

# Houston Community College Foundation

**Financial Statements**


**August 31, 2019 and 2018**



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**Houston Community College Foundation**  
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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of Houston Community College Foundation (the Foundation), which comprise the statements of financial position as of August 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Houston Community College Foundation as of August 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 2 to the financial statements, management has adopted Financial Accounting Standards Board ASU 2016-14, Not-for-Profit Entities (Topic 958); this new standard requires changes to be made in how net assets are classified based on donor restrictions and has added multiple new disclosures. Our opinion is not modified with respect to that matter.

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

Houston, Texas  
November 14, 2019

## Houston Community College Foundation Statements of Financial Position

<i>August 31,</i>	2019	2018
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 484,205	\$ 440,775
Contributions receivable	356,943	452,263
Prepays and other current assets	57,313	55,248
Total current assets	898,461	948,286
Noncurrent assets		
Investments	4,338,330	5,422,194
Investments, restricted for endowments	10,219,792	10,166,522
Total noncurrent assets	14,558,122	15,588,716
Total assets	\$ 15,456,583	\$ 16,537,002
<b>Liabilities</b>		
Current liabilities		
Due to related party	\$ 177,103	\$ 287,029
Total current liabilities	177,103	287,029
<b>Commitments and contingencies</b>		
<b>Net assets</b>		
Without donor restrictions	552,523	667,057
With donor restrictions	14,726,957	15,582,916
Total net assets	15,279,480	16,249,973
Total liabilities and net assets	\$ 15,456,583	\$ 16,537,002

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

## Houston Community College Foundation Statement of Activities

*For the year ended August 31,*

**2019**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and income</b>			
Contributions and donations	\$ 252,126	\$ 2,503,871	\$ 2,755,997
In-kind revenue from the System	1,236,271	-	1,236,271
Investment return, net	170,398	(239,348)	(68,950)
Vending and other income	210,000	-	210,000
Net assets released from restrictions	3,120,482	(3,120,482)	-
<b>Total support and income</b>	<b>4,989,277</b>	<b>(855,959)</b>	<b>4,133,318</b>
<b>Program services</b>			
Scholarships	1,990,433	-	1,990,433
Grant distributions	1,458,917	-	1,458,917
Student service distributions	126,000	-	126,000
Donated items	358,624	-	358,624
Other program services	4,500	-	4,500
<b>Total program services</b>	<b>3,938,474</b>	<b>-</b>	<b>3,938,474</b>
<b>Support services</b>			
Fundraising	725,492	-	725,492
Administration	439,845	-	439,845
<b>Total support services</b>	<b>1,165,337</b>	<b>-</b>	<b>1,165,337</b>
<b>Total program and support services</b>	<b>5,103,811</b>	<b>-</b>	<b>5,103,811</b>
Decrease in net assets	(114,534)	(855,959)	(970,493)
<b>Net assets, beginning of year</b>	<b>667,057</b>	<b>15,582,916</b>	<b>16,249,973</b>
<b>Net assets, end of year</b>	<b>\$ 552,523</b>	<b>\$ 14,726,957</b>	<b>\$ 15,279,480</b>

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

## Houston Community College Foundation Statement of Activities

*For the year ended August 31,*

2018

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and income</b>			
Contributions and donations	\$ 323,089	3,061,237	\$ 3,384,326
In-kind revenue from the System	1,081,570	-	1,081,570
Investment return, net	(78,702)	635,241	556,539
Vending and other income	210,000	-	210,000
Net assets released from restrictions	3,110,466	(3,110,466)	-
<b>Total support and income</b>	<b>4,646,423</b>	<b>586,012</b>	<b>5,232,435</b>
<b>Program services</b>			
Scholarships	1,566,992	-	1,566,992
Grant distributions	1,256,393	-	1,256,393
Student service distributions	126,000	-	126,000
Donated items	492,209	-	492,209
Other program services	31,677	-	31,677
<b>Total program services</b>	<b>3,473,271</b>	<b>-</b>	<b>3,473,271</b>
<b>Support services</b>			
Fundraising	665,601	-	665,601
Administration	420,239	-	420,239
<b>Total support services</b>	<b>1,085,840</b>	<b>-</b>	<b>1,085,840</b>
<b>Total program and support services</b>	<b>4,559,111</b>	<b>-</b>	<b>4,559,111</b>
Increase in net assets	87,312	586,012	673,324
<b>Net assets, beginning of year</b>	<b>579,745</b>	<b>14,996,904</b>	<b>15,576,649</b>
<b>Net assets, end of year</b>	<b>\$ 667,057</b>	<b>\$ 15,582,916</b>	<b>\$ 16,249,973</b>

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

## Houston Community College Foundation Statement of Functional Expenses

For the year ended August 31,

2019

	Program Services					Support Services		Total
	Scholarships	Grants	Student Services	Donated Items	Other	Fundraising	Administrative	
Services provided to the System	\$ 1,929,229	\$ 1,304,078	\$ 126,000	\$ 203,785	\$ 4,500	\$ -	\$ -	\$ 3,567,592
Administrative support provided by the System	61,204	154,839	-	154,839	-	494,508	370,881	1,236,271
Bank fees	-	-	-	-	-	-	11,832	11,832
Travel, conferences and meals	-	-	-	-	-	-	13,520	13,520
Fundraising	-	-	-	-	-	175,736	-	175,736
Software expenses	-	-	-	-	-	55,248	-	55,248
Rent	-	-	-	-	-	-	14,400	14,400
Professional services	-	-	-	-	-	-	15,159	15,159
General expenses and supplies	-	-	-	-	-	-	10,539	10,539
Miscellaneous expenses	-	-	-	-	-	-	3,514	3,514
<b>Total expense</b>	<b>\$ 1,990,433</b>	<b>\$ 1,458,917</b>	<b>\$ 126,000</b>	<b>\$ 358,624</b>	<b>\$ 4,500</b>	<b>\$ 725,492</b>	<b>\$ 439,845</b>	<b>\$ 5,103,811</b>

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



## Houston Community College Foundation Statement of Functional Expenses

For the year ended August 31,

2018

	Program Services					Support Services		Total
	Scholarships	Grants	Student Services	Donated Items	Other	Fundraising	Administrative	
Services provided to the System	\$ 1,509,161	\$ 1,123,073	\$ 126,000	\$ 358,889	\$ 31,677	\$ -	\$ -	\$ 3,148,800
Administrative support provided by the System	57,831	133,320	-	133,320	-	432,628	324,471	1,081,570
Bank fees	-	-	-	-	-	-	11,239	11,239
Fundraising	-	-	-	-	-	177,725	-	177,725
Software expenses	-	-	-	-	-	55,248	-	55,248
Rent	-	-	-	-	-	-	14,400	14,400
Professional services	-	-	-	-	-	-	46,944	46,944
General expenses and supplies	-	-	-	-	-	-	13,434	13,434
Miscellaneous expenses	-	-	-	-	-	-	9,751	9,751
<b>Total expense</b>	<b>\$ 1,566,992</b>	<b>\$ 1,256,393</b>	<b>\$ 126,000</b>	<b>\$ 492,209</b>	<b>\$ 31,677</b>	<b>\$ 665,601</b>	<b>\$ 420,239</b>	<b>\$ 4,559,111</b>

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

## Houston Community College Foundation Statements of Cash Flows

<i>For the years ended August 31,</i>	<b>2019</b>	<b>2018</b>
<b>Operating activities</b>		
Changes in net assets	\$ (970,493)	\$ 673,324
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Contributions restricted for permanent endowments	(53,270)	(90,305)
Net realized and unrealized losses (gains) on investments	333,730	(299,350)
Change in operating assets and liabilities		
Contributions receivable	95,320	(224,763)
Prepays and other current assets	(2,065)	(55,248)
Due to related party	(109,926)	190,752
<b>Total adjustments</b>	<b>263,789</b>	<b>(478,914)</b>
<b>Net cash (used in) provided by operating activities</b>	<b>(706,704)</b>	<b>194,410</b>
<b>Investing activities</b>		
Proceeds from sale of investments	15,350,716	4,571,009
Purchases of investments	(14,653,852)	(4,825,149)
<b>Net cash provided by (used in) investing activities</b>	<b>696,864</b>	<b>(254,140)</b>
<b>Financing activities</b>		
Contributions restricted for permanent endowments	53,270	90,305
<b>Change in cash and cash equivalents</b>	<b>43,430</b>	<b>30,575</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>440,775</b>	<b>410,200</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 484,205</b>	<b>\$ 440,775</b>

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

## Houston Community College Foundation Notes to Financial Statements

### NOTE 1: ORGANIZATION

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

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

- Scholarships are payments made to the System from funds raised from donors to cover tuition, fees and books on behalf of specified students of the System.
- Grant distributions are payments made to the System for student societies and departmental needs of the students, staff, and faculty of the System.
- Student Services are payments made to the System for vending income received on behalf of the System.
- Donated items are donations made to the System for student societies and departmental needs of the students, staff, and faculty of the System.
- Fundraising activities are directed at soliciting and receiving funds, gifts, grants, and property to enable the Foundation to fulfill its purpose.
- Administration consists of general supporting services that are necessary for the Foundation's daily operations and coordination of program activities.

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Change in Accounting Principle*

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The Foundation has adjusted the presentation of its financial statements accordingly. The new standard changes the following aspects of the Foundation's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 3).
- A statement of functional expenses is now included as a basic financial statement which reports expenses by both nature and function.

## Houston Community College Foundation Notes to Financial Statements

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

The accompanying summarized comparative information from the August 31, 2018 financial statements has been restated to conform to the 2019 presentation and disclosure requirements of ASU 2016-14.

The changes have the following effect on net assets at August 31, 2018:

<b>Net Asset Class</b>	<b>As Originally Presented</b>	<b>After Adoption of ASU 2016-14</b>
Unrestricted net assets	\$ 667,057	
Temporarily restricted net assets	5,416,394	
Permanently restricted net assets	10,166,522	
Net assets without donor restrictions		667,057
Net assets with donor restrictions		15,582,916
<b>Total net assets</b>	<b>\$ 16,249,973</b>	<b>\$ 16,249,973</b>

### ***Reclassifications***

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

### ***Financial Statement Presentation***

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

*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 not subject to or are no longer subject to donor-imposed stipulations even though their use may be limited in other respects, such as by contract or board designation.

## 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.

#### *Cash and Cash Equivalents*

For purposes of the statements of cash flows, the Foundation considers all highly liquid investments with initial maturities of three months or less to be cash equivalents. Cash and cash equivalents held in money market mutual funds are reported as investments instead of cash equivalents as the Foundation holds those funds as an endowment.

#### *Contributions Receivable and Promises to Give*

Contributions receivable are amounts recorded from unconditional promises to give by third parties. Unconditional promises to give are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Conditional promises to give are not included in support until the conditions have been substantially met.

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

## Houston Community College Foundation Notes to Financial Statements

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

#### ***Investments and Investment Return***

Investments, which are mostly comprised of endowed funds, are invested for the purpose of generating income for scholarships and grants. The Foundation carries investments in marketable securities at fair value. Investment return is reported in the statements of activities as an increase in net assets without donor restrictions unless otherwise specified by donor restrictions. Unrealized gains and losses are included in the change in the net assets in the accompanying statements of activities. Donated marketable securities are recorded as contributions at their estimated fair values at the date of donation.

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

#### ***Contributions***

Contributions are recorded as revenue at fair value when an unconditional commitment is received from the donor. 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. The value of these items are reflected in revenues without donor restrictions and program and supporting expenses. 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. 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 \$204,000 and \$359,000 have been reflected as contributions in the accompanying financial statements for services, materials, and equipment donated by other parties to the Foundation during 2019 and 2018, respectively, for the benefit of various departments at the System.

## Houston Community College Foundation Notes to Financial Statements

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

#### ***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, 2019 and 2018, management believes there were no uncertain tax positions.

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

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

#### ***Use of Estimates***

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

#### ***Subsequent Events***

The Foundation has evaluated subsequent events through the date the financial statements were available for issuance on November 14, 2019. No matters were identified affecting the financial statements and related disclosures.

## Houston Community College Foundation Notes to Financial Statements

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

#### *Recent Financial Accounting Pronouncement*

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

### NOTE 3: LIQUIDITY AND AVAILABILITY OF RESOURCES

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

<i>August 31,</i>	<b>2019</b>
Cash and cash equivalents	\$ 484,205
Contributions receivable	356,943
Investments	14,558,122
Total financial assets	15,399,270
Amounts restricted for programs	(4,507,165)
Amounts restricted for permanent endowment	(10,219,792)
Amounts available for general expenditure within one year	\$ 672,313

In addition to the available assets, the Foundation is supported by the System and System's funds are budgeted for administrative support to the Foundation for the fiscal year ending 2020 in the amount of \$1,208,920 (unaudited).



## Houston Community College Foundation Notes to Financial Statements

### NOTE 4: CREDIT RISKS

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

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

As of August 31, 2019 and 2018, one donor and two donors accounted for 96% and 96% of contributions receivable, respectively. In 2019 and 2018, approximately 32% and 31% of contributions were provided by one donor, respectively.

### NOTE 5: INVESTMENTS AND FAIR VALUE INSTRUMENTS

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

The three levels of inputs that may be used to measure fair value are as follows:

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

Investments in equity securities with readily determinable fair values are carried at fair value based on quoted market values in active markets, or in the case where the securities are not traded on an exchange, at net asset value ("NAV") per share (Level 1). Investments in bonds are carried at fair value based on estimates using recently executed transactions, market price quotations, and pricing models that factor in, where applicable, interest rates and bond or credit default swap spreads (Level 2).

## Houston Community College Foundation Notes to Financial Statements

### NOTE 5: INVESTMENTS AND FAIR VALUE INSTRUMENTS (Continued)

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

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

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

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

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 5: INVESTMENTS AND FAIR VALUE INSTRUMENTS (Continued)

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

	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
<b>August 31, 2019:</b>				
Current Use Funds:				
Bonds	\$ -	\$ 1,401,290	\$ -	\$ 1,401,290
Mutual Funds				
Municipal (1)	1,544,137	-	-	1,544,137
<b>Total Current Use Funds</b>	<b>1,544,137</b>	<b>1,401,290</b>	<b>-</b>	<b>2,945,427</b>
Endowment Funds:				
Bonds	-	1,958,200	-	1,958,200
Equity securities	8,161,987	-	-	8,161,987
Mutual Funds				
Fixed income security (3)	634,545	-	-	634,545
Global real estate (4)	313,939	-	-	313,939
Treasury funds	196,797	-	-	196,797
Alternative investments				
Salient Private Access Fund	-	-	314,701	314,701
				11,580,169
Investments in investees measured at net asset value				32,526
<b>Total Endowment Funds</b>	<b>9,307,268</b>	<b>1,958,200</b>	<b>314,701</b>	<b>11,612,695</b>
<b>Total investments</b>				<b>\$ 14,558,122</b>

## Houston Community College Foundation Notes to Financial Statements

### NOTE 5: INVESTMENTS AND FAIR VALUE INSTRUMENTS (Continued)

	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
<b>August 31, 2018:</b>				
Current Use Funds:				
Bonds	\$ -	\$ 2,149,274	\$ -	\$ 2,149,274
Treasury funds	278,255	-	-	278,255
Mutual Funds				
Municipal (1)	1,307,334	-	-	1,307,334
<b>Total Current Use Funds</b>	<b>1,585,589</b>	<b>2,149,274</b>	<b>-</b>	<b>3,734,863</b>
Endowment Funds:				
Bonds	-	1,032,743	-	1,032,743
Equity securities	3,228,306	-	-	3,228,306
Mutual Funds				
Growth stocks (2)	2,451,081	-	-	2,451,081
Fixed income security (3)	1,513,563	-	-	1,513,563
Global real estate (4)	369,334	-	-	369,334
Ultrashort bond (5)	1,165,415	-	-	1,165,415
Treasury funds	262,958	-	-	262,958
Alternative investments				
Salient Risk Parity Fund	-	1,473,181	-	1,473,181
Salient Private Access Fund	-	-	313,716	313,716
				11,810,297
Investments in investees measured at net asset value				43,556
<b>Total Endowment Funds</b>	<b>8,990,657</b>	<b>2,505,924</b>	<b>313,716</b>	<b>11,853,853</b>
<b>Total investments</b>				<b>\$ 15,588,716</b>

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

- (1) The investment seeks current income exempt from federal income tax, consistent with capital preservation through investments mostly in municipal securities.
- (2) The investment seeks to produce above average risk-adjusted returns and less downside volatility by investing in a diversified portfolio.

## Houston Community College Foundation Notes to Financial Statements

### NOTE 5: INVESTMENTS AND FAIR VALUE INSTRUMENTS (Continued)

- (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 long-term capital appreciation through exposures to domestic and foreign companies in the real estate industry with a focus on investment trusts.
- (5) The investment seeks a stable real return in excess of the rate of inflation with a minimum of risk

The Foundation holds certain investments in bond funds that are not associated with the endowment fund. At August 31, 2019 and 2018, the Foundation held restricted bond investments of \$1,401,290 and \$2,149,274, respectively. The Foundation intends to hold the restricted bonds until maturity. For the years ended August 31, 2019 and 2018, the bonds had gross unrealized (losses) gains of \$34,543 and (\$85,172), respectively, which are included in net realized and unrealized gains (losses) in the statements of activities.

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

<i>For the Years Ended August 31,</i>	<b>2019</b>	<b>2018</b>
Balance, beginning of year	\$ 313,716	\$ 312,201
Purchases	797	-
Sales	(369)	-
Net realized (losses) gains	-	-
Net change in unrealized appreciation	557	1,515
Transfers from Level 2 and alternative investments measured at net asset value	-	-
<b>Balance, end of year</b>	<b>\$ 314,701</b>	<b>\$ 313,716</b>

### NOTE 6: CONTRIBUTIONS RECEIVABLE

Contributions are due to be collected as follows:

<i>August 31,</i>	<b>2019</b>	<b>2018</b>
Less than one year	\$ 356,943	\$ 452,264
Less: unamortized discount to net present value	-	-
<b>Contributions receivable</b>	<b>\$ 356,943</b>	<b>\$ 452,264</b>

## Houston Community College Foundation Notes to Financial Statements

### NOTE 7: NET ASSETS WITH DONOR RESTRICTIONS

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

<i>August 31,</i>	2019	2018
<b>Subject to expenditure for specific purpose</b>		
Scholarships	\$ 2,714,086	\$ 3,452,249
Alumni activities	11,572	14,837
Education	1,514,660	1,545,040
Recruiting	22,336	22,336
Renovations and beautification	9,895	9,895
Other	234,616	372,037
<b>Subject to spending policy and appropriation</b>		
Perpetual endowment fund	10,219,792	10,166,522
<b>Total net assets with donor restrictions</b>	<b>\$ 14,726,957</b>	<b>\$ 15,582,916</b>

### 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.

## Houston Community College Foundation Notes to Financial Statements

### NOTE 8: ENDOWMENT FUNDS (Continued)

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

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

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual donation. 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, 2019 or 2018.

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

#### ***Endowment Net Asset Composition by Type of Fund***

<i>August 31,</i>	<b>2019</b>	<b>2018</b>
<b>With donor restrictions</b>		
Donor restricted endowment funds		
Original donor-restricted gift amount required to be retained by donor in perpetuity	\$ 10,219,792	\$ 10,166,522
Accumulated undistributed earnings on donor restricted net asset balance	<b>1,157,116</b>	1,575,905
<b>Total endowment net assets</b>	<b>\$ 11,376,908</b>	<b>\$ 11,742,427</b>

## Houston Community College Foundation Notes to Financial Statements

### NOTE 8: ENDOWMENT FUNDS (Continued)

#### *Changes in Endowment Net Assets for the Years Ended August 31, 2019 and 2018*

	With Donor Restrictions		Total
	Accumulated gains and other	Original gift amount	
Endowment net assets, August 31, 2017	\$ 1,030,415	\$ 10,066,530	\$ 11,096,945
Investment income	247,313	-	247,313
Net appreciation	387,926	-	387,926
Contributions	-	99,992	99,992
Amounts appropriated for expenditures	(89,749)	-	(89,749)
Endowment net assets, August 31, 2018	1,575,905	10,166,522	11,742,427
<b>Investment income</b>	<b>257,111</b>	<b>-</b>	<b>257,111</b>
<b>Net depreciation</b>	<b>(408,697)</b>	<b>-</b>	<b>(408,697)</b>
<b>Contributions</b>	<b>-</b>	<b>53,270</b>	<b>53,270</b>
<b>Amounts appropriated for expenditures</b>	<b>(267,203)</b>	<b>-</b>	<b>(267,203)</b>
<b>Endowment net assets, August 31, 2019</b>	<b>\$ 1,157,116</b>	<b>\$ 10,219,792</b>	<b>\$ 11,376,908</b>

### NOTE 9: SUPPORT AGREEMENT AND RELATED PARTY TRANSACTIONS

The Foundation and the System have entered into a memo of understanding in which the System provides administrative support for Foundation activities at a level determined by the System to be appropriate, but only to the extent of availability of funds within the System's budget and in accordance with the terms of the agreement. A new agreement was effective May 23, 2018. Administrative support provided includes an executive director and staff for the Foundation. The total support provided by the System to the Foundation in fiscal years ended August 31, 2019 and 2018 was \$1,236,271 and \$1,081,570, 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, 2019 and 2018 totaled \$14,400.



## Houston Community College Foundation Notes to Financial Statements

### NOTE 9: 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, 2019 and 2018, funds disbursed or due to the System totaled \$3,441,592 and \$3,022,800, respectively. These funds are included within the scholarship expense, grant distributions, donated items, and other program services in the accompanying financial statements. Scholarship and grant funding of \$156,103 and \$276,529, was due to the System as of August 31, 2019 and 2018, respectively. This amount has been included in the due to related party balances in the accompanying financial statements.

The Foundation is the administrator for the System's vending services under a contract with the System for five years beginning March 1, 2014, which automatically renews for one year terms, unless terminated by either party with 90 days written notice. Under the renewed contract, the Foundation is guaranteed an annual commission of \$210,000 to be paid in monthly installments at the end of each month of service. Revenue earned from the vending contract totaled \$210,000 for each of the years ended August 31, 2019 and 2018. Disbursements to the System totaled \$126,000 for each of the years ended August 31, 2019 and 2018. In accordance with the vending contract, funds due from the Foundation to the System at August 31, 2019 and 2018 totaled \$21,000 and \$10,500, respectively. These amounts have been included in the due to related party balances in the accompanying financial statements.

For the years ended August 31, 2019 and 2018, the Foundation's expenses on behalf of the System totaled \$3,567,592 and \$3,148,800, respectively.