

RED OAK ISD EDUCATION FOUNDATION, INC.

Financial Statements
(With Auditor's Report Thereon)

Year Ended December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors

Red Oak ISD Education Foundation, Inc.

Red Oak, Texas 75154

Report on the Financial Statements

I have audited the accompanying financial statements of Red Oak ISD Education Foundation, Inc., (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Member of:
American Institute of CPAs
Texas Society of CPAs

Opinion

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

Nabors CPA Services, P.C.

March 5, 2018

FINANCIAL STATEMENTS

RED OAK ISD EDUCATION FOUNDATION, INC.

Statement of Financial Position

December 31, 2017

ASSETS:

Cash and cash equivalents	\$ 205,772
Investments	709,426
Accounts receivable	<u>470</u>
Total assets	\$ <u>915,668</u>

LIABILITIES AND NET ASSETS

Net Assets:

Without donor restrictions	
Board designated quasi-endowment	709,426
Undesignated	<u>206,242</u>
Total net assets	<u>915,668</u>
Total liabilities and net assets	\$ <u>915,668</u>

The accompanying notes are an integral part of these statements.

RED OAK ISD EDUCATION FOUNDATION, INC.

Statement of Activities
Year Ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE and SUPPORT			
Contributions	\$ 37,945	38,290	76,235
Special events	173,320		173,320
Investment return, net	103,065		103,065
In-kind contributions	29,900		29,900
Contributed Services	53,000		53,000
Net assets released from restrictions	<u>38,290</u>	<u>(38,290)</u>	<u> </u>
Total revenue and support	<u>435,520</u>	<u> </u>	<u>435,520</u>
EXPENSES			
Designated grants	60,318		60,318
Innovative teaching grants	89,001		89,001
Management and general	57,646		57,646
Fund-raising	<u>78,824</u>		<u>78,824</u>
Total expenses	<u>285,789</u>		<u>285,789</u>
Change in net assets	149,731		149,731
Net assets, beginning of year (as restated)	<u>765,937</u>	<u> </u>	<u>765,937</u>
Net assets, end of year	\$ <u><u>915,668</u></u>	<u><u> </u></u>	<u><u>915,668</u></u>

The accompanying notes are an integral part of these statements.

RED OAK ISD EDUCATION FOUNDATION, INC.

Statement of Cash Flows
Year Ended December 31, 2017

Cash flows from operating activities:	
Cash received from contribution	\$ 76,765
Cash received from special events	173,320
Cash received from interest and dividends	12,754
Cash disbursed for program expenses	(119,333)
Cash disbursed for fund raising expenses	(51,335)
Cash disbursed for administrative expenses	(33,208)
Cash transfers	<u> </u>
Net cash provided by operating activities	<u>58,963</u>
Cash flows from investing activities:	
Sale/(purchase) of investments	<u>(43,436)</u>
Net cash received/(used) by investing activities	<u>(43,436)</u>
Net increase/(decrease) in cash and cash equivalents	15,527
Cash and cash equivalents at beginning of year (as restated)	<u>190,245</u>
Cash and cash equivalents at end of year	\$ <u>205,772</u>

The accompanying notes are an integral part of these statements.

RED OAK ISD EDUCATION FOUNDATION, INC.

Notes to the Financial Statements

For the Year Ended December 31, 2017

(1) SUMMARY OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

The Red Oak ISD Education Foundation, Inc. (the Foundation), incorporated in 2002 as a not-for-profit corporation. The Foundation's main objective is to provide financial support to the Red Oak Independent School District (the District). This purpose is accomplished by receiving and managing donations, and awarding grants. The Foundation is supported primarily through contributions by district employees, organizations, and individuals.

B. Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

C. Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in ASC 958-205-45, "*Financial Statements of Not-for-Profit Organizations*." Under ASC 958-205-45, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions, and net assets without donor restrictions.

D. Use of Estimates

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

E. Revenue Recognition

Contributions received are recorded as increases in net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

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RED OAK ISD EDUCATION FOUNDATION, INC.

Notes to the Financial Statements

For the Year Ended December 31, 2017

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(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Tax Status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as evidenced by an exemption letter dated December 2002. The foundation is also exempt from Texas state franchise and sales taxes.

As of December 31, 2017, the tax years that remain subject to examination by taxing authorities begin with 2014. Tax returns for 2014, 2015, and 2016 remain open to examination by taxing authorities. Management believes that all positions taken in those returns would be sustained if examined by taxing authorities.

G. Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months from date of purchase. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

H. Investments

Investments are carried at fair value and, in accordance with FASB pronouncements, are considered "Level 1" investments, which are unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Securities not publicly traded are stated at estimated fair value.

(2) FINANCIAL INSTRUMENTS

The Foundation maintains cash at Citizens National Bank. Deposits are insured by the Federal Deposit Insurance Corporation up to \$250,000 for interest bearing accounts and unlimited for non-interest bearing accounts. At December 31, 2017, the Foundation had no uninsured cash balances.

(3) CONTRIBUTED SERVICES

The Foundation receives services donated by individuals in carrying out its services. This amount has been reflected in the financial statements for those services since they met the criteria for recognition under ASC 958-605-25, *Accounting for Contributions Received and Contributions Made*.

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RED OAK ISD EDUCATION FOUNDATION, INC.

Notes to the Financial Statements

For the Year Ended December 31, 2017

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(4) NET ASSETS WITH DONOR RESTRICTIONS

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, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Foundation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. The foundation had no restricted net assets at December 31, 2017.

(5) DONATED RENT AND SUPPLIES

The Foundation receives rent and various office expenses from the Red Oak Independent School District and supplies donated by local organizations for various fundraising events. These donations have been reflected in the financial statements, at fair value, as support and expenses as required by the Financial Accounting Standards Board under ASC 958-605-25, "*Accounting For Contributions Received and Contributions Made*".

(6) BOARD-DESIGNATED NET ASSETS

The Foundation's governing board has designated, from net assets without donor restrictions of \$709,426, net assets for the following purpose as of December 31, 2017.

	<u>Fair Value End of Year</u>
Quasi-Endowment	\$ <u>709,426</u>
Total	\$ <u>709,426</u>

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RED OAK ISD EDUCATION FOUNDATION, INC.

Notes to the Financial Statements
For the Year Ended December 31, 2017
-continued-

Investment Policy Statement

The Red Oak ISD Education Foundation fulfills a purpose to provide funds for scholarships and grants. The continuing trend of the Foundation's needs suggest the investment objective shall recognize the need to grow principal and income at a rate superior to inflation so the purchasing power of the asset base grows in real terms. Through assumption of a balanced portfolio assuming prudent levels of risk, the Foundation's portfolio is directed toward the following purposes:

- Increasing the principal value of the asset base in real terms through reinvestment of capital gains and growth in the market value of the asset base.
- Provide a source of funds for any unanticipated needs.

Rate of Return Objective:

Over a market cycle (4-5 years) the portfolio's total rate of return is expected to exceed the inflation rate by 2.0% to 4.0% on an annualized basis.

Long Term Objective:

The long-term objective of the portfolio is to achieve capital appreciation. Therefore, frequent trades in the equity market are discouraged.

Asset Allocation Procedure:

Consistent with the current and the long term return objective, the combined portfolio's strategic asset allocation shall be 40% to 50% fixed income and 50% to 60% common stocks or their equivalents. Money market investments are to be classified as fixed income securities and convertible securities are to be classified as common stocks for asset allocation purposes.

Fixed Income Investments:

It is the policy to minimize credit risk and to avoid extreme fluctuations in income from bond investments. Bonds with a credit rating of 1-or-better are eligible for investment, and the core of the bond maturity schedule shall utilize a "laddered" structure of one to ten years to assure liquidity is available each year. The "core" of the portfolio's bond portfolio is defined as 40% of the total fixed income market value.

RED OAK ISD EDUCATION FOUNDATION, INC.

Notes to the Financial Statements

For the Year Ended December 31, 2017

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Common Stock Investments:

Common stock investments shall emphasize issues with a B-or-better dividend ranking by Standard & Poors. Convertible debentures and convertible preferred stocks are to be classified as common stock investments.

Diversification

Diversification is a policy consistent with the need to avoid significant capital losses to the portfolio. As such, no single fixed income issue, or issuer, shall comprise more than 5.0% of the total portfolio market value. Direct obligations of the U. S. government are excluded from this constraint.

No single common stock or its equivalent shall comprise more than 3.0% of the combined portfolio's total market value.

Liquidity:

Investment income is expected to meet all liabilities; however, due to the timing of withdrawals, a money market fund balance of \$25,000 shall be kept at all times.

Ineligible Securities:

Options, futures, options on futures, zero coupon bonds, and C.M.O.'s are ineligible for investment.

Portfolio Review:

The Investment Manager shall meet at the Investment committee's discretion to review investment results and to discuss strategies that are intended to fulfill the needs of the return objective.

Investment returns are to be compared to the major market indices and judged in light of any constraints imposed by policy. Returns will be evaluated over a market cycle, normally 4-5 years.

The above policy is believed to accurately reflect the objective and needs for the Red Oak ISD Education Foundation. The policy is subject to revision at any time and has been agreed upon by the Foundation Board of Directors and the Red Oak ISD Board of Education.

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RED OAK ISD EDUCATION FOUNDATION, INC.

Notes to the Financial Statements
For the Year Ended December 31, 2017
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Spending Policy

It shall be the policy of the Red Oak ISD Education Foundation to define an overall and effective management of all funds received. As such, funds should be managed based on the following formula:

- 40-60% of Undesignated Funds: To be distributed to specific Red Oak ISD projects, scholarships or grants as approved by the Board of Directors of the Education Foundation.
- 20-40% of Undesignated Funds: To be reserved for long-range savings and endowment purposes.
- Not to exceed 20% of Undesignated Funds: To be used for the general operation of the Red Oak ISD Education Foundation.
- Endowed Funds: Dividend and interest income from Endowed Funds may be managed as Undesignated Funds or reinvested at the discretion of the Foundation Board as recommended annually by the Executive Committee. Other distributions of Endowed Funds may be made only after Board approval.
- Gifts-in-Kind: The Executive Director or Foundation Board should define the management and disposition of these gifts at the time of receipt.

Carry-over Monies: Any excess or carry-over monies are to be added to the endowment at the discretion of the Red Oak ISD Education Foundation Executive Committee.

RED OAK ISD EDUCATION FOUNDATION, INC.

Notes to the Financial Statements

For the Year Ended December 31, 2017

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(7) NATURAL / FUNCTIONAL EXPENSE CLASSIFICATION

	Program Activities			Supporting Activities			Total Expenses
	Designated Grants	Innovative Teaching Grants	Programs Subtotal	Management and General	Fund-Raising	Supporting Subtotal	
Conferences and seminars	\$			973		973	973
Convocation				3,728		3,728	3,728
Credit card fees				1,192		1,192	1,192
Donor appreciation				677		677	677
Dues and subscriptions				400		400	400
Golf Tournament - cash					26,017	26,017	26,017
Golf Tournament - in kind					1,800	1,800	1,800
Grant expense	45,325	74,008	119,333				119,333
Grant Program - cash				1,286		1,286	1,286
Grant Program - in kind				920		920	920
Hospitality				1,073		1,073	1,073
iCount Program				3,000		3,000	3,000
Legal and professional				4,200		4,200	4,200
Marketing and public relations				3,038		3,038	3,038
Meeting expenses				774		774	774
Office expenses	3,618	3,618	7,236	3,103		3,103	10,339
Parent and staff relations				2,400		2,400	2,400
Partner Program - cash					2,917	2,917	2,917
Partner Program - in kind					9,480	9,480	9,480
Red Oak ISD - in kind	11,375	11,375	22,750	19,500	22,750	42,250	65,000
Share Campaign					722	722	722
Santa Shuffle					4,256	4,256	4,256
Special events				2,869		2,869	2,869
STAR Banquet - cash				3,313		3,313	3,313
STAR Banquet - in kind				5,200		5,200	5,200
T-shirt sales					2,971	2,971	2,971
Walk/Run - cash					7,411	7,411	7,411
Walk/Run - in kind					500	500	500
Total Expenses	\$ <u>60,318</u>	<u>89,001</u>	<u>149,319</u>	<u>57,646</u>	<u>78,824</u>	<u>136,470</u>	<u>285,789</u>

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RED OAK ISD EDUCATION FOUNDATION, INC.

Notes to the Financial Statements

For the Year Ended December 31, 2017

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(8) LIQUIDITY AND AVAILABILITY

The Red Oak ISD Education Foundation's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Financial assets, at year end	\$ 915,668
Less those unavailable for general expenditures within one year, due to:	
Board designations:	
Quasi-endowment fund, primarily for long-term investing	(699,445)
Amounts set aside for liquidity reserve	<u>(25,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>191,223</u>

The Red Oak ISD Education Foundation's endowment funds consist of a quasi-endowment. As described in Note 8, the annual dividend and interest income from the quasi-endowment may be used for general general expenditures or reinvested at the discretion of the Foundation Board. Other appropriations from the quasi-endowment may be made only after Board approval. The average annual dividend and interest from investments is \$9,981 over the past five years, so we will use this amount as reasonably available and presented as a decrease in the balance of the quasi-endowment balance as of December 31, 2017.

As part of the Red Oak ISD Education Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Red Oak ISD Education Foundation's board has established a liquidity reserve which was \$25,000 as of December 31, 2017. This reserve fund was established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

(9) RESTATEMENT OF NET ASSETS

Net assets have been restated at December 31, 2017 to record bad debt for pledges in prior year.

	As Originally <u>Reported</u>	<u>Restatement</u>	<u>As Restated</u>
Net assets without donor restrictions	\$ <u>767,437</u>	<u>(1,500)</u>	<u>765,937</u>
Total net assets	\$ <u>767,437</u>	<u>(1,500)</u>	<u>765,937</u>

(10) SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 5, 2018, which is the date the financial statements were issued.