

Report of
LEE COLLEGE FOUNDATION, INC.

August 31, 2014 and 2013



Lovvorn & Kieschnick

CERTIFIED PUBLIC ACCOUNTANTS

LOVVORN & KIESCHNICK, LLP

LEE COLLEGE FOUNDATION, INC.

August 31, 2014 and 2013

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees of
Lee College Foundation, Inc.
Baytown, Texas 77520

Members of the Board:

Report on the Financial Statements

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, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. The Foundation is a component unit of Lee College District.

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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lee College Foundation, Inc. as of August 31, 2014, 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.

Report on Summarized Comparative Information

We have previously audited Lee College Foundation, Inc.'s 2013 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated December 16, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Lovvorn & Kieschnick, LLP

Lovvorn & Kieschnick, LLP
Corpus Christi, Texas
December 16, 2014

Lee College Foundation, Inc.
A Component Unit of
Lee College District
Statements of Financial Position
August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Cash and Cash Equivalents	450,989	661,397
Investments (Note 3)	9,153,492	7,889,253
Accrued Interest	30,636	24,932
Other Receivables	24,525	39,825
Due From Lee College	200	100
Total Assets	<u>9,659,842</u>	<u>8,615,507</u>
Liabilities		
Accounts Payable	-	40
Due to Lee College	-	468,523
Total Liabilities	<u>-</u>	<u>468,563</u>
Net Assets (Note 5)		
Unrestricted - Board Designated	372,685	407,482
Temporarily Restricted	3,203,807	2,065,630
Permanently Restricted	6,083,350	5,673,832
Total Net Assets	<u>9,659,842</u>	<u>8,146,944</u>
Total Liabilities and Net Assets	<u>9,659,842</u>	<u>8,615,507</u>

The accompanying notes are an integral part of this statement.

Lee College Foundation, Inc.
A Component Unit of
Lee College District
Statement of Activities
For the Year Ended August 31, 2014
With Comparative Totals for the Year Ended, August 31, 2013

	2014			2013	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Totals
Support, Revenue and Gains:					
Private Gifts	\$ -	\$ -	\$ 329,793	\$ 329,793	\$ 311,825
Corporate Matching	-	-	79,725	79,725	30,345
In-Kind Donations	86,851	-	-	86,851	79,588
Interest/Dividends Income	-	173,939	-	173,939	159,217
Unrealized Gain (Loss) on Holdings	-	1,264,238	-	1,264,238	718,671
Net Assets Released from Restriction	300,000	(300,000)	-	-	-
Total Support, Revenue and Gains	386,851	1,138,177	409,518	1,934,546	1,299,646
Expenses:					
Program Expenses					
Lee College District Scholarships	300,000	-	-	300,000	265,000
Donation to Lee College Veteran's Center	10,000	-	-	10,000	-
Lee College Scholarship Breakfast	3,366	-	-	3,366	3,994
Outstanding Honor Awards	1,000	-	-	1,000	1,000
Other	750	-	-	750	-
Total Program Expenses	315,116	-	-	315,116	269,994
Support Expenses					
In-Kind Expenses	86,851	-	-	86,851	79,588
Contract Services - Audit Fee	2,500	-	-	2,500	2,500
Liability Insurance	1,891	-	-	1,891	-
Bank Charges	1,523	-	-	1,523	1,686
Fund Raising - Gala Banquet	13,767	-	-	13,767	11,243
Total Support Expenses	106,532	-	-	106,532	95,017
Total Expenses	421,648	-	-	421,648	365,011
Increase (Decrease) in Net Assets	(34,797)	1,138,177	409,518	1,512,898	934,635
Net Assets, beginning of year	407,482	2,065,630	5,673,832	8,146,944	7,212,309
Net Assets, end of year	\$ 372,685	\$ 3,203,807	\$ 6,083,350	\$ 9,659,842	\$ 8,146,944

The accompanying notes are an integral part of this statement.

Lee College Foundation, Inc.
A Component Unit of
Lee College District
Statements of Cash Flows
For the Years Ended August 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Increase (Decrease) in net assets	1,512,898	934,635
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Net unrealized (gains) losses on investments	(1,264,238)	(718,671)
(Increase) Decrease in interest receivable	(5,704)	(137)
(Increase) Decrease in receivables	15,200	6,125
Increase (Decrease) in accounts payable and accrued expenses	(468,523)	468,473
Net cash provided by operating activities	(210,367)	690,425
Cash Flows From Investing Activities		
Proceeds/purchases of investments - net	(41)	(150,000)
Net cash provided by investing activities	(41)	(150,000)
Net Increase (Decrease) in Cash and Cash Equivalents	(210,408)	540,425
Cash and Cash Equivalents at Beginning of Year	661,397	120,972
Cash and Cash Equivalents at End of Year	450,989	661,397

The accompanying notes are an integral part of this statement.

LEE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

1. ORGANIZATION AND PURPOSE

Lee College Foundation, Inc. (the "Foundation") is a nonprofit community foundation. The Foundation promotes and supports scholarship funds for the benefit of Lee College District. Although the Foundation is a legally separate, tax-exempt entity, it is considered a component unit of Lee College District. The Foundation's economic resources are for the direct benefit of the District or its students; by the Foundation charter, the District is entitled to a majority of the Foundation's economic resources; and such economic resources are material to the District. Historically, the Foundation has made no direct contributions to the District, but has awarded scholarships to students attending the District. The Foundation is governed by a 25-member board of trustees, which includes two District regents.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.

Cash and Cash Equivalents – For financial statement purposes, the Foundation considers all highly liquid investments with a maturity of less than three months when purchased to be cash equivalents.

Revenue Recognition – Contributions are recognized as revenue when they are received or unconditionally pledged.

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. 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 statement of activities as net assets released from restrictions

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Foundation reports such contributions at their estimated fair value when received. There were no contributions received during the year that met the criteria.

LEE COLLEGE FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2014 AND 2013

Comparative Financial Information – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation’s financial statements for the year ended August 31, 2013, from which the summarized information was derived.

Concentration of Credit Risk – The Foundation maintains cash balances at two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times during the years ended August 31, 2014 and 2013, the Foundation held cash in excess of federally insured limits. Credit Risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings. No losses were incurred during 2014 or 2013.

Income Taxes – The Foundation is a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates in the Preparation of Financial Statements – In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. INVESTMENTS

Investments are carried at fair value, which is based on quoted market prices at August 31, 2014 and 2013.

	2014	2013
Mutual Funds	9,153,492	7,889,253
Total Investments	9,153,492	7,889,253

LEE COLLEGE FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2014 AND 2013

4. FAIR VALUE MEASUREMENT

The Foundation's assets and liabilities reported at fair value are valued using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy defines three levels of inputs, giving the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The Foundation uses the following hierarchical disclosure framework:

Level 1 – Measurement based upon quoted prices for identical assets in an active market as of the reporting date.

Level 2 – Measurement based upon marketplace inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Measurement based on the Foundation's assumptions about a hypothetical marketplace because observable market inputs are not available as of the reporting date.

The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair values of its assets and liabilities. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs have the lowest priority.

The following table sets forth by level within the fair value hierarchy, the Foundation's assets measured at fair value on a recurring basis as of August 31, 2014:

<u>Investments</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	<u>9,153,492</u>	<u>-</u>	<u>-</u>	<u>9,153,492</u>

LEE COLLEGE FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2014 AND 2013

The following table sets forth by level within the fair value hierarchy, the Foundation's assets measured at fair value on a recurring basis as of August 31, 2013:

Investments	Level 1	Level 2	Level 3	Total
Mutual Funds	7,889,253	-	-	7,889,253

5. RESTRICTIONS ON NET ASSETS

The funds used by the Foundation are reported in the following three Net Asset groups:

- (a) Unrestricted Net Assets represent the portion of Unrestricted funds that are available for support of Foundation activities. As of August 31, 2014 and 2013, the Board had designated all unrestricted Net Assets.
- (b) Temporarily Restricted Net Assets represent resources restricted by the donor as to the amount of the award and the qualifications to be met by the award recipient. Generally, these funds are to be used in awarding scholarships and awarding grants to the library. The balances generally represent the excess of endowment earnings over scholarships and grants awarded.
- (c) Permanently Restricted Net Assets represent endowment funds that are subject to restrictions of gift instruments requiring that the principal be invested for perpetuity and that only the income be used for donor designated purposes.

TEMPORARILY RESTRICTED – Temporarily restricted net assets are funds which are restricted for use by the donor. The assets are reclassified when the specified use of the funds is fulfilled. Temporarily restricted net assets at August 31 consist of the following:

	2014	2013
Various	2,933	2,933
Endowment Appreciation for Scholarships	3,200,874	2,062,697
Total Temporarily Restricted	3,203,807	2,065,630

LEE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

FOUNDATION'S ENDOWMENT – The Foundation's endowment consists of individual funds established for a variety of purposes. Its endowment includes only donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Foundation has interpreted the Texas Prudent Management of Institutional Funds Act (TPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently 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 to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by TPMIFA. In accordance with TPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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 Foundation, and (7) the Foundation's investment policies.

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported as a reduction in unrestricted net assets. These deficiencies result from unfavorable market fluctuations that can occur after the investment of new permanently restricted contributions and continued appropriation for certain programs that are deemed prudent by the Board of Trustees.

At August 31, 2014 and 2013 there were no endowment funds with deficiencies.

LEE COLLEGE FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2014 AND 2013

Investment Return Objectives, Risk Parameters and Strategies – The Foundation has adopted investment policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds an annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return of 8% annually. Actual returns in any given year may vary. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy – On an annual basis, the Investment Committee evaluates current needs and cash flow projections, and makes recommendations on distributions for scholarships for students. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the spending policy to allow its endowment funds to grow at a nominal average rate annually. This is consistent with the Foundation’s objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment Net Asset Composition by Type of Fund as of August 31, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	-	3,200,874	6,083,350	9,284,224
Board-designated endowment funds	-	-	-	-
Total funds	<u>-</u>	<u>3,200,874</u>	<u>6,083,350</u>	<u>9,284,224</u>

LEE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

Changes in endowment net assets as of August 31, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	-	2,062,697	5,673,832	7,736,529
Contributions	-	-	409,518	409,518
Investment income	-	173,939	-	173,939
Net appreciation (depreciation)	-	1,264,238	-	1,264,238
Amounts appropriated for expenditure	-	(300,000)	-	(300,000)
Endowment net assets, end of year	<u>-</u>	<u>3,200,874</u>	<u>6,083,350</u>	<u>9,284,224</u>

Endowment Net Asset Composition by Type of Fund as of August 31, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	-	2,062,697	5,673,832	7,736,529
Board-designated endowment funds	-	-	-	-
Total funds	<u>-</u>	<u>2,062,697</u>	<u>5,673,832</u>	<u>7,736,529</u>

Changes in endowment net assets as of August 31, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	-	1,449,809	5,331,662	6,781,471
Contributions	-	-	342,170	342,170
Investment income	-	159,217	-	159,217
Net appreciation (depreciation)	-	718,671	-	718,671
Amounts appropriated for expenditure	-	(265,000)	-	(265,000)
Endowment net assets, end of year	<u>-</u>	<u>2,062,697</u>	<u>5,673,832</u>	<u>7,736,529</u>

LEE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

6. RELATED PARTY TRANSACTIONS/IN-KIND DONATIONS

During the fiscal year, the College performed certain administrative services for the Foundation and incurred expenses which were borne by the College. These related party services include in-kind donations for professional services of \$86,851 for 2014 and \$79,588 for 2013.

7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 16, 2014, the date which the financial statements were available to be issued.