

# Houston Community College Foundation

Financial Statements

August 31, 2020 and 2019



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**Houston Community College Foundation**  
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**August 31, 2020 and 2019**

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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, 2020 and 2019, and the related statements of activities, functional expenses, 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, 2020 and 2019, 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.

*Carly Riggs & Ingram, L.L.C.*

Houston, Texas  
November 17, 2020

## Houston Community College Foundation Statements of Financial Position

<i>August 31,</i>	<b>2020</b>	2019
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 447,202	\$ 484,205
Contributions receivable, current	379,714	356,943
Prepays and other current assets	124,725	57,313
Total current assets	951,641	898,461
Noncurrent assets		
Contributions receivable, net of current	42,062	-
Investments	4,748,894	4,338,330
Investments, restricted for endowments	10,499,140	10,219,792
Total noncurrent assets	15,290,096	14,558,122
Total assets	\$ 16,241,737	\$ 15,456,583
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 21,982	\$ -
Due to related party	149,148	177,103
Total current liabilities	171,130	177,103
<b>Commitments and contingencies</b>		
<b>Net assets</b>		
Without donor restrictions	414,398	552,523
With donor restrictions	15,656,209	14,726,957
Total net assets	16,070,607	15,279,480
Total liabilities and net assets	\$ 16,241,737	\$ 15,456,583

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

## Houston Community College Foundation Statement of Activities

*For the year ended August 31,*

**2020**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and income</b>			
Contributions and donations	\$ 170,745	\$ 3,953,511	\$ 4,124,256
In-kind revenue from the System	1,403,949	-	1,403,949
Investment return, net	148,672	906,757	1,055,429
Vending and other income	122,500	-	122,500
Net assets released from restrictions	3,931,016	(3,931,016)	-
<b>Total support and income</b>	<b>5,776,882</b>	<b>929,252</b>	<b>6,706,134</b>
<b>Program services</b>			
Scholarships	1,192,733	-	1,192,733
Grant distributions	1,922,399	-	1,922,399
Student service distributions	84,000	-	84,000
Donated items	1,197,275	-	1,197,275
<b>Total program services</b>	<b>4,396,407</b>	<b>-</b>	<b>4,396,407</b>
<b>Support services</b>			
Fundraising	1,017,979	-	1,017,979
Administration	500,621	-	500,621
<b>Total support services</b>	<b>1,518,600</b>	<b>-</b>	<b>1,518,600</b>
<b>Total program and support services</b>	<b>5,915,007</b>	<b>-</b>	<b>5,915,007</b>
Change in net assets	(138,125)	929,252	791,127
<b>Net assets, beginning of year</b>	<b>552,523</b>	<b>14,726,957</b>	<b>15,279,480</b>
<b>Net assets, end of year</b>	<b>\$ 414,398</b>	<b>\$ 15,656,209</b>	<b>\$ 16,070,607</b>

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

## Houston Community College Foundation Statement of Activities

For the year ended August 31,

2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and income</b>			
Contributions and donations	\$ 252,126	\$ 2,503,871	\$ 2,755,997
In-kind revenue from the System	1,236,271	-	1,236,271
Investment return, net	170,398	(239,348)	(68,950)
Vending and other income	210,000	-	210,000
Net assets released from restrictions	3,120,482	(3,120,482)	-
<b>Total support and income</b>	<b>4,989,277</b>	<b>(855,959)</b>	<b>4,133,318</b>
<b>Program services</b>			
Scholarships	1,990,433	-	1,990,433
Grant distributions	1,463,417	-	1,463,417
Student service distributions	126,000	-	126,000
Donated items	275,316	-	275,316
<b>Total program services</b>	<b>3,855,166</b>	<b>-</b>	<b>3,855,166</b>
<b>Support services</b>			
Fundraising	808,800	-	808,800
Administration	439,845	-	439,845
<b>Total support services</b>	<b>1,248,645</b>	<b>-</b>	<b>1,248,645</b>
<b>Total program and support services</b>	<b>5,103,811</b>	<b>-</b>	<b>5,103,811</b>
Change in net assets	(114,534)	(855,959)	(970,493)
<b>Net assets, beginning of year</b>	<b>667,057</b>	<b>15,582,916</b>	<b>16,249,973</b>
<b>Net assets, end of year</b>	<b>\$ 552,523</b>	<b>\$ 14,726,957</b>	<b>\$ 15,279,480</b>

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

**Houston Community College Foundation  
Statement of Functional Expenses**

*For the year ended August 31,*

**2020**

	Program Services				Support Services		Total
	Scholarships	Grants	Student Services	Donated Items	Fundraising	Administrative	
Services provided to the System	\$ 1,131,531	\$ 1,742,408	\$ 84,000	\$ 1,017,284	\$ -	\$ -	\$ 3,975,223
Administrative support provided by the System	61,202	179,991	-	179,991	561,580	421,185	1,403,949
Bank fees	-	-	-	-	-	7,297	7,297
Travel, conferences and meals	-	-	-	-	-	14,257	14,257
Fundraising	-	-	-	-	268,944	-	268,944
Fundraising - inkind professional fees	-	-	-	-	132,208	-	132,208
Software expenses	-	-	-	-	55,247	-	55,247
Rent	-	-	-	-	-	14,400	14,400
Professional services	-	-	-	-	-	43,304	43,304
General expenses and supplies	-	-	-	-	-	178	178
<b>Total expenses</b>	<b>\$ 1,192,733</b>	<b>\$ 1,922,399</b>	<b>\$ 84,000</b>	<b>\$ 1,197,275</b>	<b>\$ 1,017,979</b>	<b>\$ 500,621</b>	<b>\$ 5,915,007</b>

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



**Houston Community College Foundation  
Statement of Functional Expenses**

*For the year ended August 31,*

2019

	Program Services				Support Services		Total
	Scholarships	Grants	Student Services	Donated Items	Fundraising	Administrative	
Services provided to the System	\$ 1,929,229	\$ 1,308,578	\$ 126,000	\$ 120,477	\$ -	\$ -	\$ 3,484,284
Administrative support provided by the System	61,204	154,839	-	154,839	494,508	370,881	1,236,271
Bank fees	-	-	-	-	-	11,832	11,832
Travel, conferences and meals	-	-	-	-	-	13,520	13,520
Fundraising	-	-	-	-	175,736	-	175,736
Fundraising - inkind professional services	-	-	-	-	83,308	-	83,308
Software expenses	-	-	-	-	55,248	-	55,248
Rent	-	-	-	-	-	14,400	14,400
Professional services	-	-	-	-	-	15,159	15,159
General expenses and supplies	-	-	-	-	-	10,539	10,539
Miscellaneous expenses	-	-	-	-	-	3,514	3,514
<b>Total expenses</b>	<b>\$ 1,990,433</b>	<b>\$ 1,463,417</b>	<b>\$ 126,000</b>	<b>\$ 275,316</b>	<b>\$ 808,800</b>	<b>\$ 439,845</b>	<b>\$ 5,103,811</b>

*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>	<b>2020</b>	<b>2019</b>
<b>Operating activities</b>		
Changes in net assets	\$ 791,127	\$ (970,493)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Contributions restricted for permanent endowments	(264,625)	(53,270)
Net realized and unrealized (gains) losses on investments	(711,881)	333,730
Change in operating assets and liabilities		
Contributions receivable	(64,833)	95,320
Prepays and other current assets	(67,412)	(2,065)
Accounts payable	21,982	-
Due to related party	(27,955)	(109,926)
<b>Total adjustments</b>	<b>(1,114,724)</b>	<b>263,789</b>
Net cash used in operating activities	(323,597)	(706,704)
<b>Investing activities</b>		
Proceeds from sale of investments	4,516,148	15,350,716
Purchases of investments	(4,494,179)	(14,653,852)
Net cash provided by investing activities	21,969	696,864
<b>Financing activities</b>		
Contributions restricted for permanent endowments	264,625	53,270
Change in cash and cash equivalents	(37,003)	43,430
Cash and cash equivalents, beginning of year	484,205	440,775
Cash and cash equivalents, end of year	\$ 447,202	\$ 484,205

*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.

The following program and supporting services are included in the accompanying financial statements:

- Scholarships are payments made to the System from funds raised from donors to cover tuition, fees and books on behalf of specified students of the System.
- Grant distributions are payments made to the System for student societies and departmental needs of the students, staff, and faculty of the System.
- Student Services are payments made to the System for vending income received on behalf of the System.
- Donated items are donations 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.

### 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 (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accountings Standards Updates (ASUs). 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:

*With donor restrictions* – Net assets with donor restrictions includes net assets subject to donor-imposed restrictions that may or will be met either by actions of the Foundation and/or the passage of time. Net assets with donor restrictions also includes funds subject to donor-imposed stipulations that they be maintained in perpetuity by the Foundation. The donors of these assets permit the Foundation to use all of the income earned on relative investments for general or specific use.

## Houston Community College Foundation Notes to Financial Statements

### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Without donor restrictions* – Net assets that are not subject to or are no longer subject to donor-imposed stipulations even though their use may be limited in other respects, such as by contract or board designation.

#### ***Reclassifications***

The financial statements include reclassifications that are made to conform to the current year presentation. These reclassifications did not impact the Foundation's reported net assets.

#### ***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).

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.

## Houston Community College Foundation Notes to Financial Statements

### **Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, which are mostly comprised of endowed funds, are invested for the purpose of generating income for scholarships and grants. The Foundation carries investments in marketable securities at fair value. Investment return is reported in the statements of activities as an increase in net assets without donor restrictions 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 in alignment with the Investment Spending Policy. The aggregate unrealized gains and losses on donor-restricted endowment net asset balances are included in net assets with donor restrictions in the financial statements.

#### ***Contributions***

Contributions are recognized when the unconditional promise to give is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Contributions received are classified as without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Support that is restricted in perpetuity by the donor is recorded as contributions with donor restrictions. In accordance with the donor restrictions, income earned from restricted net assets are recorded as with donor restrictions until such income is released from restrictions.

#### ***Donated Materials, Services, and Facilities***

The Foundation receives donated materials, services and staffing from the System and third parties. Materials, services and staffing donated to the Foundation by the System are mostly valued at the actual costs incurred by the System in making those in-kind donations and are reflected as in-kind revenue from the System and program and supporting expenses. Materials, administrative services, and staff salaries, benefits and professional development donated from the System to the Foundation are further described in Note 9 of these financial statements.

## Houston Community College Foundation Notes to Financial Statements

### **Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Approximately \$1,149,000 and \$204,000 have been reflected as contributions and donations in the accompanying financial statements for services, materials, and equipment donated by other parties to the Foundation during 2020 and 2019, respectively, of which approximately \$1,017,000 and \$120,000 were for the benefit of various departments at the System, respectively.

#### ***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, 2020 and 2019, management believes there were no uncertain tax positions.

#### ***Functional Allocation of Expenses***

The costs of providing the various program and supporting activities have been summarized on a functional basis in the statements of activities and statements of functional expenses. Costs are either charged directly to the program or supporting services based on specific identification or allocated among the program or supporting services benefited. Allocated expenses include administrative support (staff salaries, benefits and professional development) received from the System which is allocated based on estimate of time and effort among the program and supporting services.

#### ***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.

#### ***Newly Adopted Accounting Pronouncement***

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The amendments in this update assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This new guidance is effective for transactions in which an organization serves as a resource recipient for fiscal years beginning after December 15, 2018. Effective September 1, 2019, the Foundation adopted ASC 958. The adoption of this standard did not materially impact the Foundation's financial statements.

## Houston Community College Foundation Notes to Financial Statements

### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Recent Financial Accounting Pronouncement*

In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The amendments in this update apply to Not-for-Profit entities that receive contributed nonfinancial assets. Under the guidance, entities are required to (1) present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets and (2) disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statements of activities by category that depicts the type of contributed nonfinancial assets and certain qualitative information. This new guidance is required to be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021. Early adoption is permitted. The Foundation is currently evaluating the impact of the guidance on its financial statements.

#### *Subsequent Events*

The Foundation has evaluated subsequent events through the date the financial statements were available for issuance on November 17, 2020. No matters were identified affecting the financial statements and related disclosures.

### Note 3: LIQUIDITY AND AVAILABILITY OF RESOURCES

The following table reflects the Foundation's financial assets as of August 31, 2020 and 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year.

<i>August 31,</i>	<b>2020</b>	2019
Cash and cash equivalents	\$ 447,202	\$ 484,205
Contributions receivable	379,714	356,943
Investments	15,248,034	14,558,122
Total financial assets	<b>16,074,950</b>	15,399,270
Amounts restricted for programs	<b>(5,157,069)</b>	(4,507,165)
Amounts restricted for permanent endowment	<b>(10,499,140)</b>	(10,219,792)
Amounts available for general expenditure within one year	<b>\$ 418,741</b>	\$ 672,313

In addition to the available assets, the Foundation is supported by the System and System's funds are budgeted for administrative support to the Foundation for the fiscal year ending 2021 in the amount of \$1,131,575 (unaudited), excluding benefits.

## Houston Community College Foundation Notes to Financial Statements

### 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, 2020 and 2019, two donors and one donors accounted for 88% and 96% of contributions receivable, respectively. In 2020 and 2019, approximately 21% and 32% of contributions were provided by one donor, respectively.

### Note 5: CONTRIBUTIONS RECEIVABLE

Contributions are due to be collected as follows:

<i>August 31,</i>	<b>2020</b>	<b>2019</b>
Less than one year	\$ 379,714	\$ 356,943
One to five years	<b>42,062</b>	-
Total contributions receivable	<b>421,776</b>	356,943
Less: unamortized discount to net present value	-	-
Contributions receivable	<b>\$ 421,776</b>	<b>\$ 356,943</b>

### Note 6: INVESTMENTS AND 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.



## Houston Community College Foundation Notes to Financial Statements

### Note 6: INVESTMENTS AND FAIR VALUE INSTRUMENTS (Continued)

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).

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.

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.

## Houston Community College Foundation Notes to Financial Statements

### Note 6: INVESTMENTS AND FAIR VALUE INSTRUMENTS (Continued)

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
<b>August 31, 2020:</b>				
Current Use Funds:				
Bonds	\$ -	\$ 1,543,675	\$ -	\$ 1,543,675
Equity securities	467,198	-	-	467,198
Mutual Funds				
Municipal (1)	202,108	-	-	202,108
Global real estate (2)	15,582	-	-	15,582
Fixed income security (3)	760,314	-	-	760,314
<b>Total Current Use Funds</b>	<b>1,445,202</b>	<b>1,543,675</b>	<b>-</b>	<b>2,988,877</b>
Endowment Funds:				
Bonds	-	2,106,153	-	2,106,153
Equity securities	8,096,132	-	-	8,096,132
Mutual Funds				
Municipal (1)	250,576	-	-	250,576
Global real estate (2)	238,836	-	-	238,836
Fixed income security (3)	1,255,302	-	-	1,255,302
Alternative investments				
Salient Private Access Fund	-	-	300,301	300,301
				12,247,300
Investments in investees measured at net asset value				11,857
<b>Total Endowment Funds</b>	<b>9,840,846</b>	<b>2,106,153</b>	<b>300,301</b>	<b>12,259,157</b>
<b>Total investments</b>				<b>\$ 15,248,034</b>

## Houston Community College Foundation Notes to Financial Statements

### Note 6: INVESTMENTS AND FAIR VALUE INSTRUMENTS (Continued)

	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
<b>August 31, 2019:</b>				
Current Use Funds:				
Bonds	\$ -	\$ 1,401,290	\$ -	\$ 1,401,290
Mutual Funds				
Municipal (1)	1,544,137	-	-	1,544,137
<b>Total Current Use Funds</b>	<b>1,544,137</b>	<b>1,401,290</b>	<b>-</b>	<b>2,945,427</b>
Endowment Funds:				
Bonds	-	1,958,200	-	1,958,200
Equity securities	8,161,987	-	-	8,161,987
Mutual Funds				
Fixed income security (3)	634,545	-	-	634,545
Global real estate (2)	313,939	-	-	313,939
Treasury funds	196,797	-	-	196,797
Alternative investments				
Salient Private Access Fund	-	-	314,701	314,701
				11,580,169
Investments in investees measured at net asset value				32,526
<b>Total Endowment Funds</b>	<b>9,307,268</b>	<b>1,958,200</b>	<b>314,701</b>	<b>11,612,695</b>
<b>Total investments</b>				<b>\$ 14,558,122</b>

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 exposures to domestic and foreign companies in the real estate industry with a focus on investment trusts.
- (3) 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.

## Houston Community College Foundation Notes to Financial Statements

### Note 6: INVESTMENTS AND FAIR VALUE INSTRUMENTS (Continued)

The Foundation holds certain investments in bond funds that are not associated with the endowment fund. At August 31, 2020 and 2019, the Foundation held restricted bond investments of \$1,543,675 and \$1,401,290, respectively. The Foundation intends to hold the restricted bonds until maturity. For the years ended August 31, 2020 and 2019, the bonds had gross unrealized (losses) gains of (\$117,383) and \$34,543, respectively, which are included in net realized and unrealized gains (losses) in the statements of activities.

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

<i>For the Years Ended August 31,</i>	<b>2020</b>	2019
Balance, beginning of year	\$ 314,701	\$ 313,716
Purchases	3,772	797
Sales	(12,878)	(369)
Net realized losses	(22,569)	-
Net change in unrealized appreciation	17,275	557
Balance, end of year	<b>\$ 300,301</b>	\$ 314,701

### Note 7: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

<i>August 31,</i>	<b>2020</b>	2019
<b>Subject to expenditure for specific purpose</b>		
Scholarships	\$ 3,332,442	\$ 2,714,086
Alumni activities	11,597	11,572
Education	1,339,935	1,514,660
Recruiting	-	22,336
Renovations and beautification	441	9,895
Other	472,654	234,616
<b>Subject to spending policy and appropriation</b>		
Perpetual endowment fund	10,499,140	10,219,792
Total net assets with donor restrictions	<b>\$ 15,656,209</b>	\$ 14,726,957

## Houston Community College Foundation Notes to Financial Statements

### Note 8: 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, the Foundation classifies as net assets with donor restrictions perpetual in nature, the original value of the gifts donated to the permanent endowment. Net accumulations to the donor restricted endowment assets are classified as net assets with restrictions.

As a result of this interpretation, the Foundation classifies the amount specified by explicit donor stipulation as an endowment as net assets with donor restrictions. 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.

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. If such deficiencies of this nature exist, they would be reported in net assets with donor restrictions. The Board of Directors have interpreted the Act to permit spending from underwater endowments in accordance with prudent measures required by law. No endowments were underwater at August 31, 2020 or 2019.

## Houston Community College Foundation Notes to Financial Statements

### Note 8: 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*

<i>August 31,</i>	<b>2020</b>	2019
<b>With donor restrictions</b>		
Donor restricted endowment funds		
Original donor-restricted gift amount required to be retained by donor in perpetuity	\$ 10,430,578	\$ 10,219,792
Accumulated undistributed earnings on donor restricted net asset balance	2,056,030	1,157,116
<b>Total endowment net assets</b>	<b>\$ 12,486,608</b>	<b>\$ 11,376,908</b>

#### *Changes in Endowment Net Assets for the Years Ended August 31, 2020 and 2019*

	<u>With Donor Restrictions</u>		Total
	Accumulated gains and other	Original gift amount	
Endowment net assets, August 31, 2018	\$ 1,575,905	\$ 10,166,522	\$ 11,742,427
Investment income	257,111	-	257,111
Net depreciation	(408,697)	-	(408,697)
Contributions	-	53,270	53,270
Amounts appropriated for expenditures	(267,203)	-	(267,203)
Endowment net assets, August 31, 2019	1,157,116	10,219,792	11,376,908
<b>Investment income</b>	<b>311,933</b>	-	<b>311,933</b>
<b>Net appreciation</b>	<b>643,989</b>	-	<b>643,989</b>
<b>Contributions</b>	-	<b>210,786</b>	<b>210,786</b>
<b>Amounts appropriated for expenditures</b>	<b>(57,008)</b>	-	<b>(57,008)</b>
<b>Endowment net assets, August 31, 2020</b>	<b>\$ 2,056,030</b>	<b>\$ 10,430,578</b>	<b>\$ 12,486,608</b>

## Houston Community College Foundation Notes to Financial Statements

### **Note 9: SUPPORT AGREEMENT AND RELATED PARTY TRANSACTIONS**

The Foundation and the System have entered into a memo of understanding 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 and in accordance with the terms of the agreement. A new agreement was effective May 23, 2018. Administrative support provided includes an executive director and staff for the Foundation. The total support provided by the System to the Foundation in fiscal years ended August 31, 2020 and 2019 was \$1,403,949 and \$1,236,271, respectively, and was included in the financial statements as in-kind revenue.

The Foundation's amended agreement effective January 1, 2013, increased office space rent to \$14,400 per year. This agreement extended the lease term through December 31, 2016 and then on a month to month basis at the same rental rate. The Foundation's new agreement with the System effective May 23, 2018 also provides for use of office space which will be established under a separate lease agreement. The Foundation continues under the previous agreement on a month to month basis until the new lease agreement is executed. Total rent expense paid for each of the years ended August 31, 2020 and 2019 totaled \$14,400.

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, 2020 and 2019, funds disbursed or due to the System totaled \$3,891,223 and \$3,358,284, respectively. These funds are included within the scholarship expense, grant distributions, and donated items in the accompanying financial statements. Scholarship and grant funding of \$149,148 and \$156,103, was due to the System as of August 31, 2020 and 2019, 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, which automatically renews for one year terms, unless terminated by either party with 90 days written notice. 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. Due to the closure of campuses as a result of COVID-19, no vending commissions were earned from April 2020 through August 2020. Commissions began again in October 2020. Revenue earned from the vending contract totaled \$122,500 and \$210,000 for the years ended August 31, 2020 and 2019. Disbursements to the System totaled \$84,000 and \$126,000 for the years ended August 31, 2020 and 2019. In accordance with the vending contract, funds due from the Foundation to the System at August 31, 2019 totaled \$21,000 in the accompanying financial statements. No balance was due to the System as of August 31, 2020.

For the years ended August 31, 2020 and 2019, the Foundation's expenses on behalf of the System totaled \$3,975,223 and \$3,484,284, respectively.

## Houston Community College Foundation Notes to Financial Statements

### **Note 10: CONTINGENCY**

The continued spread of the COVID-19 pandemic has given a rise in uncertainties that may have a significant negative impact on the operating activities and results of the Foundation. The occurrence and extent of such impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are uncertain.