

TRI-COUNTY SCHOLARSHIP FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016



SOBEL & CO. LLC

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

TRI-COUNTY SCHOLARSHIP FUND

DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Tri-County Scholarship Fund
Parsippany, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of Tri-County Scholarship Fund ("Fund"), a New Jersey nonprofit corporation, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, 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 misstatements, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditors consider internal control relevant to the Fund'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 Fund'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 Tri-County Scholarship Fund as of December 31, 2017 and 2016, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Sobel & Co, LLC

Certified Public Accountants

Livingston, New Jersey
June 20, 2018

TRI-COUNTY SCHOLARSHIP FUND
STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 642,677	\$ 252,994
Investments	2,095,441	1,958,650
Pledges receivable, net	458,439	501,097
Prepaid expenses	10,526	3,392
Office equipment and software, net	20,947	8,966
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Total Assets	\$ 3,228,030	\$ 2,725,099
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LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable	\$ 20,418	\$ 18,997
Scholarships payable	517,250	560,000
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Total Liabilities	537,668	578,997
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COMMITMENTS AND CONTINGENCIES

NET ASSETS:

Unrestricted:		
General net assets (deficit)	159,190	(116,462)
Board-designated for endowment	587,854	634,304
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	747,044	517,842
Temporarily restricted	836,394	521,336
Permanently restricted endowment	1,106,924	1,106,924
	<hr/>	<hr/>
Total Net Assets	2,690,362	2,146,102
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 3,228,030	\$ 2,725,099
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TRI-COUNTY SCHOLARSHIP FUND
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended December 31, 2017				Year Ended December 31, 2016			
	Unrestricted	Temporarily	Permanently	Total	Unrestricted	Temporarily	Permanently	Total
		Restricted	Restricted			Restricted	Restricted	
SUPPORT AND REVENUE:								
Fundraising events, net								
Annual dinner	\$ 1,018,338	\$ -	\$ -	\$ 1,018,338	\$ 865,881	\$ -	\$ -	\$ 865,881
Less: Cost of event	69,782	-	-	69,782	69,213	-	-	69,213
	948,556	-	-	948,556	796,668	-	-	796,668
Golf tournament	150,455	-	-	150,455	140,036	-	-	140,036
Less: Cost of event	52,133	-	-	52,133	47,775	-	-	47,775
	98,322	-	-	98,322	92,261	-	-	92,261
Other fundraising events	120,353	-	-	120,353	78,690	-	-	78,690
Less: Cost of events	21,255	-	-	21,255	23,707	-	-	23,707
	99,098	-	-	99,098	54,983	-	-	54,983
Fundraising Events, Net	1,145,976	-	-	1,145,976	943,912	-	-	943,912
Individual donations	209,657	-	-	209,657	350,499	-	-	350,499
Grants and corporate foundations	139,600	295,709	-	435,309	212,637	314,322	-	526,959
Other income	16,135	-	-	16,135	15,000	-	-	15,000
Interest and dividends	16,829	36,945	-	53,774	12,979	28,486	-	41,465
Realized and unrealized gains on investments, net	52,674	145,549	-	198,223	15,829	31,604	-	47,433
	1,580,871	478,203	-	2,059,074	1,550,856	374,412	-	1,925,268
Satisfaction of time and expense restrictions	163,145	(163,145)	-	-	123,763	(123,763)	-	-
Total Support and Revenue	1,744,016	315,058	-	2,059,074	1,674,619	250,649	-	1,925,268
EXPENSES:								
Program:								
Scholarship and leadership	1,266,067	-	-	1,266,067	1,171,990	-	-	1,171,990
Support:								
General and administrative	124,441	-	-	124,441	155,418	-	-	155,418
Fundraising	124,306	-	-	124,306	425,388	-	-	425,388
Total Support	248,747	-	-	248,747	580,806	-	-	580,806
Total Expenses	1,514,814	-	-	1,514,814	1,752,796	-	-	1,752,796
CHANGES IN NET ASSETS	229,202	315,058	-	544,260	(78,177)	250,649	-	172,472
NET ASSETS, Beginning of year	517,842	521,336	1,106,924	2,146,102	596,019	270,687	1,106,924	1,973,630
NET ASSETS, End of year	\$ 747,044	\$ 836,394	\$ 1,106,924	\$ 2,690,362	\$ 517,842	\$ 521,336	\$ 1,106,924	\$ 2,146,102

The accompanying notes are an integral part of these financial statements.

TRI-COUNTY SCHOLARSHIP FUND
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	<u>Supporting Services</u>			Total
	Program Services	Management and General	Fundraising	
Payroll and payroll taxes	\$ 170,249	\$ 19,870	\$ 60,992	\$ 251,111
Employee benefits	44,888	5,239	16,081	66,208
General award	1,034,500	-	-	1,034,500
Education sponsors	16,430	-	-	16,430
Accounting and audit	-	20,019	-	20,019
Advertising	-	400	-	400
Bad debt	-	7,500	-	7,500
Bank fees	-	9,247	-	9,247
Depreciation	-	5,040	-	5,040
Dues and subscriptions	-	2,090	-	2,090
Equipment leases	-	4,200	-	4,200
General fundraising	-	-	1,643	1,643
Insurance	-	3,228	-	3,228
Meals and entertainment	-	-	936	936
Membership	-	-	1,300	1,300
Miscellaneous	-	829	211	1,040
Office supplies	-	-	299	299
Phone	-	4,488	-	4,488
Printing and postage	-	1,038	12,406	13,444
Professional development	-	125	-	125
Prospect research	-	-	30,438	30,438
Rent	-	25,208	-	25,208
Repairs and maintenance	-	138	-	138
Software	-	10,172	-	10,172
Supplies	-	1,025	-	1,025
Travel and cultivation	-	2,182	-	2,182
Utilities	-	2,403	-	2,403
Total Expenses	\$ 1,266,067	\$ 124,441	\$ 124,306	\$ 1,514,814

TRI-COUNTY SCHOLARSHIP FUND
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Payroll and payroll taxes	\$ 30,331	\$ 51,574	\$ 195,710	\$ 277,615
Employee benefits	7,529	12,802	48,580	68,911
General award	1,119,250	-	-	1,119,250
Education sponsors	14,730	-	-	14,730
Accounting and audit	-	19,947	-	19,947
Bad debt	-	3,450	-	3,450
Bank fees	-	7,463	-	7,463
Depreciation	-	2,988	-	2,988
Dues and subscriptions	-	415	-	415
Equipment leases	-	4,200	-	4,200
Insurance	-	3,412	-	3,412
Meals and entertainment	-	-	719	719
Membership	-	-	1,954	1,954
Miscellaneous	-	840	605	1,445
Office supplies	-	-	93	93
Phone	-	4,881	-	4,881
Printing and postage	-	1,141	5,070	6,211
Professional development	-	240	-	240
Consulting fees	150	-	172,657	172,807
Rent	-	22,597	-	22,597
Repairs and maintenance	-	943	-	943
Software	-	10,275	-	10,275
Supplies	-	2,851	-	2,851
Travel and cultivation	-	3,140	-	3,140
Utilities	-	2,259	-	2,259
Total Expenses	\$ 1,171,990	\$ 155,418	\$ 425,388	\$ 1,752,796

TRI-COUNTY SCHOLARSHIP FUND
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2017	2016
CASH FLOWS PROVIDED BY (USED FOR):		
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ 544,260	\$ 172,472
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:		
Recovery of uncollectible accounts	(1,450)	-
Allowance for uncollectible accounts	-	(3,450)
Discount on pledges receivable	(3,542)	(6,655)
Donated equipment	(9,835)	-
Depreciation	5,040	2,988
Realized and unrealized gains on investment, net	(198,223)	(47,433)
Changes in certain assets and liabilities:		
Pledges receivable	47,650	(332,689)
Prepaid expenses	(7,134)	(222)
Accounts payable	1,421	5,075
Scholarships payable	(42,750)	40,500
Net Cash Provided by (Used for) Operating Activities	<u>335,437</u>	<u>(169,414)</u>
<u>INVESTING ACTIVITIES:</u>		
Purchase of office equipment	(7,186)	-
Proceeds from sales of investments	1,910,416	1,674,528
Purchases of investments	(1,848,984)	(1,737,906)
Net Cash Provided by (Used for) Investing Activities	<u>54,246</u>	<u>(63,378)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	389,683	(232,792)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>252,994</u>	<u>485,786</u>
End of year	<u>\$ 642,677</u>	<u>\$ 252,994</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Noncash activities:		
Donated equipment	<u>\$ 9,835</u>	<u>\$ -</u>

TRI-COUNTY SCHOLARSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 - NATURE OF ACTIVITIES:

Tri-County Scholarship Fund (“Fund”) is a New Jersey not-for-profit corporation formed to provide quality education through financial support of deserving and economically disadvantaged children, regardless of race, religion, or national origin. The Fund raises money for these scholarships and its other programs through subscriptions, donations, gifts and special events.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation:

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Fund and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets not subject to donor-imposed stipulations and currently available for use by the Fund’s Board of Trustees.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Fund and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as satisfaction of time and expense restrictions.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Fund. Generally, the donors of these assets permit the Fund to use all or part of the income earned on any related investments for general or specific purposes.

Cash and Cash Equivalents:

Cash and cash equivalents consist of cash in bank accounts, as well as money market funds.

Pledges Receivable:

The Fund recognizes contributions into revenue when received, including those received in the form of unconditional promises to give (pledges). Gross pledges receivable are reported in the statements of financial position net of any necessary allowance of uncollectible amounts and unamortized discounts related to multiyear pledges.

TRI-COUNTY SCHOLARSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Pledges Receivable Allowance:

The Fund utilizes the reserve method of accounting for uncollectible pledges. The reserve is based on historical experience and management evaluation of outstanding accounts receivable at the end of each year.

Fair Value Measurements:

Fair value measurements are defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three defined hierarchical levels based on the quality of inputs used that directly relate to the amount of subjectivity associated with the determination of fair value.

The fair value hierarchy defines the three levels as follows:

- Level 1:** Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2:** Valuations based on observable inputs other than Level 1 prices, such as: quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3:** Valuations based on unobservable inputs that are used when little or no market is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

The fair value of investments are as follows:

Mutual funds – Valued at the net asset value of shares held by the Fund at year-end.

In-kind Contributions:

Amounts are reported in the financial statements for voluntary donations of property and services when those property and services create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and which would typically be purchased if not provided by donation. Donated property and services are recorded at their estimated fair value at date of donation.

The Organization also regularly receives services from volunteers who are not acting in a professional capacity; such volunteer services do not meet the criteria for financial statement recognition and are not included in the financial statements.

TRI-COUNTY SCHOLARSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Donated Stock:

Donated stock, that is immediately sold upon donation, is recorded as a contribution at its estimated fair value at the date of donation. The amount of donated stock for the years ended December 31, 2017 and 2016, was \$7,473 and \$20,102, respectively.

Contributions:

Contributions, including unconditional pledges, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Pledges are recognized when the conditions on which they depend are substantially met. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction.

Office Equipment and Software:

Equipment and software is recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the asset.

Scholarships:

Scholarships are paid in two equal installments. The first installment is paid during the year and the second installment is made in the subsequent period. A payable is set up for the second payment.

Functional Expenses:

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services based on management's best estimate. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Fund.

Income Taxes:

The Fund is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and, accordingly, is not liable for federal and state income taxes.

The Fund follows accounting standards that provide clarification on accounting for uncertainty in income taxes recognized in the Fund's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken, or expected to be taken, in a tax return, and also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The Fund's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense. No interest and penalties were recorded during the years ended December 31, 2017 and 2016. At December 31, 2017 and 2016, there are no significant income tax uncertainties.

TRI-COUNTY SCHOLARSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Use of Estimates:

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on management's best estimates and judgment. Actual results could differ from those estimates.

Reclassifications:

Certain amounts have been reclassified in the 2016 financial statements presentation to conform to the 2017 financial statements presentation.

Financial Statement Reporting for Nonprofits:

The Financial Accounting Standards Board issued an accounting pronouncement *Presentation of Financial Statements of Not-for-Profit Entities* that will require net assets to be presented in two classes instead of three. The two classes will be net assets with donor restrictions and net assets without donor restrictions. Additional enhanced disclosures will be required to present the amounts and purposes of Board designations, composition of net assets with donor restrictions and how the restrictions affect the use of resources. It also requires the Organization to communicate qualitative and quantitative information on how it manages its liquid resources available to meet the cash flow needs for general expenditures within one year of the statement of financial position date. The pronouncement is effective for annual reporting periods beginning after December 15, 2017. It will be effective for the year ending December 31, 2018. The Organization is currently evaluating the effect that the new standard will have on its financial statements.

Subsequent Events:

The Fund has evaluated its subsequent events and transactions occurring after December 31, 2017 to June 20, 2018, the date that the financial statements were available to be issued.

TRI-COUNTY SCHOLARSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 3 - PLEDGES RECEIVABLE:

Pledges receivable are as follows:

	December 31,	
	2017	2016
Gross pledges receivable	\$ 468,898	\$ 516,202
Less: Allowance	(7,000)	(8,450)
Less: Discount	(3,459)	(6,655)
Net Pledges Receivable	\$ 458,439	\$ 501,097
	December 31,	
	2017	2016
Amounts due in:		
Less than one year	\$ 268,925	\$ 239,566
One to five years	199,973	276,636
	\$ 468,898	\$ 516,202

Pledges receivable due in more than one year were discounted at 1.76% and 0.85% (Five-year Treasury Rate) for the years ended December 31, 2017 and 2016, respectively.

NOTE 4 - CONDITIONAL PLEDGE:

During the year ended December 31, 2017, a donor agreed to donate \$20,000 per year through 2019 for scholarship support for students in Morris County provided that the Fund raise \$20,000 in additional matching funds from new or increased nongovernmental sources by April 30th in each year of the two-year conditional pledge. As of December 31, 2017, the Fund had met the requirements of the pledge and the amount was received and recorded in individual donations on the statements of activities and changes in net assets.

TRI-COUNTY SCHOLARSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 5 - INVESTMENT SECURITIES:

Investments are summarized as follows:

FAIR VALUE MEASUREMENTS
AS OF DECEMBER 31, 2017

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Mutual funds	\$ 2,095,441	\$ -	\$ -	\$ 2,095,441

FAIR VALUE MEASUREMENTS
AS OF DECEMBER 31, 2016

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Mutual funds	\$ 1,958,650	\$ -	\$ -	\$ 1,958,650

The following schedule summarizes the mutual funds by strategy:

	December 31,	
	2017	2016
Real estate	1%	2%
Small blend, growth, and value	4%	4%
Long/Short equity	1%	-
Large blend	-	4%
Large growth	16%	7%
Large value	15%	-
Foreign large blend	4%	-
Foreign large growth	2%	-
Foreign small/mid growth	-	1%
Diversified emerging markets	1%	-
Bonds	30%	28%
Mid value/mid blend	-	2%
Equity energy	1%	4%
Preferred stock	-	2%
Consumer/cyclical	4%	11%
Financial, health, communication	6%	13%
Industrial, natural resource, technology	9%	19%
Managed futures	2%	1%
Multi-alternative	3%	2%
Japan stock	1%	-
Total	100%	100%

TRI-COUNTY SCHOLARSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 5 - INVESTMENT SECURITIES: (Continued)

Investment income from these investments is summarized as follows:

	Year Ended December 31,	
	2017	2016
Interest and dividend income	\$ 53,774	\$ 41,465
Realized gain (loss) on investments	263,629	(21,176)
Unrealized (loss) gain on investments	(44,759)	79,680
Investment fees	(20,647)	(19,770)
	<u>\$ 251,997</u>	<u>\$ 80,199</u>

The Fund had an investment of 100,000 Limited Partnership Units of “Class A-2 Interests of TDS Investor (Cayman) L.P.” from a donation. These limited partnership interests had restrictions on their sale and were not publicly traded. During the year ended December 31, 2016, the Fund sold its interest in the investment resulting in a realized gain of \$8,699, included in realized and unrealized gain (loss) on investment, net, in the statements of activities and changes in net assets.

NOTE 6 - OFFICE EQUIPMENT AND SOFTWARE:

Office equipment and software are comprised as follows:

	Useful Life	December 31,	
		2017	2016
Office equipment	5-7 Years	\$ 48,017	\$ 38,182
Computer software	3-5 Years	16,979	9,793
Total Fixed Assets		<u>64,996</u>	<u>47,975</u>
Less: Accumulated depreciation		<u>44,049</u>	<u>39,009</u>
Office Equipment, Net		<u>\$ 20,947</u>	<u>\$ 8,966</u>

TRI-COUNTY SCHOLARSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 7 - LEASING ARRANGEMENTS:

The Fund conducts all of its operations from a leased facility under an operating lease that expires April 30, 2020. The Fund is also responsible for its pro rata share of real estate taxes and operating expenses. Rent expense was \$25,208 and \$22,597 for years ended December 31, 2017 and 2016, respectively. These amounts are recorded as rent on the statements of functional expenses.

The Fund rents equipment under operating leases that expire at various dates through late 2018. Equipment rental expense was \$4,200 for years ended December 31, 2017 and 2016, respectively. These amounts are recorded as equipment leases on the statements of functional expenses.

Future minimum rental payments under the office and equipment leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 34,847
2019	32,921
2020	22,141
Total	<u>\$ 89,909</u>

NOTE 8 - CONCENTRATIONS OF RISK:

Financial instruments that expose the Fund to concentrations of credit risk consist primarily of cash and cash equivalents, receivables, and investments. The Fund maintains its cash and cash equivalents in accounts with federally insured institutions. At times, the balances in these accounts may be in excess of federally insured limits.

The Fund's investments are concentrated with mutual funds. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statements of financial position.

The Fund raised approximately 47% and 42% of its total support and revenue during the years ended December 31, 2017 and 2016, respectively, from its annual dinner.

TRI-COUNTY SCHOLARSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets available consist of the following:

	December 31,	
	2017	2016
Scholarships	\$ 29,058	\$ 16,941
Equipment	2,814	10,000
Capital campaign	160,000	103,869
For use in future periods	176,514	105,012
Investment income	468,008	285,514
	<u>\$ 836,394</u>	<u>\$ 521,336</u>

NOTE 10 - ENDOWMENT FUNDS:

The Fund's permanently restricted net assets consist of nine separate funds. These funds include donor-restricted funds functioning as endowment funds. Net assets associated with endowment funds are classified, and reported based on the existence of donor-imposed restrictions.

The Fund follows accounting standards that provide clarification on accounting for donor-restricted endowment funds. The guidance prescribes that the portion of donor-restricted endowment funds that are classified as permanently restricted should not be reduced by losses on the investment of the fund or the Fund's appropriations from the fund.

The Board of Trustees' interpretation requires 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, the Fund classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Fund. The Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the scholarship program
- (2) The purposes of the Fund and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Fund
- (7) The investment policies of the Fund

TRI-COUNTY SCHOLARSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 10 - ENDOWMENT FUNDS: (Continued)

The Board of Trustees' primary objective, in this regard, is to add value and minimize risk in managing the assets of the Fund while providing a hedge against inflation into the future. It is the intent of the Board of Trustees to grow the endowment and utilize the total return (income plus capital change) to further the mission of the Fund. In recognition of the prudence required of fiduciaries, reasonable diversification of quality investment securities will be sought where possible, knowing that fluctuating rates of return are a characteristic of the investment market and performance cycles cannot be accurately predicted.

The funds may be held in individual securities or mutual funds, may be comprised of domestic and international securities, and will be further diversified into asset classes by their market capitalization.

The Fund may distribute the calendar-year income (without regard to unrealized gains or losses) generated from the endowment funds in the subsequent year, but in no event can the distribution exceed 5% of the fund balance at the end of the previous year. Income is defined as dividends, interest, and net realized gains. Based on the spending policy the maximum distribution allowed for 2017 was \$101,337 and the distribution was \$0.

Endowment Net Asset Composition by type of fund at December 31, 2017, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 468,008	\$ 1,106,924	\$ 1,574,932
Board-designated endowment funds	587,854	-	-	587,854
	<u>\$ 587,854</u>	<u>\$ 468,008</u>	<u>\$ 1,106,924</u>	<u>\$ 2,162,786</u>

TRI-COUNTY SCHOLARSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 10 - ENDOWMENT FUNDS: (Continued)

Changes in endowment net assets, including Board-designated funds for the year ended December 31, 2017, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	\$ 634,304	\$ 285,514	\$ 1,106,924	\$ 2,026,742
Investment return:				
Investment income	16,829	36,945	-	53,774
Net depreciation of realized and unrealized gain	64,185	145,549	-	209,734
Total Investment Return	81,014	182,494	-	263,506
Contributions	122,536	-	-	122,536
Appropriation for expenditure	(250,000)	-	-	(250,000)
Endowment Net Assets, End of year	\$ 587,854	\$ 468,008	\$ 1,106,924	\$ 2,162,786

Endowment Net Asset Composition by type of fund at December 31, 2016, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 285,514	\$ 1,106,924	\$ 1,392,438
Board-designated endowment funds	634,304	-	-	634,304
	\$ 634,304	\$ 285,514	\$ 1,106,924	\$ 2,026,742

TRI-COUNTY SCHOLARSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 10 - ENDOWMENT FUNDS: (Continued)

Changes in endowment net assets, including Board-designated funds for the year ended December 31, 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	\$ 515,491	\$ 225,423	\$ 1,106,924	\$ 1,847,838
Investment return:				
Investment income	12,978	28,487	-	41,465
Net depreciation of realized and unrealized gain	10,272	31,604	-	41,876
Total Investment Return	23,250	60,091	-	83,341
Contributions	95,563	-	-	95,563
Appropriation for expenditure	-	-	-	-
Endowment Net Assets, End of year	\$ 634,304	\$ 285,514	\$ 1,106,924	\$ 2,026,742