



Houston Community College Foundation

FINANCIAL STATEMENTS

August 31, 2022 and 2021



	Page
REPORT	
Independent Auditors' Report	1
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to Financial Statements	9



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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, 2022 and 2021, 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, 2022 and 2021, 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, Riggs & Ingram, L.L.C.

Houston, Texas
November 17, 2022

Houston Community College Foundation Statements of Financial Position

<i>August 31,</i>	2022	2021
Assets		
Current assets		
Cash and cash equivalents	\$ 1,739,847	\$ 964,330
Contributions receivable, current	404,175	333,835
Prepays and other current assets	79,976	69,804
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Total current assets	2,223,998	1,367,969
Noncurrent assets		
Contributions receivable, net of current	149,639	17,412
Investments	5,766,995	7,792,775
Cash equivalents, restricted for endowments	175,102	-
Investments, restricted for endowments	10,639,732	10,555,055
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Total noncurrent assets	16,731,468	18,365,242
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Total assets	\$ 18,955,466	\$ 19,733,211
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Liabilities		
Current liabilities		
Accounts payable	\$ -	\$ 500
Due to related party, net	1,156,671	412,891
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Total current liabilities	1,156,671	413,391
 Net assets		
Without donor restrictions	326,663	586,636
With donor restrictions	17,472,132	18,733,184
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Total net assets	17,798,795	19,319,820
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Total liabilities and net assets	\$ 18,955,466	\$ 19,733,211
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The accompanying notes are an integral part of these financial statements.

Houston Community College Foundation Statement of Activities

For the year ended August 31,

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 Activities

For the year ended August 31,

2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and income			
Contributions	\$ 379,096	\$ 4,072,296	\$ 4,451,392
Contributions of nonfinancial assets	-	1,597,987	1,597,987
Contributions of nonfinancial assets from the System	1,174,144	-	1,174,144
Investment return, net	166,145	2,659,297	2,825,442
Vending and other income	9,505	-	9,505
Net assets released from restrictions	5,252,605	(5,252,605)	-
Total support and income	6,981,495	3,076,975	10,058,470
Program services			
Scholarships	1,559,830	-	1,559,830
Grant distributions	2,293,811	-	2,293,811
Student service distributions	5,703	-	5,703
Donated items	1,677,891	-	1,677,891
Total program services	5,537,235	-	5,537,235
Support services			
Administration	495,562	-	495,562
Fundraising	776,460	-	776,460
Total support services	1,272,022	-	1,272,022
Total program and support services	6,809,257	-	6,809,257
Change in net assets	172,238	3,076,975	3,249,213
Net assets, beginning of year	414,398	15,656,209	16,070,607
Net assets, end of year	\$ 586,636	\$ 18,733,184	\$ 19,319,820

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

Houston Community College Foundation Statement of Functional Expenses

For the year ended August 31,

2022

	Program Services				Support Services		Total
	Scholarships	Grants	Student Services	Donated Items	Administrative	Fundraising	
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
Travel, conferences and meals	-	-	-	-	14,040	-	14,040
Fundraising	-	-	-	-	-	646,170	646,170
Software expenses	-	-	-	-	-	55,247	55,247
Rent	-	-	-	-	14,400	-	14,400
Professional services	-	-	-	-	49,996	-	49,996
General expenses and supplies	-	-	-	-	7,933	-	7,933
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
Statement of Functional Expenses**

For the year ended August 31,

2021

	Program Services				Support Services		
	Scholarships	Grants	Student Services	Donated Items	Administrative	Fundraising	Total
Services provided to the System	\$ 1,492,507	\$ 2,129,870	\$ 5,703	\$ 1,513,950	\$ -	\$ -	\$ 5,142,030
Administrative support provided by the System	67,323	163,941	-	163,941	395,194	383,745	1,174,144
Bank fees	-	-	-	-	12,134	-	12,134
Travel, conferences and meals	-	-	-	-	3,901	-	3,901
Fundraising	-	-	-	-	-	253,430	253,430
Fundraising - inkind professional fees	-	-	-	-	-	84,038	84,038
Software expenses	-	-	-	-	-	55,247	55,247
Rent	-	-	-	-	14,400	-	14,400
Professional services	-	-	-	-	63,797	-	63,797
General expenses and supplies	-	-	-	-	6,136	-	6,136
Total expenses	\$ 1,559,830	\$ 2,293,811	\$ 5,703	\$ 1,677,891	\$ 495,562	\$ 776,460	\$ 6,809,257

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>	2022	2021
Operating activities		
Changes in net assets	\$ (1,521,025)	\$ 3,249,213
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for permanent endowments	(416,217)	(99,477)
Net realized and unrealized (gains) losses on investments	2,677,202	(2,559,613)
Change in operating assets and liabilities		
Contributions receivable	(46,129)	70,529
Prepays and other current assets	(10,172)	54,921
Accounts payable	(500)	(21,482)
Due to related party, net	743,780	263,743
Total adjustments	2,947,964	(2,291,379)
Net cash provided by operating activities	1,426,939	957,834
Investing activities		
Proceeds from sales of investments	8,011,619	8,666,003
Purchases of investments	(8,747,718)	(9,206,186)
Net cash used in investing activities	(736,099)	(540,183)
Financing activities		
Contributions restricted for permanent endowments	259,779	99,477
Change in cash, cash equivalents and restricted cash equivalents	950,619	517,128
Cash, cash equivalents and restricted cash equivalents, beginning of year	964,330	447,202
Cash, cash equivalents and restricted cash equivalents, end of year	\$ 1,914,949	\$ 964,330
Reconciliation of cash, cash equivalents and restricted cash equivalents		
Cash and cash equivalents	\$ 1,739,847	\$ 964,330
Cash equivalents, restricted for endowments	175,102	-
Total cash, cash equivalents and restricted cash equivalents	\$ 1,914,949	\$ 964,330

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

Houston Community College Foundation Notes to Financial Statements

Note 1: DESCRIPTION OF THE ORGANIZATION

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

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

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

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accountings Standards Updates (ASUs).

Use of Estimates

The preparation of U.S. GAAP financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Houston Community College Foundation Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Contributions Receivable

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

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

Investments and Investment Return

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

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

Houston Community College Foundation Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Considerations

The Foundation uses fair value to measure financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy established and prioritized fair value measurements into three levels based on the nature of the inputs. The hierarchy gives the highest priority to inputs based on market data from independent sources (observable inputs-Level 1) and the lowest priority to a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs-Level 3).

The fair value option allows entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value that are not otherwise required to be measured at fair value. If an organization elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. The Foundation did not elect the fair value option for the measurement of any eligible assets or liabilities.

The Foundation's other financial instruments (primarily cash and cash equivalents, contribution receivables and payables) are carried in the accompanying statements of financial position at amounts which reasonably approximate fair value.

Net Assets

The Foundation's resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

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

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

Houston Community College Foundation Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions are recognized when the unconditional promise to give is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Contributions received are classified as without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Support that is restricted in perpetuity by the donor is recorded as contributions with donor restrictions. In accordance with the donor restrictions, income earned from restricted net assets are recorded as with donor restrictions until such income is released from restrictions. 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. Direct benefits to donors totals \$115,969 for the year ended August 31, 2022. There were no direct benefits to donors for the year ended August 31, 2021.

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

Federal Income Taxes

The Internal Revenue Service has determined that the Foundation is a publicly supported organization as defined in the Internal Revenue Code, Sections 509(a)(1) and 170(b)(1)(A)(vi). Accordingly, the Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Foundation accounts for uncertain tax positions, when it is more likely than not, that such an asset or a liability will be realized. As of August 31, 2022 and 2021, management believes there were no uncertain tax positions.

Houston Community College Foundation Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Newly Adopted Accounting Pronouncements

In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The amendments in this update apply to Not-for-Profit entities that receive contributed nonfinancial assets. Under the guidance, entities are required to (1) present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets and (2) disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statements of activities by category that depicts the type of contributed nonfinancial assets and certain qualitative information. This new guidance is required to be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021. The Foundation adopted this standard on September 1, 2021. This standard did not have a material impact on the financial statements. The Foundation has updated disclosures as necessary (see Note 7), and certain reclassifications have been made in the 2021 statement of activities to conform to the 2022 presentation.

Subsequent Events

The Foundation has evaluated subsequent events through the date the financial statements were available for issuance on November 17, 2022. 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, 2022 and 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year.

<i>August 31,</i>	2022	2021
Cash and cash equivalents	\$ 1,914,949	\$ 964,330
Contributions receivable	553,814	351,247
Investments	16,406,727	18,347,830
Total financial assets	18,875,490	19,663,407
Amounts restricted for timing	(149,639)	(17,412)
Amounts restricted for programs	(6,457,298)	(8,134,567)
Amounts restricted for permanent endowment	(11,014,834)	(10,598,617)
Amounts available for general expenditure within one year	\$ 1,253,719	\$ 912,811

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 2023 in the amount of \$1,551,437 (unaudited), excluding benefits.

Houston Community College Foundation Notes to Financial Statements

Note 4: CREDIT RISKS

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

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

As of August 31, 2022 and 2021, approximately 71% and 93% of contributions receivables were due from three and two donors, respectively. In 2022 and 2021, one donor and two donors accounted for approximately 15% and 14% of contributions, respectively.

Note 5: CONTRIBUTIONS RECEIVABLE

Contributions are due to be collected as follows:

<i>August 31,</i>	2022	2021
Less than one year	\$ 404,175	\$ 333,835
One to five years	149,639	17,412
Total contributions receivable	\$ 553,814	\$ 351,247

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.

Houston Community College Foundation Notes to Financial Statements

Note 6: INVESTMENTS AND FAIR VALUE INSTRUMENTS (Continued)

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

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

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

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

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2022 and 2021.

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

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

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

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 hold back provisions by the investment company.

Houston Community College Foundation Notes to Financial Statements

Note 6: INVESTMENTS AND FAIR VALUE INSTRUMENTS (Continued)

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.

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.

Houston Community College Foundation Notes to Financial Statements

Note 6: INVESTMENTS AND FAIR VALUE INSTRUMENTS (Continued)

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

	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
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)

	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
August 31, 2021:				
Current Use Funds:				
Corporate bonds	\$ -	\$ 232,509	\$ -	\$ 232,509
Exchange traded funds	617,510	-	-	617,510
Mutual Funds				
Municipal (1)	844,220	-	-	844,220
Global real estate (2)	17,444	-	-	17,444
Fixed income security (3)	1,204,730	-	-	1,204,730
Common stock (4)	361,690	-	-	361,690
Money market (5)	133,415	-	-	133,415
Total Current Use Funds	3,179,009	232,509	-	3,411,518
Endowment Funds:				
Common stocks	2,020,486	-	-	2,020,486
Exchange traded funds	2,695,924	-	-	2,695,924
Mutual Funds				
Municipal (1)	285,647	-	-	285,647
Fixed income security (3)	1,163,522	-	-	1,163,522
Common stock (4)	8,272,972	-	-	8,272,972
Money market (5)	169,688	-	-	169,688
Alternative investments				
Salient Private Access Fund	-	-	328,073	328,073
Total Endowment Funds	14,608,239	-	328,073	14,936,312
Total investments			\$ 18,347,830	

The Foundation holds certain investments in corporate bonds that are not associated with the endowment fund. At August 31, 2022 and 2021, the Foundation held restricted bond investments of \$99,367 and \$232,509, respectively. The Foundation intends to hold the restricted bonds until maturity. For the years ended August 31, 2022 and 2021, the bonds had gross unrealized losses of \$3,772 and \$2,463, respectively, which are included in net investment return in the statements of activities.

Houston Community College Foundation Notes to Financial Statements

Note 6: INVESTMENTS AND FAIR VALUE INSTRUMENTS (Continued)

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

<i>For the Years Ended August 31,</i>	2022	2021
Balance, beginning of year	\$ 328,073	\$ 300,301
Sales	-	(25,270)
Net realized gains	-	13,150
Net change in unrealized (depreciation) appreciation	(644)	39,892
Balance, end of year	\$ 327,429	\$ 328,073

Note 7: DONATED GOODS AND SERVICES

Contributed nonfinancial assets recognized within the statements of activities include:

<i>August 31,</i>	2022	2021
Property and equipment	\$ 934,972	\$ 939,574
Books	-	249,474
Personal protective equipment	-	231,680
Services	96,042	84,038
Miscellaneous monetized	37,467	93,221
Total	\$ 1,068,481	\$ 1,597,987

The Foundation recognized contributed nonfinancial assets within revenue, including donated property and equipment, books, masks 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.

Houston Community College Foundation Notes to Financial Statements

Note 7: DONATED GOODS AND SERVICES (Continued)

Personal protective equipment in the form of three-ply masks, were received with donor restrictions to be utilized by the students of the System, and are recorded at estimated retail value.

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.

Approximately \$935,000 and \$1,514,000 of contributed nonfinancial assets for services, materials and equipment donated by other parties to the Foundation during 2022 and 2021, 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>August 31,</i>	2022	2021
Salaries and wages	\$ 1,092,295	\$ 960,029
Benefits	209,238	175,780
Supplies and general expenses	16,198	20,023
Travel	3,480	-
Contracted services	8,584	-
Other institutional expenditures	38,346	18,312
Total	\$ 1,368,141	\$ 1,174,144

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>	2022	2021
Subject to expenditure for specific purpose		
Scholarships	\$ 4,108,713	\$ 6,025,240
Alumni activities	11,597	11,597
Education	2,276,806	1,908,457
Renovations and beautification	441	441
Other	59,741	188,832
Subject to spending policy and appropriation		
Perpetual endowment fund	11,014,834	10,598,617
Total net assets with donor restrictions	\$ 17,472,132	\$ 18,733,184

Perpetual in nature net assets consist of the following:

<i>August 31,</i>	2022	2021
Investments	\$ 10,814,834	\$ 10,555,055
Promises to give	200,000	43,562
	\$ 11,014,834	\$ 10,598,617

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, 2022 or 2021.

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>	2022	2021
With donor restrictions		
Donor restricted endowment funds		
Original donor-restricted gift amount required to be retained by donor in perpetuity	\$ 10,814,834	\$ 10,555,055
Accumulated undistributed earnings on donor restricted net asset balance	2,840,905	4,715,327
Total endowment net assets	\$ 13,655,739	\$ 15,270,382

Houston Community College Foundation Notes to Financial Statements

Note 9: ENDOWMENT FUNDS (Continued)

Changes in Endowment Net Assets for the Years Ended August 31, 2022 and 2021

	With Donor Restrictions		Total
	Accumulated gains and other	Original gift amount	
Endowment net assets, August 31, 2020	\$ 2,056,030	\$ 10,430,578	\$ 12,486,608
Investment income	266,822	-	266,822
Net appreciation	2,451,860	-	2,451,860
Contributions	-	124,477	124,477
Amounts appropriated for expenditures	(59,385)	-	(59,385)
Endowment net assets, August 31, 2021	4,715,327	10,555,055	15,270,382
Investment income	380,234	-	380,234
Net depreciation	(2,189,750)	-	(2,189,750)
Contributions	-	259,779	259,779
Amounts appropriated for expenditures	(64,906)	-	(64,906)
Endowment net assets, August 31, 2022	\$ 2,840,905	\$ 10,814,834	\$ 13,655,739

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 in fiscal years ended August 31, 2022 and 2021 was \$1,368,141 and \$1,174,144, respectively, and was included in the financial statements as contributed nonfinancial assets.

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, 2022 and 2021 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, 2022 and 2021, funds disbursed or due to the System totaled \$5,053,042 and \$5,136,327, respectively. These funds are included within the scholarship expense, grant distributions, and donated items in the accompanying financial statements. Scholarship and grant funding of \$1,134,408 and \$538,988 was due to the System as of August 31, 2022 and 2021, respectively. In addition, as of August 31, 2021, the System owed the Foundation \$129,303 for refunds of grant distributions of which the intent could not be met. These amounts have been included in the due to related party balances, net in the accompanying financial statements.

For part of fiscal year 2021, the Foundation was the administrator for the System's vending services under a contract with the System. The contract was amended in September 2020 and changed the month-to-month fixed commission payment to a percentage between 26.1% or 26.4% per month. On April 30, 2021, the System selected and executed an agreement with a new vending services provider. Under the terms of the new vending services provider agreement, the administrator is the System and the monthly commissions are remitted to the Foundation for processing. Vending commissions vary based on usage at a rate of 30.5% to 35.5% per item. Revenue earned from the vending contracts totaled \$66,993 and \$9,505 for the years ended August 31, 2022 and 2021, respectively. Disbursements to the System totaled \$39,915 and \$5,703 for the years ended August 31, 2022 and 2021, respectively. At August 31, 2022 and 2021, \$22,263 and \$3,206 was due to the System.

For the years ended August 31, 2022 and 2021, the Foundation's expenses on behalf of the System totaled \$5,092,957 and \$5,142,030, respectively. For the year ended August 31, 2022, the System provided an additional \$84,000 to the Foundation to fund operations and these funds are recorded in vending and other income in the statement of activities.