

September 15, 2016

To the Board of Directors
Niswonger Foundation, Inc.
16 Gilland Street
Greeneville, Tennessee

We have audited the financial statements of the Niswonger Foundation, Inc. (the Foundation) for the year ended June 30, 2016, and have issued our report thereon dated September 15, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 18, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Foundation are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2016. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the fair value of investments, which is based on quoted market prices, when available, and on quoted market prices of comparable instruments if quoted market prices are unavailable. Some investments are valued at the net asset value (NAV) provided by the investment broker, which is considered a practical expedient to estimate fair value. The NAV is based on the value of the underlying assets owned by the fund, minus liabilities, and then divided by the number of shares outstanding. We evaluated the key factors and assumptions used to develop the estimate of the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Johnson City	801B Sunset Drive, Johnson City, TN 37604	423.282.4511
Kingsport	1361 South Wilcox Drive, Kingsport, TN 37660	423.246.1725
Greeneville	550 Tusculum Boulevard, Greeneville, TN 37745	423.638.8516

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule (Schedule A) summarizes an uncorrected misstatement of the financial statements. Management has determined that its effects are immaterial to the financial statements taken as a whole. All misstatements detected as a result of audit procedures and corrected by management are summarized in the attached Schedule B.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 15, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, as applicable, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of the Foundation and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Blackburn Childers & Steagall, PLC
BLACKBURN, CHILDERS & STEAGALL, PLC

Niswonger Foundation, Inc.
 Schedule A - Summary of Passed Adjustments
 June 30, 2016

		<u>Debit</u>	<u>Credit</u>	<u>Net Income (Loss) Effect</u>
PAJE.01				
	R-12010-0 Accounts Receivable - Scholars		8,383	
	R-60050-0 Scholarship Expense - Tuition, etc.	\$ 8,383		
				(8,383)
PASSED AJE - CLIENT DO NOT POST - To discount student loans receivable to their net present value at year end, using a discount rate of 4.00%.				
	TOTAL	<u>\$ 8,383</u>	<u>8,383</u>	<u>(8,383)</u>

Niswonger Foundation, Inc.
Schedule B - Summary of Posted Adjustments
June 30, 2016

		Debit	Credit	Net Income (Loss) Effect
AJE.01				
R-31000-0	Net Assets - Unrestricted	\$ 1,660.00		
R-80550-0	Office Supplies		1,660.00	
				1,660.00
To reconcile CY beginning net assets to PY ending net assets.				
AJE.02				
G-10200-0	Federal Grant Funds Receivable	51,983.00		
G-32000-F	Temporarily Restricted Net Assets		51,983.00	
F/S Only - Client Do Not Post - To adjust accounts receivable for outstanding accounts receivable from prior year at 6/30/2016.				
AJE.03				
R-40150-0	Income from Contribution		8,325.00	
R-81620-0	Interest Expense	8,325.00		
To record imputed interest from interest-free demand loans.				
AJE.04				
R-40000-0	Contributions		9,600.00	
R-81570-0	Rent	9,600.00		
To record amount for rent from donated facilities to Niswonger Foundation from Tusculum College.				
AJE.05				
R-40100-0	Investment Income	4,790.00		
R-40200-0	Realized Gains/Losses		276,722.00	
R-40300-0	Unrealized Gains/Losses	245,245.00		
R-81550-0	Investment Fees	26,687.00		
To reclassify amounts for investment income, gains and losses.				
AJE.06				
R-40400-0	Scholarship Remission		28,428.00	
R-60050-0	Tuition, Room and Board	26,333.00		
R-60100-0	Books and Supplies	2,095.00		
To reclassify revenue from student loan receivable originally posted to expense accounts.				

Niswonger Foundation, Inc.
Schedule B - Summary of Posted Adjustments (Continued)
June 30, 2016

	<u>Debit</u>	<u>Credit</u>	<u>Net Income (Loss) Effect</u>
AJE.07			
R-10060-0 Cash - FTB - Checking	13,453.00		
R-22010-0 Accounts Payable		11,007.00	
R-60050-0 Tuition, Room and Board		2,345.00	
R-80750-0 Photocopying		101.00	
			2,446.00
To reclassify checks back dated 6.30.2016 to accounts payable at yearend or FY2017 expense.			
AJE.08			
G-41001-0 I-3 Grant Federal	322,497.00		
G-61503-F Summative and Formative Evaluation		181,269.00	
G-61507-F Distance and Online Learning Faculty Training		18,840.00	
G-61604-F Online Learning Stipends		78,733.00	
G-61610-F Professional Development		43,655.00	
To record the effect of PY audit adjustment not posted by client.			
AJE.09			
G-32000-0 Temporarily Restricted Net Assets		30,050.00	
G41001-0 I-3 Grant Federal	30,050.00		
			(30,050.00)
To adjust for revenue booked as accounts receivable in prior year (timing difference).			
AJE.10			
G-10200-0 Federal Grant Funds Receivable		51,983.00	
G-32000-F Temporarily Restricted Net Assets	51,983.00		
F/S Only - Client Do Not - To record prior period adjustment for revenue / receivable recorded in 2015 in error.			
CAJE.01			
R-10060-0 Cash - FTB - Checking	450.00		
R-60200-0 Scholar Related Travel		450.00	
			450.00
Client Adjusting Entry - To reverse check record in incorrect period.			
TOTAL	<u>\$ 795,151.00</u>	<u>795,151.00</u>	<u>(25,494.00)</u>

September 15, 2016

To the Board of Directors and Management
of the Niswonger Foundation, Inc.
16 Gilland Street
Greeneville, Tennessee

In planning and performing our audit of the financial statements of the Niswonger Foundation, Inc. (the Foundation) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit, we became aware of the following deficiency in internal control other than significant deficiencies or material weaknesses, and other matters that is an opportunity for strengthening internal controls and operating efficiency:

403(b) Retirement Discretionary Contributions

During the course of the audit, it was noted that the Foundation makes discretionary contributions to a 403(b) plan for certain personnel. However, these employer contributions do not appear to be uniform. For example, some of the Foundation's employees are also employed by a related party. For these employees, the Foundation's discretionary contribution is based on the sum of 1) compensation from the Foundation and 2) compensation from the related party.

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403(b) Retirement Discretionary Contributions (Continued)

Conversely, the Foundation does not make any discretionary contributions for employees responsible for managing the Foundation's federal grant, although these employees may qualify as plan participants. This could result in the possible exclusion of eligible employees, as well as non-uniform discretionary employer contributions. Therefore, we recommend that the Foundation consider the need to amend the 403(b) plan definition of "compensation", and also consider their discretionary employer contribution policies and practices.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and other suggestions with various Foundation personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Foundation, and is not intended to be, and should not be, used by anyone other than these specified parties.

Blackburn, Childers & Steagall, P.C.

BLACKBURN, CHILDERS & STEAGALL, PLC
Greeneville, Tennessee



**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Years Ended June 30, 2016 and 2015

**NISWONGER FOUNDATION, INC.
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Years Ended June 30, 2016 and 2015

NISWONGER FOUNDATION, INC.
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June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Niswonger Foundation, Inc.
Greeneville, Tennessee

We have audited the accompanying financial statements of the Niswonger Foundation, Inc. (the Foundation) (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The schedule of functional expenses on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Blackburn, Childers & Steagall, P.C.
BLACKBURN, CHILDERS & STEAGALL, PLC
Greeneville, Tennessee

September 15, 2016

NISWONGER FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Restricted Cash	\$ 24,496	428,972
Federal Grant Funds Receivable	-	404,531
Investments	7,948,555	9,312,954
Prepaid Expenses and Other Assets	2,118	600
Student Loans Receivable	81,286	70,290
Collections	101,861	101,861
	\$ 8,158,316	10,319,208
TOTAL ASSETS		
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Bank Overdraft	\$ 128,322	99,170
Accounts Payable and Other Accrued Liabilities	25,892	322,497
Line of Credit	252,509	332,843
Demand Notes Payable to Primary Benefactor	1,136,826	1,136,826
	1,543,549	1,891,336
TOTAL LIABILITIES		
NET ASSETS		
Unrestricted Net Assets	6,614,767	8,427,872
	\$ 8,158,316	10,319,208
TOTAL LIABILITIES AND NET ASSETS		

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

NISWONGER FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2016 and 2015

UNRESTRICTED NET ASSETS	2016	2015
REVENUE		
Federal Grants	\$ 741,051	5,058,215
Private Gifts and Grants	672,724	1,246,251
Investment Earnings	586,756	739,026
Realized Gains on Investments	341,780	230,487
Market Losses on Investments	(897,541)	(478,399)
Consortium Fee	59,100	-
Online Seat Fee	106,820	-
Scholarship Remission	28,428	-
Other Income	139	37
	1,639,257	6,795,617
TOTAL REVENUE		
EXPENSES		
Program Expenses	3,125,760	6,836,053
Administrative Expenses	274,619	230,394
	3,400,379	7,066,447
TOTAL EXPENSES		
NET DECREASE IN UNRESTRICTED NET ASSETS	(1,761,122)	(270,830)
NET ASSETS AT BEGINNING OF YEAR	8,427,872	8,698,702
PRIOR PERIOD ADJUSTMENT	(51,983)	-
	8,375,889	-
NET ASSETS AT BEGINNING OF YEAR, RESTATED		
NET ASSETS AT END OF YEAR	\$ 6,614,767	8,427,872

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

NISWONGER FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in Net Assets	\$ (1,761,122)	(270,830)
Adjustments to Reconcile Change in Net Assets to Net Cash Used For Operating Activities		
Prior Period Adjustment	(51,983)	-
Realized Gains on Investments	(928,536)	(969,513)
Market Losses on Investments	897,541	478,399
(Increase) Decrease in Federal Grant Funds Receivable	404,531	(24,861)
Increase in Prepaid Expenses and Other Assets	(1,518)	-
Increase in Student Loans Receivable	(10,996)	(6,239)
Decrease in Accounts Payable and Other Accrued Liabilities	(296,605)	(57,173)
Net Cash Used For Operating Activities	(1,748,688)	(850,217)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Securities	(27,000)	(30,000)
Proceeds from Sales and Maturities of Investments	1,422,394	1,006,442
Net Cash Provided By Investing Activities	1,395,394	976,442
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Bank Overdraft	29,152	18,299
Proceeds from Borrowings	1,883,544	948,460
Repayment of Indebtedness	(1,963,878)	(881,955)
Net Cash Provided By (Used For) Financing Activities	(51,182)	84,804
NET INCREASE (DECREASE) IN RESTRICTED CASH	(404,476)	211,029
RESTRICTED CASH AT BEGINNING OF YEAR	428,972	217,943
RESTRICTED CASH AT END OF YEAR	\$ 24,496	428,972
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 10,010	9,774

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

NISWONGER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Niswonger Foundation, Inc. (the Foundation) is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Foundation is a private operating foundation which administers its own programs to create opportunities for individual and community growth through education and other charitable activities. The Foundation accomplishes this mission through its scholarship and leadership programs, partnerships with local school districts and the disbursement of grants and contributions. The Foundation does not seek funding from the general public and, in the past, the vast majority of contributions have been from their primary benefactor, Mr. Scott M. Niswonger. In August 2010, the Foundation was awarded a five-year, \$17,751,044 grant from the U.S. Department of Education to fund the work of the Northeast Tennessee Foundation and Career Ready Consortium (the Consortium). The goals of the Consortium are to ensure all students, especially students from under-represented populations, graduate from high school prepared for college or a career; and to improve the likelihood that students successfully complete college.

Basis of Accounting

The accounts of the Foundation are maintained, and the financial statements are prepared, on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. Accordingly, all significant receivables, payables and other liabilities are reflected in the financial records.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC). Under the FASB ASC, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. The Foundation had no permanently restricted net assets at June 30, 2016 or 2015.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

NISWONGER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

The Foundation uses fund accounting for internal use and accordingly, all material inter-fund transactions have been eliminated.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Temporary restrictions met within the same fiscal year are reported as unrestricted.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include those used in computing the fair value of investments. Actual results could differ from those estimates, and it is at least reasonably possible that these significant estimates will change within the next year.

Financial Statement Reclassifications

Certain reclassifications to unrestricted revenue and expense accounts have been made to the June 30, 2015 financial statements in order for them to conform to the June 30, 2016 financial statement presentation.

Cash and Cash Equivalents and Restricted Cash

For purposes of the Statements of Cash Flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Foundation's restricted cash is limited in use for expenditure within the scope of the Consortium program. The Foundation maintains separate cash accounts for ongoing Foundation operations and for the Consortium program.

NISWONGER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Grant Funds Receivable

The Foundation reports their grant funds receivable at the gross outstanding amount. Federal grant funds receivable are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary. In making that determination, management evaluated relevant information related to the grant agreement. Under the accrual basis of accounting, revenues are recognized when earned; accordingly all significant receivables are reflected in the financial records.

Investments

The Foundation records investments in marketable securities with readily determinable market values and all investments in debt securities at their fair value. Unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Gains and losses and investment income derived from investments, receivables, and the like are accounted for as unrestricted, temporarily restricted or permanently restricted based on restrictions, if any, imposed by donors.

Student Loans Receivable

The Foundation reports their interest-free student loans receivable at their outstanding principal amounts. Student loans receivable are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary. In making that determination, management evaluated relevant borrower information and current economic conditions. Student loans enter repayment one year after graduation or immediately if the student drops out of school. The loans are considered to be in default upon the student's failure to make a regularly-scheduled monthly payment.

Collections

The Foundation has capitalized its collections since its inception. Collection items are recorded at cost if purchased and at fair value at date of accession if donated. Gains and losses from any deaccessions are reported as changes in net assets based on the absence or existence and nature of donor-imposed restrictions. Collection items are protected, kept unencumbered, cared for and preserved. The Foundation's collection consists of antique furniture donated to the Foundation. These items are considered to be inexhaustible, and are therefore not depreciated.

NISWONGER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Employees of the Foundation are entitled to paid vacation and discretionary time, which accrues each year at variable rates according to each employee's position and length of service. All vacation and discretionary time must be used in the year earned, and cannot be carried forward into future periods if unused. There is no liability for discretionary time since the Foundation's policy is that employees will not be paid for any accrued discretionary time under any circumstances. The Foundation's policy regarding accrued vacation time is that upon separation from service, employees would be paid for the vacation time accrued in that year.

Contributions

Contributions, including in-kind contributions, which are restricted by the donor, are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Income Taxes

The Foundation is exempt from federal income taxes and classified as a private operating foundation under Section 501 of the IRC. It is subject to a 1.00% federal excise tax on net investment income, including realized gains, as defined by the IRC. The Foundation follows the FASB ASC, which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. As of June 30, 2016 and 2015, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the Foundation's financial statements. The Foundation's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the financial statements. However, no interest or penalties were recorded during the years ended June 30, 2016 or 2015.

Subsequent Events

Subsequent events have been evaluated through September 15, 2016, which is the date that the Foundation's financial statements were available to be issued.

NISWONGER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2 - FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at June 30, 2016 and 2015 are as follows:

	<u>Fair Value Measurements at Reporting Date Using:</u>			
	Total Fair Value	Quoted Prices In Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level Two)	Significant Unobservable Inputs (Level Three)
<u>2016</u>				
Investments				
Equity Securities	\$ 1,775,639	1,775,639	-	-
Mutual Funds - Equities	4,839,840	3,651,773	1,188,067	-
Private Equity Funds	1,238,746	-	-	1,238,746
Total Investments	\$ 7,854,225	5,427,412	1,188,067	1,238,746
<u>2015</u>				
Investments				
Equity Securities	\$ 2,067,088	2,067,088	-	-
Mutual Funds - Equities	5,325,151	4,102,870	1,222,281	-
Private Equity Funds	1,638,401	-	-	1,638,401
Total Investments	\$ 9,030,640	6,169,958	1,222,281	1,638,401

NISWONGER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

	Total	Private Equity Funds
Balance, July 1, 2015	\$ 1,638,401	1,638,401
Investment Expenses	(4,704)	(4,704)
Realized Losses	(644,901)	(644,901)
Market Gains	276,637	276,637
Purchases, Sales, Issuances and Settlements (Net)	-	-
Transfers and Withdrawals	(26,687)	(26,687)
Balance, June 30, 2016	<u>\$ 1,238,746</u>	<u>1,238,746</u>
Balance, July 1, 2014	\$ 1,973,317	1,973,317
Investment Earnings	20,697	20,697
Realized Gains	148,023	148,023
Market Losses	(458,386)	(458,386)
Purchases, Sales, Issuances and Settlements (Net)	-	-
Transfers and Withdrawals	(45,250)	(45,250)
Balance, June 30, 2015	<u>\$ 1,638,401</u>	<u>1,638,401</u>

Each asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Financial assets valued using level one inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using level two inputs are based primarily on quoted market prices for similar assets in active and inactive markets. However, certain level two mutual funds are valued at the Net Asset Value (NAV) provided by the investment broker, which is considered a practical expedient to estimate fair value. The NAV is based on the value of the underlying assets owned by the fund, minus liabilities, and then divided by the number of shares outstanding. For these level two mutual funds, the Foundation has the ability to redeem the investment at the NAV in the near future (within one year).

NISWONGER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

Financial assets valued using level three inputs are based on market value estimates from investment advisors due to the lack of active market data for identical or similar assets. However, certain level three private equity funds are valued at the NAV provided by the investment broker, which is considered a practical expedient to estimate fair value. The NAV is based on the value of the underlying assets owned by the fund, minus liabilities, and then divided by the number of shares outstanding. For these level three private equity funds, the Foundation does not have the ability to redeem the investment at the NAV in the near future (within one year).

All gains and losses on level three assets for the years ended June 30, 2016 and 2015 are attributable to unrestricted assets still held at the reporting date. All such gains and losses are reported in their respective categories as changes in unrestricted net assets in the Statements of Activities.

In addition to the investments shown above which are stated at fair value, the Foundation's investments also include cash and cash equivalents totaling \$94,330 and \$282,314 as of June 30, 2016 and 2015, respectively.

NOTE 3 - LINE OF CREDIT

At June 30, 2016 and 2015, the Foundation had an available bank line of credit for an amount up to \$500,000. The line of credit is unsecured and has a one-year term ending June 30, 2016, with a provision for annual extensions. The full amount of the outstanding balance on the line of credit is due and payable on the annual expiration date unless the line of credit is extended, therefore the balance is classified as current. Interest, as described below, is due monthly on amounts borrowed under this agreement. At June 30, 2016 and 2015, the line of credit was subject to interest at an annual rate of 3.25%, which is an annually variable rate determined by the financial institution. Terms of the agreement require the Foundation to maintain unrestricted liquid assets in excess of the outstanding dollar amount of the line. At June 30, 2016 and 2015, the outstanding balance on the line of credit was \$252,509 and \$332,843, respectively. The Foundation was in compliance with this requirement at June 30, 2016 and 2015.

NOTE 4 - RELATED PARTY NOTES PAYABLE

At June 30, 2016 and 2015, the Foundation had total interest-free, unsecured demand notes payable to their primary benefactor of \$1,136,826. These notes are considered current due to the demand feature of the agreement, under which the notes are due and payable thirty (30) days from the demand date of the primary benefactor.

NISWONGER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 4 - RELATED PARTY NOTES PAYABLE (CONTINUED)

In accordance with the FASB ASC, interest is imputed on the outstanding balance using the IRC blended annual rate for the period for which the amount of forgone interest is being determined, compounded semiannually (0.73% and 0.40% as of June 30, 2016 and 2015, respectively). The amount of imputed interest recorded as an expense and as a related in-kind contribution from the lender for the years ended June 30, 2016 and 2015 was \$8,325 and \$4,558, respectively. These in-kind contributions for the years ended June 30, 2016 and 2015, respectively, are reported as a component of private gifts and grants revenue in the Statements of Activities.

NOTE 5 - NORTHEAST TENNESSEE FOUNDATION AND CAREER READY CONSORTIUM (NETCO)

In August 2010, the Foundation was awarded \$17,751,044 in federal grant funds from the United States Department of Education. These funds, which are to be expended over the next five years, were awarded under Catalog of Federal Domestic Assistance (CFDA) number 84.396B, *State Fiscal Stabilization Fund (SFSF) – Investing in Innovation (i3) Fund, Recovery Act*, and are being used to fund the Northeast Tennessee Foundation and Career Ready Consortium (the Consortium). During the years ended June 30, 2016 and 2015, the Consortium expended \$744,209 and \$5,058,215, respectively, in federal funds.

NOTE 6 - RETIREMENT PLAN

The Foundation maintains a defined contribution pension plan under IRS Code Section 403(b). The Foundation makes a discretionary monthly contribution based on a percentage of each qualified employee's salary, as determined by the Foundation. Contributions totaling \$17,106 and \$17,640 were made by the Foundation for the years ended June 30, 2016 and 2015, respectively, in addition to the elective deferrals made by employees, if any.

NOTE 7 - CONCENTRATIONS

The Foundation maintains cash balances at a single financial institution. At times during the years ended June 30, 2016 and 2015, balances on deposit at financial institutions exceeded Federal Deposit Insurance Corporation (FDIC) insured limits. Cash equivalent amounts are neither insured nor guaranteed by the FDIC. However, the Foundation has not experienced any loss in such accounts and believes it is not exposed to any significant credit risk on its cash balances.

A significant portion of the Foundation's funding for the Consortium is derived from funding received from the federal government through the Department of Education. This federal funding concluded as of September 30, 2015. The Foundation has established a sustainability plan in order to continue the initiatives of the Consortium.

NISWONGER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 8 - COMMITMENTS

The Foundation has approved future budgeted expenditures for several of its school partnership programs with local school districts. These expenditures are contingent upon the recipient programs' satisfactory completion of agreed-upon project objectives. Approved budgeted funding by year is as follows:

For the Fiscal Year Ending:	
June 30, 2017	\$ 279,000
June 30, 2018	<u>69,000</u>
	<u>\$ 348,000</u>

NOTE 9 - PRIOR PERIOD ADJUSTMENT

Subsequent to fiscal year 2015, it was noted the Foundation's federal grant funds receivable and federal revenue was overstated \$51,983 at June 30, 2015. Therefore, a prior period adjustment was recorded in fiscal year 2016 to decrease federal grant funds receivable and net assets.

SUPPLEMENTARY INFORMATION

NISWONGER FOUNDATION, INC.
SCHEDULES OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2016 and 2015

<u>2016</u>	<u>PROGRAM</u>	<u>ADMINISTRATIVE</u>	<u>TOTAL</u>
Salaries and Wages	\$ 277,264	59,978	337,242
Payroll Taxes	23,414	5,854	29,268
Employee Benefits	21,086	5,272	26,358
Professional Services	-	57,519	57,519
Travel and Conferences	15,150	-	15,150
Supplies and Materials	-	8,818	8,818
Rent	-	9,600	9,600
Insurance	-	4,935	4,935
Interest	-	18,335	18,335
Investment Fees	-	59,138	59,138
Other Expenses	-	45,170	45,170
Northeast Tennessee College and Career Ready Consortium Program	952,592	-	952,592
Scholarship Program	349,348	-	349,348
School Partnership Program	411,895	-	411,895
Mini-Grant Program	165,455	-	165,455
CARE Program	632,373	-	632,373
Farm Project	144,564	-	144,564
Consortium Fee	25,000	-	25,000
Online Seat Fee	107,619	-	107,619
	<u>\$ 3,125,760</u>	<u>274,619</u>	<u>3,400,379</u>
<u>2015</u>			
Salaries and Wages	\$ 136,338	34,085	170,423
Payroll Taxes	8,593	2,148	10,741
Employee Benefits	21,655	5,414	27,069
Professional Services	-	34,743	34,743
Travel and Conferences	10,475	-	10,475
Supplies and Materials	-	11,148	11,148
Rent	-	9,600	9,600
Insurance	-	4,406	4,406
Interest	-	14,332	14,332
Investment Fees	-	79,796	79,796
Other Expenses	-	34,722	34,722
Northeast Tennessee College and Career Ready Consortium Program	5,980,276	-	5,980,276
Scholarship Program	322,156	-	322,156
School Partnership Program	239,857	-	239,857
Mini-Grant Program	116,703	-	116,703
	<u>\$ 6,836,053</u>	<u>230,394</u>	<u>7,066,447</u>

See Independent Auditors' Report.

NISWONGER FOUNDATION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

Federal Grantor / Program Title	Federal CFDA Number	Federal Expenditures
Major Program		
Department of Education Direct Program		
ARRA - State Fiscal Stabilization Fund (SFSF) - Investing in Innovation (i3) Fund, Recovery Act	84.396B	\$ 744,209
Total Expenditures of Federal Awards		\$ 744,209

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Basis of Presentation

The schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Niswonger Foundation, Inc. under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Niswonger Foundation, Inc., it is not intended to, and does not present, the financial position, changes in net assets or cash flows of Niswonger Foundation, Inc.

Note B - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Niswonger Foundation, Inc. has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

See Independent Auditors' Report.