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.