

**Houston Community College
Foundation**

Financial Statements

August 31, 2017 and 2016



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Houston Community College Foundation
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August 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Houston Community College Foundation (the Foundation), 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.

Auditors' 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 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 auditors' 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 Houston Community College Foundation as of August 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 3 to the financial statements, the Foundation allocated the 2017 in-kind administrative support provided by the System to the program, fundraising or administrative service benefited. Our opinion is not modified with respect to that matter.

Caru, Riggs & Ingram, L.L.C.

Houston, Texas
November 30, 2017

Houston Community College Foundation Statements of Financial Position

| <i>August 31,</i> | 2017 | 2016 |
|---|----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 410,200 | \$ 754,423 |
| Contributions receivable | 127,500 | 1,097,500 |
| Investments, at fair value | 4,968,696 | 3,933,283 |
| Total current assets | 5,506,396 | 5,785,206 |
| Noncurrent assets | | |
| Contributions receivable | 100,000 | - |
| Investments, at fair value, restricted for endowments | 10,066,530 | 8,943,385 |
| Total noncurrent assets | 10,166,530 | 8,943,385 |
| Total assets | \$ 15,672,926 | \$ 14,728,591 |
| Liabilities | | |
| Current liabilities | | |
| Due to related party | \$ 96,277 | \$ 370,805 |
| Total current liabilities | 96,277 | 370,805 |
| Commitments and contingencies | | |
| Net assets | | |
| Unrestricted | 579,745 | 480,902 |
| Temporarily restricted | 4,920,687 | 3,896,374 |
| Permanently restricted | 10,076,217 | 9,980,510 |
| Total net assets | 15,576,649 | 14,357,786 |
| Total liabilities and net assets | \$ 15,672,926 | \$ 14,728,591 |

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

Houston Community College Foundation Statement of Activities

For the year ended August 31,

2017

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|-------------------|---------------------------|---------------------------|----------------------|
| Support and income | | | | |
| Contributions and donations | \$ 239,238 | \$ 2,971,600 | \$ 95,707 | \$ 3,306,545 |
| In-kind revenue | 1,024,490 | - | - | 1,024,490 |
| Interest and dividend income | 108,605 | 227,660 | - | 336,265 |
| Realized and unrealized gains on investments | - | 210,511 | - | 210,511 |
| Vending and other income | 210,000 | - | - | 210,000 |
| Net assets released from restrictions | 2,385,458 | (2,385,458) | - | - |
| Total support and income | 3,967,791 | 1,024,313 | 95,707 | 5,087,811 |
| Program services | | | | |
| Scholarships | 1,430,721 | - | - | 1,430,721 |
| Grant distributions | 950,196 | - | - | 950,196 |
| Student service distributions | 126,000 | - | - | 126,000 |
| Other program services | 320,686 | - | - | 320,686 |
| Total program services | 2,827,603 | - | - | 2,827,603 |
| Support services | | | | |
| Fundraising | 493,252 | - | - | 493,252 |
| Administration | 548,093 | - | - | 548,093 |
| Total support services | 1,041,345 | - | - | 1,041,345 |
| Total program and support services | 3,868,948 | - | - | 3,868,948 |
| Increase in net assets | 98,843 | 1,024,313 | 95,707 | 1,218,863 |
| Net assets, beginning of year | 480,902 | 3,896,374 | 9,980,510 | 14,357,786 |
| Net assets, end of year | \$ 579,745 | \$ 4,920,687 | \$ 10,076,217 | \$ 15,576,649 |

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

Houston Community College Foundation Statement of Activities

For the year ended August 31,

2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|-------------------|---------------------------|---------------------------|----------------------|
| Support and income | | | | |
| Contributions and donations | \$ 159,854 | \$ 2,276,884 | \$ 290,132 | \$ 2,726,870 |
| In-kind revenue | 1,007,231 | - | - | 1,007,231 |
| Interest and dividend income | - | 299,642 | - | 299,642 |
| Realized and unrealized losses on investments | - | (18,102) | - | (18,102) |
| Vending and other income | 211,298 | - | - | 211,298 |
| Net assets released from restrictions | 2,800,093 | (2,800,093) | - | - |
| Total support and income | 4,178,476 | (241,669) | 290,132 | 4,226,939 |
| Program services | | | | |
| Scholarships | 1,758,051 | - | - | 1,758,051 |
| Grant distributions | 903,307 | - | - | 903,307 |
| Student service distributions | 126,000 | - | - | 126,000 |
| Total program services | 2,787,358 | - | - | 2,787,358 |
| Support services | | | | |
| Fundraising | 201,788 | - | - | 201,788 |
| Administration | 1,331,096 | - | - | 1,331,096 |
| Total support services | 1,532,884 | - | - | 1,532,884 |
| Total program and support services | 4,320,242 | - | - | 4,320,242 |
| Loss on receivable write-off | - | 1,250,000 | - | 1,250,000 |
| Decrease (increase) in net assets | (141,766) | (1,491,669) | 290,132 | (1,343,303) |
| Net assets, beginning of year | 622,668 | 5,388,043 | 9,690,378 | 15,701,089 |
| Net assets, end of year | \$ 480,902 | \$ 3,896,374 | \$ 9,980,510 | \$ 14,357,786 |

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

Houston Community College Foundation Statements of Cash Flows

| <i>For the years ended August 31,</i> | 2017 | 2016 |
|--|---------------------|----------------|
| Operating activities | | |
| Changes in net assets | \$ 1,218,863 | \$ (1,343,303) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Contributions restricted for permanent endowments | (95,707) | (290,132) |
| Net realized and unrealized (gains) loss on investments | (210,511) | 18,102 |
| Loss on receivable write-off | - | 1,250,000 |
| Change in operating assets and liabilities | | |
| Contributions receivable | 870,000 | 2,258,426 |
| Due from related party | - | 12,827 |
| Due to related party | (274,528) | 202,391 |
| Refundable advances | - | (30,000) |
| Total adjustments | 289,254 | 3,421,614 |
| Net cash provided by operating activities | 1,508,117 | 2,078,311 |
| Investing activities | | |
| Proceeds from sale of investments | 5,704,507 | 2,204,260 |
| Purchases of investments | (7,652,554) | (4,852,429) |
| Net cash used in investing activities | (1,948,047) | (2,648,169) |
| Contributions restricted for permanent endowments | 95,707 | 290,132 |
| Decrease in cash and cash equivalents | (344,223) | (279,726) |
| Cash and cash equivalents, beginning of year | 754,423 | 1,034,149 |
| Cash and cash equivalents, end of year | \$ 410,200 | \$ 754,423 |

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

Houston Community College Foundation Notes to 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 financial 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).

Houston Community College Foundation Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. Cash and cash equivalents held in money market mutual funds are reported as investments instead of cash equivalents as the Foundation holds those funds as an endowment.

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. 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 not included in support until the conditions have been substantially 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.

In August 2016, the Robert Garner Firefighter Foundation terminated the fund agreement executed in 2015 to provide annual gifts to the Foundation. At the date of termination, \$1.25 million was outstanding for these gifts. The full amount of the outstanding pledge was written off as of August 31, 2016.

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.

Houston Community College Foundation Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 in alignment with the Investment Spending Policy. The aggregate unrealized gains and losses on donor-restricted endowment net asset balances are included in temporarily restricted net assets in the financial statements.

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 Foundation receives donated materials, services and facilities from the System and third parties. The values of these items are reflected in unrestricted revenues and program 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. Materials, administrative services, and office space donated from the System to the Foundation are further described in Note 10 of these financial statements. Approximately \$54,000 and \$69,000 have been reflected as contributions in the accompanying financial statements for services, materials, and equipment donated by other parties to the Foundation during 2017 and 2016, 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.

The Foundation accounts for uncertain tax positions, when it is more likely than not, that such an asset or a liability will be realized. As of August 31, 2017, management believes there were no uncertain tax positions.

Houston Community College Foundation Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Foundation has evaluated subsequent events through the date the financial statements were available for issuance on November 30, 2017. No matters were identified affecting the financial statements and related disclosures.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. The reclassification had no effect on changes in net assets.

Recent Financial Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Under this ASU, net assets will be presented in two classes: net assets with donor restrictions and net assets without donor restrictions. Underwater endowments will be included in net assets with donor restrictions and new or enhanced disclosures regarding the composition of net assets will be required. Disclosures regarding liquidity and availability of resources for general operating expenditures within one year of the date of the statement of financial position must also be presented. The ASU requires expenses to be presented by both nature and function, and investment return will be presented net of investment expenses. Absent specific donor stipulations, the Foundation will use the placed-in-service approach for reporting expirations of restrictions on long-lived assets. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the Foundation's financial statements. As of August 31, 2017, the Foundation has not elected to early adopt the ASU.

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.

Houston Community College Foundation Notes to Financial Statements

NOTE 3: PROGRAM AND SUPPORTING SERVICES (Continued)

- 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.

During 2017, the Foundation performed a time study and evaluation of the administrative support provided by the System. As a result of this study, the Foundation determined that the salary support provided by the System represented 33%, 31%, and 36% of program, fundraising and administrative services, respectively. Other support provided by the System has been allocated among program, fundraising and administrative services directly benefited. Accordingly, \$1,024,490 of administrative support has been allocated among these functions beginning September 1, 2016.

NOTE 4: CREDIT RISKS

The Foundation is subject to concentration of credit risk relating to marketable equity securities and it is at least reasonably possible that changes in net values of investment securities will occur in the near term and that such change could materially affect the amounts recorded in the statements of financial position. Marketable equity securities consist primarily of equity securities, bonds, mutual funds and alternative investments, which could subject the Foundation to losses in the event of a general down turn in the stock market.

At times throughout the year, the Foundation may maintain certain bank accounts in excess of the Federal Deposit Insurance Corporation (FDIC) insured limits. The Foundation has not experienced any losses from maintaining cash accounts in excess of the federally insured limit. Management believes that it is not exposed to any significant credit risk on cash accounts due the strength of the financial institutions in which the funds are held.

As of August 31, 2017 and 2016, one donor accounted for 88% and 91% of contributions receivable, respectively. In 2017 and 2016, approximately 22% and 18% of contributions were provided by one donor, respectively.

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.

Houston Community College Foundation Notes to Financial Statements

NOTE 5: FAIR VALUE INSTRUMENTS (Continued)

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, or in the case where the securities are not traded on an exchange, at net asset value (“NAV”) per share (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). The value of certain alternative investments that are not actively traded on an exchange shall be determined by obtaining quotes from brokers that normally deal in such securities or by an unaffiliated pricing service that may use actual trade data or procedures using market indices, matrices, yield curves, specific trading characteristics of certain groups of securities, pricing models or a combination of these procedures (Level 2).

In accordance with the Accounting Standards Codification, *Fair Value Measurement*, Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

Investments in the alternative investments that are measured using the net asset value (the “NAV”) as a practical expedient are invested in investments in private companies (“Investment Funds”), which are carried at fair value, as provided by the investment managers or administrators of the Investment Funds. The Investment Funds are valued at market value when available, and otherwise will use principles of fair value in good faith. Because of the inherent uncertainty of valuation, fair value may differ significantly from the value that would have been used had readily available markets for investments in Investment Funds existed. Investments in these entities are generally redeemable over the life of the investment subject to certain hold back provisions by the investment company.

Investments are exposed to various risks such as interest rate risk, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the fair values of investments will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position and the statements of activities.

Houston Community College Foundation Notes to Financial Statements

NOTE 5: FAIR VALUE INSTRUMENTS (Continued)

The Foundation's Level 3 investments have been valued using unadjusted third-party transactions and quotations, unadjusted historical third-party information, or the unadjusted net asset value of the investments in private investment companies. No unobservable inputs internally developed by management have been applied to these investments.

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, publicly traded equities, mutual funds and alternative investments.

The fair value of financial assets measured on a recurring basis are as follows:

| | Quoted Market Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total |
|--|---|---|-------------------------------------|----------------------|
| August 31, 2017: | | | | |
| Bonds | \$ - | \$ 3,408,281 | \$ - | \$ 3,408,281 |
| Equity securities | 2,902,994 | - | - | 2,902,994 |
| Mutual Funds | | | | |
| Municipal (1) | 1,316,455 | - | - | 1,316,455 |
| Foreign markets (2) | 318,985 | - | - | 318,985 |
| Growth stocks (3) | 2,032,402 | - | - | 2,032,402 |
| Fixed income security (4) | 448,902 | - | - | 448,902 |
| Global real estate (5) | 337,408 | - | - | 337,408 |
| Ultrashort bond (6) | 1,119,793 | - | - | 1,119,793 |
| Managed futures (7) | 62,830 | - | - | 62,830 |
| Treasury funds | 511,427 | - | - | 511,427 |
| Alternative investments | | | | |
| Salient Risk Parity Fund | - | 1,491,507 | - | 1,491,507 |
| Salient MLP Fund | - | 701,401 | - | 701,401 |
| Salient Private Access Fund | - | - | 312,201 | 312,201 |
| | <u>\$ 9,051,196</u> | <u>\$ 5,601,189</u> | <u>\$ 312,201</u> | <u>\$ 14,964,586</u> |
| Investments in investees measured at net asset value | | | | <u>70,640</u> |
| Total | | | | <u>\$ 15,035,226</u> |

Houston Community College Foundation Notes to Financial Statements

NOTE 5: FAIR VALUE INSTRUMENTS (Continued)

| | Quoted Market Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total |
|--|---|---|-------------------------------------|----------------------|
| August 31, 2016: | | | | |
| Bonds | \$ - | \$ 3,098,168 | \$ - | \$ 3,098,168 |
| Equity securities | 1,679,633 | - | - | 1,679,633 |
| Mutual Funds | | | | |
| Municipal (1) | 1,040,222 | - | - | 1,040,222 |
| Foreign markets (2) | 1,186,356 | - | - | 1,186,356 |
| Growth stocks (3) | 79,538 | - | - | 79,538 |
| Fixed income security (4) | 1,461,190 | - | - | 1,461,190 |
| Global real estate (5) | 216,080 | - | - | 216,080 |
| Ultrashort bond (6) | 500,000 | - | - | 500,000 |
| Managed futures (7) | 353,920 | - | - | 353,920 |
| Treasury funds | 275,970 | - | - | 275,970 |
| Alternative investments | | | | |
| Salient Risk Parity Fund | 174,899 | 1,748,898 | - | 1,923,797 |
| Salient MLP Fund | - | 655,158 | - | 655,158 |
| Salient Yield Exempt Fund | - | 3,636 | 39,727 | 43,363 |
| The Endowment Fund | 2,042 | 648 | 725 | 3,415 |
| | <u>\$ 6,969,850</u> | <u>\$ 5,506,508</u> | <u>\$ 40,452</u> | <u>\$ 12,516,810</u> |
| Investments in investees measured at net asset value | | | | <u>359,858</u> |
| Total | | | | <u>\$ 12,876,668</u> |

The Mutual Funds have been classified based on the general characteristic of the investment focus and strategy with further classification below:

- (1) The investment seeks current income exempt from federal income tax, consistent with capital preservation through investments mostly in municipal securities.
- (2) The investment seeks long term capital appreciation through investments in emerging and foreign markets, as well as in small and large value securities.
- (3) The investment seeks to produce above average risk-adjusted returns and less downside volatility by investing in a diversified portfolio.
- (4) The investment seeks to maximize total return (capital appreciation and income), adjusted for the federal maximum tax rate, to the extent consistent with preservation of principal by investing primarily in fixed-income securities.
- (5) The investment seeks long-term capital appreciation through exposures to domestic and foreign companies in the real estate industry with a focus on investment trusts.
- (6) The investment seeks a stable real return in excess of the rate of inflation with a minimum of risk
- (7) The investment seeks to provide long term capital appreciation with low correlation to equity and bond markets.

Houston Community College Foundation Notes to Financial Statements

NOTE 5: FAIR VALUE INSTRUMENTS (Continued)

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

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Dividend and interest income | \$ 336,265 | \$ 299,642 |
| Net realized and unrealized gains (losses) | 210,511 | (18,102) |
| | \$ 546,776 | \$ 281,540 |

The following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value for the years ended August 31:

| | 2017 | 2016 |
|--|-------------------|------------------|
| Balance, beginning of year | \$ 40,452 | \$ 91,872 |
| Purchases | - | 636 |
| Sales | - | (58,609) |
| Net realized (losses) gains | - | 8,208 |
| Net change in unrealized appreciation (depreciation) | 11,499 | (1,655) |
| Transfers from Level 2 and alternative investments measured at net asset value | 260,250 | - |
| Balance, end of year | \$ 312,201 | \$ 40,452 |

NOTE 6: CONTRIBUTIONS RECEIVABLE

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

| <i>August 31,</i> | 2017 | 2016 |
|---|-------------------|---------------------|
| Less than one year | \$ 127,500 | \$ 1,097,500 |
| One to five years | 100,000 | - |
| Total contributions receivable | 227,500 | 1,097,500 |
| Less: unamortized discount to net present value | - | - |
| Contributions receivable | \$ 227,500 | \$ 1,097,500 |

Houston Community College Foundation Notes to Financial Statements

NOTE 7: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

| <i>August 31,</i> | 2017 | 2016 |
|--------------------------------|---------------------|--------------|
| Scholarships | \$ 3,042,071 | \$ 2,435,342 |
| Alumni activities | 31,948 | 28,554 |
| Education | 1,480,672 | 1,022,513 |
| Recruiting | 22,336 | 22,336 |
| Renovations and beautification | 9,655 | 9,655 |
| Other | 334,005 | 377,974 |
| | \$ 4,920,687 | \$ 3,896,374 |

NOTE 8: 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:

| <i>August 31,</i> | 2017 | 2016 |
|--------------------------|----------------------|--------------|
| Investments | \$ 10,066,530 | \$ 8,943,385 |
| Contributions receivable | 9,687 | 1,037,125 |
| | \$ 10,076,217 | \$ 9,980,510 |

NOTE 9: 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 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.

Houston Community College Foundation Notes to Financial Statements

NOTE 9: ENDOWMENT FUNDS (Continued)

The Foundation's 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.

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

| | 2017 | 2016 |
|-----------------------------------|----------------------|--------------|
| Temporarily restricted net assets | \$ 1,030,415 | \$ 649,396 |
| Permanently restricted net assets | 10,066,530 | 8,943,385 |
| | \$ 11,096,945 | \$ 9,592,781 |

**Houston Community College Foundation
Notes to Financial Statements**

NOTE 9: ENDOWMENT FUNDS (Continued)

Changes in Endowment Net Assets for the Years Ended August 31, 2017 and 2016

| | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------------|---------------------------|----------------------|
| Endowment net assets, August 31, 2015 | \$ 601,710 | \$ 6,734,714 | \$ 7,336,424 |
| Investment income | 211,665 | - | 211,665 |
| Net depreciation | (60,008) | - | (60,008) |
| Contributions | - | 2,208,671 | 2,208,671 |
| Appropriations of endowment assets for expenditure | (68,733) | - | (68,733) |
| Advisor fees | (35,238) | - | (35,238) |
| Endowment net assets, August 31, 2016 | 649,396 | 8,943,385 | 9,592,781 |
| Investment income | 227,660 | - | 227,660 |
| Net appreciation | 231,904 | - | 231,904 |
| Contributions | - | 1,123,145 | 1,123,145 |
| Appropriations of endowment assets for expenditure | (20,870) | - | (20,870) |
| Advisor fees | (57,675) | - | (57,675) |
| Endowment net assets, August 31, 2017 | \$ 1,030,415 | \$ 10,066,530 | \$ 11,096,945 |

NOTE 10: 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, 2017 and 2016 was \$1,024,490 and \$1,007,231, respectively, and was included in the financial statements as unrestricted in-kind revenue.

Beginning January 31, 2011, the Foundation amended their Memo of Understanding with the System to increase office space rent to \$14,400 per year. This agreement was renewed effective January 1, 2013 to extend the lease term through December 31, 2016 and then on a month to month basis at the same rental rate. Total rent expense paid for the years ended August 31, 2017 and 2016 totaled \$14,400.



Houston Community College Foundation Notes to Financial Statements

NOTE 10: SUPPORT AGREEMENT AND RELATED PARTY TRANSACTIONS (Continued)

During each year, the Foundation remits funds for student organizational related costs as well as scholarship funds to the System to cover tuition, books, and other student fees for specified students of the System. Additionally, the Foundation receives contributions for the benefit of faculty and staff at the System for various educational needs other than for scholarships and also disburses the funds to the System. During the years ended August 31, 2017 and 2016, funds disbursed or due to the System totaled \$2,395,671 and \$2,661,358, respectively. These funds are included in scholarship expense, grant distributions and other program services in the accompanying financial statements. Scholarship and grant funding of \$85,777 and \$360,305, was due to the System as of August 31, 2017 and 2016, respectively. This amount has been included in the due to related party balances in the accompanying financial statements.

The Foundation is the administrator for the System's vending services under a contract with the System for five years beginning March 1, 2014. Under the renewed contract, the Foundation is guaranteed an annual commission of \$210,000 to be paid in monthly installments at the end of each month of service. Revenue earned from the vending contract totaled \$210,000 for the years ended August 31, 2017 and 2016. Disbursements to the System totaled \$126,000 for the years ended August 31, 2017 and 2016. In accordance with the vending contract, funds due from the Foundation to the System at August 31, 2017 and 2016 totaled \$10,500. These amounts have been included in the due to related party balances in the accompanying financial statements.

For the years ended August 31, 2017 and 2016, the Foundation's expenses on behalf of the System totaled \$2,521,671 and \$2,787,358, respectively.