



Houston Community College Foundation

FINANCIAL STATEMENTS

August 31, 2023 and 2022



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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, 2023 and 2022, 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, 2023 and 2022, 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 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, Rigg & Ungar, L.L.C.

Houston, Texas
November 16, 2023

Houston Community College Foundation Statements of Financial Position

<i>August 31,</i>	2023	2022
Assets		
Current assets		
Cash and cash equivalents	\$ 1,875,714	\$ 1,739,847
Contributions receivable, current	849,892	404,175
Prepays and other current assets	126,546	79,976
Total current assets	2,852,152	2,223,998
Noncurrent assets		
Contributions receivable, net of current	153,334	149,639
Investments	6,316,123	5,766,995
Cash equivalents, restricted for endowments	395,310	175,102
Investments, restricted for endowments	10,677,965	10,639,732
Total noncurrent assets	17,542,732	16,731,468
Total assets	\$ 20,394,884	\$ 18,955,466
Liabilities		
Current liabilities		
Due to related party	\$ 711,494	\$ 1,156,671
Total current liabilities	711,494	1,156,671
Net assets		
Without donor restrictions	281,516	326,663
With donor restrictions	19,401,874	17,472,132
Total net assets	19,683,390	17,798,795
Total liabilities and net assets	\$ 20,394,884	\$ 18,955,466

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

Houston Community College Foundation Statement of Activities

For the year ended August 31,

2023

	Without Donor Restrictions	With Donor Restrictions	Total
Support and income			
Contributions	\$ 406,273	\$ 5,122,069	\$ 5,528,342
Contributions of nonfinancial assets	25,866	1,627,148	1,653,014
Contributions of nonfinancial assets from the System	1,446,248	-	1,446,248
Investment return, net	63,723	1,053,710	1,117,433
Vending and other income	120,618	-	120,618
Net assets released from restrictions	5,873,185	(5,873,185)	-
Total support and income	7,935,913	1,929,742	9,865,655
Program services			
Scholarships	2,432,097	-	2,432,097
Grant distributions	2,342,652	-	2,342,652
Donated items	1,801,601	-	1,801,601
Total program services	6,576,350	-	6,576,350
Support services			
Administration	564,069	-	564,069
Fundraising	840,641	-	840,641
Total support services	1,404,710	-	1,404,710
Total program and support services	7,981,060	-	7,981,060
Change in net assets	(45,147)	1,929,742	1,884,595
Net assets, beginning of year	326,663	17,472,132	17,798,795
Net assets, end of year	\$ 281,516	\$ 19,401,874	\$ 19,683,390

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

Houston Community College Foundation Statement of Activities

<i>For the year ended August 31,</i>	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and income			
Contributions	\$ 201,829	\$ 4,549,824	\$ 4,751,653
Special event - Gala	518,582	170,000	688,582
Less: Direct donor benefit	(115,969)	-	(115,969)
Contributions of nonfinancial assets	133,509	934,972	1,068,481
Contributions of nonfinancial assets from the System	1,368,141	-	1,368,141
Investment return, net	(410,727)	(1,874,422)	(2,285,149)
Vending and other income	150,993	-	150,993
Net assets released from restrictions	5,041,426	(5,041,426)	-
Total support and income	6,887,784	(1,261,052)	5,626,732
Program services			
Scholarships	1,802,329	-	1,802,329
Grant distributions	2,593,723	-	2,593,723
Student service distributions	39,915	-	39,915
Donated items	1,117,493	-	1,117,493
Total program services	5,553,460	-	5,553,460
Support services			
Administration	561,699	-	561,699
Fundraising	1,032,598	-	1,032,598
Total support services	1,594,297	-	1,594,297
Total program and support services	7,147,757	-	7,147,757
Change in net assets	(259,973)	(1,261,052)	(1,521,025)
Net assets, beginning of year	586,636	18,733,184	19,319,820
Net assets, end of year	\$ 326,663	\$ 17,472,132	\$ 17,798,795

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,

2023

	Program Services			Support Services		
	Scholarships	Grants	Donated Items	Administrative	Fundraising	Total
Services provided to the System	\$ 2,283,205	\$ 2,168,199	\$ 1,627,148	\$ -	\$ -	\$ 6,078,552
Administrative support provided by the System	145,600	170,596	170,596	486,779	472,677	1,446,248
Bank fees	-	-	-	13,953	-	13,953
Events and campaigns - venues and related expenses	-	-	-	-	137,796	137,796
Donor hospitality	-	-	-	-	49,975	49,975
Software expenses	-	-	-	-	55,247	55,247
Rent	1,450	1,699	1,699	4,847	4,705	14,400
Professional services	-	-	-	52,333	114,260	166,593
General expenses and supplies	1,842	2,158	2,158	6,157	5,981	18,296
Total expenses	\$ 2,432,097	\$ 2,342,652	\$ 1,801,601	\$ 564,069	\$ 840,641	\$ 7,981,060

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,

2022

	Program Services				Support Services		
	Scholarships	Grants	Student Services	Donated Items	Administrative	Fundraising	Total
Services provided to the System	\$ 1,706,868	\$ 2,411,202	\$ 39,915	\$ 934,972	\$ -	\$ -	\$ 5,092,957
Administrative support provided by the System	95,461	182,521	-	182,521	460,488	447,150	1,368,141
Bank fees	-	-	-	-	14,842	-	14,842
Events and campaigns - venues and related expenses	-	-	-	-	-	395,084	395,084
Donor hospitality	-	-	-	-	-	52,211	52,211
Software expenses	-	-	-	-	-	55,247	55,247
Rent	-	-	-	-	14,400	-	14,400
Professional services	-	-	-	-	49,996	198,875	248,871
General expenses and supplies	-	-	-	-	21,973	-	21,973
Total expenses	1,802,329	2,593,723	39,915	1,117,493	561,699	1,148,567	7,263,726
Less: Direct donor benefits	-	-	-	-	-	(115,969)	(115,969)
Total expenses - Statement of Activities	\$ 1,802,329	\$ 2,593,723	\$ 39,915	\$ 1,117,493	\$ 561,699	\$ 1,032,598	\$ 7,147,757

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>	2023	2022
Operating activities		
Changes in net assets	\$ 1,884,595	\$ (1,521,025)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for permanent endowments	(285,108)	(416,217)
Net realized and unrealized (gains) losses on investments	(660,874)	2,677,202
Change in operating assets and liabilities		
Contributions receivable	(422,745)	(46,129)
Prepays and other current assets	(46,570)	(10,172)
Accounts payable	-	(500)
Due to related party	(445,177)	743,780
Total adjustments	(1,860,474)	2,947,964
Net cash provided by operating activities	24,121	1,426,939
Investing activities		
Proceeds from sales of investments	30,284,190	8,011,619
Purchases of investments	(30,210,677)	(8,747,718)
Net cash provided by (used in) investing activities	73,513	(736,099)
Financing activities		
Contributions restricted for permanent endowments	258,441	259,779
Change in cash, cash equivalents and restricted cash equivalents	356,075	950,619
Cash, cash equivalents and restricted cash equivalents, beginning of year	1,914,949	964,330
Cash, cash equivalents and restricted cash equivalents, end of year	\$ 2,271,024	\$ 1,914,949
Reconciliation of cash, cash equivalents and restricted cash equivalents		
Cash and cash equivalents	\$ 1,875,714	\$ 1,739,847
Cash equivalents, restricted for endowments	395,310	175,102
Total cash, cash equivalents and restricted cash equivalents	\$ 2,271,024	\$ 1,914,949

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 Endowment 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 during its operations.

Houston Community College Foundation Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

The Foundation recognizes contributions when cash, other assets, or an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been met or the donor has explicitly removed the conditions. 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. Special event – gala revenue is comprised of an exchange element based upon the direct benefit donors receive and a contribution element for the difference. Special events revenue associated with the exchange portion is recognized when the event occurs. Cost of direct benefits to donors represents the cost of goods and services provided to the event attendees, and are considered exchange transactions. There were no direct benefits to donors for the year ended August 31, 2023. Direct benefits to donors totals \$115,969 for the year ended August 31, 2022.

Donated Materials and Services

Donated materials are reflected as contributions in the accompanying financial statements at their estimated value on the date of receipt if an objective basis is available to measure the fair value of such items and a corresponding expense in an amount approximating the estimated fair value at the time of donation. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Functional Allocation of Expenses

The costs of providing the various programs 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, rent, and general expenses and supplies, which are 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.

Houston Community College Foundation Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2023 and 2022, management believes there were no uncertain tax positions.

Reclassifications

Certain 2022 amounts have been reclassified to conform to current year presentation. The reclassifications had no impact on total net assets.

Subsequent Events

The Foundation has evaluated subsequent events through the date the financial statements were available for issuance on November 16, 2023. 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, 2023 and 2022, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year.

<i>August 31,</i>	2023	2022
Cash and cash equivalents	\$ 2,271,024	\$ 1,914,949
Contributions receivable	1,003,226	553,814
Investments	16,994,088	16,406,727
Total financial assets	20,268,338	18,875,490
Amounts restricted for programs	(8,101,932)	(6,457,298)
Amounts restricted for permanent endowment	(11,299,942)	(11,014,834)
Amounts available for general expenditure within one year	\$ 866,464	\$ 1,403,358

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 2024 in the amount of \$1,867,511 (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 downturn 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 in cash accounts due the strength of the financial institutions in which the funds are held.

As of August 31, 2023 and 2022, approximately 77% and 71% of contributions receivables were due from four and three donors, respectively. For each of the years ending 2023 and 2022, the Foundation had one donor account for approximately 15% of contributions.

Note 5: CONTRIBUTIONS RECEIVABLE

Contributions are due to be collected as follows:

<i>August 31,</i>	2023	2022
Less than one year	\$ 849,892	\$ 404,175
One to five years	153,334	149,639
Total contributions receivable	\$ 1,003,226	\$ 553,814

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;

Houston Community College Foundation Notes to Financial Statements

Note 6: INVESTMENTS AND FAIR VALUE INSTRUMENTS (Continued)

- 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 on August 31, 2023 and 2022.

Common stocks and fixed income: 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.

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

Alternative investments: 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 holdback 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 6: INVESTMENTS AND 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 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, 2023:				
Current Use Funds:				
Fixed income	\$ 319,955	\$ -	\$ -	\$ 319,955
Exchange traded funds	2,305,637	-	-	2,305,637
Mutual Funds				
Municipal (1)	545,756	-	-	545,756
Common stock (4)	113,769	-	-	113,769
Money market (5)	1,480	-	-	1,480
Total Current Use Funds	3,286,597	-	-	3,286,597

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, 2023:				
Endowment Funds:				
Common stocks	\$ 1,700,626	\$ -	\$ -	\$ 1,700,626
Exchange traded funds	7,236,944	-	-	7,236,944
Fixed income	976,072	-	-	976,072
Mutual Funds				
Common stock (4)	3,480,664	-	-	3,480,664
Alternative investments				
Salient Private Access Fund	-	-	313,185	313,185
Total Endowment Funds	13,394,306	-	313,185	13,707,491
Total investments				\$ 16,994,088

August 31, 2022:				
Current Use Funds:				
Corporate bonds	\$ -	\$ 99,367	\$ -	\$ 99,367
Exchange traded funds	2,293,926	-	-	2,293,926
Mutual Funds				
Municipal (1)	840,343	-	-	840,343
Global real estate (2)	280	-	-	280
Common stock (4)	230,562	-	-	230,562
Money market (5)	68,259	-	-	68,259
Total Current Use Funds	3,433,370	99,367	-	3,532,737
Endowment Funds:				
Common stocks	1,896,468	-	-	1,896,468
Exchange traded funds	4,455,063	-	-	4,455,063
Mutual Funds				
Municipal (1)	190,240	-	-	190,240
Fixed income security (3)	1,046	-	-	1,046
Common stock (4)	6,003,744	-	-	6,003,744
Alternative investments				
Salient Private Access Fund	-	-	327,429	327,429
Total Endowment Funds	12,546,561	-	327,429	12,873,990
Total investments				\$ 16,406,727

Houston Community College Foundation Notes to Financial Statements

Note 6: INVESTMENTS AND FAIR VALUE INSTRUMENTS (Continued)

The Foundation held certain investments in corporate bonds that were not associated with the endowment fund. At August 31, 2022, the Foundation held restricted bond investments of \$99,367. The Foundation held these restricted bonds until maturity in August 2023.

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>	2023	2022
Balance, beginning of year	\$ 327,429	\$ 328,073
Net change in unrealized depreciation	(14,244)	(644)
Balance, end of year	\$ 313,185	\$ 327,429

Note 7: DONATED GOODS AND SERVICES

Contributed nonfinancial assets recognized within the statements of activities include:

<i>For the years ended August 31,</i>	2023	2022
Property and equipment	\$ 1,474,301	\$ 934,972
Books	54,851	-
Art Supplies	77,582	-
Services	-	96,042
Miscellaneous monetized	46,280	37,467
Total	\$ 1,653,014	\$ 1,068,481

The Foundation recognized contributed nonfinancial assets within revenue, including donated property and equipment, books, supplies and services. The Foundation's policy related to contributed nonfinancial assets is to utilize the assets given to carry out the mission of the Foundation. If an asset is provided that does not allow the Foundation to utilize it in its normal course of business, the asset will be sold at its fair market value.

Property and equipment related donor restricted donations primarily included laptops, iPads, Chromebooks, and subscription and license agreements that were utilized by the students of the System. These items have been recorded based on the retail values of the products sold by the donors.

The Foundation also received donor restricted book donations utilized by students of the System from a local business. The books are recorded at estimated retail value.

Art supplies received with donor restrictions to be utilized by the students of the System and are recorded at estimated retail value.

Houston Community College Foundation Notes to Financial Statements

Note 7: DONATED GOODS AND SERVICES (Continued)

Contributed services include services provided for the Foundation’s fundraising events and graphic and marketing support and are without donor restriction. Contributed services are valued based on standard hours charged for those services. No contributed services for the direct use by the Foundation were received during 2023.

Approximately \$1,627,000 and \$935,000 of contributed nonfinancial assets for services, materials and equipment donated by other parties to the Foundation during 2023 and 2022, respectively, were for the benefit of and transferred to various departments at the System and are reflected as program costs in the accompanying financial statements.

Contributed nonfinancial assets received from the System and recognized within the statements of activities included:

<i>For the years ended August 31,</i>	2023	2022
Salaries and wages	\$ 1,153,490	\$ 1,092,295
Benefits	209,646	209,238
Supplies and general expenses	15,863	16,198
Travel	6,814	3,480
Contracted services	10,208	8,584
Other institutional expenditures	50,227	38,346
Total	\$ 1,446,248	\$ 1,368,141

The Foundation receives donated materials, services and staffing, without donor restrictions, from the System. Materials, services and staffing donated to the Foundation by the System are mostly valued at the actual costs incurred by the System and are reflected as contributed nonfinancial assets from the System and program and supporting expenses. Materials, administrative services, staff salaries, benefits and professional development donated from the System to the Foundation are further described in Note 10 of these financial statements.

Houston Community College Foundation Notes to Financial Statements

Note 8: NET ASSETS WITH DONOR RESTRICTIONS

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

<i>August 31,</i>	2023	2022
Subject to expenditure for specific purpose		
Scholarships	\$ 5,250,352	\$ 4,108,713
Alumni activities	11,597	11,597
Education	2,718,470	2,276,806
Renovations and beautification	441	441
Other	121,072	59,741
Subject to spending policy and appropriation		
Perpetual endowment fund	11,299,942	11,014,834
Total net assets with donor restrictions	\$ 19,401,874	\$ 17,472,132

Perpetual in nature net assets consist of the following:

<i>August 31,</i>	2023	2022
Investments and cash equivalents restricted for endowments	\$ 11,073,275	\$ 10,814,834
Contributions receivable	226,667	200,000
	\$ 11,299,942	\$ 11,014,834

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, 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.

Houston Community College Foundation Notes to Financial Statements

Note 9: ENDOWMENT FUNDS (Continued)

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 taken a prudent position to restrict spending from underwater endowments. No endowments were underwater at August 31, 2023 or 2022.

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>	2023	2022
With donor restrictions		
Donor restricted endowment funds		
Original donor-restricted gift amount required to be retained by donor in perpetuity	\$ 11,073,275	\$ 10,814,834
Accumulated undistributed earnings on donor restricted net asset balance	3,677,552	2,840,905
Total endowment net assets	\$ 14,750,827	\$ 13,655,739

Houston Community College Foundation
Notes to Financial Statements

Note 9: ENDOWMENT FUNDS (Continued)

Changes in Endowment Net Assets for the Years Ended August 31, 2023 and 2022

	With Donor Restrictions		Total
	Accumulated gains and other	Original gift amount	
Endowment net assets, August 31, 2021	\$ 4,715,327	\$ 10,555,055	\$ 15,270,382
Investment income	380,234	-	380,234
Net depreciation	(2,189,750)	-	(2,189,750)
Contributions	-	259,779	259,779
Amounts appropriated for expenditure	(64,906)	-	(64,906)
Endowment net assets, August 31, 2022	2,840,905	10,814,834	13,655,739
Investment income	391,816	-	391,816
Net appreciation	728,388	-	728,388
Contributions	-	258,441	258,441
Amounts appropriated for expenditure	(283,557)	-	(283,557)
Endowment net assets, August 31, 2023	\$ 3,677,552	\$ 11,073,275	\$ 14,750,827

Note 10: 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 for the fiscal years ended August 31, 2023 and 2022 totaled \$1,446,248 and \$1,368,141, respectively, and is included in the financial statements as contributed nonfinancial assets.

The Foundation's amended agreement effective January 1, 2013, includes office space rent of \$14,400 per year. This agreement also 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, and therefore no obligation is recorded under ASC 842, *Leases*. Total rent expense paid for each of the years ended August 31, 2023 and 2022 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, 2023 and 2022, funds disbursed or due to the System totaled \$6,078,552 and \$5,053,042, respectively. These funds are included within the scholarship expense, grant distributions, and donated items in the accompanying financial statements. Scholarship and grant funding of \$711,494 and \$1,134,408 was due to the System as of August 31, 2023 and 2022, respectively.

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 contract was \$66,993 for the year ended August 31, 2022. In accordance with the terms of the contract, disbursements to the System totaled \$39,915 for the year ended August 31, 2022. At August 31 2022, there was \$22,263 due to the System under the vending contract. Effective September 1, 2022, the System entered into a new contract with the vending services provider that requires month-to-month fixed commission payments by the vendor. Revenue earned from the vending contract was \$120,618 for the year ended August 31, 2023.

For the years ended August 31, 2023 and 2022, the Foundation's expenses on behalf of the System totaled \$6,078,552 and \$5,092,957, respectively. For the year ended August 31, 2022, the System provided an additional \$84,000 to the Foundation to fund operations and these funds were recorded in vending and other income in the statement of activities.