

FEI HOUSTON SCHOLARSHIP FOUNDATION

ANNUAL FINANCIAL REPORT
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2016 AND 2015

FEI HOUSTON SCHOLARSHIP FOUNDATION

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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, 2016 and 2015 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, 2016 and 2015, and the changes in its net assets 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
October 27, 2016

FEI HOUSTON SCHOLARSHIP FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	JUNE 30, 2016	JUNE 30, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 185,279	$ 95,225
Scholarship receivable	–	1,640
Investments, at fair market value	414,800	255,129
Current pledges receivable	32,500	10,000
Total current assets	632,579	361,994
LONG TERM ASSETS:		
Deferred pledges receivable	67,500	–
Long-term investment, at fair market value	–	70,165
Total long-term assets	67,500	70,165
Total assets	$ 700,079	$ 432,159
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:	$ 9,204	$ –
NET ASSETS:		
Unrestricted	616,375	422,159
Temporarily restricted	74,500	10,000
Total net assets	690,875	432,159
Total liabilities and net assets	$ 700,079	$ 432,159

See accompanying notes to these financial statements.

FEI HOUSTON SCHOLARSHIP FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	YEARS ENDED JUNE 30,					
	2016			2015		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUES:						
Contributions – corporations and individuals	$ 227,864	$ 69,500	$ 297,364	$ 73,429	$ –	$ 73,429
Net assets released from restrictions	5,000	(5,000)	–	20,000	(20,000)	–
Investment income – unrealized gain/(loss)	14,012	–	14,012	(1,088)	–	(1,088)
Investment income – realized loss	–	–	–	(671)	–	(671)
Interest and dividend income	18,418	–	18,418	14,051	–	14,051
Total revenues	265,294	64,500	329,794	105,721	(20,000)	85,721
OPERATING EXPENSES:						
Program services – scholarships	44,000	–	44,000	46,360	–	46,360
Program services – other	5,453	–	5,453	4,776	–	4,776
Professional and administrative	21,625	–	21,625	20,330	–	20,330
Total operating expenses	71,078	–	71,078	71,466	–	71,466
CHANGE IN NET ASSETS	194,216	64,500	258,716	34,255	(20,000)	14,255
NET ASSETS, beginning of year	422,159	10,000	432,159	387,904	30,000	417,904
NET ASSETS, end of year	$ 616,375	$ 74,500	$ 690,875	$ 422,159	$ 10,000	$ 432,159

See accompanying notes to these financial statements.

FEI HOUSTON SCHOLARSHIP FOUNDATION

STATEMENTS OF CASH FLOWS

	YEARS ENDED JUNE 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 258,716	$ 14,255
Unrealized (gain) loss on investments	(14,012)	1,088
Realized loss on investments	–	671
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	(1,640)
Pledges receivable	(90,000)	20,000
Current liabilities	9,204	(4,829)
Net cash provided by operating activities	165,548	29,545
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(75,494)	(185,698)
Sale of investments	–	49,092
Net cash used in investing activities	(75,494)	(136,606)
NET CHANGE IN CASH AND CASH EQUIVALENTS	90,054	(107,061)
CASH AND CASH EQUIVALENTS, beginning of year	95,225	202,286
CASH AND CASH EQUIVALENTS, end of year	$ 185,279	$ 95,225

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, 2016 and 2015, the Foundation's net assets consisted of unrestricted and temporarily restricted net assets.

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

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.

Scholarship Receivable – The Foundations records a receivable when the recipient does not utilize the full scholarship and the college has advised the funds are being returned.

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, 2016 and 2015.

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.

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

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, 2016 or 2015.

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.

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, 2016, the Foundation had no uncertain tax positions that qualify for recognition or disclosure in the financial statements. The Foundation's tax years of 2013 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;
- 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.

2. INVESTMENTS (continued)

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.

The composition of investments are as follows:

	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

	JUNE 30, 2015		
	COST	FAIR VALUE	UNREALIZED LOSS
Preferred stock	$ 257,627	$ 255,129	$ (2,498)
Certificate of deposit	70,165	70,165	–
Total investments	$ 327,792	$ 325,294	$ (2,498)

2. INVESTMENTS (continued)

Investment income consists of the following:

	JUNE 30,	
	2016	2015
Interest and dividend income	$ 18,418	$ 14,051
Net realized losses	–	(671)
Net unrealized holding gains/(losses)	14,012	(1,088)
Net investment income	$ 32,430	$ 12,292

3. SCHEDULE OF PLEDGES RECEIVABLE

The following table details unconditional promises to give to the Foundation as of June 30, 2016:

2017	$ 32,500
2018	32,500
2019	15,000
2020	15,000
2021	5,000
Total	$ 100,000

4. SOURCES OF REVENUE

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

	JUNE 30,	
	2016	2015
FEI Houston	$ 27,000	$ 26,500
FEI members	196,864	22,429
Corporate sponsors	73,500	24,000
Other individuals	–	500
Total contributions	$ 297,364	$ 73,429

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 $27,000 and $26,500 during the years ended June 30, 2016 and 2015, 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 October 27, 2016, 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.