

Lone Star College Foundation

Financial Statements and Supplementary Information

August 31, 2018 and 2017



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**Lone Star College Foundation
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August 31, 2018 and 2017**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lone Star College Foundation
The Woodlands, Texas

We have audited the accompanying financial statements of North Harris Montgomery Community College District Foundation dba Lone Star College Foundation (a Texas non-profit corporation) (the Foundation), which comprise the statements of financial position as of August 31, 2018 and 2017, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 the Foundation as of August 31, 2018 and 2017, 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.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of functional expenses are presented for purposes of additional analysis and are 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.

Caru, Riggs & Ingram, L.L.C.

Houston, Texas
December 4, 2018

**Lone Star College Foundation
Statements of Financial Position**

| <i>August 31,</i> | 2018 | 2017 |
|---|----------------------|---------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 382,307 | \$ 686,159 |
| Pledges and contributions receivable | 147,950 | 678,752 |
| Prepaid expenses | 1,740 | 2,142 |
| Total current assets | 531,997 | 1,367,053 |
| Long-term assets | | |
| Pledges receivable, net current portion | 20,000 | 123,334 |
| Certificates of deposit | 292,488 | 538,640 |
| Investments, at fair value | 27,197,006 | 23,551,832 |
| Total assets | \$ 28,041,491 | \$ 25,580,859 |
| Liabilities and net assets | | |
| Current liabilities | | |
| Unearned revenue | \$ 5,000 | \$ 33,326 |
| Commitments and contingencies | | |
| Net assets | | |
| Unrestricted | | |
| Undesignated | 1,555,163 | 1,256,492 |
| Board designated | 3,106,805 | 2,148,661 |
| Temporarily restricted | 8,844,318 | 8,413,671 |
| Permanently restricted | 14,530,205 | 13,728,709 |
| Total net assets | 28,036,491 | 25,547,533 |
| Total liabilities and net assets | \$ 28,041,491 | \$ 25,580,859 |

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

**Lone Star College Foundation
Statement of Activities**

| <i>For the year ended August 31, 2018</i> | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|---------------------------|---------------------------|----------------------|
| Revenue and support | | | | |
| Donations | \$ 1,061,377 | \$ 2,260,154 | \$ 656,255 | \$ 3,977,786 |
| Fundraising donations | 444,808 | 60,156 | 124,040 | 629,004 |
| Net realized and unrealized gain on investments | 156,545 | 1,628,260 | - | 1,784,805 |
| Interest and dividends, net of investment fees | 47,789 | 400,844 | - | 448,633 |
| In-kind revenue | 567,349 | - | - | 567,349 |
| Total revenue and support | 2,277,868 | 4,349,414 | 780,295 | 7,407,577 |
| Restrictions released | | | | |
| Program expenditures | 3,938,566 | (3,938,566) | - | - |
| Total revenue, support and releases | 6,216,434 | 410,848 | 780,295 | 7,407,577 |
| Expenses | | | | |
| Program services | | | | |
| Program enrichment | 2,355,502 | - | - | 2,355,502 |
| Student scholarships | 1,444,738 | - | - | 1,444,738 |
| Mini-grants | 18,163 | - | - | 18,163 |
| Institutional development | 268,643 | - | - | 268,643 |
| Total program services | 4,087,046 | - | - | 4,087,046 |
| Non-program services | | | | |
| Fundraising | 229,636 | - | - | 229,636 |
| General and administrative | 601,937 | - | - | 601,937 |
| Total expenses | 4,918,619 | - | - | 4,918,619 |
| Change in net assets | 1,297,815 | 410,848 | 780,295 | 2,488,958 |
| Net asset transfers | (41,000) | 19,799 | 21,201 | - |
| Net assets at beginning of year | 3,405,153 | 8,413,671 | 13,728,709 | 25,547,533 |
| Net assets at end of year | \$ 4,661,968 | \$ 8,844,318 | \$ 14,530,205 | \$ 28,036,491 |

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

Lone Star College Foundation
Statement of Activities

| <i>For the year ended August 31, 2017</i> | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|---------------------------|---------------------------|----------------------|
| Revenue and support | | | | |
| Donations | \$ 304,362 | \$ 1,937,013 | \$ 360,195 | \$ 2,601,570 |
| Fundraising donations | 366,587 | 61,030 | 152,425 | 580,042 |
| Net realized and unrealized gain on investments | 82,940 | 1,812,867 | - | 1,895,807 |
| Interest and dividends, net of investment fees | 27,609 | 337,745 | - | 365,354 |
| In-kind revenue | 557,494 | - | - | 557,494 |
| Total revenue and support | 1,338,992 | 4,148,655 | 512,620 | 6,000,267 |
| Restrictions released | | | | |
| Program expenditures | 2,567,998 | (2,567,998) | - | - |
| Total revenue, support and releases | 3,906,990 | 1,580,657 | 512,620 | 6,000,267 |
| Expenses | | | | |
| Program services | | | | |
| Program enrichment | 767,997 | - | - | 767,997 |
| Student scholarships | 1,700,468 | - | - | 1,700,468 |
| Mini-grants | 19,634 | - | - | 19,634 |
| Institutional development | 79,899 | - | - | 79,899 |
| Total program services | 2,567,998 | - | - | 2,567,998 |
| Non-program services | | | | |
| Fundraising | 232,500 | - | - | 232,500 |
| General and administrative | 580,747 | - | - | 580,747 |
| Total expenses | 3,381,245 | - | - | 3,381,245 |
| Change in net assets | 525,745 | 1,580,657 | 512,620 | 2,619,022 |
| Net asset transfers | (20,000) | (40,803) | 60,803 | - |
| Net assets at beginning of year | 2,899,408 | 6,873,817 | 13,155,286 | 22,928,511 |
| Net assets at end of year | \$ 3,405,153 | \$ 8,413,671 | \$ 13,728,709 | \$ 25,547,533 |

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

**Lone Star College Foundation
Statements of Cash Flows**

| <i>For the years ended August 31,</i> | 2018 | 2017 |
|---|--------------------|-------------------|
| Operating activities | | |
| Change in net assets | \$ 2,488,958 | \$ 2,619,022 |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities | | |
| Donations restricted for permanent endowments | (780,295) | (512,620) |
| Net realized and unrealized gain on investments | (1,784,805) | (1,895,807) |
| Change in operating assets and liabilities | | |
| Decrease (increase) in pledges and contributions receivable | 634,136 | (659,636) |
| Decrease in prepaid expenses | 402 | 1,210 |
| Decrease in unearned revenue | (28,326) | 76 |
| Net cash provided by (used in) operating activities | 530,070 | (447,755) |
| Investing activities | | |
| Cash receipt on maturity of certificate of deposit | 246,152 | 46,703 |
| Purchases of investments | (4,062,514) | (2,051,464) |
| Proceeds from sales of investments | 2,202,145 | 1,328,542 |
| Net cash used in investing activities | (1,614,217) | (676,219) |
| Financing activities | | |
| Donations restricted for permanent endowments | 780,295 | 512,620 |
| Net change in cash and cash equivalents | (303,852) | (611,354) |
| Cash and cash equivalents at beginning of year | 686,159 | 1,297,513 |
| Cash and cash equivalents at end of year | \$ 382,307 | \$ 686,159 |

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

Lone Star College Foundation

Notes to Financial Statements

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The North Harris Montgomery Community College District Foundation dba Lone Star College Foundation (the Foundation) was organized in the State of Texas on December 20, 1990 to function as a nonprofit corporation. The duration of the Foundation is perpetual. The Foundation was established to raise private funds for the Lone Star College System (the College) for charitable, scientific, literary, and educational purposes, which are to be administered by the Foundation solely for the benefit of the College.

The Foundation operates three major program services. Student scholarships provide financial aid to the College's students based on financial need, academic merit or donor criteria. Program enrichment provides financial support to enhance the quality of the College's educational programs, which includes professional development, resources, equipment and supplies, curriculum updates and speaker honorariums. Institutional development supports activities of the College that are intended to promote the College's best interest, particularly in the areas of fundraising and maintaining effective business and community relations.

Financial Statement Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Foundation's resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- Unrestricted net assets – These are net assets that are not subject to donor-imposed stipulations, but use can be limited by Board designation.
- Temporarily restricted net assets – These are net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation, and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.
- Permanently restricted net assets – These are net assets that are required to be maintained in perpetuity with only the income to be used for operating activities due to donor-imposed restrictions.

Fair Value Considerations

The Foundation uses fair value to measure financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy established and prioritized fair value measurements into three levels based on the nature of the inputs. The hierarchy gives the highest priority to inputs based on market data from independent sources (observable inputs-Level 1) and the lowest priority to a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs-Level 3).

Lone Star College Foundation

Notes to Financial Statements

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fair value option allows entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value that are not otherwise required to be measured at fair value. If an organization elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. The Foundation did not elect the fair value option for the measurement of any eligible assets or liabilities.

The Foundation's financial instruments consist of cash and cash equivalents, receivables, investments and other short term assets and liabilities. Management believes the carrying amounts of these financial instruments approximate their fair values.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less at date of purchase to be cash equivalents. Cash and cash equivalents held in a money market account are reported as investments instead of cash because the Foundation holds those funds as an endowment.

Promises to Give to Foundation – Pledges Receivable

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows, if material. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. The long-term portion of the pledges receivable of \$20,000 at August 31, 2018, will be collected over the next 2 years. The long-term portion of the pledges receivable of \$123,334 at August 31, 2017, is expected to be collected over the next 3 years. Current and long term portions are disclosed in Note 7.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectable amounts through a provision for bad debt expense and an adjustment to valuation allowance based on its statement of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to account receivable. Changes in the valuation allowance have not been material to the financial statements. At August 31, 2018 and 2017, management believes that the pledged receivables are fully collectible, and no allowance for doubtful accounts is required.

Certificates of Deposits

Certificates of deposits are held at financial institutions in the United States and are recorded at cost, which approximates market value.

Lone Star College Foundation

Notes to Financial Statements

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and Investment Return

Investments are mostly comprised of endowment funds invested for the purpose of generating income for scholarships. Investments are recorded at fair value. Investment return includes interest, dividends, capital gain distributions and realized and unrealized gains and losses. Investment return is reported in the statements of activities as a change in unrestricted net assets unless the use of the income is limited by donor imposed restrictions. Investment return whose use is restricted by the donor is reported as a change in temporarily restricted net assets until expended in accordance with donor imposed restrictions.

Contributions of stock are recorded at market value on date of contribution and sold as soon as possible. In 2018 and 2017, the Foundation received stock gifts with market values of \$1,638,938 and \$553,952, respectively.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

Support that is restricted by the donor and is to be used in future periods is reported as an increase in temporarily restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Support that is restricted in perpetuity by the donor is recorded as permanently restricted net assets.

Donated Materials, Services, and Facilities

The Foundation recognizes donated services at their fair market value in the period received if the services received create or enhance nonfinancial assets or require specialized skills and are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. The Foundation receives donated services from unpaid volunteers who assist with program services and fundraising. The value of the contributed time is not reflected in the accompanying financial statements because it does not require a specialized skill or create or enhance a nonfinancial asset.

The Foundation also receives certain donated goods that directly benefit the College. These donated goods are recorded in the accompanying financial statements, if significant in amount, at their fair market value, to the extent that a measurable and objective basis exists for determination of their fair values and the corresponding benefit to the Foundation. The value of these donated goods is included in temporarily restricted donations in the statement of activities in the amount of \$30,000 and \$247,553 for the years ended August 31, 2018 and 2017, respectively.

The College performs various administrative functions on behalf of the Foundation. The value of these services is recorded as in-kind revenue and general and administrative expense in the statements of activities (see Note 5).

Lone Star College Foundation

Notes to Financial Statements

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Income Taxes

The Foundation is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation accounts for uncertain tax positions, when it is more likely than not, that such an asset or a liability will be realized. As of August 31, 2018 and 2017, management believes there were no uncertain tax positions. The Foundation's federal tax return remains open to examination for a period of three years following its filing with the taxing authority.

Estimates

The preparation of the financial statements in conformity 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and the schedules of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on various determinations by management.

Unearned Revenue

Unearned revenue represents money received in advance for future fundraising events. Fundraising income is recognized in the period the event occurs.

Subsequent Events

The Foundation has evaluated subsequent events through the date the financial statements were available for issuance on December 4, 2018. No matters were identified affecting the accompanying financial statements and related disclosures.

Recent Financial Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under this ASU, net assets will be presented in two classes: net assets with donor restrictions and net assets without donor restrictions. Underwater endowments will be included in net assets with donor restrictions and new or enhanced disclosures regarding the composition of net assets will be required. Disclosures regarding liquidity and availability of resources for general operating expenditures within one year of the date of the statement of financial position must also be presented. The ASU requires expenses to be presented by both nature and function, and investment return will be presented net of investment expenses. Absent specific donor stipulations, the Foundation will use the placed-in-service approach for reporting expirations of restrictions on long-lived assets. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the Foundation's financial statements. As of August 31, 2018 and 2017, the Foundation did not early adopt this standard.

Lone Star College Foundation Notes to Financial Statements

NOTE 2: FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value three tier hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

- Level 1 Quoted market prices in active markets for identical assets or liabilities.
- Level 2 Inputs other than Level 1 inputs that are either directly or indirectly observable such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or other inputs not directly observable, but derived principally from, or corroborated by, observable market data.
- Level 3 Unobservable inputs that are supported by little or no market activity.

The Foundation utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Investments in corporate stocks, fixed income securities, money market funds, hedge funds and commodities that are currently traded in active markets are classified as Level 1. There have been no changes in valuation techniques and related inputs.

The value of assets and liabilities measured at fair value on a recurring basis is as follows:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-------------------------------|---|---|--|
| <i>August 31, 2018</i> | | | |
| Corporate stocks | \$ 17,464,269 | \$ - | \$ - |
| Fixed income securities | 7,917,727 | - | - |
| Money market funds | 1,815,010 | - | - |
| | \$ 27,197,006 | \$ - | \$ - |

**Lone Star College Foundation
Notes to Financial Statements**

NOTE 2: FAIR VALUE MEASUREMENTS (Continued)

| <i>August 31, 2017</i> | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-------------------------|---|---|--|
| Corporate stocks | \$ 16,309,226 | \$ - | \$ - |
| Fixed income securities | 3,942,157 | - | - |
| Money market funds | 1,043,036 | - | - |
| Hedge funds | 1,065,234 | - | - |
| Commodities | 1,192,179 | - | - |
| | \$ 23,551,832 | \$ - | \$ - |

The following summarizes the investment return, including earnings on certificates of deposit:

| <i>For the years ended August 31,</i> | 2018 | 2017 |
|---------------------------------------|---------------------|---------------------|
| Dividends and interest income | \$ 513,876 | \$ 460,240 |
| Investment fees | (65,243) | (94,886) |
| Net realized and unrealized gain | 1,784,805 | 1,895,807 |
| | \$ 2,233,438 | \$ 2,261,161 |

NOTE 3: TEMPORARY RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets include the following as of:

| <i>August 31,</i> | 2018 | 2017 |
|--|---------------------|---------------------|
| Program enrichment and special scholarships funds | \$ 1,113,180 | \$ 1,651,724 |
| Institutional Development Fund | - | 120,163 |
| Title V Challenge Grant Fund | 24,522 | 24,522 |
| ASF Special Scholarships | 15,000 | 9,900 |
| Single Parent Program | 1,994,585 | 1,917,304 |
| Dr. Richard G Carpenter Scholarships | 181,250 | 181,250 |
| Accumulated undistributed earnings on AEF endowments | 1,065,344 | 920,808 |
| Accumulated undistributed earnings on other endowments | 4,450,437 | 3,588,000 |
| | \$ 8,844,318 | \$ 8,413,671 |

Lone Star College Foundation Notes to Financial Statements

NOTE 4: ENDOWMENTS

The Foundation has donor-restricted endowment funds, which are maintained in accordance with explicit donor stipulations. The Foundation is subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA), which has been enacted by the state of Texas. The Board of Directors (the Board) has interpreted TUPMIFA 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 the 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) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in manner consistent with the standard of prudence prescribed by TUPMIFA.

In accordance with TUPMIFA, the Foundation considers the following factors in making determination to distribute accumulated donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization 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 Foundation
- (7) The investment policies and objectives of the Foundation

The primary investment objective of the endowment funds is to provide a long term rate of return at or above the Consumer Price Index plus 5 percent, within a risk standard deviation of 10 percent, to fund scholarships provided to students of the College. Annual distributions from endowment funds are expected to be 5% of the average fair market value of the assets held for investment purposes.

In order to achieve these objectives, management of the assets of the Foundation is performed by professional asset managers to be selected from time to time by the Board. At August 31, 2017, the endowments funds were held and managed by U.S. Trust Bank of America Corporation. At August 31, 2018, the endowments funds were held and managed by Goldman Sachs.

The Foundation's endowment policy requires a \$15,000 contribution to be a named endowment. The remaining endowment funds consist of a multitude of named endowments. The principal balance of the permanently restricted endowments will remain in perpetuity and earnings will be distributed as scholarships.

**Lone Star College Foundation
Notes to Financial Statements**

NOTE 4: ENDOWMENTS (Continued)

Endowment funds by net asset classification are as follows:

| <i>For the years ended August 31,</i> | 2018 | 2017 |
|---------------------------------------|----------------------|----------------------|
| Designated unrestricted net assets | \$ 3,106,805 | \$ 2,148,661 |
| Temporarily restricted net assets | 5,515,781 | 4,508,808 |
| Permanently restricted net assets | 14,530,205 | 13,728,709 |
| | \$ 23,152,791 | \$ 20,386,178 |

Changes in endowment net assets are as follows:

| | Designated Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|----------------------------|---------------------------|---------------------------|----------------------|
| Endowment net assets, August 31, 2016 | \$ 1,873,481 | \$ 3,378,556 | \$ 13,155,286 | \$ 18,407,323 |
| Contributions | 273,297 | 33,162 | 512,620 | 819,079 |
| Net asset transfers | - | 3,920 | 60,803 | 64,723 |
| Investment return | | | | |
| Investment income, net of fees | 3,487 | 297,506 | - | 300,993 |
| Net appreciation (depreciation) of investments | (1,604) | 1,601,230 | - | 1,599,626 |
| Amounts appropriated for expenditures | - | (805,566) | - | (805,566) |
| Endowment net assets, August 31, 2017 | \$ 2,148,661 | \$ 4,508,808 | \$13,728,709 | \$20,386,178 |
| Contributions | 1,003,246 | 10,567 | 780,295 | 1,794,108 |
| Net asset transfers | - | 800 | 21,201 | 22,001 |
| Investment return | | | | |
| Investment income, net of fees | 21,833 | 365,810 | - | 387,643 |
| Net appreciation of investments | 81,545 | 1,484,813 | - | 1,566,358 |
| Amounts appropriated for expenditures | (148,480) | (855,017) | - | (1,003,497) |
| Endowment net assets, August 31, 2018 | \$ 3,106,805 | \$ 5,515,781 | \$14,530,205 | \$23,152,791 |

The primary investment objective of the endowment funds is to provide a long term rate of return to fund scholarships provided to students of the College. Effective from December 2017, the Foundation changed its spending policy. As a result of the change, beginning in the 2018-19 academic year, the spending policy annual distributions will be made at the blended rate of target payout rates of each fully-funded endowment. Target payout rates are 3.5 – 5%, depending on the size of the endowment. The target payout rates will be paid out as long as the trailing three year returns meet or exceed the payout amount. The payout rates are set at a maximum of 5% and a floor of 1.5%.

Lone Star College Foundation Notes to Financial Statements

NOTE 5: RELATED PARTY TRANSACTIONS

The College provides office space to the Foundation at no cost. In addition, the Foundation's payroll expenses, all other employee benefits and certain supplies are paid for by the College. The Foundation does not reimburse the College for these costs. As such, in-kind revenue and expense are recorded in the statements of activities for these costs. For the years ended August 31, 2018 and 2017, in-kind revenue and expense totaled \$567,349 and \$557,494, respectively. The College also provide cash contributions of \$1,050,184 and \$345,509, for the years ended August 31, 2018 and 2017, respectively.

All enrichment program, student scholarship, mini-grants and institutional development expenditures are disbursed to the College. These expenses totaled \$4,087,046 and \$2,567,998 for the years ended August 31, 2018 and 2017, respectively.

NOTE 6: CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of investments. The Foundation places investments with a financial services firm. The cash balances in the investments did not exceed the federally insured limit for the years ended August 31, 2018 and 2017. Management believes any credit risk is low due to the overall financial strength of the financial institution.

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the fair values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position and the statements of activities.

During the fiscal year 2018, two donors represented 27 percent and 10 percent of total donations, respectively. During the fiscal year 2017, two donors represented 23 percent and 15 percent of total donations, respectively.

NOTE 7: RECEIVABLES

Pledges and contribution receivables consist of the following:

| <i>August 31,</i> | 2018 | 2017 |
|--------------------------|-------------------|-------------------|
| Pledges receivable | | |
| Due within 1 year | \$ 128,333 | \$ 641,865 |
| Due in 1-5 years | 20,000 | 123,334 |
| Total | \$ 148,333 | \$ 765,199 |
| Contributions receivable | | |
| Due within 1 year | \$ 19,617 | \$ 36,887 |
| Total | \$ 19,617 | \$ 36,887 |



Lone Star College Foundation Notes to Financial Statements

NOTE 8: CASH AND CERTIFICATES OF DEPOSIT CONCENTRATIONS

The Foundation maintains its cash account and certificates of deposits at various banks, which at times, may exceed the Federal Deposit Insurance Corporation's limit. The Foundation has not experienced any losses from maintaining its cash account and certificates of deposit in excess of the federally insured limit. Management believes that it is not exposed to any significant credit risk on its cash account and certificates of deposit, due to the financial strength of the financial institutions where deposits are held.



SUPPLEMENTARY INFORMATION

**Lone Star College Foundation
Schedules of Functional Expenses**

| <i>For the years ended August 31,</i> | 2018 | | | | 2017 | | | |
|---------------------------------------|---------------------|-------------------|--------------------------|---------------------|---------------------|-------------------|--------------------------|---------------------|
| | Program Services | Fund-raising | General & Administrative | Total | Program Services | Fund-raising | General & Administrative | Total |
| Program enrichment | \$ 2,355,502 | \$ - | \$ - | \$ 2,355,502 | \$ 767,997 | \$ - | \$ - | \$ 767,997 |
| Student scholarships | 1,444,738 | - | - | 1,444,738 | 1,700,468 | - | - | 1,700,468 |
| Mini-grants | 18,163 | - | - | 18,163 | 19,634 | - | - | 19,634 |
| Institutional development | 268,643 | - | - | 268,643 | 79,899 | - | - | 79,899 |
| Decorations | - | 15,363 | - | 15,363 | - | 1,873 | - | 1,873 |
| Hotel and club rental | - | 22,695 | - | 22,695 | - | 35,744 | - | 35,744 |
| Entertainment | - | 5,690 | - | 5,690 | - | 4,300 | - | 4,300 |
| Printing and reproduction | - | 8,313 | - | 8,313 | - | 17,169 | 348 | 17,517 |
| Postage | - | 4,121 | - | 4,121 | - | 2,642 | - | 2,642 |
| Catering | - | 117,044 | - | 117,044 | - | 106,845 | - | 106,845 |
| Event supplies | - | 46,973 | - | 46,973 | - | 47,687 | - | 47,687 |
| Bank charges and credit card fees | - | 9,316 | 6,701 | 16,017 | - | 9,908 | 5,292 | 15,200 |
| Salaries and benefits | - | - | 567,349 | 567,349 | - | - | 557,494 | 557,494 |
| Professional fees | - | - | 19,800 | 19,800 | - | - | 15,760 | 15,760 |
| Donor cultivation | - | 121 | - | 121 | - | 348 | - | 348 |
| Employee campaign | - | - | - | - | - | 5,984 | - | 5,984 |
| Administrative expense | - | - | 8,087 | 8,087 | - | - | 1,853 | 1,853 |
| Total expenses | \$ 4,087,046 | \$ 229,636 | \$ 601,937 | \$ 4,918,619 | \$ 2,567,998 | \$ 232,500 | \$ 580,747 | \$ 3,381,245 |

See independent auditors' report.