



**REPORT OF INDEPENDENT AUDITORS  
AND ANNUAL FINANCIAL REPORT**

**FEI HOUSTON SCHOLARSHIP FOUNDATION**

**June 30, 2020 and 2019**

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## **Report of Independent Auditors**

To the Board of Directors  
FEI Houston Scholarship Foundation

### **Report on the Financial Statements**

We have audited the accompanying financial statements of FEI Houston Scholarship Foundation, which comprise the statements of financial position as of June 30, 2020 and 2019, 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 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 FEI Houston Scholarship Foundation as of June 30, 2020 and 2019 and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Moss Adams LLP*

Houston, Texas  
November 9, 2020

**FEI Houston Scholarship Foundation**  
**Statements of Financial Position**

	June 30,	
	2020	2019
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 110,472	\$ 79,167
Investments, at fair market value	647,233	602,518
Current pledges receivable	25,500	54,500
Total current assets	783,205	736,185
<b>DEFERRED PLEDGES RECEIVABLE</b>	27,500	34,500
Total assets	\$ 810,705	\$ 770,685
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>	\$ 22,028	\$ 2,565
<b>NET ASSETS</b>		
Without donor restrictions	707,677	679,120
With donor restrictions	81,000	89,000
Total net assets	788,677	768,120
Total liabilities and net assets	\$ 810,705	\$ 770,685

**FEI Houston Scholarship Foundation**  
**Statements of Activities and Changes in Net Assets**

	Years Ended June 30,					
	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
<b>REVENUES</b>						
Contributions - corporations and individuals	\$ 60,127	\$ 43,000	\$ 103,127	\$ 42,035	\$ 51,000	\$ 93,035
Net assets released from restrictions	51,000	(51,000)	-	26,000	(26,000)	-
Investment income - unrealized gains (losses)	(7,633)	-	(7,633)	6,740	-	6,740
Investment income - realized gains	5,129	-	5,129	-	-	-
Interest and dividend income	20,917	-	20,917	21,262	-	21,262
<b>Total revenues</b>	<b>129,540</b>	<b>(8,000)</b>	<b>121,540</b>	<b>96,037</b>	<b>25,000</b>	<b>121,037</b>
<b>OPERATING EXPENSES</b>						
Program services - scholarships	55,000	-	55,000	60,000	-	60,000
Bad debt expense (recovery)	-	-	-	(10,000)	-	(10,000)
Professional and administrative	45,983	-	45,983	27,078	-	27,078
<b>Total operating expenses</b>	<b>100,983</b>	<b>-</b>	<b>100,983</b>	<b>77,078</b>	<b>-</b>	<b>77,078</b>
<b>CHANGE IN NET ASSETS</b>	<b>28,557</b>	<b>(8,000)</b>	<b>20,557</b>	<b>18,959</b>	<b>25,000</b>	<b>43,959</b>
<b>NET ASSETS, beginning of year</b>	<b>679,120</b>	<b>89,000</b>	<b>768,120</b>	<b>660,161</b>	<b>64,000</b>	<b>724,161</b>
<b>NET ASSETS, end of year</b>	<b>\$ 707,677</b>	<b>\$ 81,000</b>	<b>\$ 788,677</b>	<b>\$ 679,120</b>	<b>\$ 89,000</b>	<b>\$ 768,120</b>

## FEI Houston Scholarship Foundation Statements of Cash Flows

	Years Ended June 30,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 20,557	\$ 43,959
Unrealized losses (gains) on investments	7,633	(6,740)
Realized gain on investments	(5,129)	-
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities		
Net change in operating assets and liabilities		
Pledges receivable	36,000	(25,000)
Current liabilities	19,463	2,293
	78,524	14,512
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(99,219)	(90,489)
Proceeds from sales of investments	52,000	60,332
	(47,219)	(30,157)
<b>NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS</b>	31,305	(15,645)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	79,167	94,812
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 110,472	\$ 79,167

# FEI Houston Scholarship Foundation

## Notes to Financial Statements

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### Note 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 two classes of net assets based upon the existence or absence of donor-imposed restrictions. In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Financial Reporting*, to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. For nonpublic entities, this update is effective for fiscal years beginning after December 15, 2017. The Foundation adopted this standard for the year ended June 30, 2019. These classes are as follows:

*Net Assets Without Donor Restrictions* – Net assets not subject to donor-imposed stipulations.

*Net Assets With Donor Restrictions* – 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 net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Net assets subject to donor-imposed stipulations 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.

#### 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.

#### 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 net assets with donor restrictions are recorded as revenue at the time of the promise at the present value of the expected future cash flows. The net assets with donor restrictions are transferred to net assets without donor restrictions 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, 2020 and 2019.

# FEI Houston Scholarship Foundation

## Notes to Financial Statements

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### **Note 1 – General and Summary of Significant Accounting Policies (continued)**

#### **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. The Foundation has received conditional contributions of approximately \$28,000 and \$0 for the years ended June 30, 2020 and 2019, respectively.

#### **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, 2020, the Foundation had no uncertain tax positions that qualify for recognition or disclosure in the financial statements. The Foundation's tax years of 2017 and forward are subject to examination by federal and state taxing authorities.

# FEI Houston Scholarship Foundation

## Notes to Financial Statements

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### Note 1 – General and Summary of Significant Accounting Policies (continued)

#### Recent Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) 605, *Revenue Recognition*, and most industry-specific guidance. This ASU was originally effective for the Company for fiscal years beginning after June 30, 2020, under either full or modified retrospective adoption. In June 2020, FASB issued guidance providing an optional one-year deferral of the effective date of ASC 606, for any private entity that has not yet issued its financial statements. The Company elected the one-year deferral of ASC 606 and will apply the guidance to its 2021 financial statements.

### Note 2 – Investments

The Foundation follows 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.

## FEI Houston Scholarship Foundation Notes to Financial Statements

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### Note 2 – Investments (continued)

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

*Preferred Stock and Bonds* – Stated at fair value as determined by the New York Stock Exchange. 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 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, 2020		
	Cost	Fair Value	Unrealized Gain
Preferred stock and bonds	\$ 640,463	\$ 647,233	\$ 6,770
Total investments	\$ 640,463	\$ 647,233	\$ 6,770
	June 30, 2019		
	Cost	Fair Value	Unrealized Gain
Preferred stock and bonds	\$ 588,115	\$ 602,518	\$ 14,403
Total investments	\$ 588,115	\$ 602,518	\$ 14,403

## FEI Houston Scholarship Foundation

### Notes to Financial Statements

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#### Note 2 – Investments (continued)

Investment income consists of the following:

	June 30,	
	2020	2019
Interest and dividend income	\$ 20,917	\$ 21,262
Net realized gains	5,129	-
Net unrealized gains (losses)	(7,633)	6,740
Total investment income	<u>\$ 18,413</u>	<u>\$ 28,002</u>

#### Liquidity

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency stemming from a new strain of coronavirus that was spreading globally (the COVID-19 outbreak). On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, triggering volatility in financial markets and a significant negative impact on the global economy. The values of the Foundation's investments have and will fluctuate in response to changing market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report.

#### Note 3 – Schedule of Pledges Receivable

Unconditional promises to give to the Foundation for the next four years subsequent to June 30, 2020, is and thereafter as follows:

2021	\$ 25,500
2022	16,500
2023	8,000
2024	3,000
Total	<u>\$ 53,000</u>

## FEI Houston Scholarship Foundation Notes to Financial Statements

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### Note 4 – Sources of Revenue

The following table details sources of contributions without donor restrictions received by the Foundation:

	June 30,	
	2020	2019
FEI Houston	27	\$ -
FEI members	43,100	35,150
Corporate sponsors	67,000	37,885
Other individuals	1,000	5,000
	<u>111,127</u>	<u>78,035</u>
Total contributions	<u>\$ 111,127</u>	<u>\$ 78,035</u>

### Note 5 – Related Party

Financial Executives of Houston, Inc. (formerly known as Financial Executives International – Houston Chapter) (FEI Houston) established the Foundation. FEI Houston has provided financial backing and resources to the Foundation including contributed funds, contributed services and volunteer time. FEI Houston provided contributions of \$27 and \$0 during the years ended June 30, 2020 and 2019, 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.

### Note 6 – Subsequent Events

The Foundation has evaluated subsequent events through November 9, 2020, 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.

