

**KATY ISD EDUCATION
FOUNDATION, INC.**

FINANCIAL STATEMENTS

**Years Ended August 31, 2017 and 2016
With Report of Independent Auditors**

KATY ISD EDUCATION FOUNDATION, INC.

Years Ended August 31, 2017 and 2016

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Katy ISD Education Foundation, Inc.

We have audited the accompanying financial statements of Katy ISD Education Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2017 and 2016, and the related statements of activities 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 audit. We conducted our audit 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 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.

To the Board of Directors of
Katy ISD Education Foundation, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Katy ISD Education Foundation, Inc. as of August 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Whitley Penn LLP

Houston, Texas
January 10, 2018

FINANCIAL STATEMENTS

KATY ISD EDUCATION FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

	August 31,	
	2017	2016
Assets		
Cash and cash equivalents	\$ 674,126	\$ 388,424
Pledges receivable	126,025	138,850
Deferred charges	4,460	4,089
Restricted assets:		
Cash and cash equivalents - endowment funds	41,446	41,446
Total Assets	\$ 846,057	\$ 572,809
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 13,572	\$ 11,158
Grants payable	479,369	206,627
Deferred revenue	34,300	59,125
Total liabilities	527,241	276,910
Net Assets:		
Unrestricted	277,370	254,453
Permanently restricted	41,446	41,446
Total Net Assets	318,816	295,899
Total liabilities and net assets	\$ 846,057	\$ 572,809

The accompanying notes are an integral part of the financial statements.

KATY ISD EDUCATION FOUNDATION, INC.

**STATEMENTS OF ACTIVITIES AND CHANGES
IN NET ASSETS**

	Years Ended August 31,	
	2017	2016
Unrestricted Net Assets		
Revenues and support:		
Contributions	\$ 242,992	\$ 261,588
Special events-fundraisers	205,409	165,636
In-kind facilities & salary costs	32,724	32,724
Interest and other revenues	118	134
Total revenues and support	481,243	460,082
Expenses:		
Program expenses:		
Grants and awards	286,742	196,786
Special events expenses	72,134	75,632
Supporting services:		
Management and general:		
In-kind facilities & salary costs	32,724	32,724
Contracted services	26,813	31,701
Postage	2,375	1,437
Printing	6,566	2,589
Supplies	9,360	6,289
Insurance	1,573	950
Travel & meeting expenses	6,344	4,079
Other management and general	13,695	32,540
Total expenses	458,326	384,727
Increase (decrease) in unrestricted net assets	22,917	75,355
Permanently Restricted Net Assets		
Contributions	-	41,446
Increase in permanently restricted net assets	-	41,446
Increase in net assets	22,917	116,801
Net Assets, beginning of year	295,899	179,098
Net Assets, end of year	\$ 318,816	\$ 295,899

The accompanying notes are an integral part of the financial statements.

KATY ISD EDUCATION FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

	Years Ended August 31,	
	2017	2016
Cash Flows from Operating Activities:		
Cash received from contributions, grants, and events	\$ 436,519	\$ 398,673
Cash paid for management and general expenses	(150,817)	(538,899)
Net Cash Provided (Used) by Operating Activities	285,702	(140,226)
Cash Flow from Financing Activities:		
Investments in permanent endowment	-	41,446
Net Cash Provided (Used) by Financing Activities	-	41,446
Net Increase/(Decrease) in Cash and Cash Equivalents	285,702	(98,780)
Cash and Cash Equivalents, beginning of year	429,870	528,650
Cash and Cash Equivalents, end of year	\$ 715,572	\$ 429,870
Unrestricted cash and cash equivalents	\$ 674,126	\$ 388,424
Restricted cash and cash equivalents	41,446	41,446
	\$ 715,572	\$ 429,870
Reconciliation of Increase in Net Assets to		
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ 22,917	\$ 116,801
Contributions restricted to endowment	-	(41,446)
Adjustments to reconcile increase in net assets to net cash provided by:		
(Increase) Decrease in pledges receivable	12,825	(49,950)
(Increase) Decrease in deferred charges	(371)	9,050
Increase (Decrease) in accounts payable	2,414	3,239
Increase (Decrease) in grants payable	272,742	(199,185)
Increase (Decrease) in deferred revenue	(24,825)	21,265
Net Cash Provided (Used) by Operating Activities	\$ 285,702	\$ (140,226)
Significant non cash transaction - Katy ISD in-kind contributions	\$ 32,724	\$ 32,724

The accompanying notes are an integral part of the financial statements.

KATY ISD EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017 and 2016

A. Basis of Accounting and Summary of Significant Accounting Policies

The Katy ISD Education Foundation, Inc. (the “Foundation”) was established in May of 2011, for the purpose of receiving and disbursing funds, property, and gifts exclusively for the benefit of the Katy Independent School District (the “District”). Federal non-profit status was achieved in October of 2011. The fiscal year ended August 31, 2013 was considered the Foundation’s first year of operations.

The Foundation maintains its records and prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Contributions

Contributions received including pledges to give are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. The Foundation had only unrestricted donations in its initial fiscal period. Restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted contributions.

If received, all other donor restricted support will be reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets will be reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Functional Allocation of Expenses

Functional expenses for management, general, and other fundraising are not allocated to program services.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in demand deposit accounts. The carrying value of cash and cash equivalents approximates fair value because of the short immediate maturities of those financial instruments.

KATY ISD EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

A. Basis of Accounting and Summary of Significant Accounting Policies - continued

Promises to Give - Pledges Receivable

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses, depending on the form of the benefit received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Funding of Grants Awarded to Other Organizations

Grants are funded based on spending requests up to the balance of the grant award. Unclaimed balances of grants awarded by the Foundation are then allocated back to available funding for the subsequent years' grants. Grant reallocations to the subsequent year are recorded in the spring for the next school year.

Special Events Contributions

Special events contributions include both underwriting receipts and fees charged to attendees.

In-Kind Contributions

The Foundation received donated services from the District. The costs included salary allocations, materials, and facility use costs. Services that create non-financial assets or that would typically need to be purchased by the Foundation, or services that require specialized skills which are provided by individuals with those service skills are recognized as contributions and are either capitalized or expensed depending on the nature of the services provided. The value of other contributed time is not reflected in the accompanying financial statements, as the nature of the services do not meet the guidelines for recognition established by U. S. generally accepted accounting principles.

Advertising

The Foundation uses advertising to promote its programs to the public. The production costs of advertising and public relations are expensed as incurred.

Fair Value of Financial Instruments

GAAP requires disclosure of an estimate of fair value of certain financial instruments. The Foundation's significant financial instruments are cash and cash equivalents and pledges receivable. For these financial instruments, carrying value approximates fair value.

Income Tax Status

The Internal Revenue Service has determined that the Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

KATY ISD EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

B. Cash and Cash Equivalents

The Foundation has one demand account and two money market accounts at an area financial institution. These balances are partially insured by the Federal Deposit Insurance Corporation. At August 31, 2017, the Foundation's deposits totaled \$706,313 and the book balance of cash was \$715,573. The uninsured portion of the bank balance was \$456,313. At August 31, 2016, the Foundation's deposits totaled \$600,600 and the book balance of cash was \$429,870. The uninsured portion of the bank balance was \$350,600. Cash and cash equivalents consisted of the following at August 31:

	<u>2017</u>	<u>2016</u>
Demand deposits	\$ 449,842	\$ 164,254
Money market	224,284	224,170
Money market - endowment	41,446	41,446
	<u>\$ 715,572</u>	<u>\$ 429,870</u>

C. Concentrations of Credit Risk

The Foundation places its cash and cash equivalents with high credit quality financial institutions. Deposits with these financial institutions may exceed the amount of insurance provided on such deposits during the year. The Foundation monitors the stability of these institutions to insure that the risk of loss of any uninsured amounts would be noted on a timely basis. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

D. Pledges Receivable

Due to the short-term nature of the pledges receivable and the fact that the discount amount would be immaterial, the pledges receivable due in over one year have not been discounted to their present value. Pledges receivable consisted of the following at August 31:

	<u>2017</u>	<u>2016</u>
Due in 1 Year	\$ 79,156	\$ 69,600
Due in 1-5 Years	46,869	69,250
	<u>\$ 126,025</u>	<u>\$ 138,850</u>

E. Grants Payable

Grants payable consist of amounts awarded to specific payees, but not paid as of year-end to the District and others for the specific purpose of the awards. Grants payable are due within one year and are considered at fair value of the amount to be paid. Grants payable at August 31, 2017 and 2016 are \$479,369 and \$206,627, respectively.

KATY ISD EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

F. Deferred Revenues

Deferred revenues at August 31, 2017 and 2016 of \$34,300 and \$59,125, respectively, represents funds received in advance for which expenses have not been incurred. The Foundation receives contributions from donors for special events to be held in subsequent fiscal years. These contributions are considered deferred revenues at August 31, 2017 and 2016 as the events have not yet occurred.

G. Related Party Transactions

The Foundation receives support from the District. The District provides office space, furniture, computer equipment and certain personnel. The Foundation has recorded in-kind contributions and corresponding facilities and equipment costs provided by the District. The amount of in-kind contributions received from the District for fiscal years 2017 and 2016 are \$32,724 and \$32,724, respectively. The Foundation's Board members also contribute to the Foundation.

H. Unrestricted and Permanently Restricted Net Assets

Unrestricted net assets include the amounts not appropriated for grants, interest earned on unrestricted and permanently restricted net assets (when not restricted by donor), and unrestricted net revenues in excess of expenses.

The roll-forward of Unrestricted and Permanently Restricted Net Assets is as follows:

	Balance			Balance
	8/31/2016	Additions	Deductions	8/31/2017
Unrestricted Net Assets				
Unrestricted	\$ 254,453	\$ 481,243	\$ (458,326)	\$ 277,370
Total Unrestricted Net Assets	<u>\$ 254,453</u>	<u>\$ 481,243</u>	<u>\$ (458,326)</u>	<u>\$ 277,370</u>
	Balance			Balance
	8/31/2016	Additions	Deductions	8/31/2017
Permanently Restricted Net Assets				
Alton Frailey Endowment Fund	\$ 41,446	\$ -	\$ -	\$ 41,446
Total Permanently Restricted Net Assets	<u>\$ 41,446</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,446</u>
	Balance			Balance
	8/31/2015	Additions	Deductions	8/31/2016
Unrestricted Net Assets				
Unrestricted	\$ 179,098	\$ 460,082	\$ (384,727)	\$ 254,453
Total Unrestricted Net Assets	<u>\$ 179,098</u>	<u>\$ 460,082</u>	<u>\$ (384,727)</u>	<u>\$ 254,453</u>
	Balance			Balance
	8/31/2015	Additions	Deductions	8/31/2016
Permanently Restricted Net Assets				
Alton Frailey Endowment Fund	\$ -	\$ 41,446	\$ -	\$ 41,446
Total Permanently Restricted Net Assets	<u>\$ -</u>	<u>\$ 41,446</u>	<u>\$ -</u>	<u>\$ 41,446</u>

KATY ISD EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

I. Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through January 10, 2018, the date on which the financial statements were available to be issued. There were no subsequent events that were required to be recognized or disclosed in the financial statements through that date.