending balance (8/31/18)	$ 9,290,495	$ 51,740,820	$ 61,031,315

NOTE 9 – INVESTMENT INCOME

Investment income, unrealized gains (losses), and realized gains (losses) on investments recognized during the years ended 2019 and 2018 were as follows:

	2019		
	Investment income	Unrealized (loss)	Realized gain
Brokerage account	$ 1,675,979	$ (317,960)	$ 1,872,422
Other	117,491	(31,328)	2,641
Total	$ 1,793,470	$ (349,288)	$ 1,875,063

NOTE 9 – INVESTMENT INCOME - continued

	2018		
	Investment income	Unrealized gain	Realized gain
Brokerage account	$ 1,499,782	$ 247,007	$ 1,034,177
Other	107,159	4,436	20,694
Total	$ 1,606,941	$ 251,443	$ 1,054,871

Charitable gift annuities of $295,505 and $294,072 for 2019 and 2018, respectively, are reported at surrender value. Investment income is net of brokerage fees of $291,259 and $258,061 for 2019 and 2018, respectively.

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 $67,211 and $62,729 for 2019 and 2018, respectively.

NOTE 10 – RELATED PARTY TRANSACTIONS

The Foundation expended approximately $4,252,924 and $2,748,574 to Tyler Junior College for scholarships, support, and awards in 2019 and 2018, respectively. Tyler Junior College 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 Tyler Junior College. The Foundation owed the Tyler Junior College $621,959 and $827,823 at August 31, 2019 and 2018, 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 $2,869,398 at August 31, 2019.

For the Foundation's demand deposits held with various banks. $2,576,627 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, 2019 and 2018 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, 2019 and 2018 are reported at fair value in the accompanying financial statements as follows:

	2019			
		Fair Value Measurements at the End of the Reporting Period Using		
	Total	(Level 1)	(Level 2)	(Level 3)
Money market	$ 1,003,643	$ 1,003,643	$ -	$ -
Common stock	6,551,766	6,551,766	-	-
Exchange traded funds	86,541	86,541	-	-
Mutual funds	35,565,288	35,565,288	-	-
Corporate bonds	14,493,682	-	14,493,682	-
Federal bonds	13,546,458	-	13,546,458	-
Common trust funds	134,758	-	134,758	-
Oil and gas properties	310,859	-	-	310,859
Real estate	415,531	-	-	415,531
Life insurance contracts	338,174	-	-	338,174
Total	$ 72,446,700	$ 43,207,238	$ 28,174,898	$ 1,064,564

	2018			
		Fair Value Measurements at the End of the Reporting Period Using		
	Total	(Level 1)	(Level 2)	(Level 3)
Money market	$ 2,067,840	$ 2,067,840	$ -	$ -
Common stock	34,687,739	34,687,739	-	-
Exchange traded funds	77,740	77,740	-	-
Mutual funds	114,000	114,000	-	-
Corporate bonds	6,753,170	-	6,753,170	-
Federal bonds	14,410,797	-	14,410,797	-
Common trust funds	127,339	-	127,339	-
Oil and gas properties	304,911	-	-	304,911
Real estate	415,531	-	-	415,531
Life insurance contracts	340,695	-	-	340,695
Total	$ 59,299,762	$ 36,947,319	$ 21,291,306	$ 1,061,137

NOTE 12 – FAIR VALUE MEASUREMENTS - continued

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

	2019	2018
Beginning balance	$ 1,061,137	$ 1,061,452
Gains (losses) realized and unrealized	3,427	(315)
Ending balance	$ 1,064,564	$ 1,061,137

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

In the current year, the Foundation's governing board voted and approved a designation, from net assets without donor restrictions of $13,057,501, net assets of $1,000,000 to be used as a match for a restricted scholarship program. As of August 31, 2019, no other board designations are outstanding.

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 such events through October 25, 2019 and noted no such subsequent events.