

HOUSTON COMMUNITY COLLEGE FOUNDATION

FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

GAINERDONNELLY&DESROCHES

HOUSTON COMMUNITY COLLEGE FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Houston Community College Foundation
Houston, Texas

We have audited the accompanying statements of financial position of Houston Community College Foundation (the "Foundation"), a Texas nonprofit Foundation, as of August 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Houston Community College Foundation as of August 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Gainer Donnelly & Desroches LLP

March 2, 2010

HOUSTON COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2009 AND 2008

ASSETS		2009	2008
CURRENT ASSETS:			
Cash and Cash Equivalents	\$	1,953,059	\$ 2,224,217
Contributions Receivable		1,706,656	442,139
Interest Receivable		-	4,472
Prepaid Expenses		10,260	-
Investments, at Fair Value		<u>117,906</u>	<u>175,502</u>
Total Current Assets		<u>3,787,881</u>	<u>2,846,330</u>
NONCURRENT ASSETS:			
Cash and Cash Equivalents, Restricted for Endowments		77,056	88,332
Contributions Receivable, Net		1,419,177	332,394
Investments, at Fair Value, Restricted for Endowments		1,239,131	1,174,782
Fixed Assets, Net		<u>-</u>	<u>9,912</u>
Total Noncurrent Assets		<u>2,735,364</u>	<u>1,605,420</u>
TOTAL ASSETS	\$	<u><u>6,523,245</u></u>	\$ <u><u>4,451,750</u></u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Deferred Income	\$	7,000	\$ -
Due to Affiliate		<u>58,190</u>	<u>98,987</u>
TOTAL LIABILITIES		<u>65,190</u>	<u>98,987</u>
COMMITMENTS AND CONTINGENCIES			
NET ASSETS:			
Unrestricted		138,800	148,128
Temporarily Restricted		4,017,122	2,941,521
Permanently Restricted		<u>2,302,133</u>	<u>1,263,114</u>
Total Net Assets		<u>6,458,055</u>	<u>4,352,763</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u><u>6,523,245</u></u>	\$ <u><u>4,451,750</u></u>

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

HOUSTON COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

	2009				2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:								
Contributions and Donations	\$ 125,197	\$ 3,019,682	\$ 1,047,273	\$ 4,192,152	\$ 34,987	\$ 2,352,840	\$ 78,652	\$ 2,466,479
Interest and Dividend Income	-	72,171	-	72,171	-	91,511	-	91,511
Special Event Contributions	-	-	-	-	350,928	-	-	350,928
In-Kind Revenue	1,094,903	-	-	1,094,903	922,297	-	-	922,297
Net Realized and Unrealized								
Loss on Investments	(118,691)	-	-	(118,691)	(97,096)	-	-	(97,096)
Other Income	7,820	-	-	7,820	-	-	-	-
Net Assets Released from Restrictions	2,024,506	(2,024,506)	-	-	582,953	(582,953)	-	-
Total Revenues	3,133,735	1,067,347	1,047,273	5,248,355	1,794,069	1,861,398	78,652	3,734,119
EXPENSES:								
Program Services:								
Scholarships	613,789	-	-	613,789	656,123	-	-	656,123
Grant Distributions	1,510,718	-	-	1,510,718	-	-	-	-
Total Program Services	2,124,507	-	-	2,124,507	656,123	-	-	656,123
Support Services:								
Fundraising	18,637	-	-	18,637	164,910	-	-	164,910
Administration	999,919	-	-	999,919	919,003	-	-	919,003
Total Support Services	1,018,556	-	-	1,018,556	1,083,913	-	-	1,083,913
Total Expenses	3,143,063	-	-	3,143,063	1,740,036	-	-	1,740,036
INCREASE (DECREASE) IN NET ASSETS	(9,328)	1,067,347	1,047,273	2,105,292	54,033	1,861,398	78,652	1,994,083
TRANSFER	-	8,254	(8,254)	-	-	-	-	-
NET ASSETS, BEGINNING OF YEAR	148,128	2,941,521	1,263,114	4,352,763	94,095	1,080,123	1,184,462	2,358,680
NET ASSETS, END OF YEAR	\$ 138,800	\$ 4,017,122	\$ 2,302,133	\$ 6,458,055	\$ 148,128	\$ 2,941,521	\$ 1,263,114	\$ 4,352,763

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

HOUSTON COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 2,105,292	\$ 1,994,083
Adjustments to Reconcile Increase in Net Assets to		
Net Cash Provided by (Used in) Operating Activities:		
Contributions Restricted for Permanent Endowments	(1,047,273)	(78,652)
Depreciation	9,912	13,217
Net Realized and Unrealized Loss on Investments	118,691	97,096
Change in Operating Assets and Liabilities:		
Contributions Receivable	(2,351,300)	(664,533)
Interest Receivable	4,472	1,794
Prepaid Expense	(10,260)	-
Deferred Income	7,000	-
Due to Affiliate	(40,797)	(83,278)
Total Adjustments	<u>(3,309,555)</u>	<u>(714,356)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(1,204,263)</u>	<u>1,279,727</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Investments	<u>(125,444)</u>	<u>(341,619)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions Restricted for Permanent Endowments	<u>1,047,273</u>	<u>78,652</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(282,434)	1,016,760
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,312,549</u>	<u>1,295,789</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,030,115</u>	<u>\$ 2,312,549</u>
Reconciliation of Total Cash to Cash and Cash Equivalents		
in the Statements of Financial Position:		
Cash and Cash Equivalents Restricted for Endowments	\$ 77,056	\$ 88,332
Cash and Cash Equivalents in the Statements of Financial Position	<u>1,953,059</u>	<u>2,224,217</u>
Total Cash and Cash Equivalents	<u>\$ 2,030,115</u>	<u>\$ 2,312,549</u>

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

HOUSTON COMMUNITY COLLEGE FOUNDATION NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION

The Houston Community College Foundation (the “Foundation”) was organized in the State of Texas on May 13, 1976 to function as a nonprofit foundation. The Foundation’s purpose is (1) to maintain, develop, increase and extend the facilities and services of the Houston Community College System (the “System”); (2) to provide broad educational opportunities to the System’s students, staff, faculty and the residents of the geographical area that the System serves; (3) to solicit and receive by gift, grant, devise, or otherwise, property, both real and personal, and to manage and administer the same, and (4) to make contributions, grants, gifts and transfers of property to or for the benefit of the System, or to or for the benefit of other organizations identified and associated with the System and which are tax-exempt organizations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Foundation’s resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- Unrestricted – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.
- Temporarily Restricted – Net assets subject to donor imposed stipulations that may or will be met either by actions of the Foundation and/or passage of time.
- Permanently Restricted – Net assets subject to donor-imposed stipulations that they 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 the related investments for specific or general purposes.

Fair Value Considerations

The Foundation uses fair value to measure monetary and certain nonmonetary assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy established and prioritized fair value measurements into three levels based on the nature of the inputs. The hierarchy gives the highest priority to inputs based on market data from independent sources (observable inputs-Level 1) and the lowest priority to a reporting entity’s internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs-Level 3).

The fair value option allows entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value that are not otherwise required to be measured at fair value. If an organization elects the fair value option for an eligible item, changes in that item’s fair value in subsequent reporting periods must be recognized in current earnings. The Foundation did not elect the fair value option for the measurement of any eligible assets or liabilities.

The Foundation’s other financial instruments (primarily cash and cash equivalents, contribution receivables and payables) are carried in the accompanying statements of financial position at amounts which reasonably approximate fair value.

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

Contributions Receivable and Promises to Give

Contributions receivable are amounts recorded from unconditional promises to give by third parties. Unconditional promises to give are recorded at net realizable value if expected to be collected in one year. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Conditional promises to give are recorded as refundable advances when received, and are recognized as revenue when the conditions have been met.

If contributions receivable become doubtful of collection, allowances are made to the extent the amounts are determined to be doubtful, and are charged to expense. If doubtful amounts are subsequently determined to be uncollectible, they are written off against allowances in the period determined. The Foundation considers contributions receivable to be fully collectible.

Investments and Investment Return

Investments are mostly comprised of endowed funds invested for the purpose of generating income for scholarships. The Foundation carries investments in marketable securities at fair value. Investment return is reported in the statements of activities as an increase in unrestricted net assets unless otherwise specified by donor restrictions. Unrealized gains and losses are included in the change in the net assets in the accompanying statements of activities. Donated marketable securities are recorded as contributions at their estimated fair values at the date of donation.

Under the laws of the State of Texas, the Board of Directors may appropriate for expenditure, for the uses and purposes for which the endowment is established, the net appreciation, realized and unrealized, in the fair value of the assets of an endowment in excess of the historic dollar value. The Board of Directors determines the amount of such appropriation annually. The aggregate unrealized gains and losses on donor-restricted endowment net asset balances are included in unrestricted net assets in the financial statements.

Fixed Assets

Fixed assets are stated at cost, or if donated, at the approximate fair value on the date of donation. The Foundation follows the policy of capitalizing all expenditures for fixed assets equal to or in excess of \$5,000. The cost of maintenance and repairs of fixed assets is charged to expense as incurred. At August 31, 2009 and 2008, the Foundation's fixed assets were comprised of computer software and are depreciated on the straight-line basis over their estimated useful lives (3 years).

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributions

Contributions are recorded as revenue at fair value when an unconditional commitment is received from the donor. Contributions received are classified as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor and is to be used in future periods is reported as an increase in temporarily restricted net assets in the reporting period in which the support is recognized. 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. Support that is restricted in perpetuity by the donor is recorded as permanently restricted net assets. In accordance with the donor restrictions, income earned from permanently restricted net assets are recorded as temporarily restricted net assets until such income is released from restrictions.

Donated Materials, Services, and Facilities

The System donates administrative services, materials, and office space to the Foundation. The value of administrative personnel services and office space provided by the System during 2009 and 2008 were approximately \$890,000 and \$835,000, respectively, and are included in unrestricted revenues and administrative expenses. Materials, services, and facilities donated to the Foundation by the System are mostly valued at the actual costs incurred by the System in making those in-kind donations. Approximately \$205,000 and \$87,000 have been reflected in the accompanying financial statements for materials and equipment donated by other parties to the Foundation during 2009 and 2008, respectively, for the benefit of various departments at the System.

Federal Income Taxes

The Internal Revenue Service has determined that the Foundation is a publicly supported organization as defined in the Internal Revenue Code, Sections 509(a)(1) and 170(b)(1)(A)(vi). Accordingly, the Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

In 2009, the Foundation adopted a new accounting standard that clarifies the accounting for uncertainty in income taxes recognized for financial statement reporting purposes as applied to nonprofit organizations. Based on its evaluation, the Foundation has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. The Foundation's evaluation was performed for the tax periods ended August 31, 2006 through August 31, 2008, the U.S. Federal tax years which principally remain subject to examination by major tax jurisdictions as of August 31, 2009.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that have the most impact on financial position and results of operations primarily relate to the present value of contributions receivables, the fair value of investments, and the allocation of expenses among functional areas. Management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Risks and Uncertainties

Investment securities are exposed to various market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in fair values of investment securities will occur in the near term and that such change could materially affect the amounts recorded in the financial statements.

Reclassifications

Certain amounts in the 2008 financial statements have been reclassified to conform to current year presentation.

Subsequent Events

The Foundation has evaluated subsequent events through the date the financial statements were available for issuance on March 2, 2010. No matters were identified affecting the accompanying financial statements.

NOTE 3 – PROGRAM AND SUPPORTING SERVICES

The cost of providing the various programs and activities of the Foundation has been summarized on a functional basis in the accompanying statements of activities.

The following program and supporting services are included in the statement of activities:

- Scholarships are payments made to the System for tuition and books on behalf of specified students, staff, and faculty of the System and the residents of the geographical area that the System serves.
- Grant distributions are payments made to the System for student societies and departmental needs of the students, staff, and faculty of the System.
- Fundraising activities are directed at soliciting and receiving funds, gifts, grants, and property to enable the Foundation to fulfill its purpose.
- Administration consists of general supporting services that are necessary for the Foundation's daily operations and coordination of program activities.

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – CREDIT RISKS

The Foundation maintains its cash balances in financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank at August 31, 2009 and 2008, respectively. Balances in the Foundation's bank accounts at times exceed federally insured credit limits. At August 31, 2009 and 2008, the Foundation did not have uninsured cash with institutions covered by the FDIC. In addition, at August 31, 2009 and 2008, the Foundation had \$1,838,320 and \$2,160,130, respectively, in money market mutual funds that were subject to uncollateralized custodial risks. Custodial risk is the risk that, in the event of failure of the counterparty, the Foundation will not be able to recover the value of its investment.

The Foundation's management believes that the Foundation's credit risk exposure is mitigated by the financial strength of the financial institutions in which the funds are held.

NOTE 5 – FAIR VALUE INSTRUMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three tier fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than Level 1 inputs that are either directly or indirectly observable such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or other inputs not directly observable, but derived principally from, or corroborated by, observable market data.
- Level 3: Unobservable inputs that are supported by little or no market activity.

Investments in equity securities with readily determinable fair values are carried at fair value based on quoted market values in active markets (Level 1). Investments in bonds are carried at fair value based on estimates using recently executed transactions, market price quotations, and pricing models that factor in, where applicable, interest rates and bond or credit default swap spreads (Level 2). Investments in alternative investments are carried at fair value based on the value of the underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows, and market-based information, including comparable company transactions, and changes in market outlook, among other factors (Level 3).

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – FAIR VALUE INSTRUMENTS – CONTINUED

The Board of Directors has adopted a specific investment objective for the Foundation. The investment objective is to invest all endowments, local, or other available funds to optimize the return on investment to the extent possible, balanced with the appropriate level of risk. The objective is pursued by holding mostly fixed income investments such as money market funds (cash equivalents), corporate bonds, and publicly traded equities.

The fair value of financial assets measured on a recurring basis at August 31, 2009 and 2008 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
August 31, 2009:				
Bonds	\$ 647,974	\$ -	\$ 647,974	\$ -
Equities	<u>709,063</u>	<u>709,063</u>	<u>-</u>	<u>-</u>
Total Investments	\$ <u>1,357,037</u>	\$ <u>709,063</u>	\$ <u>647,974</u>	\$ <u>-</u>
August 31, 2008:				
Bonds	\$ 641,961	\$ -	\$ 641,961	\$ -
Equities	<u>708,323</u>	<u>708,323</u>	<u>-</u>	<u>-</u>
Total Investments	\$ <u>1,350,284</u>	\$ <u>708,323</u>	\$ <u>641,961</u>	\$ <u>-</u>

The following summarizes the investment return in the statement of activities for the years ended August 31:

	2009	2008
Interest and Dividend Income	\$ 72,171	\$ 91,511
Net Realized and Unrealized Loss	<u>(118,691)</u>	<u>(97,096)</u>
Total Investment Loss	\$ <u>(46,520)</u>	\$ <u>(5,585)</u>

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions are due to be collected as follows at August 31:

	2009	2008
Less than One Year	\$ 1,706,656	\$ 442,139
One to Five Years	<u>1,513,556</u>	<u>332,394</u>
Total Contributions Receivable	3,220,212	774,533
Less: Unamortized Discount to Net Present Value at 3.25%	<u>(94,379)</u>	<u>-</u>
Contributions Receivable, Net	\$ <u>3,125,833</u>	\$ <u>774,533</u>

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – FIXED ASSETS

The following is a summary of fixed assets, less accumulated depreciation, as of August 31:

	<u>2009</u>	<u>2008</u>
Computer Software	\$ 39,650	\$ 39,650
Less: Accumulated Depreciation	<u>39,650</u>	<u>29,738</u>
Fixed Assets, Net	\$ <u>-</u>	\$ <u>9,912</u>

Depreciation expense included in the statement of activities was \$9,912 and \$13,217 for the fiscal years ended August 31, 2009 and 2008, respectively.

NOTE 8 – DESIGNATED UNRESTRICTED NET ASSETS

Unrestricted net assets include \$83,073 and \$31,930 of amounts designated by the Board of Directors to be awarded for scholarships that have not been disbursed to eligible students as of August 31, 2009 and 2008, respectively.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

At August 31, temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Scholarships	\$ 2,795,749	\$ 2,521,361
Alumni Activities	13,020	5,161
Education	1,041,240	200,664
Recruiting	105,532	64,460
Renovations and Beautification	31,066	122,052
Other	<u>30,515</u>	<u>27,823</u>
Total Temporarily Restricted Net Assets	\$ <u>4,017,122</u>	\$ <u>2,941,521</u>

NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets represent funds received by the Foundation to be held in perpetuity. The earnings on these funds are designated to fund specific scholarships and are included in temporarily restricted net assets until used. Permanently restricted funds consist of the following at August 31:

	<u>2009</u>	<u>2008</u>
Cash and Investments	\$ 1,316,187	\$ 1,263,114
Contributions Receivable	<u>985,946</u>	<u>-</u>
Total	\$ <u>2,302,133</u>	\$ <u>1,263,114</u>

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS – CONTINUED

During 2009, a donor released the permanent restriction on an endowment and placed a temporary restriction on the transfer to use towards education with the System. A transfer has been included in the accompanying statement of activities to reflect this change in donor restrictions.

NOTE 11 – ENDOWMENT FUNDS

The Foundation has a donor-restricted endowment fund which is maintained in accordance with explicit donor stipulations. The Foundation is subject to the Texas Uniform Prudent Management of Institutional Funds Act (the Act) which has been enacted by the state of Texas. The Board of Directors of the Foundation has interpreted the Act as requiring a focus on the entirety of a donor-restricted endowment fund, including the original gift amount and net appreciation. The Act provides guidelines about what constitutes prudent spending and explicitly requires consideration of preservation of the fund.

As a result of this interpretation, the Foundation classifies the amount specified by explicit donor stipulation as an endowment as permanently restricted net assets. This amount is not reduced by losses on investments in the endowment fund or by approved appropriations for expenditure from the fund.

The Foundation has adopted formal investment and informal spending policies for its endowment assets that attempt to provide the endowment fund with long-term capital growth consistent with the preservation of capital and the annual budget requirements within the withdrawal limitations as established by the Board of Directors.

Subsequent to year end, the Foundation adopted a formal spending policy for its endowment assets. The spending policy provides a minimum investment period of one year for newly created endowment funds before any distributions can occur. The policy also provides for an annual spending rate on endowed funds not to exceed 5% and at no time can the spending rate exceed the actual rate of return, as defined in the policy. Additionally, investment management fees may be paid from the earnings on the endowed funds.

To satisfy its long-term growth objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Earnings on the endowment assets (interest and dividends) are reinvested until the Foundation identifies an amount to be distributed in accordance with its spending policies.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual donation. Deficiencies of this nature are reported in unrestricted net assets as an aggregate deficiency of the fair value of net endowment assets over permanently restricted net assets.

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – ENDOWMENT FUNDS – CONTINUED

The following tables describe the Foundation's endowment net asset composition by type of fund and the changes in endowment net assets as of and for the years ended August 31:

Endowment Net Asset Composition by Type of Fund

	<u>2009</u>	<u>2008</u>
Aggregate Deficiency of Donor-Restricted		
Endowment Net Asset Balances	\$ (211,012)	\$ (108,658)
Permanently Restricted Net Assets	<u>1,316,187</u>	<u>1,263,114</u>
Total Endowment Net Assets	\$ <u>1,105,175</u>	\$ <u>1,154,456</u>

Changes in Endowment Net Assets for the Years Ended August 31, 2009 and 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets,				
September 1, 2007	\$ (21,483)	\$ -	\$ 1,184,462	\$ 1,162,979
Investment Income (Loss)	(77,987)	37,633	-	(40,354)
Contributions	-	-	78,652	78,652
Appropriations of Endowment				
Assets for Expenditure	-	(37,633)	-	(37,633)
Advisor Fees	<u>(9,188)</u>	<u>-</u>	<u>-</u>	<u>(9,188)</u>
Endowment Net Assets,				
August 31, 2008	(108,658)	-	1,263,114	1,154,456
Investment Income (Loss)	(94,481)	40,815	-	(53,666)
Contributions	-	-	61,327	61,327
Appropriations of Endowment				
Assets for Expenditure	-	(40,815)	-	(40,815)
Release of Donor Restricted				
Endowment Funds	-	-	(8,254)	(8,254)
Advisor Fees	<u>(7,873)</u>	<u>-</u>	<u>-</u>	<u>(7,873)</u>
Endowment Net Assets,				
August 31, 2009	\$ <u>(211,012)</u>	\$ <u>-</u>	\$ <u>1,316,187</u>	\$ <u>1,105,175</u>

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 – SUPPORT AGREEMENT AND RELATED PARTY TRANSACTIONS

The Foundation and the System have entered into an agreement in which the System provides administrative support for Foundation activities at a level determined by the System to be appropriate, but only to the extent of availability of funds within the System's budget. Administrative support provided includes office space, an executive director and staff for the Foundation. The total support provided by the System to the Foundation in fiscal years ended August 31, 2009 and 2008 was approximately \$890,000 and \$835,000, respectively, and was included in the financial statements as unrestricted in-kind revenue.

The agreement term shall last until August 31, 2010, and is subject to an automatic extension on each ensuing September 1 unless either party elects not to extend the agreement, which will require a written notice by June 30 of the same year.

During the year, the Foundation remits scholarship funds to the System to cover tuition, books, and other student fees for specified students of the System. During the years ended August 31, 2009 and 2008, the Foundation remitted the total of \$443,349 and \$445,248, respectively, to the System which is included in scholarship expense in the accompanying financial statements. The total scholarship fund due from the Foundation to the System at August 31, 2009 and 2008 was \$58,190 and \$98,987, respectively. These amounts have been included in the due to affiliate balances in the accompanying financial statements.

During 2009, the Foundation received contributions for the benefit of faculty and staff at the System for various educational needs other than scholarships. Disbursements of these funds totaled approximately \$1.5 million for the year ended December 31, 2009.