



Houston Community College Foundation

FINANCIAL STATEMENTS

August 31, 2021 and 2020



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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Houston Community College Foundation which comprise the statements of financial position as of August 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Houston Community College Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Houston Community College Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Houston Community College Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Houston Community College Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Carr, Riggs & Ingram, L.L.C.

Houston, Texas
November 8, 2021

Houston Community College Foundation Statements of Financial Position

<i>August 31,</i>	2021	2020
Assets		
Current assets		
Cash and cash equivalents	\$ 964,330	\$ 447,202
Contributions receivable, current	333,835	379,714
Prepays and other current assets	69,804	124,725
Total current assets	1,367,969	951,641
Noncurrent assets		
Contributions receivable, net of current	17,412	42,062
Investments	7,792,775	4,748,894
Investments, restricted for endowments	10,555,055	10,499,140
Total noncurrent assets	18,365,242	15,290,096
Total assets	\$ 19,733,211	\$ 16,241,737
Liabilities		
Current liabilities		
Accounts payable	\$ 500	\$ 21,982
Due to related party, net	412,891	149,148
Total current liabilities	413,391	171,130
Net assets		
Without donor restrictions	586,636	414,398
With donor restrictions	18,733,184	15,656,209
Total net assets	19,319,820	16,070,607
Total liabilities and net assets	\$ 19,733,211	\$ 16,241,737

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

Houston Community College Foundation Statement of Activities

For the year ended August 31,

2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and income			
Contributions and donations	\$ 379,096	\$ 5,670,283	\$ 6,049,379
In-kind revenue from the System	1,174,144	-	1,174,144
Investment return, net	166,145	2,659,297	2,825,442
Vending and other income	9,505	-	9,505
Net assets released from restrictions	5,252,605	(5,252,605)	-
Total support and income	6,981,495	3,076,975	10,058,470
Program services			
Scholarships	1,559,830	-	1,559,830
Grant distributions	2,293,811	-	2,293,811
Student service distributions	5,703	-	5,703
Donated items	1,677,891	-	1,677,891
Total program services	5,537,235	-	5,537,235
Support services			
Fundraising	776,460	-	776,460
Administration	495,562	-	495,562
Total support services	1,272,022	-	1,272,022
Total program and support services	6,809,257	-	6,809,257
Change in net assets	172,238	3,076,975	3,249,213
Net assets, beginning of year	414,398	15,656,209	16,070,607
Net assets, end of year	\$ 586,636	\$ 18,733,184	\$ 19,319,820

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
Support and income			
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)	-
Total support and income	5,776,882	929,252	6,706,134
Program services			
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
Total program services	4,396,407	-	4,396,407
Support services			
Fundraising	1,017,979	-	1,017,979
Administration	500,621	-	500,621
Total support services	1,518,600	-	1,518,600
Total program and support services	5,915,007	-	5,915,007
Change in net assets	(138,125)	929,252	791,127
Net assets, beginning of year	552,523	14,726,957	15,279,480
Net assets, end of year	\$ 414,398	\$ 15,656,209	\$ 16,070,607

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,

2021

	Program Services				Support Services		Total
	Scholarships	Grants	Student Services	Donated Items	Fundraising	Administrative	
Services provided to the System	\$ 1,492,507	\$ 2,129,870	\$ 5,703	\$ 1,513,950	\$ -	\$ -	\$ 5,142,030
Administrative support provided by the System	67,323	163,941	-	163,941	383,745	395,193	1,174,143
Bank fees	-	-	-	-	-	12,134	12,134
Travel, conferences and meals	-	-	-	-	-	3,902	3,902
Fundraising	-	-	-	-	253,430	-	253,430
Fundraising - inkind professional fees	-	-	-	-	84,038	-	84,038
Software expenses	-	-	-	-	55,247	-	55,247
Rent	-	-	-	-	-	14,400	14,400
Professional services	-	-	-	-	-	63,797	63,797
General expenses and supplies	-	-	-	-	-	6,136	6,136
Total expenses	\$ 1,559,830	\$ 2,293,811	\$ 5,703	\$ 1,677,891	\$ 776,460	\$ 495,562	\$ 6,809,257

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
Total expenses	\$ 1,192,733	\$ 1,922,399	\$ 84,000	\$ 1,197,275	\$ 1,017,979	\$ 500,621	\$ 5,915,007

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>	2021	2020
Operating activities		
Changes in net assets	\$ 3,249,213	\$ 791,127
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributions restricted for permanent endowments	(99,477)	(264,625)
Net realized and unrealized (gains) losses on investments	(2,559,613)	(711,881)
Change in operating assets and liabilities		
Contributions receivable	70,529	(64,833)
Prepays and other current assets	54,921	(67,412)
Accounts payable	(21,482)	21,982
Due to related party, net	263,743	(27,955)
Total adjustments	(2,291,379)	(1,114,724)
Net cash provided by (used in) operating activities	957,834	(323,597)
Investing activities		
Proceeds from sale of investments	8,666,003	4,516,148
Purchases of investments	(9,206,186)	(4,494,179)
Net cash provided by (used in) investing activities	(540,183)	21,969
Financing activities		
Contributions restricted for permanent endowments	99,477	264,625
Change in cash and cash equivalents	517,128	(37,003)
Cash and cash equivalents, beginning of year	447,202	484,205
Cash and cash equivalents, end of year	\$ 964,330	\$ 447,202

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

Houston Community College Foundation

Notes to Financial Statements

Note 1: DESCRIPTION OF THE 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

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (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).

Use of Estimates

The preparation of U.S. GAAP financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and 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.

Houston Community College Foundation

Notes to 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. 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

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 or explicitly waived by the donor.

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 reports equity securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. 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.

Houston Community College Foundation

Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Net Assets

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.

Without donor restrictions – Net assets that are available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Foundation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Houston Community College Foundation

Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Approximately \$1,598,000 and \$1,149,000 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 2021 and 2020, respectively, of which approximately \$1,514,000 and \$1,017,000 were for the benefit of various departments at the System, respectively.

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 estimates of time and effort among the program and supporting services.

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, 2021 and 2020, management believes there were no uncertain tax positions.

Houston Community College Foundation

Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Accounting Pronouncements

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 8, 2021. No matters were identified affecting the financial statements and related disclosures. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Note 3: LIQUIDITY AND AVAILABILITY OF RESOURCES

The following table reflects the Foundation's financial assets as of August 31, 2021 and 2020, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year.

<i>August 31,</i>	2021	2020
Cash and cash equivalents	\$ 964,330	\$ 447,202
Contributions receivable	333,835	379,714
Investments	18,347,830	15,248,034
Total financial assets	19,645,995	16,074,950
Amounts restricted for programs	(8,134,567)	(5,157,069)
Amounts restricted for permanent endowment	(10,598,617)	(10,499,140)
Amounts available for general expenditure within one year	\$ 912,811	\$ 418,741

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 2022 in the amount of \$1,149,948 (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 common stocks, exchange traded funds, corporate 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, 2021 and 2020, approximately 93% and 88% of contributions receivables were due from two donors, respectively. In 2021 and 2020, two donors and one donor accounted for approximately 14% and 21% of contributions, respectively.

Note 5: CONTRIBUTIONS RECEIVABLE

Contributions are due to be collected as follows:

<i>August 31,</i>	2021	2020
Less than one year	\$ 333,835	\$ 379,714
One to five years	17,412	42,062
Total contributions receivable	\$ 351,247	\$ 421,776

Houston Community College Foundation

Notes to Financial Statements

Note 6: INVESTMENTS AND FAIR VALUE INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (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. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs, other than quoted prices, that are:
 - observable; or
 - can be corroborated by observable market data.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2021 and 2020.

Common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

Houston Community College Foundation

Notes to Financial Statements

Note 6: INVESTMENTS AND FAIR VALUE INSTRUMENTS (Continued)

Exchange traded funds (ETFs): Valued at daily NAV as reported by the fund.

Alternative investments: Measured using 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.

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 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 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.
- (4) The investment seeks to replicate investment composition and overall performance of stocks in S&P 500 Index by tracking performance of the global investable equity markets in both developed and emerging markets worldwide.
- (5) The investment seeks potentially higher yields than a portfolio that only invests in Treasury securities, while maintaining high credit quality.

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, 2021:				
Current Use Funds:				
Corporate bonds	\$ -	\$ 232,509	\$ -	\$ 232,509
Exchange traded funds	617,510	-	-	617,510
Mutual Funds				
Municipal (1)	844,220	-	-	844,220
Global real estate (2)	17,444	-	-	17,444
Fixed income security (3)	1,204,730	-	-	1,204,730
Common stock (4)	361,690	-	-	361,690
Money market (5)	133,415	-	-	133,415
Total Current Use Funds	3,179,009	232,509	-	3,411,518
Endowment Funds:				
Common stocks	2,020,486	-	-	2,020,486
Exchange traded funds	2,695,924	-	-	2,695,924
Mutual Funds				
Municipal (1)	285,647	-	-	285,647
Fixed income security (3)	1,163,522	-	-	1,163,522
Common stock (4)	8,272,972	-	-	8,272,972
Money market (5)	169,688	-	-	169,688
Alternative investments				
Salient Private Access Fund	-	-	328,073	328,073
Total Endowment Funds	14,608,239	-	328,073	14,936,312
Total investments				\$ 18,347,830

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
August 31, 2020:				
Current Use Funds:				
Corporate bonds	\$ -	\$ 487,043	\$ -	\$ 487,043
Exchange traded funds	643,548		-	643,548
Mutual Funds				
Municipal (1)	759,835	-	-	759,835
Global real estate (2)	15,582	-	-	15,582
Fixed income security (3)	485,076	-	-	485,076
Common stock (4)	395,685	-	-	395,685
Money market (5)	202,108	-	-	202,108
Total Current Use Funds	2,501,834	487,043	-	2,988,877
Endowment Funds:				
Exchange traded funds	1,722,811	-	-	1,722,811
Mutual Funds				
Municipal (1)	637,934	-	-	637,934
Global real estate (2)	238,836	-	-	238,836
Fixed income security (3)	2,356,728	-	-	2,356,728
Common stock (4)	6,990,690	-	-	6,990,690
Alternative investments				
Salient Private Access Fund	-	-	300,301	300,301
				12,247,300
Investments measured at net asset value				11,857
Total Endowment Funds	11,946,999	-	300,301	12,259,157
Total investments				\$ 15,248,034

The Foundation holds certain investments in corporate bonds that are not associated with the endowment fund. At August 31, 2021 and 2020, the Foundation held restricted bond investments of \$232,509 and \$487,043, respectively. The Foundation intends to hold the restricted bonds until maturity. For the years ended August 31, 2021 and 2020, the bonds had gross unrealized losses of (\$2,463) and (\$5,579), respectively, which are included in net investment return in the statements of activities.

Houston Community College Foundation Notes to Financial Statements

Note 6: INVESTMENTS AND FAIR VALUE INSTRUMENTS (Continued)

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>	2021	2020
Balance, beginning of year	\$ 300,301	\$ 314,701
Purchases	-	3,772
Sales	(25,270)	(12,878)
Net realized gains (losses)	13,150	(22,569)
Net change in unrealized appreciation	39,892	17,275
Balance, end of year	\$ 328,073	\$ 300,301

Note 7: NET ASSETS WITH DONOR RESTRICTIONS

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

<i>August 31,</i>	2021	2020
Subject to expenditure for specific purpose		
Scholarships	\$ 6,025,240	\$ 3,332,442
Alumni activities	11,597	11,597
Education	1,908,457	1,339,935
Renovations and beautification	441	441
Other	188,832	472,654
Subject to spending policy and appropriation		
Perpetual endowment fund	10,598,617	10,499,140
Total net assets with donor restrictions	\$ 18,733,184	\$ 15,656,209

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, 2021 or 2020.

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>	2021	2020
With donor restrictions		
Donor restricted endowment funds		
Original donor-restricted gift amount required to be retained by donor in perpetuity	\$ 10,555,055	\$ 10,430,578
Accumulated undistributed earnings on donor restricted net asset balance	4,715,327	2,056,030
Total endowment net assets	\$ 15,270,382	\$ 12,486,608

Changes in Endowment Net Assets for the Years Ended August 31, 2021 and 2020

	<u>With Donor Restrictions</u>		
	Accumulated gains and other	Original gift amount	Total
Endowment net assets, August 31, 2019	\$ 1,157,116	\$ 10,219,792	\$ 11,376,908
Investment income	311,933	-	311,933
Net appreciation	643,989	-	643,989
Contributions	-	210,786	210,786
Amounts appropriated for expenditures	(57,008)	-	(57,008)
Endowment net assets, August 31, 2020	2,056,030	10,430,578	12,486,608
Investment income	266,822	-	266,822
Net appreciation	2,451,860	-	2,451,860
Contributions	-	124,477	124,477
Amounts appropriated for expenditures	(59,385)	-	(59,385)
Endowment net assets, August 31, 2021	\$ 4,715,327	\$ 10,555,055	\$ 15,270,382

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 Foundation president and staff. The total support provided by the System to the Foundation in fiscal years ended August 31, 2021 and 2020 was \$1,174,143 and \$1,403,949, 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, 2021 and 2020 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, 2021 and 2020, funds disbursed or due to the System totaled \$5,136,327 and \$3,891,223, respectively. These funds are included within the scholarship expense, grant distributions, and donated items in the accompanying financial statements. Scholarship and grant funding of \$538,988 and \$149,148 was due to the system as of August 31, 2021 and 2020, respectively. In addition, as of August 31, 2021, the System owed the Foundation \$129,303 for refunds of grant distributions of which the intent could not be met. These amounts have been included in the due to related party balances, net in the accompanying financial statements.

For fiscal year 2020 and part of fiscal year 2021, the Foundation was the administrator for the System's vending services under a contract with the System for five years beginning March 1, 2014, which automatically renewed 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. The contract was amended in September 2020 that moved the month-to-month fixed commission payment to a percentage between 26.1% or 26.4% per month. 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. On April 30, 2021, the System selected and executed an agreement with a new vending services provider. Under the terms of the new vending services provider agreement, the administrator is the System and the monthly commissions are remitted to the Foundation for processing. Vending commissions vary based on usage at a rate of 30.5% to 35.5% per item. Revenue earned from the vending contracts totaled \$9,505 and \$122,500 for the years ended August 31, 2021 and 2020, respectively. Disbursements to the System totaled \$5,703 and \$84,000 for the years ended August 31, 2021 and 2020, respectively. At August 31, 2021, \$3,206 was due to the System. No balance related to the vending contract was due to the System as of August 31, 2020.

Houston Community College Foundation

Notes to Financial Statements

Note 9: SUPPORT AGREEMENT AND RELATED PARTY TRANSACTIONS (Continued)

For the years ended August 31, 2021 and 2020, the Foundation's expenses on behalf of the System totaled \$5,142,030 and \$3,975,223, respectively.

Note 10: UNCERTAINTIES

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. The continued spread of the COVID-19 pandemic has given rise to 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) voluntary and precautionary restrictions of travel and meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.