

THE TYLER JUNIOR COLLEGE FOUNDATION

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT**

**FOR THE YEARS ENDED
AUGUST 31, 2020 AND 2019**

THE TYLER JUNIOR COLLEGE FOUNDATION
AUGUST 31, 2020 AND 2019
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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 statements of financial position as of August 31, 2020 and 2019 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.

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, 2020 and 2019, 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 27, 2020

THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2020 AND 2019

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,151,522	\$ 2,427,243
Pledges receivable, net	727,941	525,873
Deferred expenses	2,434	2,200
Deferred construction costs	564,595	-
Deferred scholarships	594,783	621,959
Total current assets	3,041,275	3,577,275
Non-current assets:		
Pledges receivable, net	3,476,937	4,006,197
Investments:		
Marketable securities	78,957,728	70,932,013
Funds held-in-trust	449,485	450,223
Annuity arbitrage	981,977	-
Charitable gift annuities	323,305	295,505
Real estate and mineral interests	610,354	726,290
Other investments	42,004	42,669
Total investments	81,364,853	72,446,700
Total non-current assets	84,841,790	76,452,897
Total assets	\$ 87,883,065	\$ 80,030,172
LIABILITIES AND NET ASSETS		
Current liabilities:		
Due to Tyler Junior College	\$ 1,159,384	\$ 621,959
Accounts payable	49,916	47,453
Deferred revenue	86,845	100,869
Total current liabilities	1,296,145	770,281
Net assets:		
Without donor restrictions	17,891,826	13,057,501
With donor restrictions	68,695,094	66,202,390
Total net assets	86,586,920	79,259,891
Total liabilities and net assets	\$ 87,883,065	\$ 80,030,172

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	\$ 402,538	\$ 4,275,662	\$ 4,678,200
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	<u>5,521,425</u>	<u>7,174,103</u>	<u>12,695,528</u>
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			
	<u>10,202,824</u>	<u>2,492,704</u>	<u>12,695,528</u>
EXPENSES			
Program	5,179,283	-	5,179,283
General and administrative	127,125	-	127,125
Fundraising	62,091	-	62,091
Total expenses	<u>5,368,499</u>	<u>-</u>	<u>5,368,499</u>
Change in net assets	4,834,325	2,492,704	7,327,029
NET ASSETS			
Balance, beginning of year	<u>13,057,501</u>	<u>66,202,390</u>	<u>79,259,891</u>
Balance, end of year	<u>\$ 17,891,826</u>	<u>\$ 68,695,094</u>	<u>\$ 86,586,920</u>

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 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	<u>1,711,407</u>	<u>18,714,020</u>	<u>20,425,427</u>
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			
	<u>5,963,857</u>	<u>14,461,570</u>	<u>20,425,427</u>
EXPENSES			
Program	4,252,924	-	4,252,924
General and administrative	79,362	-	79,362
Fundraising	121,313	-	121,313
Total expenses	<u>4,453,599</u>	<u>-</u>	<u>4,453,599</u>
Change in net assets	1,510,258	14,461,570	15,971,828
NET ASSETS			
Balance, beginning of year	<u>11,547,243</u>	<u>51,740,820</u>	<u>63,288,063</u>
Balance, end of year	<u>\$ 13,057,501</u>	<u>\$ 66,202,390</u>	<u>\$ 79,259,891</u>

See accompanying notes and independent auditor's report.

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

	<u>Program</u>	<u>General & Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
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	<u>\$ 5,179,283</u>	<u>\$ 127,125</u>	<u>\$ 62,091</u>	<u>\$ 5,368,499</u>

See accompanying notes and independent auditor's report.

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

	<u>Program</u>	<u>General & Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
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
Loan closing costs	-	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	<u>\$ 4,252,924</u>	<u>\$ 79,362</u>	<u>\$ 121,313</u>	<u>\$ 4,453,599</u>

See accompanying notes and independent auditor's report.

**THE TYLER JUNIOR COLLEGE FOUNDATION
STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019**

	2020	2019
<u>CASH FLOW FROM OPERATING ACTIVITIES:</u>		
Change in net assets	\$ 7,327,029	\$ 15,971,828
Contributions restricted by donors for permanent endowment	(897,285)	(1,110,930)
Contributions received in-kind	(1,850)	(9,879,428)
Realized and unrealized gain on investments	(6,413,827)	(1,525,775)
Appreciation in value of real estate and minerals	115,936	(5,848)
Bad debt expense	(17,221)	155,208
Change in operating assets and liabilities:		
(Increase) decrease in:		
Pledges receivable	344,413	(3,104,174)
Deferred expense	(234)	51,732
Deferred construction costs	(564,595)	-
Deferred scholarships	27,176	205,864
Annuity arbitrage	(981,977)	-
Charitable gift annuities	(27,800)	(1,433)
Other assets	665	3,954
Funds held in trust	738	35,011
Increase (decrease) in:		
Due to Tyler Junior College	537,425	(205,864)
Deferred revenue	(14,024)	138
Accounts payable	2,463	47,453
Net cash provided by operating activities	(562,968)	637,736
<u>CASH FLOW FROM INVESTING ACTIVITIES:</u>		
Proceeds from sale of investments	25,398,165	79,175,860
Purchase of investments	(27,008,203)	(80,949,279)
Net cash used in investing activities	(1,610,038)	(1,773,419)
<u>CASH FLOW FROM FINANCING ACTIVITIES:</u>		
Contributions received for permanent endowment	897,285	1,110,931
Net cash provided by financing activities	897,285	1,110,931
Net increase (decrease) in cash and cash equivalents	(1,275,721)	(24,752)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	2,427,243	2,451,995
CASH AND CASH EQUIVALENTS, AT END OF YEAR	\$ 1,151,522	\$ 2,427,243

See accompanying notes and independent auditor's report.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

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

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 replaces most existing revenue recognition guidance in U.S. GAAP. This standard is effective for fiscal years beginning after December 15, 2018.

The majority of the Foundation’s revenues come from public support. The public support is considered contribution revenue and is not subject to bifurcation to apply the ASU to any exchange-like portions of the revenue. Because of this, there was no material change in revenue recognition due to the implementation of ASU No. 2014-09.

In November 2016, The FASB issued ASU No. 2016-18, “*Statement of Cash Flows*” (Topic 230). The provisions of this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of this update do not provide a definition of restricted cash or restricted cash equivalents. The provisions of this update were effective for fiscal years beginning after December 15, 2018 and were applied using a retrospective transition method for each period presented. All cash and cash equivalents for the Foundation for each period presented are without donor restrictions.

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.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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, 2020 and 2019, 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.

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 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.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

ANNUITY ARBITRAGE

In 2019, the Board designated \$1 million to be utilized to sustain the Promise Program. In December 2019, the Foundation utilized these funds 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.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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 valued 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 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 TJC.

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 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, 2020, no draws had been made on this 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 Scholarships, and the TJC Promise. While the Program was announced in 2016, the first expenditures from the Foundation to TJC for this program will begin during the fiscal year ending August 31, 2021, when eligible students start classes at TJC. Currently, the Foundation considers \$8,274 of scholarship expenses for the Promise Program to be due to TJC at August 31, 2020.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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 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, 2020 and 2019.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

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, 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.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

NOTE 3 – AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Foundation’s financial assets as of August 31, 2020 and 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of August 31, 2020:

	<u>2020</u>	<u>2019</u>
Financial assets, at year-end	\$ 84,679,437	\$ 78,229,500
Less those unavailable for general expenditures within one year, due to:		
Restrictions by donor	68,695,094	66,202,390
Charitable gift annuity	323,305	295,505
Pledge receivable due in more than one year	3,476,937	4,006,197
Board designations	<u>1,000,000</u>	<u>1,000,000</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 11,184,101</u>	<u>\$ 6,725,408</u>

As part of the Foundation’s liquidity management, it has net assets without donor restrictions of \$17,891,826 at August 31, 2020. 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Pledges due in 2021	\$ 983,597	\$ 847,838
Pledges due 2022 to 2026	<u>3,934,388</u>	<u>4,445,333</u>
	4,917,985	5,293,171
Discount at present value at 3.62%	<u>(491,798)</u>	<u>(522,571)</u>
	4,426,187	4,770,600
Allowance for uncollectible pledges	<u>(221,309)</u>	<u>(238,530)</u>
Discounted pledges receivable, net	<u>\$ 4,204,878</u>	<u>\$ 4,532,070</u>

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

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, 2020 and 2019 include the following:

	<u>2020</u>	<u>2019</u>
Money market	\$ 739,782	\$ 995,438
Common stock	7,239,505	6,402,812
Mutual funds	40,677,740	35,493,623
Corporate bonds	12,168,737	14,493,682
Federal bonds	18,131,964	13,546,458
	<u>\$ 78,957,728</u>	<u>\$ 70,932,013</u>

NOTE 6 – REAL ESTATE AND MINERAL INTERESTS

Real estate and mineral interests amounted to \$610,354 and \$726,290 at August 31, 2020 and 2019, 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.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

NOTE 7 – RESTRICTIONS ON NET ASSETS

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

	<u>2020</u>	<u>2019</u>
Net assets without donor restrictions:		
Undesignated	\$ 4,247,345	\$ 3,696,707
Endowment	12,228,950	7,945,263
Real estate	415,531	415,531
Board designations	1,000,000	1,000,000
Total net assets without donor restrictions	<u>17,891,826</u>	<u>13,057,501</u>
Net assets with donor restrictions for:		
Scholarships (includes marketable securities, funds held-in-trust, and oil and gas properties)	62,046,918	59,597,968
Student and campus enrichment	2,973,978	2,873,588
Performing arts complex	3,404,423	3,461,059
Staff awards	269,775	269,775
Total net assets with donor restrictions	<u>68,695,094</u>	<u>66,202,390</u>
Total net assets	<u>\$ 86,586,920</u>	<u>\$ 79,259,891</u>

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.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

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, 2020 and 2019.

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.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

NOTE 8 – ENDOWMENTS - continued

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	402,538	4,275,662	4,678,200
Investment return	2,082,045	49,153	2,131,198
Net appreciation	5,949,826	(63,696)	5,886,130
Expenditures	(687,100)	(4,681,399)	(5,368,499)
Other changes	(3,463,622)	2,912,984	(550,638)
Ending balance (8/31/20)	<u>\$ 12,228,950</u>	<u>\$ 68,695,094</u>	<u>\$ 80,924,044</u>

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)	<u>\$ 7,945,263</u>	<u>\$ 66,202,390</u>	<u>\$ 74,147,653</u>

NOTE 9 – INVESTMENT INCOME

Investment income, unrealized gains (losses), and realized gains (losses) on investments recognized during the years ended 2020 and 2019 were as follows:

	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	<u>\$ 1,603,501</u>	<u>\$ 5,886,130</u>	<u>\$ 527,697</u>

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

NOTE 9 – INVESTMENT INCOME - continued

	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

Charitable gift annuities of \$323,305 and \$295,505 for 2020 and 2019, respectively, are reported at surrender value. Investment income is net of brokerage fees of \$298,083 and \$291,259 for 2020 and 2019, 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 \$40,323 and \$67,211 for 2020 and 2019, respectively.

NOTE 10 – RELATED PARTY TRANSACTIONS

The Foundation expended approximately \$5,179,283 and \$4,252,924 to TJC for scholarships, support, and awards in 2020 and 2019, 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 owed TJC \$1,159,384 and \$621,959 at August 31, 2020 and 2019, 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 \$1,395,008 at August 31, 2020.

For the Foundation's demand deposits held with various banks, \$859,507 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.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

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, 2020 and 2019 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.

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

NOTE 12 – FAIR VALUE MEASUREMENTS - continued

The Foundation's assets measured on a recurring basis at August 31, 2020 and 2019 are reported at fair value in the accompanying financial statements as follows:

2020				
Fair Value Measurements at the End of the Reporting Period Using				
	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
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	<u>\$ 81,364,853</u>	<u>\$ 48,945,499</u>	<u>\$ 30,461,614</u>	<u>\$ 1,957,740</u>

2019				
Fair Value Measurements at the End of the Reporting Period Using				
	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
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	<u>\$ 72,446,700</u>	<u>\$ 43,207,238</u>	<u>\$ 28,174,898</u>	<u>\$ 1,064,564</u>

THE TYLER JUNIOR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

NOTE 12 – FAIR VALUE MEASUREMENTS - continued

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

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 1,064,564	\$ 1,061,137
Gains (losses) realized and unrealized	(88,801)	3,427
Purchases, issuances, and settlements	981,977	-
Ending balance	<u>\$ 1,957,740</u>	<u>\$ 1,064,564</u>

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, \$1,000,000 to be used in support of the Promise Program. 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. As part of this evaluation, management considered the effects of the COVID-19 pandemic, which was still in effect after year-end but prior to the issuance of the financial statements. This pandemic had no significant effect on the Foundation’s operations, financial position, or activities, as a whole.

The Foundation evaluated events related to significant areas through October 27, 2020 and noted no such subsequent events to be disclosed in the notes to the financial statements.