

**McLennan Community College Foundation**  
Financial Statements  
August 31, 2021 and 2020  
(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, 2021 and 2020, 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, 2021 and 2020, 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.

December 7, 2021

**McLennan Community College Foundation**

Statements of Financial Position

August 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 431,910	179,769
Prepaid expenses	-	803
Property held for sale	-	405,934
Contributions receivable	356,412	256,202
Investments	30,789,528	23,909,368
Cash surrender value of life insurance policies	<u>23,005</u>	<u>22,534</u>
	<u>\$ 31,600,855</u>	<u>24,774,610</u>
<u>Liabilities and Net Assets</u>		
Accounts payable	\$ -	5,642
Due to affiliated organization	<u>63,568</u>	<u>16,124</u>
Total liabilities	<u>63,568</u>	<u>21,766</u>
Net assets:		
Without donor restrictions:		
Undesignated	45,473	45,463
With donor restrictions:		
Restricted for specified purpose	19,175,017	13,185,473
Restricted in perpetuity - endowment	<u>12,316,797</u>	<u>11,521,908</u>
Total with donor restrictions	<u>31,491,814</u>	<u>24,707,381</u>
Total net assets	<u>31,537,287</u>	<u>24,752,844</u>
	<u>\$ 31,600,855</u>	<u>24,774,610</u>

See accompanying notes to financial statements.

**McLennan Community College Foundation**

Statement of Activities

Year Ended August 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Contributions	\$ 323,746	1,547,789	1,871,535
Special events, net of fundraising expenses of \$30,588	-	28,049	28,049
Net investment income	-	6,151,417	6,151,417
Net assets released from restrictions	942,822	(942,822)	-
Total revenue and other support	1,266,568	6,784,433	8,051,001
Expenses:			
Program expenses:			
Scholarships	463,230	-	463,230
Capital facilities assistance	117,179	-	117,179
Professional development	39,928	-	39,928
Other program expenses	257,338	-	257,338
Management and general	388,883	-	388,883
Total expenses	1,266,558	-	1,266,558
Change in net assets	10	6,784,433	6,784,443
Net assets at beginning of year	45,463	24,707,381	24,752,844
Net assets at end of year	\$ 45,473	31,491,814	31,537,287

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 fund-raising 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 Functional Expenses

Year Ended August 31, 2021

	<u>Program Expenses</u>	<u>Supporting Expenses</u>		
	Scholarships and Gifts	Management and General	Fundraising	Total
Scholarships	\$ 463,230	-	-	463,230
Capital facilities assistance	117,179	-	-	117,179
Professional development	39,928	-	-	39,928
Golf tournament	-	-	22,373	22,373
Gala	-	-	8,215	8,215
In-kind:				
Salaries and benefits	-	243,608	-	243,608
Office expenses	-	59,442	-	59,442
Travel and entertainment	-	7,496	-	7,496
Rent and utilities	-	13,200	-	13,200
Other	<u>257,338</u>	<u>65,137</u>	<u>-</u>	<u>322,475</u>
Total expenses by function	877,675	388,883	30,588	1,297,146
Less fundraising expenses included in revenues	<u>-</u>	<u>-</u>	<u>(30,588)</u>	<u>(30,588)</u>
	<u>\$ 877,675</u>	<u>388,883</u>	<u>-</u>	<u>1,266,558</u>

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>Total</u>
	<u>Scholarships and Gifts</u>	<u>Management and General</u>	<u>Fundraising</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	177,387	64,831	-	242,218
Total expenses by function	757,596	377,543	36,787	1,171,926
Less fundraising expenses included in revenues	-	-	(36,787)	(36,787)
	<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

### Statements of Cash Flows

Years Ended August 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 6,784,443	3,115,057
Adjustments to reconcile change in net assets to net cash provided by (used in) operations:		
Donated property held for sale	405,934	(405,934)
Cash contributions restricted for endowment	(794,889)	(392,460)
Net investment gains	(5,777,579)	(2,411,470)
Decrease (increase) in cash surrender value of life insurance policies	(471)	16,830
Changes in operating assets and liabilities:		
Prepaid expenses	803	34,786
Contributions receivable	(100,210)	15,610
Accounts payable	(5,642)	(73,913)
Due to affiliated organization	47,444	(592)
Net cash provided by (used in) operating activities	559,833	(102,086)
Cash flows from investing activities:		
Purchases of investments	(2,052,693)	(10,658,348)
Proceeds from sales or maturities of investments	950,112	10,148,877
Net cash used in investing activities	(1,102,581)	(509,471)
Cash flows from financing activities:		
Proceeds from contributions restricted for endowment	794,889	392,460
Net cash provided by financing activities	794,889	392,460
Net increase (decrease) in cash and cash equivalents	252,141	(219,097)
Cash and cash equivalents at beginning of year	179,769	398,866
Cash and cash equivalents at end of year	\$ 431,910	179,769

See accompanying notes to financial statements.

## McLennan Community College Foundation

### Notes to Financial Statements

August 31, 2021 and 2020

#### (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 \$100,173 and \$99,973 at August 31, 2021 and 2020, 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.

Net 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, 2021 and 2020 are as follows:

	2021	2020
Marketable equity securities	\$ 27,410,296	22,222,641
Limited partnership interests	3,379,232	1,686,727
	\$ 30,789,528	23,909,368

The fair values of the investments shown as of August 31, 2021 and 2020 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:

*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 Foundation's limited partnership interests consist of interests in three 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. 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 partnerships. The Foundation has no plans to liquidate its investment in the limited partnerships. The Foundation has subscribed for interests of \$2 million, of which \$183,464 is committed and unfunded at August 31, 2021.

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, 2021 and 2020:

	Fair Value	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	27,410,296	27,410,296	-	-
Limited partnership interests	3,379,232	-	-	3,379,232
	<u>\$ 30,789,528</u>	<u>27,410,296</u>	<u>-</u>	<u>3,379,232</u>

**McLennan Community College Foundation**

Notes to Financial Statements  
(Continued)

(2) Investments and Fair Value Hierarchy (continued)

	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	1,686,727	-	-	1,686,727
	<u>\$ 23,909,368</u>	<u>22,222,641</u>	<u>-</u>	<u>1,686,727</u>

Total purchases of Level 3 investments were \$29,446 and \$22,041 for the years ended August 31, 2021 and 2020, 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 in October 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, 2021 and 2020:

	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 431,910	179,769
Property held for sale	-	405,934
Contributions receivable	356,412	256,202
Investments	<u>30,789,528</u>	<u>23,909,368</u>
	31,577,850	24,751,273
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>(31,491,814)</u>	<u>(24,707,381)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 86,036</u>	<u>43,892</u>

## McLennan Community College Foundation

### Notes to Financial Statements (Continued)

(4) Availability and Liquidity

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 300 endowment funds. These donor-restricted endowment funds at August 31, 2021 and 2020 have been established principally for (a) scholarships (approximately \$11,232,000 and \$10,437,000, 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 \$326,000, 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.

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, 2021 and 2020:

	2021	2020
	With Donor Restrictions	With Donor Restrictions
Balance, beginning of year	\$ 11,521,908	11,129,448
Contributions	794,889	392,460
Balance, end of year	\$ 12,316,797	11,521,908

## McLennan Community College Foundation

### Notes to Financial Statements (Continued)

(6) Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements 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, 2021 and 2020 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.

(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, 2021 and 2020:

	2021	2020
Scholarships	\$ 15,916,412	10,680,051
Educational purposes under Title III grant	2,473,350	2,111,056
Distinguished lecture series	563,395	394,366
Facility improvements	221,860	-
	\$ 19,175,017	13,185,473

(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, 2021 and 2020 consist of various endowment funds to be held in perpetuity, the income of which is available for the purposes described in Note 5.



## McLennan Community College Foundation

### Notes to Financial Statements (Continued)

#### (10) Net Investment Income

Net investment income is comprised of the following at August 31, 2021 and 2020:

	2021	2020
Interest and dividends	\$ 404,073	260,506
Net investment gains	5,777,579	2,411,470
Investment fees	(30,235)	(50,435)
	\$ 6,151,417	2,621,541

#### (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, 2021 and 2020:

	2021	2020
Salaries and benefits	\$ 243,608	241,082
General office expense	59,442	53,343
Travel and entertainment	7,496	5,087
Rent and utilities	13,200	13,200
	\$ 323,746	312,712

#### (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.

**McLennan Community College Foundation**Notes to Financial Statements  
(Continued)**(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 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, 2021 and 2020. Further, the amount of assets held and reported as assets by Waco Foundation for the benefit of MCC Foundation total \$141,675 and \$120,920 at August 31, 2021 and 2020, respectively.

**(14) Subsequent Events**

The Foundation has evaluated subsequent events from the date of the statements of financial position through December 7, 2021, the date at which the financial statements were available to be issued, and determined there are no items to disclose.