

Lee College Foundation, Inc.
Financial Statements
August 31, 2018 and 2017
(With Independent Auditor's Report Thereon)



JAYNES REITMEIER BOYD & THERRELL, P.C.
Certified Public Accountants
5400 Bosque Blvd., Ste. 500 | Waco, TX 76710
P.O. Box 7616 | Waco, TX 76714
Main 254.776.4190 | Fax 254.776.8489 | jrbt.com

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Lee College Foundation, Inc.:

We have audited the accompanying financial statements of Lee College Foundation Inc., (the "Foundation") which comprise the statement of financial position as of August 31, 2018, and the related statements of activities and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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.

Basis for Qualified Opinion

The Foundation presents its net assets in three separate categories - unrestricted, temporarily restricted, and permanently restricted. We were unable to obtain sufficient appropriate audit evidence to ensure amounts were allocated to the appropriate net asset categories at the beginning of the year because such detail information was unavailable. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Lee College Foundation Inc. as of August 31, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Foundation for the year ended August 31, 2017, before the restatement described in Note 9, were audited by another auditor whose report dated December 11, 2017, expressed an unmodified opinion on those statements.

As part of our audit of the August 31, 2018 financial statements, we also audited the adjustments described in Note 9 that were applied to restate the 2017 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2017 financial statements of the entity other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2017 financial statements as a whole.



November 28, 2018

Lee College Foundation, Inc.

Statements of Financial Position

August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u> (Restated)
<u>Assets</u>		
Cash	\$ 1,078,805	1,299,547
Contributions receivable	26,330	46,355
Investments	12,376,103	11,266,786
Accrued interest receivable	<u>33,492</u>	<u>32,220</u>
	<u>\$ 13,514,730</u>	<u>12,644,908</u>
<u>Liabilities and Net Assets</u>		
Accounts payable	\$ 68,643	-
Due to affiliated organization	5,429	1,275
Deferred revenue	97,925	59,125
Funds held for the benefit of others	<u>118,425</u>	<u>47,000</u>
Total liabilities	<u>290,422</u>	<u>107,400</u>
Net assets:		
Unrestricted	752,803	623,957
Temporarily restricted	5,483,525	4,984,422
Permanently restricted	<u>6,987,980</u>	<u>6,929,129</u>
Total net assets	<u>13,224,308</u>	<u>12,537,508</u>
	<u>\$ 13,514,730</u>	<u>12,644,908</u>

See accompanying notes to financial statements.

Lee College Foundation, Inc.

Statement of Activities

Year Ended August 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and other support:				
Contributions	\$ 186,000	781,859	58,851	1,026,710
Special events, net of fundraising expenses of \$22,707	148,408	-	-	148,408
Investment income:				
Interest and dividends	-	187,476	-	187,476
Net investment gains	-	1,149,990	-	1,149,990
Investment fees	-	(40,673)	-	(40,673)
Net assets released from restrictions	<u>1,579,549</u>	<u>(1,579,549)</u>	<u>-</u>	<u>-</u>
 Total revenue and other support	 <u>1,913,957</u>	 <u>499,103</u>	 <u>58,851</u>	 <u>2,471,911</u>
 Expenses:				
Program expenses:				
Scholarships	883,219	-	-	883,219
Capital facilities assistance	606,210	-	-	606,210
Other program expenses	90,120	-	-	90,120
Management and general	<u>205,562</u>	<u>-</u>	<u>-</u>	<u>205,562</u>
 Total expenses	 <u>1,785,111</u>	 <u>-</u>	 <u>-</u>	 <u>1,785,111</u>
 Change in net assets	 128,846	 499,103	 58,851	 686,800
 Net assets at beginning of year, as restated	 <u>623,957</u>	 <u>4,984,422</u>	 <u>6,929,129</u>	 <u>12,537,508</u>
 Net assets at end of year	 <u>\$ 752,803</u>	 <u>5,483,525</u>	 <u>6,987,980</u>	 <u>13,224,308</u>

See accompanying notes to financial statements.

Lee College Foundation, Inc.

Statement of Activities

Year Ended August 31, 2017

	<u>Unrestricted</u> (Restated)	<u>Temporarily</u> <u>Restricted</u>	<u>Permanently</u> <u>Restricted</u>	<u>Total</u>
Revenue and other support:				
Contributions	\$ 203,820	1,241,651	173,112	1,618,583
Special events, net of fund-raising expenses of \$20,140	163,606	-	-	163,606
Investment income:				
Interest and dividends	-	166,059	-	166,059
Net investment gains	-	1,068,474	-	1,068,474
Investment fees	-	(36,352)	-	(36,352)
Net assets released from restrictions	<u>575,319</u>	<u>(575,319)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>942,745</u>	<u>1,864,513</u>	<u>173,112</u>	<u>2,980,370</u>
Expenses:				
Program expenses:				
Scholarships	575,319	-	-	575,319
Other program expenses	65,648	-	-	65,648
Management and general	<u>154,122</u>	<u>-</u>	<u>-</u>	<u>154,122</u>
Total expenses	<u>795,089</u>	<u>-</u>	<u>-</u>	<u>795,089</u>
Change in net assets	147,656	1,864,513	173,112	2,185,281
Net assets at beginning of year	<u>476,301</u>	<u>3,119,909</u>	<u>6,756,017</u>	<u>10,352,227</u>
Net assets at end of year	<u>\$ 623,957</u>	<u>4,984,422</u>	<u>6,929,129</u>	<u>12,537,508</u>

See accompanying notes to financial statements.

Lee College Foundation, Inc.

Statements of Cash Flows

Years Ended August 31, 2018 and 2017

	2018	2017 (Restated)
Cash flows from operating activities:		
Change in net assets	\$ 686,800	2,161,361
Adjustments to reconcile change in net assets to net cash provided by (used in) operations:		
Cash contributions restricted for endowment	(58,851)	(173,112)
Net investment gains	(1,109,317)	(1,032,122)
Changes in operating assets and liabilities:		
Contributions receivable	20,025	27,045
Accrued interest receivable	(1,272)	(4,262)
Due to affiliated organization	4,154	1,275
Accounts payable	68,643	-
Deferred revenue	38,800	59,125
Funds held for the benefit of others	71,425	(231,176)
Net cash provided by (used in) operating activities	(279,593)	808,134
Cash flows from investing activities:		
Purchases of investments	-	(450,000)
Net cash used in investing activities	-	(450,000)
Cash flows from financing activities:		
Proceeds from contributions restricted for endowment	58,851	173,112
Net cash provided by financing activities	58,851	173,112
Net increase (decrease) in cash and cash equivalents	(220,742)	531,246
Cash at beginning of year	1,299,547	768,301
Cash at end of year	\$ 1,078,805	1,299,547

See accompanying notes to financial statements.

Lee College Foundation, Inc.

Notes to Financial Statements

August 31, 2018 and 2017

(1) Summary of Significant Accounting Policies and Practices(a) Organization and Nature of Activities

The Lee College Foundation Inc. (the “Foundation”) was created to solicit and receive support for purposes of developing and extending the facilities of Lee College District (the “District”) and enhancing the educational opportunities of residents in the geographical area the District serves. The Foundation receives a significant portion of its revenue through contributions from individuals and businesses in the District’s service area. The Foundation is governed by a 25 member board of directors, which includes three appointed District regents.

(b) Revenues and Expenses

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or are designed as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

The Foundation reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

(c) Cash and Cash Equivalents

The Foundation considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Foundation had no cash equivalents at August 31, 2018 and 2017.

Lee College Foundation, Inc.Notes to Financial Statements
(Continued)(1) Summary of Significant Accounting Policies and Practices (continued)(d) Investments

Investments are measured at their fair value in the accompanying statements of financial position. Fair value is the price 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. See Note 2 for further discussion of fair value measurements.

Investment income (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income is restricted by donor or law.

(e) Income Taxes

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is generally not subject to federal income tax.

The Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs. The Foundation records interest and penalties related to unrecognized tax benefits in management and general expenses.

(f) Fair Value Measurements

The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Foundation determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Lee College Foundation, Inc.

Notes to Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies and Practices (continued)

(f) Fair Value Measurements (continued)

- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

(g) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates include the fair value of investments. Actual results could differ from those estimates.

(h) Reclassifications

Certain reclassifications have been made to the 2017 financial statements to make them comparable to the 2018 statements.

(2) Investments and Fair Value Hierarchy

Investments at August 31, 2018 and 2017 are as follows:

	2018	2017
Funds of a management investment company:		
Multi-strategy equity fund	\$ 9,440,358	8,231,868
Multi-strategy bond fund	2,935,745	3,034,918
	\$ 12,376,103	11,266,786

The fair values of the investments shown as of August 31, 2018 and 2017 represents the amounts that would be received to sell those assets in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs which results in the calculation of a net asset value as a practical expedient. However, in situations where there is little, if any, market activity at the measurement date, the fair value measurement reflects the Foundation's own judgments about the assumptions that market participants would use in pricing the asset.

Lee College Foundation, Inc.Notes to Financial Statements
(Continued)(2) Investments and Fair Value Hierarchy (continued)

Those judgments are developed by the Foundation based on the best information available in the circumstances, including expected cash flows and appropriately risk-adjusted discount rates, available observable and unobservable inputs.

The funds of a management investment company (the Multi-Strategy Equity Fund and Multi-Strategy Bond Fund) are investments in the Common Fund for Nonprofit Organizations (“Commonfund”), a tax-exempt membership corporation that pools endowment funds for the exclusive benefit of eligible educational institutions. The investment objectives of the Multi-Strategy Equity Fund is to add value over long time periods above the return of the U.S. equity market as measured by the S&P 500 Index with similar risk characteristics. The Multi-Strategy Equity Fund is invested principally in a diversified portfolio of marketable common stocks and other marketable equity type investments including, but not limited to, convertible bonds, convertible preferred stocks, and warrants. The investment objectives of the Multi-Strategy Bond Fund is to add value above the return of the broad U.S. bond market over a full market cycle, as measured by the Barclays Capital U.S. Aggregate Bond Index with similar characteristics providing broad exposure to global debt markets. The Multi-Strategy Bond Fund is invested principally in, but not limited to, obligations of or guaranteed by the U.S. government and its agencies, debt securities rated Baa or better by Moody’s or BBB or better by Standard and Poor’s, and obligations of or guaranteed by national or state banks or bank holding companies which are rated A or better by Fitch Investors Services. Redemption provisions vary by fund but are typically either monthly or quarterly. However, the funds have the ability to impose a suspension or postponement of redemptions on the payment of a portion of redemption proceeds until the annual audited financial statements of the funds are distributed. In some cases, the funds may also limit redemptions to month-end or quarter-end, and require 10 to 60 days advance written notice. There are no unfunded commitments related to these investments.

The Foundation's investments are measured at fair value using the net asset value per share (or its equivalent) practical expedient and, therefore, have not been classified in the fair value hierarchy.

(3) Permanent Endowments

The Foundation’s permanently restricted net assets as well as some funds reflected as temporarily restricted at August 31, 2018 and 2017 consisted of donor-restricted endowment funds that have been established for scholarships. As required by professional standards, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Lee College Foundation, Inc.

Notes to Financial Statements
(Continued)

(3) Permanent Endowments

Explicit donor stipulations define amounts that may be expended for each of the Foundation's endowments. As a result, the Foundation classifies as restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations (decrements) to the permanent endowment made in accordance with the direction of the applicable donor gift instrument.

The Foundation has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets must be invested in a conservative manner.

Following is a summary of the changes to the endowment funds for the years ended August 31, 2018 and 2017:

	August 31, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, beginning of year	\$ -	3,634,887	6,929,129	10,564,016
Contributions	-	-	58,851	58,851
Interest and dividends	-	187,476	-	187,476
Net appreciation (depreciation)	-	1,109,317	-	1,109,317
Scholarships awarded	-	(883,219)	-	(883,219)
Balance, end of year	\$ -	4,048,461	6,987,980	11,036,441
	August 31, 2017			
Balance, beginning of year	\$ -	2,917,292	6,756,017	9,673,309
Contributions	-	-	173,112	173,112
Interest and dividends	-	166,059	-	166,059
Net appreciation (depreciation)	-	1,032,122	-	1,032,122
Scholarships awarded	-	(480,586)	-	(480,586)
Balance, end of year	\$ -	3,634,887	6,929,129	10,564,016

(4) Contributions Receivable

Contributions receivable at August 31, 2018 and 2017 consisted of receivables due in less than one year. Contributions receivable due in one year or more have been recorded at net realizable value since the difference between net realizable value and fair value (generally determined as the present value of future cash flows) is not material.

Lee College Foundation, Inc.

Notes to Financial Statements
(Continued)

(5) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following specific programs at August 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Scholarship donations	\$ 551,845	1,349,535
Accumulated investment earnings available for scholarships	<u>4,931,680</u>	<u>3,634,887</u>
	<u>\$ 5,483,525</u>	<u>4,984,422</u>

(6) Permanently Restricted Net Assets

Permanently restricted net assets at August 31, 2018 and 2017 consists of various endowment funds to be held in perpetuity, the income of which is available for the purposes described in Note 3. Income generated from these funds are recorded in temporarily restricted net assets until spent on scholarships. The Foundation was unable to provide a listing of funds which comprised the permanently restricted net assets, therefore, the auditor's report was modified.

(7) Related Party Transaction

The District provides administrative personnel and general office services to the Foundation at no cost. These services, substantially all of which are related to management and general activities, are reflected in the accompanying financial statements at the cost recognized by the District for the personnel providing those services. Below is a summary of these contributions for the year ended August 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Salaries and benefits	\$ 175,150	146,529
General office expense	5,000	-
Rent and utilities	<u>5,850</u>	<u>-</u>
	<u>\$ 186,000</u>	<u>146,529</u>

Lee College Foundation, Inc.Notes to Financial Statements
(Continued)(8) Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Foundation to significant concentrations of credit and market risk consist primarily of cash and investments.

At August 31, 2018 and 2017, and throughout the years ended August 31, 2018 and 2017 the Foundation's cash accounts exceed the federally insured limits.

Investment diversification can subject the Foundation to risk arising from such factors as interest rate fluctuations, credit deterioration, market fluctuations and changes in regulatory and political policy which can result in actual losses or inadequate investment returns.

Management believes the Foundation's investments do not represent significant concentrations of market risk, and the possibility of significant adverse impact upon the financial condition of the Foundation arising from such risk is remote.

(9) Prior Period Adjustment

An adjustment of \$83,045 has been made to decrease unrestricted net assets as previously reported at August 31, 2017 to properly record deferred revenue of \$59,125 and write-off an accounts receivable of \$23,920.

(10) Authoritative Pronouncements Not Yet Effective

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The objective of this update is to make certain improvements that address many, but not all, of the identified issues about the current financial reporting model for not-for-profit organizations ("NPO"). The main provisions of this update require a NPO to (1) present on the face of the statement of financial position two classes of net assets – net assets with donor restrictions and net assets without donor restrictions; (2) provide enhanced disclosures about amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period; (3) report amounts of expenses by both their natural classification and their functional classification in one location; and (4) present other enhanced disclosures related to the availability of the NPO's net assets to meet cash needs for general expenditures within one year of the balance sheet date. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 31, 2017. The Foundation has not yet determined the effects of the adoption on its financial statements.

Lee College Foundation, Inc.Notes to Financial Statements
(Continued)(11) Subsequent Events

The Foundation has evaluated subsequent events from the date of the statements of financial position through November 28, 2018, the date at which the financial statements were available to be issued, and determined there are no items to disclose.