McLennan Community College Foundation
Financial Statements
August 31, 2018 and 2017
(With Independent Auditor’s Report Thereon)

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
McLennan Community College Foundation:

We have audited the accompanying financial statements of McLennan Community College 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.

Auditor's 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 audits 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 McLennan Community College 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 conformity with accounting principles generally accepted in the United States of America.

Jaynes, Reitmeier, Boyd & Therrell, P.C.

November 19, 2018

McLennan Community College Foundation

Statements of Financial Position

August 31, 2018 and 2017

		2018	2017
Assets			
Cash and cash equivalents	$	190,292	514,106
Prepaid expenses		2,303	8,199
Contributions receivable		448,812	76,413
Investments		20,189,825	17,516,095
Cash surrender value of life insurance policies		38,309	37,276
	$	20,869,541	18,152,089
Liabilities and Net Assets			
Accounts payable	$	97,910	-
Due to affiliated organization		1,928	9,589
Total liabilities		99,838	9,589
Net assets:			
Unrestricted		19,472	277,719
Temporarily restricted		10,117,189	8,587,288
Permanently restricted		10,633,042	9,277,493
Total net assets		20,769,703	18,142,500
	$	20,869,541	18,152,089

See accompanying notes to financial statements.

McLennan Community College Foundation

Statement of Activities

Year Ended August 31, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:				
Contributions	$ 283,899	333,124	990,181	1,607,204
Special events, net of fundraising expenses of $33,955	-	74,160	-	74,160
Investment income (loss):				
Interest and dividends	-	250,065	-	250,065
Net investment gains	-	1,803,217	-	1,803,217
Investment fees	-	(48,674)	-	(48,674)
Other income	21	-	-	21
Net assets released from restrictions	746,723	(746,723)	-	-
Total revenue and other support	1,030,643	1,665,169	990,181	3,685,993
Expenses:				
Program expenses:				
Scholarships	344,325	-	-	344,325
Capital facilities assistance	156,112	-	-	156,112
Professional development	60,855	-	-	60,855
Other program expenses	153,738	-	-	153,738
Management and general	343,760	-	-	343,760
Total expenses	1,058,790	-	-	1,058,790
Change in net assets	(28,147)	1,665,169	990,181	2,627,203
Transfers	(230,100)	(135,268)	365,368	-
Net assets at beginning of year	277,719	8,587,288	9,277,493	18,142,500
Net assets at end of year	$ 19,472	10,117,189	10,633,042	20,769,703

See accompanying notes to financial statements.

McLennan Community College Foundation

Statement of Activities

Year Ended August 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:				
Contributions	$ 308,124	397,779	254,923	960,826
Special events, net of fund-raising expenses of $34,655	-	33,270	-	33,270
Investment income (loss):				
Interest and dividends	-	241,741	-	241,741
Net investment gains	-	1,809,498	-	1,809,498
Investment fees	-	(46,707)	-	(46,707)
Other income	254	-	-	254
Net assets released from restrictions	745,145	(745,145)	-	-
Total revenue and other support	1,053,523	1,690,436	254,923	2,998,882
Expenses:				
Program expenses:				
Scholarships	348,197	-	-	348,197
Capital facilities assistance	167,239	-	-	167,239
Professional development	64,165	-	-	64,165
Other program expenses	108,005	-	-	108,005
Management and general	367,144	-	-	367,144
Total expenses	1,054,750	-	-	1,054,750
Change in net assets	(1,227)	1,690,436	254,923	1,944,132
Net assets at beginning of year	278,946	6,896,852	9,022,570	16,198,368
Net assets at end of year	$ 277,719	8,587,288	9,277,493	18,142,500

See accompanying notes to financial statements.

McLennan Community College Foundation

Statements of Cash Flows

Years Ended August 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 2,627,203	1,944,132
Adjustments to reconcile change in net assets to net cash provided by (used in) operations:		
Cash contributions restricted for endowment	(990,181)	(254,923)
Net investment gains	(1,803,217)	(1,809,498)
Decrease (increase) in cash surrender value of life insurance policies	(1,033)	13,244
Changes in operating assets and liabilities:		
Prepaid expenses	5,896	6,393
Contributions receivable	(372,399)	152,646
Accounts payable	97,910	(964)
Due to affiliated organization	(7,661)	(2,420)
Net cash provided by (used in) operating activities	(443,482)	48,610
Cash flows from investing activities:		
Purchases of investments	4,392,758	(173,751)
Proceeds from sales or maturities of investments	(5,263,271)	-
Net cash used in investing activities	(870,513)	(173,751)
Cash flows from financing activities:		
Proceeds from contributions restricted for endowment	990,181	254,923
Net cash provided by financing activities	990,181	254,923
Net increase (decrease) in cash and cash equivalents	(323,814)	129,782
Cash and cash equivalents at beginning of year	514,106	384,324
Cash and cash equivalents at end of year	$ 190,292	514,106

See accompanying notes to financial statements.

McLennan Community College Foundation

Notes to Financial Statements

August 31, 2018 and 2017

(1) Summary of Significant Accounting Policies and Practices

(a) Organization and Nature of Activities

The McLennan Community College Foundation (the "Foundation" or "MCC Foundation") was created in 1988 to solicit and receive support for purposes of developing and extending the facilities of McLennan County Junior 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 Central Texas area.

(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. Cash equivalents include money market mutual funds and certificates of deposit totaling $-0- and $99,973 at August 31, 2018, and $217,258 and $99,973 at August 31, 2017, respectively.

McLennan Community College Foundation

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 or loss (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 or loss 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.

McLennan Community College Foundation

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.

(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	$ 7,079,559	10,365,000
Multi-strategy bond fund	2,077,151	3,999,936
Marketable equity securities	9,375,974	1,847,833
Limited partnership interest	1,657,141	1,303,326
	$ 20,189,825	17,516,095

The fair values of the investments shown as of August 31, 2018 and 2017 represent 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. 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.

McLennan Community College Foundation

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 following methods and assumptions were used to estimate the fair value of each significant class of investments:

Funds of a management investment company: The fair value of these funds is estimated using the net asset value of shares held by the Foundation at year-end as a practical expedient.

Marketable equity securities: The fair value is measured using quoted market prices at the reporting date multiplied by the quantity held.

Limited partnership interest: The fair value of this limited partnership interest is estimated using its cost. The Foundation believes the difference between cost and fair value is not material to the financial statements taken as a whole.

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.

McLennan Community College Foundation

Notes to Financial Statements
(Continued)

(2) Investments and Fair Value Hierarchy (continued)

The Foundation's limited partnership interest consists of interests in two private equity limited partnerships that seek to realize long-term capital appreciation primarily through the purchase of a broad and varied portfolio of controlling equity investments in small to medium-sized companies headquartered in North America. Investments are made predominantly in nonpublic companies, although investments in public companies are permitted. The limited partnerships generally invest on a long-term basis. Accordingly, investors generally are not permitted to withdraw or redeem interests in the limited partnership. The Foundation has subscribed for interests of $3.5 million interest, of which $2,041,373 is committed and unfunded at August 31, 2018.

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis at August 31, 2018 and 2017:

		Fair Value Measurements at Reporting Date Using		
	Fair Value August 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Funds of management investment company:*				
Multi-strategy equity fund	$ 7,079,559	-	-	-
Multi-strategy bond fund	2,077,151	-	-	-
Marketable equity securities	9,375,974	9,375,974	-	-
Limited partnership interest	1,657,141	-	-	1,657,141
	$ 20,189,825	9,375,974	-	1,657,141

		Fair Value Measurements at Reporting Date Using		
	Fair Value August 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Funds of management investment company:*				
Multi-strategy equity fund	$ 10,365,000	-	-	-
Multi-strategy bond fund	3,999,936	-	-	-
Marketable equity securities	1,847,833	1,847,833	-	-
Limited partnership interest	1,303,326	-	-	1,303,326
	$ 17,516,095	1,847,833	-	1,303,326

*Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the above table are intended to permit reconciliation of the fair value amounts to the amount presented in the statement of financial condition.

McLennan Community College Foundation

Notes to Financial Statements
(Continued)

(2) Investments and Fair Value Hierarchy (continued)

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the years ended August 31, 2018 and 2017.

	2018	2017
Balance, beginning of year	$ 1,303,326	565,889
Purchases	336,152	646,527
Sales		
Net investment gains included in changes in net assets	17,663	90,910
Balance, end of year	$ 1,657,141	1,303,326

(3) Permanent Endowments

The Foundation's permanently restricted net assets consisted of approximately 250 endowment funds. These donor-restricted endowment funds at August 31, 2018 and 2017 have been established principally for (a) scholarships (approximately $9,550,000 and $8,201,000, respectively), (b) a distinguished lecture series (approximately $506,000 and $506,000, respectively), (c) maintenance of Steinway pianos owned by the District (approximately $324,000 and $317,000, respectively), and (d) other educational purposes under a Title III grant (approximately $253,000 and $253,000, respectively). 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.

Explicit donor stipulations define amounts that may be expended for each of the Foundation's endowments. As a result, 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 (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.

McLennan Community College Foundation

Notes to Financial Statements
(Continued)

(4) Contributions Receivable

Contributions receivable at August 31, 2018 and 2017 consisted almost entirely 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.

(5) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following specific programs:

	2018	2017
Scholarships	$ 7,729,447	6,498,948
Educational purposes under Title III grant	2,054,754	1,892,714
Distinguished lecture series	332,988	195,626
	$ 10,117,189	8,587,288

(6) Permanently Restricted Net Assets

Permanently restricted net assets at August 31, 2018 and 2017 consist of various endowment funds to be held in perpetuity, the income of which is available for the purposes described in Note 3.

(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 years ended August 31, 2018 and 2017:

	2018	2017
Salaries and benefits	$ 205,862	231,696
General office expense	53,536	54,396
Travel and entertainment	11,301	8,832
Rent and utilities	13,200	13,200
	$ 283,899	308,124

McLennan Community College Foundation

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 equivalents and investments.

At August 31, 2018 and 2017, the Foundation's cash accounts did not exceed 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) Beneficial Interest in Assets Held by Waco Foundation

The Foundation initiated a fund at Waco Foundation, a local community foundation, by transferring MCC Foundation assets to Waco Foundation and designating itself as the beneficiary. The income earned (including net realized and unrealized appreciation) on the transferred assets is to be paid at least annually to MCC Foundation. With that transfer, the MCC Foundation granted Waco Foundation variance power (that is, the unilateral power to redirect the use of the transferred assets to another beneficiary.) However, Waco Foundation generally would distribute funds in accordance with the desire of MCC Foundation unless such distributions violate Waco Foundation's trust instrument and bylaws, or if such distributions become unnecessary, impossible or inconsistent with the needs of the community served. Because MCC Foundation retained future economic benefits of the transferred assets, professional accounting standards consider the transaction to be reciprocal and the MCC Foundation continues to recognize its rights as an asset.

Further, in the years since the origination of the fund at the Waco Foundation, independent community donors have made contributions to the fund. These donors granted variance power to Waco Foundation (under the same terms as described in the preceding paragraph); however, the donors retained no beneficial interests in the transferred assets and the related and accumulated income (including net realized and unrealized appreciation). Consequently, under professional standards, this portion of the fund balance at Waco Foundation is not reported as an asset of the Foundation.

There are no assets of MCC Foundation held by Waco Foundation August 31, 2018 and 2017. Further, the amount of assets held and reported as assets by Waco Foundation for the benefit of MCC Foundation total $123,254 and $118,630 at August 31, 2018 and 2017, respectively.

McLennan Community College Foundation

Notes to Financial Statements
(Continued)

(10) Net Assets Transfers

During 2018, the Foundation transferred approximately $230,000 from unrestricted net assets and $135,000 from temporarily restricted net assets to permanently restricted net assets as a result of further donor clarification on treatment of funds received.

(11) Subsequent Events

The Foundation has evaluated subsequent events from the date of the statements of financial position through November 19, 2018, the date at which the financial statements were available to be issued, and determined there are no items to disclose.