

FEI HOUSTON SCHOLARSHIP FOUNDATION

ANNUAL FINANCIAL REPORT
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2017 AND 2016

FEI HOUSTON SCHOLARSHIP FOUNDATION

INDEX

PAGE

INDEPENDENT AUDITOR'S REPORT 1

FINANCIAL STATEMENTS:

STATEMENTS OF FINANCIAL POSITION 2

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS 3

STATEMENTS OF CASH FLOWS 4

NOTES TO FINANCIAL STATEMENTS 5

HEIN

Hein & Associates LLP
500 Dallas St., Suite 2500
Houston, Texas 77002

www.heincpa.com
P 713.850.9814
F 713.850.0725

INDEPENDENT AUDITOR'S REPORT

Board of Directors
FEI Houston Scholarship Foundation:
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of FEI Houston Scholarship Foundation (the "Foundation") which comprise the statements of financial position as of June 30, 2017 and 2016 and the related statements of activities and changes in net assets, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 the FEI Houston Scholarship Foundation, as of June 30, 2017 and 2016, and the result of its activities and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Hein & Associates LLP

Houston, Texas
November 13, 2017

FEI HOUSTON SCHOLARSHIP FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	JUNE 30, 2017	JUNE 30, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 267,996	$ 185,279
Investments, at fair market value	361,648	414,800
Current pledges receivable	37,500	32,500
Total current assets	667,144	632,579
DEFERRED PLEDGES RECEIVABLE	45,000	67,500
Total assets	$ 712,144	$ 700,079
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:	$ –	$ 9,204
NET ASSETS:		
Unrestricted	661,144	616,375
Temporarily restricted	51,000	74,500
Total net assets	712,144	690,875
Total liabilities and net assets	$ 712,144	$ 700,079

See accompanying notes to these financial statements.

FEI HOUSTON SCHOLARSHIP FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	YEARS ENDED JUNE 30,					
	2017			2016		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUES:						
Contributions – corporations and individuals	$ 80,386	$ 15,000	$ 95,386	$ 227,864	$ 69,500	$ 297,364
Net assets released from restrictions	38,500	(38,500)	–	5,000	(5,000)	–
Investment income – unrealized gain/(loss)	(6,258)	–	(6,258)	14,012	–	14,012
Investment income – realized loss	(25)	–	(25)	–	–	–
Interest and dividend income	14,117	–	14,117	18,418	–	18,418
Total revenues	126,720	(23,500)	103,220	265,294	64,500	329,794
OPERATING EXPENSES:						
Program services – scholarships	60,000	–	60,000	44,000	–	44,000
Program services – other	–	–	–	5,453	–	5,453
Professional and administrative	21,951	–	21,591	21,625	–	21,625
Total operating expenses	81,951	–	81,951	71,078	–	71,078
CHANGE IN NET ASSETS	44,769	(23,500)	21,269	194,216	64,500	258,716
NET ASSETS, beginning of year	616,375	74,500	690,875	422,159	10,000	432,159
NET ASSETS, end of year	$ 661,144	$ 51,000	$ 712,144	$ 616,375	$ 74,500	$ 690,875

See accompanying notes to these financial statements.

FEI HOUSTON SCHOLARSHIP FOUNDATION

STATEMENTS OF CASH FLOWS

	YEARS ENDED JUNE 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 21,269	$ 258,716
Unrealized (gain) loss on investments	6,258	(14,012)
Realized loss on investments	25	–
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Net change in operating assets and liabilities:		
Scholarship receivable	–	1,640
Pledges receivable	17,500	(90,000)
Current liabilities	(9,204)	9,204
Net cash provided by operating activities	35,848	165,548
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(200,440)	(75,494)
Proceeds from sales of investments	247,309	–
Net cash provided (used) in investing activities	46,869	(75,494)
NET CHANGE IN CASH AND CASH EQUIVALENTS	82,717	90,054
CASH AND CASH EQUIVALENTS, beginning of year	185,279	95,225
CASH AND CASH EQUIVALENTS, end of year	$ 267,996	$ 185,279

See accompanying notes to these financial statements.

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization – The FEI Houston Scholarship Foundation (the "Foundation") is a not-for-profit organization that provides scholarships for Southeast Texas area college students in need of financial assistance.

Tax-Exempt Status – On November 3, 2003, the Foundation received an advanced ruling from the Internal Revenue Service granting exemption from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501 (c)(3).

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation – The Foundation is required to report information regarding its financial position and activities, according to three classes of net assets based upon the existence or absence of donor-imposed restrictions. These classes are as follows:

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to the donor imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

As of June 30, 2017 and 2016, the Foundation's net assets consisted of unrestricted and temporarily restricted net assets.

Cash and Cash Equivalents – Cash held in checking accounts, money markets, and investments with maturities of less than three months at the date of purchase are classified as cash and cash equivalents.

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Multi-Year Pledges – Unconditional promises to give to the Foundation that extend beyond the current fiscal year are considered multi-year pledges. These multi-year pledges are recorded as pledges receivable and temporarily restricted revenue at the time of the promise at the present value of the expected future cash flows. The temporarily restricted net assets are transferred to unrestricted net assets as each year of the multi-year pledge passes. The Foundation estimates the collectability of these pledges, and when necessary, reduces the carrying value of the pledges by an allowance for uncollectible amounts. All pledges were considered collectible at June 30, 2017 and 2016.

Investments – The Foundation determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held to maturity when the Foundation has the positive intent and ability to hold the securities to maturity. Debt securities for which the Foundation does not have the intent or ability to hold to maturity are classified as available for sale. Held-to-maturity securities are recorded as either short-term or long-term on the Statement of Financial Position, based on contractual maturity date and are stated at amortized cost. Marketable securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in revenues.

The fair value of substantially all securities is determined by quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market.

Contributions – The Foundation records unconditional contributions received, including promises to give, as revenue when received. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. There have been no conditional contributions received during the years ended June 30, 2017 or 2016.

Scholarships – The Foundation provides academic scholarships annually to accounting or finance students attending accredited colleges and universities in Southeast Texas. The scholarship recipients are selected for their economic need, academic achievements, and extracurricular activity records in their respective schools.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Credit Risk – Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of cash and investments. The Foundation places its cash with quality financial institutions. At times, such cash balances may be in excess of the federally insured limits. Historically, the Foundation has not experienced any losses due to such concentration.

Uncertain Tax Positions – The Foundation is exempt from income taxes under Internal Revenue Code Section 501(c)(3). The financial effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon an examination. Interest and penalties, if any, are included in the expenses in the statement of activities. As of June 30, 2017, the Foundation had no uncertain tax positions that qualify for recognition or disclosure in the financial statements. The Foundation's tax years of 2014 and forward are subject to examination by federal and state taxing authorities.

2. INVESTMENTS

The Foundation follows Accounting Standards Codification ("ASC") ASC 820, *Fair Value Measurements and Disclosures,* for its financial assets and liabilities carried at fair value on a recurring basis in the financial statements. ASC 820 provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). An asset or liability's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy under the ASC are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;

2. INVESTMENTS (continued)

- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Preferred Stock: Stated at fair value as determined by the New York Stock Exchange. Such investments are classified as Level 1.

Certificate of Deposit: Valued at the face value plus interest earned. Such investments are classified as Level 1.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Company's equity securities are classified as trading securities and carried at their fair value based on the quoted market prices of the securities. The certificate of deposit is held to maturity and therefore classified as a held to maturity investment. The investments presented at fair value in the table below represent Level 1 investments. Net realized and unrealized gains and losses on trading securities are included in the statement of activities and changes in net assets. The cost of securities sold is based on specific identification.

2. INVESTMENTS (continued)

The composition of investments are as follows:

	JUNE 30, 2017		
	COST	FAIR VALUE	UNREALIZED GAIN
Preferred stock	$ 356,392	$ 361,648	$ 5,256
Total investments	$ 356,392	$ 361,648	$ 5,256

	JUNE 30, 2016		
	COST	FAIR VALUE	UNREALIZED GAIN
Preferred stock	$ 333,121	$ 344,635	$ 11,514
Certificate of deposit	70,165	70,165	–
Total investments	$ 403,286	$ 414,800	$ 11,514

Investment income consists of the following:

	JUNE 30,	
	2017	2016
Interest and dividend income	$ 14,117	$ 18,418
Net realized losses	(25)	–
Net unrealized holding gains/(losses)	(6,258)	14,012
Net investment income	$ 7,834	$ 32,430

3. SCHEDULE OF PLEDGES RECEIVABLE

The following table details unconditional promises to give to the Foundation as of June 30, 2017:

2018	$ 37,500
2019	20,000
2020	20,000
2021	5,000
Total	$ 82,500

4. SOURCES OF REVENUE

The following table details sources of contributions received by the Foundation:

	JUNE 30,	
	2017	2016
FEI Houston	$ 47,300	$ 27,000
FEI members	10,086	196,864
Corporate sponsors	30,000	73,500
Other individuals	8,000	–
Total contributions	$ 95,386	$ 297,364

5. RELATED PARTY

Financial Executives of Houston, Inc. (formerly known as Financial Executives International – Houston Chapter) ("FEI Houston") established the Foundation. FEI Houston provides financial backing and resources to the Foundation including contributed funds, contributed services and volunteer time. FEI Houston provided contributions of $47,300 and $27,000 during the years ended June 30, 2017 and 2016, respectively.

The Foundation also receives donated services from unpaid volunteers who assist in fundraising, special projects, and governance. No amounts have been recognized in the statements of activities and changes in net assets for these contributed services because the criteria for recognition have not been satisfied.

6. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through November 13, 2017, the date which these financial statements were available to be issued. No events or transactions have occurred that would require adjustment to or disclosure in these financial statements.