

Report of
LEE COLLEGE FOUNDATION, INC.

August 31, 2011
and
June 30, 2010



Lovvorn & Kieschnick

CERTIFIED PUBLIC ACCOUNTANTS

LOVVORN & KIESCHNICK, LLP

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Members of the Board:

We have audited the accompanying statements of financial position of Lee College Foundation, Inc. (the "Foundation"), a component unit of Lee College District, as of August 31, 2011 and June 30, 2010, and the related statements of activities and cash flows for the fourteen-month and twelve-month periods then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from the Foundation's 2010 financial statements; and, in our report dated December 13, 2010, we expressed an unqualified opinion on those financial statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation at August 31, 2011 and June 30, 2010, and the changes in its net assets and its cash flows for the fourteen-month and twelve-month periods then ended in conformity with accounting principles generally accepted in the United States of America.

Lovvorn & Kieschnick, LLP

Lovvorn & Kieschnick, LLP
December 8, 2011

Lee College Foundation, Inc.
A Component Unit of
Lee College District
Statements of Financial Position
August 31, 2011 and June 30, 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash and Cash Equivalents	135,271	203,134
Investments (Note 3)	6,448,362	5,522,674
Accrued Interest	23,921	35,127
Other Receivables	6,680	37,350
Total Assets	<u>6,614,234</u>	<u>5,798,285</u>
Liabilities		
Deferred Revenue	-	-
Total Liabilities	<u>-</u>	<u>-</u>
Net Assets (Note 5)		
Unrestricted - Board Designated	447,076	463,395
Temporarily Restricted	1,171,278	652,435
Permanently Restricted	4,995,880	4,682,455
Total Net Assets	<u>6,614,234</u>	<u>5,798,285</u>
Total Liabilities and Net Assets	<u>6,614,234</u>	<u>5,798,285</u>

The accompanying notes are an integral part of this statement.

Lee College Foundation, Inc.
A Component Unit of
Lee College District
Statement of Activities
For the Fourteen-Month Period Ended August 31, 2011
With Comparative Totals for the Twelve-Month Period Ended, June 30, 2010

	2011			2010	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Totals
Support, Revenue and Gains:					
Private Gifts	-	-	252,907	252,907	598,728
Corporate Matching	-	-	60,518	60,518	69,519
Interest/Dividends Income	-	169,239	-	169,239	177,331
Realized Gain (Loss) on Holdings	-	-	-	-	19,953
Unrealized Gain (Loss) on Holdings	-	612,914	-	612,914	455,878
Net Assets Released from Restriction	263,310	(263,310)	-	-	-
Total Support, Revenue and Gains	263,310	518,843	313,425	1,095,578	1,321,409
Expenses and Losses:					
Contract Services - Audit Fees	2,500	-	-	2,500	2,500
Lee College Scholarship Breakfast	2,988	-	-	2,988	3,157
Lee College Library	22,310	-	-	22,310	-
Gala Banquet	10,646	-	-	10,646	8,541
Bank Charges	185	-	-	185	358
Lee College District Scholarships	241,000	-	-	241,000	205,000
Total Program and Support Expenses	279,629	-	-	279,629	219,556
Increase (Decrease) in Net Assets	(16,319)	518,843	313,425	815,949	1,101,853
Net Assets, beginning of year	463,395	652,435	4,682,455	5,798,285	4,696,432
Net Assets, end of year	447,076	1,171,278	4,995,880	6,614,234	5,798,285

The accompanying notes are an integral part of this statement.

Lee College Foundation, Inc.
A Component Unit of
Lee College District
Statements of Cash Flows
For the Fourteen-Month Period Ended August 31, 2011
And the Twelve-Month Period Ended June 30, 2010

	2011	2010
Cash Flows From Operating Activities		
Increase (Decrease) in net assets	815,949	1,101,853
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Net unrealized (gains) losses on investments	(612,914)	(455,878)
(Increase) Decrease in interest receivable	(11,206)	(35,080)
(Increase) Decrease in pledges receivable	-	(20,537)
Increase (Decrease) in accounts payable and accrued expenses	(30,670)	-
Net cash provided by operating activities	161,159	590,358
Cash Flows From Investing Activities		
Proceeds/purchases of investments - net	(229,022)	(798,981)
Net cash provided by investing activities	(229,022)	(798,981)
Net Increase (Decrease) in Cash and Cash Equivalents	(67,863)	(208,623)
Cash and Cash Equivalents at Beginning of Year	203,134	411,757
Cash and Cash Equivalents at End of Year	135,271	203,134

The accompanying notes are an integral part of this statement.

LEE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2011 AND JUNE 30, 2010

1. ORGANIZATION AND PURPOSE

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

At the August 11, 2010 board meeting, the Trustees approved changing the Foundation's fiscal year end to August 31, effective for the fourteen-month period ending August 31, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Foundation reports such contributions at their estimated

LEE COLLEGE FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2011 AND JUNE 30, 2010

fair value when received. There were no contributions received during the year that met the criteria.

Comparative Financial Information – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2010, from which the summarized information was derived.

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

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

3. INVESTMENTS

Investments are carried at fair value, which is based on quoted market prices at August 31, 2011 and June 30, 2010.

	2011	2010
Certificate of Deposit	-	100,000
Investment Pool	-	3
Mutual Funds	6,448,363	5,422,671
Total Investments	6,448,363	5,522,674

4. FAIR VALUE MEASUREMENT

The Foundation’s assets and liabilities reported at fair value are valued using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy defines three levels of inputs, giving the highest priority to

LEE COLLEGE FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2011 AND JUNE 30, 2010

unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The Foundation uses the following hierarchical disclosure framework:

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

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

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

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

The following table sets forth by level within the fair value hierarchy, the Foundation's assets measured at fair value on a recurring basis as of August 31, 2011:

<u>Investments</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	<u>6,448,363</u>	<u>-</u>	<u>-</u>	<u>6,448,363</u>

LEE COLLEGE FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2011 AND JUNE 30, 2010

The following table sets forth by level within the fair value hierarchy, the Foundation's assets measured at fair value on a recurring basis as of June 30, 2010:

<u>Investments</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificate of Deposit	100,000	-	-	100,000
Investment Pool	3	-	-	3
Mutual Funds	<u>5,422,671</u>	-	-	<u>5,422,671</u>
Total Investments	<u><u>5,522,674</u></u>	<u>-</u>	<u>-</u>	<u><u>5,522,674</u></u>

5. RESTRICTIONS ON NET ASSETS

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

- (a) Unrestricted Net Assets represent the portion of Unrestricted funds that are available for support of Foundation activities. As of August 31, 2011 and June 30, 2010, the Board had designated all unrestricted Net Assets.
- (b) Temporarily Restricted Net Assets represent resources restricted by the donor as to the amount of the award and the qualifications to be met by the award recipient. Generally, these funds are to be used in awarding scholarships and awarding grants to the library. The balances generally represent the excess of endowment earnings over scholarships and grants awarded.
- (c) Permanently Restricted Net Assets represent endowment funds that are subject to restrictions of gift instruments requiring that the principal be invested for perpetuity and that only the income be used for donor designated purposes.

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

	<u>2011</u>	<u>2010</u>
Various	13,490	35,800
Endowment Appreciation for Scholarships	<u>1,157,788</u>	<u>616,635</u>
Total Temporarily Restricted	<u><u>1,171,278</u></u>	<u><u>652,435</u></u>

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

The Board of Trustees of the Foundation has interpreted the Texas Prudent Management of Institutional Funds Act (TPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by TPMIFA. In accordance with TPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

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

At August 31, 2011 and June 30, 2010 there were no endowment funds with deficiencies.

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

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

Endowment Net Asset Composition by Type of Fund as of August 31, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	-	1,157,788	4,995,880	6,153,668
Board-designated endowment funds	-	-	-	-
Total funds	<u>-</u>	<u>1,157,788</u>	<u>4,995,880</u>	<u>6,153,668</u>

LEE COLLEGE FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
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Changes in endowment net assets as of August 31, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	-	616,635	4,682,455	5,299,090
Contributions	-	-	313,425	313,425
Investment income	-	169,239	-	169,239
Net appreciation (depreciation)	-	612,914	-	612,914
Amounts appropriated for expenditure	-	(241,000)	-	(241,000)
Endowment net assets, end of year	<u>-</u>	<u>1,157,788</u>	<u>4,995,880</u>	<u>6,153,668</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	-	616,635	4,682,455	5,299,090
Board-designated endowment funds	-	-	-	-
Total funds	<u>-</u>	<u>616,635</u>	<u>4,682,455</u>	<u>5,299,090</u>

Changes in endowment net assets as of June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	-	168,473	4,074,093	4,242,566
Contributions	-	-	608,362	608,362
Investment income	-	197,284	-	197,284
Net appreciation (depreciation)	-	455,878	-	455,878
Amounts appropriated for expenditure	-	(205,000)	-	(205,000)
Endowment net assets, end of year	<u>-</u>	<u>616,635</u>	<u>4,682,455</u>	<u>5,299,090</u>

LEE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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6. RELATED PARTY TRANSACTIONS

During the fiscal year, the College performed certain administrative services for the Foundation and incurred expenses which were borne by the College. These related party services and expenses included salary costs for services provided by the Director of Resource Development of Lee College; use of office space, furniture and supplies for daily operations of the Foundation; and other support costs.

7. RESTATEMENT OF 2010 FINANCIAL STATEMENTS

During the year, management determined that accrued interest receivable at June 30, 2010 had not been recorded. The 2010 financial statements have been restated to recognize the accrued interest at June 30, 2010. The restatement had the effect of increasing interest income and ending net assets by \$35,127 for the twelve-month period ended June 30, 2010.

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 22, 2011, the date which the financial statements were available to be issued.