

TRI-COUNTY SCHOLARSHIP FUND
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021



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TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY

DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Tri-County Scholarship Fund and Subsidiary
Mendham, New Jersey

Opinion

We have audited the accompanying consolidated financial statements of Tri-County Scholarship Fund (a New Jersey nonprofit corporation) and TCSF Holdings, LLC (collectively, "Fund"), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tri-County Scholarship Fund and Subsidiary as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter

The consolidated financial statements as of December 31, 2021, were audited by Sobel & Co., LLC, whose partners and professional staff joined CliftonLarsonAllen LLP as of February 1, 2023 and has subsequently ceased operations. Sobel & Co., LLC's report dated May 25, 2022, expressed an unmodified opinion on those financials.



CliftonLarsonAllen LLP

Livingston, New Jersey
June 22, 2023

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31, | |
|---|--------------|--------------|
| | 2022 | 2021 |
| ASSETS | | |
| Cash and cash equivalents | \$ 4,181,013 | \$ 3,106,532 |
| Pledges receivable, net | 115,586 | 218,618 |
| Rent receivable | - | 1,350 |
| Investments | 4,224,843 | 4,733,900 |
| Prepaid expenses | 5,035 | 10,434 |
| Property and equipment, net | 673,371 | 687,691 |
| Total Assets | \$ 9,199,848 | \$ 8,758,525 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES: | | |
| Accrued payroll and other accrued expenses | \$ 98,995 | \$ 95,461 |
| Scholarships payable | 1,189,312 | 1,102,637 |
| Security deposit | - | 2,051 |
| Total Liabilities | 1,288,307 | 1,200,149 |
| NET ASSETS: | | |
| Without Donor Restrictions: | | |
| Undesignated | 3,217,140 | 2,468,970 |
| Board-designated for endowment | 1,957,789 | 2,324,936 |
| Total Net Assets Without Donor Restrictions | 5,174,929 | 4,793,906 |
| With Donor Restrictions: | | |
| Restricted in perpetuity - endowments | 1,692,433 | 1,692,433 |
| Restricted for specified purpose or time | 1,044,179 | 1,072,037 |
| Total Net Assets With Donor Restrictions | 2,736,612 | 2,764,470 |
| Total Net Assets | 7,911,541 | 7,558,376 |
| Total Liabilities and Net Assets | \$ 9,199,848 | \$ 8,758,525 |

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

| | Year Ended December 31, 2022 | | | Year Ended December 31, 2021 | | |
|---|------------------------------|-------------------------|---------------------|------------------------------|-------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| SUPPORT AND REVENUE: | | | | | | |
| Fundraising events, net: | | | | | | |
| Annual dinner | \$ 2,430,429 | \$ - | \$ 2,430,429 | \$ 2,265,567 | \$ - | \$ 2,265,567 |
| Golf tournament | 195,777 | - | 195,777 | 169,415 | - | 169,415 |
| Other fundraising events | 427,834 | - | 427,834 | 336,939 | - | 336,939 |
| | <u>3,054,040</u> | <u>-</u> | <u>3,054,040</u> | <u>2,771,921</u> | <u>-</u> | <u>2,771,921</u> |
| Less: Costs of direct benefits to donors | 380,896 | - | 380,896 | 201,110 | - | 201,110 |
| Total Fundraising Events, net | <u>2,673,144</u> | <u>-</u> | <u>2,673,144</u> | <u>2,570,811</u> | <u>-</u> | <u>2,570,811</u> |
| Individual donations | 539,537 | 985,000 | 1,524,537 | 709,532 | - | 709,532 |
| Grants and corporate foundations | 51,500 | 180,506 | 232,006 | 33,500 | 484,931 | 518,431 |
| Rental income | 7,400 | - | 7,400 | 16,200 | - | 16,200 |
| Interest and dividends | 94,199 | 57,518 | 151,717 | 67,599 | 75,348 | 142,947 |
| Realized and unrealized gains on investments, net | (432,064) | (443,120) | (875,184) | 162,634 | 183,794 | 346,428 |
| | <u>2,933,716</u> | <u>779,904</u> | <u>3,713,620</u> | <u>3,560,276</u> | <u>744,073</u> | <u>4,304,349</u> |
| Satisfaction of time and purpose restrictions | 807,762 | (807,762) | - | 490,749 | (490,749) | - |
| Total Support and Revenue | <u>3,741,478</u> | <u>(27,858)</u> | <u>3,713,620</u> | <u>4,051,025</u> | <u>253,324</u> | <u>4,304,349</u> |
| EXPENSES: | | | | | | |
| Program: | | | | | | |
| Scholarship and leadership | 2,910,063 | - | 2,910,063 | 2,575,755 | - | 2,575,755 |
| Support: | | | | | | |
| General and administrative | 240,176 | - | 240,176 | 224,426 | - | 224,426 |
| Fundraising | 210,216 | - | 210,216 | 254,681 | - | 254,681 |
| Total Support | <u>450,392</u> | <u>-</u> | <u>450,392</u> | <u>479,107</u> | <u>-</u> | <u>479,107</u> |
| Total Expenses | <u>3,360,455</u> | <u>-</u> | <u>3,360,455</u> | <u>3,054,862</u> | <u>-</u> | <u>3,054,862</u> |
| CHANGES IN NET ASSETS | 381,023 | (27,858) | 353,165 | 996,163 | 253,324 | 1,249,487 |
| NET ASSETS, Beginning of year | <u>4,793,906</u> | <u>2,764,470</u> | <u>7,558,376</u> | <u>3,797,743</u> | <u>2,511,146</u> | <u>6,308,889</u> |
| NET ASSETS, End of year | <u>\$ 5,174,929</u> | <u>\$ 2,736,612</u> | <u>\$ 7,911,541</u> | <u>\$ 4,793,906</u> | <u>\$ 2,764,470</u> | <u>\$ 7,558,376</u> |

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

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

| | Year Ended December 31, 2022 | | | | Year Ended December 31, 2021 | | | |
|--------------------------------------|------------------------------|------------------------|-------------------|---------------------|------------------------------|------------------------|-------------------|---------------------|
| | Supporting Services | | | | Supporting Services | | | |
| | Program Services | Management and General | Fundraising | Total | Program Services | Management and General | Fundraising | Total |
| Payroll and payroll taxes | \$ 381,708 | \$ 32,584 | \$ 51,205 | \$ 465,497 | \$ 311,309 | \$ 66,413 | \$ 37,357 | \$ 415,079 |
| Employee benefits | 74,855 | 6,390 | 10,042 | 91,287 | 52,210 | 11,139 | 6,265 | 69,614 |
| General award | 2,453,500 | - | - | 2,453,500 | 2,212,200 | - | - | 2,212,200 |
| Conferences and seminars | - | - | 922 | 922 | - | - | 12,450 | 12,450 |
| Professional services | - | 24,019 | - | 24,019 | - | 22,735 | - | 22,735 |
| Bad debt | - | - | - | - | - | 500 | - | 500 |
| Bank fees | - | 28,272 | - | 28,272 | - | 21,561 | - | 21,561 |
| Depreciation | - | 14,320 | - | 14,320 | - | 12,035 | - | 12,035 |
| Equipment leases | - | 2,520 | - | 2,520 | - | 2,541 | - | 2,541 |
| General fundraising | - | - | 2,141 | 2,141 | - | - | 32,600 | 32,600 |
| Indirect costs of fundraising events | - | - | 49,967 | 49,967 | - | - | 47,214 | 47,214 |
| Insurance | - | 5,958 | - | 5,958 | - | 5,470 | - | 5,470 |
| Meals and entertainment | - | - | 3,344 | 3,344 | - | - | 8,002 | 8,002 |
| Miscellaneous | - | 4,207 | 6,536 | 10,743 | 36 | 4,242 | 6,009 | 10,287 |
| Occupancy | - | 6,369 | - | 6,369 | - | 16,572 | - | 16,572 |
| Office expenses | - | 22,670 | 21,218 | 43,888 | - | 12,179 | 39,836 | 52,015 |
| Prospect research | - | - | 64,841 | 64,841 | - | - | 64,948 | 64,948 |
| Real estate taxes and fees | - | 6,972 | - | 6,972 | - | 6,294 | - | 6,294 |
| Repairs and maintenance | - | 64,663 | - | 64,663 | - | 19,173 | - | 19,173 |
| Software | - | 14,405 | - | 14,405 | - | 12,679 | - | 12,679 |
| Travel and cultivation | - | 6,827 | - | 6,827 | - | 10,893 | - | 10,893 |
| Total Expenses | \$ 2,910,063 | \$ 240,176 | \$ 210,216 | \$ 3,360,455 | \$ 2,575,755 | \$ 224,426 | \$ 254,681 | \$ 3,054,862 |

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

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31, | |
|--|--------------------------|--------------|
| | 2022 | 2021 |
| CASH FLOWS PROVIDED BY: | | |
| <u>OPERATING ACTIVITIES:</u> | | |
| Change in net assets | \$ 353,165 | \$ 1,249,487 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Discount on pledges receivable | - | (931) |
| Depreciation | 14,320 | 12,035 |
| Realized and unrealized losses (gains) on investment, net | 875,184 | (346,428) |
| Donated stock | (44,729) | (12,605) |
| Changes in certain assets and liabilities: | | |
| Pledges receivable | 103,032 | 13,876 |
| Rent receivable | 1,350 | - |
| Prepaid expenses | 5,399 | (5,959) |
| Accrued payroll and other accrued expenses | 3,534 | (5,008) |
| Scholarships payable | 86,675 | 50,595 |
| Security deposit | (2,051) | - |
| Net Cash Provided by Operating Activities | 1,395,879 | 955,062 |
| <u>INVESTING ACTIVITIES:</u> | | |
| Purchase of property and equipment | - | (9,164) |
| Proceeds from sales of investments | 2,014,652 | 1,953,140 |
| Purchases of investments | (2,336,050) | (2,083,900) |
| Net Cash Used for Investing Activities | (321,398) | (139,924) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 1,074,481 | 815,138 |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of year | 3,106,532 | 2,291,394 |
| End of year | \$ 4,181,013 | \$ 3,106,532 |
| SUPPLEMENTAL DISCLOSURE OF CASH-FLOW INFORMATION: | | |
| Noncash activities: | | |
| Donated stock | \$ 44,729 | \$ 12,605 |

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 1 - NATURE OF ACTIVITIES:

Tri-County Scholarship 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 donations, gifts and special events.

TCSF Holdings, LLC is a New Jersey real estate holdings company wholly owned by the Fund that was formed for the purpose of holding title to property for the benefit of the Fund.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:

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

Principles of Consolidation:

The consolidated financial statements include the accounts of Tri-County Scholarship Fund and its wholly owned subsidiary, TCSF Holdings, LLC (collectively, "Fund"). All significant intercompany balances and transactions have been eliminated in consolidation.

Adoption of New Accounting Standard:

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, *Leases (ASC 842)*. The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statements of financial position. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Fund adopted the requirements of the guidance effective January 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption, with certain practical expedients available. The Fund has elected to adopt the package of practical expedients available in the year of adoption. The Organization has not elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the Organization's ROU assets.

The Fund elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

Adoption of New Accounting Standard (Continued):

The standard did not have a material impact on the financial statements.

Consolidated 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:

Net Assets without Donor Restrictions - Net assets not subject to donor-imposed stipulations.

Net Assets with Donor Restrictions - 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, and other 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. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

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"). Pledges receivable are reported in the consolidated statements of financial position net of any necessary allowance of uncollectible amounts and unamortized discounts related to multiyear pledges.

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 pledges receivable at the end of each year. An allowance of \$6,000 was deemed necessary at December 31, 2022 and 2021.

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.

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

Fair Value Measurements (Continued):

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:

Fixed Income Securities – Valued at quoted market prices of valuations provided by commercial pricing services or the mean of bid and ask prices provided by investment brokers.

Equity Securities – Shares in companies traded on national securities exchanges are valued at the closing price reported in the active market in which the individual securities are traded.

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

Alternative Investments – Private equity or real estate investments valued at net asset value used as a practical expedient to estimate fair value.

Property and Equipment:

Property and equipment are recorded at cost, when purchased, or at the fair market value on the date of the donation, when received by donation. 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.

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

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 or explicitly waived. Gifts of cash and other assets are reported as increases in net assets with donor restrictions on the consolidated statements of activities and changes in net assets if they are received with donor stipulations that limit the use of the donated assets.

Revenue from government grants is considered a conditional contribution and is not recognized until the conditions related to this revenue are substantially met or explicitly waived.

In-kind Contributions:

In-kind contributions are recorded at fair value and recognized as revenues and expenses in the period received if they meet the requirements for recognition under accounting principles generally accepted in the United States of America. All gifts-in-kind received by the Organization for the years ended December 31, 2022 and 2021, were considered without donor restrictions and able to be used by the Organization as determined by management.

Amounts are reported in the consolidated 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. During the years ended December 31, 2022 and 2021, the Fund received donated services, materials and supplies for program events in the amount of \$2,642 and \$3,847, respectively, which is recorded with individual contributions.

The Fund 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 recognized in the consolidated financial statements.

Donated Stock:

Donated stock, which the Fund typically immediately sells upon donation unless otherwise specified by the donor, is recorded as a contribution at its estimated fair value at the date of donation. Donated stock for the years ended December 31, 2022 and 2021, amounted to \$44,729 and \$12,605, respectively.

Rental income:

A tenant of the building held by TCSF Holdings, LLC had a month-to-month agreement with the Fund to pay \$1,350 for each month that the tenant occupies the building. This agreement ended in June 2022. A new tenant has an 18-month agreement with the Fund to pay \$2,000 per month through June 2024. Rental income for the years ended December 31, 2022 and 2021, amounted to \$7,400 and \$16,200, respectively, and is included on the consolidated statements of activities and changes in net assets.

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

Income Taxes:

Tri-County Scholarship 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 its wholly owned subsidiary, TCSF Holdings, LLC, is treated as a disregarded entity for federal income tax purposes. Accordingly, Tri-County Scholarship Fund and its subsidiary are 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 consolidated 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, 2022 and 2021. At December 31, 2022 and 2021, there are no significant income tax uncertainties.

Use of Estimates:

In preparing consolidated 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 consolidated 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.

Subsequent Events:

The Fund has evaluated its subsequent events and transactions occurring after December 31, 2022 to June 22, 2023, the date that the consolidated financial statements were available to be issued.

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 3 - PLEDGES RECEIVABLE:

Pledges receivable are summarized as follows:

| | December 31, | |
|--------------------------|---------------------|-------------------|
| | 2022 | 2021 |
| Gross pledges receivable | \$ 121,586 | \$ 225,124 |
| Less: Allowance | (6,000) | (6,000) |
| Less: Discount | - | (506) |
| Pledges Receivable, net | <u>\$ 115,586</u> | <u>\$ 218,618</u> |
| Amounts due in: | | |
| Less than one year | \$ 121,586 | \$ 209,124 |
| One to five years | - | 16,000 |
| | <u>\$ 121,586</u> | <u>\$ 225,124</u> |

Pledges receivable due in more than one year were discounted using applicable long-term Treasury rates. The applicable rates range from 0.17% to 4.22%.

NOTE 4 - CONDITIONAL PLEDGE:

In 2019, a donor agreed to donate \$25,000 per year through 2021 for scholarship support for students in Morris County provided that the Fund raise \$25,000 in additional matching funds from new or increased nongovernmental sources by May 31 in each year of the two-year conditional pledge. As of December 31, 2021, the Fund had met the requirements of the pledge, and the amounts were received and recorded in individual donations in the consolidated statements of activities and changes in net assets.

During the year ended December 31, 2021, a donor agreed to donate \$100,000 for scholarship support for students in Morris County provided that the Fund raise \$100,000 in additional matching funds from new or increased nongovernmental sources between October 21, 2021 through June 30, 2023. As of December 31, 2022, the Fund had met the requirements of the pledge, and the amounts were received and recorded in grants and corporate foundations in the consolidated statements of activities and changes in net assets.

During the year ended December 31, 2022, a donor agreed to donate \$30,000 for scholarship support for low-income kindergarten through eighth-grade students in Morris, Passaic, and Sussex Counties provided that the Fund determine the income eligibility of its recipients and that the students awarded, or their siblings, are able to continue receiving scholarships in the 2023-2024 school year. The Fund may be required to send proof of other donations and proof of which students the funds will be intended for prior to the donor remitting the funds as pledged. As of December 31, 2022, no amounts have been recorded related to this conditional pledge.

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 5 - INVESTMENTS:

Investments are summarized as follows:

| FAIR VALUE MEASUREMENTS | | | | |
|--------------------------------|---------------------|-------------------|----------------|---------------------|
| As of December 31, 2022 | | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Money market | \$ 94,565 | \$ - | \$ - | \$ 94,565 |
| Fixed income securities | - | 573,482 | - | 573,482 |
| Equity securities | 1,382,697 | - | - | 1,382,697 |
| Mutual funds | 1,938,494 | - | - | 1,938,494 |
| Alternative investments (a) | - | - | - | 235,605 |
| | \$ 3,415,756 | \$ 573,482 | \$ - | \$ 4,224,843 |

| FAIR VALUE MEASUREMENTS | | | | |
|--------------------------------|---------------------|-------------------|----------------|---------------------|
| As of December 31, 2021 | | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Money market | \$ 155,793 | \$ - | \$ - | \$ 155,793 |
| Fixed income securities | - | 905,704 | - | 905,704 |
| Equity securities | 2,110,330 | - | - | 2,110,330 |
| Mutual funds | 1,562,073 | - | - | 1,562,073 |
| | \$ 3,828,196 | \$ 905,704 | \$ - | \$ 4,733,900 |

(a) Certain investments that were measured at net asset value per share have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

Investment income from these investments is summarized as follows:

| | Year Ended December 31, | |
|---------------------------------------|--------------------------------|-------------------|
| | 2022 | 2021 |
| Interest and dividend income | \$ 117,440 | \$ 141,506 |
| Realized gain on investments | 9,850 | 272,718 |
| Unrealized (loss) gain on investments | (848,442) | 113,574 |
| Investment fees | (36,592) | (39,864) |
| | \$ (757,744) | \$ 487,934 |

The Fund also received interest income from money market accounts amounting to \$34,277 and \$1,441 for the years ended December 31, 2022 and 2021, respectively.

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 5 - INVESTMENTS: (Continued)

The following table summarizes investments measured at fair value based on NAV per share as of December 31, 2022. There were no investments held that were measured at fair value based on NAV per share as of December 31, 2021.

| December 31, 2022 | Fair Value | Unfunded Commitments | Redemption Frequency (if currently eligible) | Redemption Notice Period |
|---------------------------------|-------------------|---------------------------------|---|--|
| Private Equity Fund (1) | \$ 115,202 | \$ - | Quarterly | By the second-to-last business day of the applicable month |
| Real Estate Income Trust (1) | \$ 120,403 | \$ - | Quarterly | By the second-to-last business day of the applicable month |

(1) The fair value of the investment has been estimated using the NAV of the Fund's ownership interest in the fund. NAV is calculated on a monthly recurring basis. Distributions received are reinvested in the funds.

NOTE 6 - PROPERTY AND EQUIPMENT:

| | Useful Life | December 31, | |
|--------------------------------|--------------------|---------------------|-------------|
| | | 2022 | 2021 |
| Land | N/A | \$ 395,972 | \$ 395,972 |
| Building | 35 Years | 170,640 | 170,640 |
| Building improvements | 35 Years | 126,535 | 126,535 |
| Office equipment | 5-7 Years | 16,682 | 16,682 |
| Computer software | 3-5 Years | 16,350 | 16,350 |
| Total Fixed Assets | | 726,179 | 726,179 |
| Less: Accumulated depreciation | | (52,808) | (38,488) |
| Property and Equipment, Net | | \$ 673,371 | \$ 687,691 |

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 7 - LEASING ARRANGEMENTS:

Operating Leases for Equipment:

The Fund rents office equipment under an operating lease that expires in March 2028. Equipment rental expense for the years ended December 31, 2022 and 2021, was \$2,520 and \$2,541, respectively, and is reported as equipment leases on the consolidated statements of functional expenses.

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

| Year Ending December 31, | Amount |
|-------------------------------------|------------------|
| 2023 | \$ 2,520 |
| 2024 | 2,520 |
| 2025 | 2,520 |
| 2026 | 2,520 |
| 2027 | 2,520 |
| Thereafter | 630 |
| Total | <u>\$ 13,230</u> |

Rental Income:

The Fund leases a portion of its building to an unrelated party on a month-to-month basis. Rental income under this leasing arrangement was \$7,400 and \$16,200 for each of the years ended December 31, 2022 and 2021, respectively.

NOTE 8 - CONCENTRATIONS OF RISK:

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

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 consolidated statements of financial position.

Sources of revenue:

During the years ended December 31, 2022 and 2021, the Fund raised approximately 65% and 53%, respectively, of its total support and revenue from its annual dinner, which includes reservations, sponsorships, and other corporate or individual donations. This annual dinner is the Fund's largest special event at which the Fund encourages donor contributions and other opportunities for donor engagement throughout the year. During the year ended December 31, 2022, two individual donors contributed approximately 35% of the Fund's total support and revenue as part of the Fund's ongoing efforts to receive major gifts.

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 9 - NET ASSETS WITH DONOR-IMPOSED PURPOSE AND TIME RESTRICTIONS:

Net assets with donor-imposed purpose and time restrictions consist of the following:

| | December 31, | |
|---------------------|---------------------|---------------------|
| | 2022 | 2021 |
| Scholarships | \$ 23,995 | \$ 158,512 |
| Capital campaign | 181,500 | 181,500 |
| Timing, pledges | - | 15,494 |
| St. Gerard's School | 507,750 | - |
| Investment income | 330,934 | 716,531 |
| | <u>\$ 1,044,179</u> | <u>\$ 1,072,037</u> |

Net assets with donor-imposed purpose and time restrictions released consist of the following:

| | Year Ended December 31, | |
|-----------------------------|--------------------------------|-------------------|
| | 2022 | 2021 |
| Scholarships | \$ 791,762 | \$ 325,488 |
| Timing | 16,000 | 61,000 |
| Transfer of endowment funds | - | 104,261 |
| | <u>\$ 807,762</u> | <u>\$ 490,749</u> |

NOTE 10 - ENDOWMENT FUNDS:

The endowment consists of 10 individual funds established by donors to provide annual funding for specific activities and general operations. The endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Trustees.

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 net assets with donor restrictions should not be reduced by losses on the investment of the fund or the Fund's appropriations from the fund.

The Fund's Board of Trustees has interpreted the state of New Jersey Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As of December 31, 2022 and 2021, there were no such donor stipulations. As a result of this interpretation, the Fund retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the endowment, and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 10 - ENDOWMENT FUNDS: (Continued)

Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by UPMIFA.

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 Fund
- (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

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 equity securities, fixed income securities, and 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 the years ended December 31, 2022 and 2021, was \$236,695 and \$212,205, respectively. However, no distribution was made.

Endowment net asset composition by type of fund are as follows:

| | December 31, 2022 | | |
|--|--------------------------------------|-----------------------------------|---------------------|
| | Without Donor Restriction | With Donor Restriction | Total |
| Donor restricted endowment funds: | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | \$ - | \$ 1,692,433 | \$ 1,692,433 |
| Accumulated investment gains | - | 330,934 | 330,934 |
| Board-designated endowment funds | 1,957,789 | - | 1,957,789 |
| December 31, 2022, net endowment assets | <u>\$ 1,957,789</u> | <u>\$ 2,023,367</u> | <u>\$ 3,981,156</u> |

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 10 - ENDOWMENT FUNDS: (Continued)

| | December 31, 2021 | | |
|--|--------------------------------------|-----------------------------------|---------------------|
| | Without Donor Restriction | With Donor Restriction | Total |
| Donor restricted endowment funds: | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | \$ - | \$ 1,692,433 | \$ 1,692,433 |
| Accumulated investment gains | - | 716,531 | 716,531 |
| Board-designated endowment funds | 2,324,936 | - | 2,324,936 |
| December 31, 2021, net endowment assets | <u>\$ 2,324,936</u> | <u>\$ 2,408,964</u> | <u>\$ 4,733,900</u> |

Changes in endowment net assets, including Board-designated funds are as follows:

| | For the Year Ended December 31, 2022 | | |
|---|---|------------------------------------|---------------------|
| | Without | | |
| | Donor Restrictions | With Donor Restrictions | Total |
| Endowment net assets, December 31, 2021 | \$ 2,324,936 | \$ 2,408,964 | \$ 4,733,900 |
| Investment return, net | (372,147) | (385,597) | (757,744) |
| Contributions | 5,000 | - | 5,000 |
| Endowment net assets, December 31, 2022 | <u>\$ 1,957,789</u> | <u>\$ 2,023,367</u> | <u>\$ 3,981,156</u> |

| | For the Year Ended December 31, 2021 | | |
|---|---|------------------------------------|---------------------|
| | Without | | |
| | Donor Restrictions | With Donor Restrictions | Total |
| Endowment net assets, December 31, 2020 | \$ 1,990,024 | \$ 2,254,083 | \$ 4,244,107 |
| Investment return, net | 228,792 | 259,142 | 487,934 |
| Contributions | 1,859 | - | 1,859 |
| Transfer | 104,261 | (104,261) | - |
| Endowment net assets, December 31, 2021 | <u>\$ 2,324,936</u> | <u>\$ 2,408,964</u> | <u>\$ 4,733,900</u> |

Funds with Deficiencies:

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (“underwater endowments”). The Fund has interpreted the Uniform Prudent Management of Institutional Funds Act to permit spending from underwater endowments in accordance with prudent measures required under law.

At December 31, 2022 and 2021, there were no funds with deficiencies.

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 11 - FUNDRAISING EVENTS:

Fundraising event revenues and expenses were as follows:

| | Year Ended December 31, 2022 | | | |
|---|-------------------------------------|-------------------|---------------------|--------------|
| | Golf | | | |
| | Annual Dinner | Tournament | Other Events | Total |
| Revenue | \$ 2,430,429 | \$ 195,777 | \$ 427,834 | \$ 3,054,040 |
| Less: Cost of direct benefit to donors | 177,474 | 72,375 | 131,047 | 380,896 |
| Less: Indirect cost of fundraising events | 33,791 | 5,751 | 10,425 | 49,967 |
| Net Event Income | \$ 2,219,164 | \$ 117,651 | \$ 286,362 | \$ 2,623,177 |

| | Year Ended December 31, 2021 | | | |
|---|-------------------------------------|-------------------|---------------------|--------------|
| | Golf | | | |
| | Annual Dinner | Tournament | Other Events | Total |
| Revenue | \$ 2,265,567 | \$ 169,415 | \$ 336,939 | \$ 2,771,921 |
| Less: Cost of direct benefit to donors | 85,721 | 56,101 | 59,288 | 201,110 |
| Less: Indirect cost of fundraising events | 29,084 | 2,309 | 15,821 | 47,214 |
| Net Event Income | \$ 2,150,762 | \$ 111,005 | \$ 261,830 | \$ 2,523,597 |

NOTE 12 - FUNCTIONAL EXPENSES:

The consolidated financial statements contain certain categories of expense that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll tax, and related employee benefits, which are allocated based on employee time spent in each program or department. All other expenses are charged directly to the function served.

TRI-COUNTY SCHOLARSHIP FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 13 - LIQUIDITY AND AVAILABILITY:

The following represents the Fund's financial assets reduced by amounts not available for general use within one year of the consolidated statement of financial position date because of contractual or donor-imposed restrictions or internal designations. Amounts available include donor-restricted amounts that are available for general expenditure in the following year. Amounts not available include amounts set aside by the Board of Trustees that could be drawn upon if the Board approves that action.

| | December 31, | |
|--|---------------------|---------------------|
| | 2022 | 2021 |
| Cash and cash equivalents | \$ 4,181,013 | \$ 3,106,532 |
| Pledges receivable, net | 115,586 | 218,618 |
| Rent receivable | - | 1,350 |
| Investments | 4,224,843 | 4,733,900 |
| Total financial assets | <u>8,521,442</u> | <u>8,060,400</u> |
| Less amounts not available to be used within one year: | | |
| Pledges receivable due in more than one year | - | (15,494) |
| Net assets with donor restrictions excluding pledges receivable due in more than one year | (2,736,612) | (2,748,976) |
| Board-designated net assets | (1,957,789) | (2,324,936) |
| | <u>(4,694,401)</u> | <u>(5,089,406)</u> |
| Financial assets available to meet general expenditures over the next 12 months | <u>\$ 3,827,041</u> | <u>\$ 2,970,994</u> |

The Fund has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of its liquidity plan, excess cash is invested in short-term investments, such as money market accounts, to maximize earned interest opportunities. Additionally, as of December 31, 2022 and 2021, the Fund has Board-designated endowment funds of \$1,957,789 and \$2,324,936, respectively. Board-designated endowment funds may be made available through Board resolution, if necessary.