

McLennan Community College Foundation
Financial Statements
August 31, 2020 and 2019
(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, 2020 and 2019, and the related statements of activities, functional expenses, 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, 2020 and 2019, 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.

January 8, 2021

McLennan Community College Foundation

Statements of Financial Position

August 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|-------------------|
| <u>Assets</u> | | |
| Cash and cash equivalents | \$ 179,769 | 398,866 |
| Prepaid expenses | 803 | 35,589 |
| Property held for sale | 405,934 | - |
| Contributions receivable | 256,202 | 271,812 |
| Investments | 23,909,368 | 20,988,427 |
| Cash surrender value of life insurance policies | <u>22,534</u> | <u>39,364</u> |
| | <u>\$ 24,774,610</u> | <u>21,734,058</u> |
| <u>Liabilities and Net Assets</u> | | |
| Accounts payable | \$ 5,642 | 79,555 |
| Due to affiliated organization | <u>16,124</u> | <u>16,716</u> |
| Total liabilities | <u>21,766</u> | <u>96,271</u> |
| Net assets: | | |
| Without donor restrictions: | | |
| Undesignated | 45,463 | 45,798 |
| With donor restrictions: | | |
| Restricted for specified purpose | 13,185,473 | 10,462,541 |
| Restricted in perpetuity - endowment | <u>11,521,908</u> | <u>11,129,448</u> |
| Total with donor restrictions | <u>24,707,381</u> | <u>21,591,989</u> |
| Total net assets | <u>24,752,844</u> | <u>21,637,787</u> |
| | <u>\$ 24,774,610</u> | <u>21,734,058</u> |

See accompanying notes to financial statements.

McLennan Community College Foundation

Statement of Activities

Year Ended August 31, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|----------------|
| Revenue and other support: | | | |
| Contributions | \$ 312,712 | 1,298,250 | 1,610,962 |
| Special events, net of fundraising expenses of \$36,787 | - | 17,693 | 17,693 |
| Net investment income | - | 2,621,541 | 2,621,541 |
| Net assets released from restrictions | 822,092 | (822,092) | - |
| Total revenue and other support | 1,134,804 | 3,115,392 | 4,250,196 |
| Expenses: | | | |
| Program expenses: | | | |
| Scholarships | 480,279 | - | 480,279 |
| Capital facilities assistance | 55,537 | - | 55,537 |
| Professional development | 44,393 | - | 44,393 |
| Other program expenses | 177,387 | - | 177,387 |
| Management and general | 377,543 | - | 377,543 |
| Total expenses | 1,135,139 | - | 1,135,139 |
| Change in net assets | (335) | 3,115,392 | 3,115,057 |
| Net assets at beginning of year | 45,798 | 21,591,989 | 21,637,787 |
| Net assets at end of year | \$ 45,463 | 24,707,381 | 24,752,844 |

See accompanying notes to financial statements.

McLennan Community College Foundation

Statement of Activities

Year Ended August 31, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|------------|
| Revenue and other support: | | | |
| Contributions | \$ 306,930 | 871,315 | 1,178,245 |
| Special events, net of fund-raising expenses of \$41,309 | - | 58,183 | 58,183 |
| Net investment income | - | 706,057 | 706,057 |
| Net assets released from restrictions | 766,353 | (766,353) | - |
| Total revenue and other support | 1,073,283 | 869,202 | 1,942,485 |
| Expenses: | | | |
| Program expenses: | | | |
| Scholarships | 434,681 | - | 434,681 |
| Capital facilities assistance | 52,465 | - | 52,465 |
| Professional development | 63,046 | - | 63,046 |
| Other program expenses | 154,405 | - | 154,405 |
| Management and general | 369,804 | - | 369,804 |
| Total expenses | 1,074,401 | - | 1,074,401 |
| Change in net assets | (1,118) | 869,202 | 868,084 |
| Net assets at beginning of year | 46,916 | 20,722,787 | 20,769,703 |
| Net assets at end of year | \$ 45,798 | 21,591,989 | 21,637,787 |

See accompanying notes to financial statements.

McLennan Community College Foundation

Statement of Functional Expenses

Year Ended August 31, 2020

| | <u>Program Expenses</u> | <u>Supporting Expenses</u> | | |
|---|-----------------------------------|-----------------------------------|--------------------|------------------|
| | <u>Scholarships and Gifts</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
| Scholarships | \$ 480,279 | - | - | 480,279 |
| Capital facilities assistance | 55,537 | - | - | 55,537 |
| Professional development | 44,393 | - | - | 44,393 |
| Golf tournament | - | - | 27,200 | 27,200 |
| Gala | - | - | 9,587 | 9,587 |
| In-kind: | | | | |
| Salaries and benefits | - | 241,082 | - | 241,082 |
| Office expenses | - | 53,343 | - | 53,343 |
| Travel and entertainment | - | 5,087 | - | 5,087 |
| Rent and utilities | - | 13,200 | - | 13,200 |
| Other | <u>177,387</u> | <u>64,831</u> | <u>-</u> | <u>242,218</u> |
| Total expenses by function | 757,596 | 377,543 | 36,787 | 1,171,926 |
| Less fundraising expenses included in revenues | <u>-</u> | <u>-</u> | <u>(36,787)</u> | <u>(36,787)</u> |
| | <u>\$ 757,596</u> | <u>377,543</u> | <u>-</u> | <u>1,135,139</u> |

See accompanying notes to financial statements.

McLennan Community College Foundation

Statement of Functional Expenses

Year Ended August 31, 2019

| | Program Expenses | Supporting Expenses | | Total |
|---|---------------------------|---------------------------|-------------|-----------|
| | Scholarships and Gifts | Management and General | Fundraising | |
| Scholarships | \$ 434,681 | - | - | 434,681 |
| Capital facilities assistance | 52,465 | - | - | 52,465 |
| Professional development | 63,046 | - | - | 63,046 |
| Golf tournament | - | - | 32,522 | 32,522 |
| Gala | - | - | 8,787 | 8,787 |
| In-kind: | | | | |
| Salaries and benefits | - | 228,297 | - | 228,297 |
| Office expenses | - | 55,956 | - | 55,956 |
| Travel and entertainment | - | 9,477 | - | 9,477 |
| Rent and utilities | - | 13,200 | - | 13,200 |
| Other | 154,405 | 62,874 | - | 217,279 |
| Total expenses by function | 704,597 | 369,804 | 41,309 | 1,115,710 |
| Less fundraising expenses included in revenues | - | - | (41,309) | (41,309) |
| | \$ 704,597 | 369,804 | - | 1,074,401 |

See accompanying notes to financial statements.

McLennan Community College Foundation

Statements of Cash Flows

Years Ended August 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 3,115,057 | 868,084 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operations: | | |
| Donated property held for sale | (405,934) | - |
| Cash contributions restricted for endowment | (392,460) | (496,406) |
| Net investment gains | (2,411,470) | (417,408) |
| Decrease (increase) in cash surrender value of life insurance policies | 16,830 | (1,055) |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses | 34,786 | (33,286) |
| Contributions receivable | 15,610 | 177,000 |
| Accounts payable | (73,913) | (18,355) |
| Due to affiliated organization | (592) | 14,788 |
| Net cash provided by (used in) operating activities | <u>(102,086)</u> | <u>93,362</u> |
| Cash flows from investing activities: | | |
| Purchases of investments | (10,658,348) | (890,475) |
| Proceeds from sales or maturities of investments | <u>10,148,877</u> | <u>509,281</u> |
| Net cash used in investing activities | <u>(509,471)</u> | <u>(381,194)</u> |
| Cash flows from financing activities: | | |
| Proceeds from contributions restricted for endowment | <u>392,460</u> | <u>496,406</u> |
| Net cash provided by financing activities | <u>392,460</u> | <u>496,406</u> |
| Net increase (decrease) in cash and cash equivalents | (219,097) | 208,574 |
| Cash and cash equivalents at beginning of year | <u>398,866</u> | <u>190,292</u> |
| Cash and cash equivalents at end of year | <u>\$ 179,769</u> | <u>398,866</u> |

See accompanying notes to financial statements.

McLennan Community College Foundation

Notes to Financial Statements

August 31, 2020 and 2019

(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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 certificates of deposit totaling \$99,973 for each of the years ended August 31, 2020 and 2019.

McLennan Community College FoundationNotes 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 net assets without donor restrictions 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.

McLennan Community College Foundation

Notes to Financial Statements (Continued)

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

(f) Fair Value Measurements (continued)

- 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.
- 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, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---------------|------------|
| Funds of a management investment company: | | |
| Multi-strategy equity fund | \$ - | 6,750,292 |
| Multi-strategy bond fund | - | 2,721,447 |
| Marketable equity securities | 22,222,641 | 9,516,673 |
| Limited partnership interests | 1,686,727 | 2,000,015 |
| | \$ 23,909,368 | 20,988,427 |

The fair values of the investments shown as of August 31, 2020 and 2019 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

McLennan Community College FoundationNotes to Financial Statements
(Continued)(2) Investments and Fair Value Hierarchy (continued)

measurement date, the fair value measurement reflects the Foundation's own judgments about the assumptions that market participants would use in pricing the asset.

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 interests: The fair value of these limited partnership interests are estimated using net asset value measured using the market approach or the income approach based upon the underlying investment of the partnership.

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 objective 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 objective 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 funds 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 funds guaranteed by national or state banks or bank holding companies which are rated A or better by Fitch Investors Services.

McLennan Community College Foundation

Notes to Financial Statements (Continued)

(2) Investments and Fair Value Hierarchy (continued)

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 limited partnership interests consist 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 no plans to liquidate its investment in the limited partnership. The Foundation has subscribed for interests of \$2 million, of which \$212,910 is committed and unfunded at August 31, 2020.

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, 2020 and 2019:

| | Fair Value August 31, 2020 | Fair Value Measurements at Reporting Date Using | | |
|-------------------------------|----------------------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Marketable equity securities | 22,222,641 | 22,222,641 | - | - |
| Limited partnership interests | <u>1,686,727</u> | - | - | <u>1,686,727</u> |
| | <u>\$ 23,909,368</u> | <u>22,222,641</u> | - | <u>1,686,727</u> |

McLennan Community College Foundation

Notes to Financial Statements (Continued)

(2) Investments and Fair Value Hierarchy (continued)

| | Fair Value August 31, 2019 | Fair Value Measurements at Reporting Date Using | | |
|---|----------------------------------|--|---|--|
| | | 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 | \$ 6,750,292 | - | - | - |
| Multi-strategy bond fund | 2,721,447 | - | - | - |
| Marketable equity securities | 9,516,673 | 9,516,673 | - | - |
| Limited partnership interests | 2,000,015 | - | - | 2,000,015 |
| | <u>\$ 20,988,427</u> | <u>9,516,673</u> | <u>-</u> | <u>2,000,015</u> |

*Certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a 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.

Total purchases of Level 3 investments were \$22,041 and \$257,908 for the years ended August 31, 2020 and 2019, respectively.

(3) Property Held for Sale

In July 2020, a donor contributed a house to the Foundation with the intention that it be sold for the Foundation to utilize the proceeds for granting scholarships. The Foundation actively marketed the house for sale and sold the house subsequent to August 31, 2020. Net proceeds received upon sale of the house were \$405,934.

(4) Availability and Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, are comprised of the following at August 31, 2020 and 2019:

McLennan Community College Foundation

Notes to Financial Statements (Continued)

(4) Availability and Liquidity (continued)

| | 2020 | 2019 |
|--|--------------|--------------|
| Financial assets: | | |
| Cash and cash equivalents | \$ 179,769 | 398,866 |
| Property held for sale | 405,934 | - |
| Contributions receivable | 256,202 | 271,812 |
| Investments | 23,909,368 | 20,988,427 |
| | 24,751,273 | 21,659,105 |
| Less amounts not available to be used within one year: | | |
| Net assets with donor restrictions | (24,707,381) | (21,591,989) |
| Financial assets available to meet general expenditures over the next twelve months | \$ 43,892 | 67,116 |

As part of its liquidity plan, the Foundation maintains its excess cash available to meet general expenditures over the next twelve months in time and deposit accounts with several financial institutions.

(5) Endowments

The Foundation's net assets with donor restrictions – restricted in perpetuity consist of approximately 270 endowment funds. These donor-restricted endowment funds at August 31, 2020 and 2019 have been established principally for (a) scholarships (approximately \$10,437,000 and \$10,045,000, respectively), (b) a distinguished lecture series (approximately \$506,000 and \$506,000, respectively), (c) maintenance of Steinway pianos owned by the District (approximately \$326,000 and \$325,000, 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 donor 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 instruments.

McLennan Community College Foundation

Notes to Financial Statements (Continued)

(5) Endowments (continued)

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, 2020 and 2019:

| | 2020 | 2019 |
|----------------------------|----------------------------|----------------------------|
| | With Donor Restrictions | With Donor Restrictions |
| Balance, beginning of year | \$ 11,129,448 | 10,633,042 |
| Contributions | 392,460 | 496,406 |
| Balance, end of year | \$ 11,521,908 | 11,129,448 |

(6) Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis that is consistently applied.

(7) Contributions Receivable

Contributions receivable at August 31, 2020 and 2019 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.

McLennan Community College Foundation

Notes to Financial Statements (Continued)

(8) Net Assets With Donor Restrictions – Restricted for Specified Purpose

Donor restricted net assets with a purpose restriction are available for the following specific programs at August 31, 2020 and 2019:

| | 2020 | 2019 |
|--|---------------|------------|
| Scholarships | \$ 10,680,051 | 8,179,960 |
| Educational purposes under Title III grant | 2,111,056 | 1,920,247 |
| Distinguished lecture series | 394,366 | 362,334 |
| | \$ 13,185,473 | 10,462,541 |

(9) Net Assets With Donor Restrictions – Restricted in Perpetuity – Endowment

Net assets with donor restrictions that are restricted in perpetuity for endowment at August 31, 2020 and 2019 consist of various endowment funds to be held in perpetuity, the income of which is available for the purposes described in Note 5.

(10) Net Investment Income

Net investment income is comprised of the following at August 31, 2020 and 2019:

| | 2020 | 2019 |
|------------------------|--------------|----------|
| Interest and dividends | \$ 260,506 | 345,722 |
| Net investment gains | 2,411,470 | 417,408 |
| Investment fees | (50,435) | (57,073) |
| | \$ 2,621,541 | 706,057 |

(11) 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, 2020 and 2019:

McLennan Community College Foundation

Notes to Financial Statements (Continued)

(11) Related Party Transaction (continued)

| | 2020 | 2019 |
|--------------------------|------------|---------|
| Salaries and benefits | \$ 241,082 | 228,297 |
| General office expense | 53,343 | 55,956 |
| Travel and entertainment | 5,087 | 9,477 |
| Rent and utilities | 13,200 | 13,200 |
| | \$ 312,712 | 306,930 |

(12) Concentrations of Credit and Market Risk and Uncertainties

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

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.

The COVID-19 pandemic has developed rapidly in 2020 with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. The Foundation has taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for personnel and donors (including social distancing, virtual events, and working from home). At this stage, the impact on the Foundation's operations and results has not been significant and based on experience to date, this is expected to remain the case. The impact on future market conditions, however, remains uncertain and cannot be estimated at this time, but there remains an increased demand for financial assistance to students in the District. The Foundation will continue to follow the various government policies and advice and will exert continued efforts to carry out the mission of the Foundation in the best and safest manner possible without jeopardizing the health of personnel or donors.

(13) 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

McLennan Community College FoundationNotes to Financial Statements
(Continued)(13) Beneficial Interest in Assets Held by Waco Foundation (continued)

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 at August 31, 2020 and 2019. Further, the amount of assets held and reported as assets by Waco Foundation for the benefit of MCC Foundation total \$120,920 and \$117,160 at August 31, 2020 and 2019, respectively.

(14) Subsequent Events

The Foundation has evaluated subsequent events from the date of the statements of financial position through January 8, 2021, the date at which the financial statements were available to be issued, and determined there are no additional items to disclose.