

**HOUSTON COMMUNITY
COLLEGE FOUNDATION
Financial Statements**

August 31, 2007 and 2006
(With Independent Auditors' Report Thereon)

HOUSTON COMMUNITY COLLEGE FOUNDATION

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McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of the Houston Community College Foundation, Inc., (the "Foundation"), a Texas nonprofit Foundation, as of August 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of August 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Houston, Texas
January 30, 2008

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

HOUSTON COMMUNITY COLLEGE FOUNDATION
(A Texas Nonprofit Foundation)

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2007 AND 2006

ASSETS			
		<u>2007</u>	<u>2006</u>
CURRENT ASSETS:			
Cash and cash equivalents	\$	1,210,618	\$ 901,811
Contributions receivable		110,000	7,465
Interest receivable		6,266	-
Prepaid expenses		-	1,989
Total current assets		<u>1,326,884</u>	<u>911,265</u>
NON-CURRENT ASSETS:			
Cash and cash equivalents, restricted for endowments		85,171	124,297
Investments, at fair value, restricted for endowments		1,105,761	973,207
Fixed assets, net		23,129	36,345
Total non-current assets		<u>1,214,061</u>	<u>1,133,849</u>
Total assets	\$	<u><u>2,540,945</u></u>	<u><u>\$ 2,045,114</u></u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	\$	-	\$ 18,990
Due to an affiliate		182,265	86,980
Total current liabilities		<u>182,265</u>	<u>105,970</u>
NET ASSETS:			
Unrestricted		94,095	88,888
Temporarily restricted		1,080,123	752,752
Permanently restricted		1,184,462	1,097,504
Total net assets		<u>2,358,680</u>	<u>1,939,144</u>
Total liabilities and net assets	\$	<u><u>2,540,945</u></u>	<u><u>\$ 2,045,114</u></u>

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

HOUSTON COMMUNITY COLLEGE FOUNDATION
(A Texas Nonprofit Foundation)

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2007

REVENUE	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions and donations	\$ 55,980	\$ 812,397	\$ 86,958	\$ 955,335
Interest and dividend income	128	97,092	-	97,220
In-kind revenue	735,817	-	-	735,817
Net realized and unrealized gain on investments	10,201	-	-	10,201
Net assets released from restrictions	582,118	(582,118)	-	-
Total revenue	<u>1,384,244</u>	<u>327,371</u>	<u>86,958</u>	<u>1,798,573</u>
EXPENSES				
Program services:				
Scholarships	<u>575,957</u>	<u>-</u>	<u>-</u>	<u>575,957</u>
Total program services	<u>575,957</u>	<u>-</u>	<u>-</u>	<u>575,957</u>
Support services:				
Fundraising	<u>6,162</u>	<u>-</u>	<u>-</u>	<u>6,162</u>
Administration	<u>796,918</u>	<u>-</u>	<u>-</u>	<u>796,918</u>
Total support services	<u>803,080</u>	<u>-</u>	<u>-</u>	<u>803,080</u>
Total expenses	<u>1,379,037</u>	<u>-</u>	<u>-</u>	<u>1,379,037</u>
CHANGE IN NET ASSETS	5,207	327,371	86,958	419,536
NET ASSETS, BEGINNING OF YEAR	<u>88,888</u>	<u>752,752</u>	<u>1,097,504</u>	<u>1,939,144</u>
NET ASSETS, END OF YEAR	<u>\$ 94,095</u>	<u>\$ 1,080,123</u>	<u>\$ 1,184,462</u>	<u>\$ 2,358,680</u>

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

HOUSTON COMMUNITY COLLEGE SYSTEM FOUNDATION

(A Texas Nonprofit Foundation)

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2006

REVENUE	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions and donations	\$ 20,121	\$ 483,460	\$ 147,345	\$ 650,926
Special event contributions	159,530	-	-	159,530
Interest and dividend income	-	67,372	-	67,372
In-kind revenue	310,111	-	-	310,111
Net unrealized gain on investments	22,446	-	-	22,446
Net assets released from restrictions	230,948	(230,948)	-	-
Total revenue	<u>743,156</u>	<u>319,884</u>	<u>147,345</u>	<u>1,210,385</u>
EXPENSES				
Program services:				
Scholarships	<u>241,311</u>	<u>-</u>	<u>-</u>	<u>241,311</u>
Total program services	<u>241,311</u>	<u>-</u>	<u>-</u>	<u>241,311</u>
Support services:				
Fundraising	<u>87,460</u>	<u>-</u>	<u>-</u>	<u>87,460</u>
Administration	<u>316,487</u>	<u>-</u>	<u>-</u>	<u>316,487</u>
Total support services	<u>403,947</u>	<u>-</u>	<u>-</u>	<u>403,947</u>
Total expenses	<u>645,258</u>	<u>-</u>	<u>-</u>	<u>645,258</u>
CHANGE IN NET ASSETS	97,898	319,884	147,345	565,127
NET ASSETS, BEGINNING OF YEAR	<u>(9,010)</u>	<u>432,868</u>	<u>950,159</u>	<u>1,374,017</u>
NET ASSETS, END OF YEAR	<u>\$ 88,888</u>	<u>\$ 752,752</u>	<u>\$ 1,097,504</u>	<u>\$ 1,939,144</u>

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

HOUSTON COMMUNITY COLLEGE FOUNDATION
(A Texas Nonprofit Foundation)

STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 419,536	\$ 565,127
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization provided for fixed assets	13,216	3,304
Net unrealized gain on investments (including expenses of \$3,489 for 2007 and \$5,036 for 2006)	(10,201)	(17,410)
Increase in contributions receivable	(102,535)	25,869
(Increase) decrease in interest receivable	(6,266)	4,571
Decrease (increase) in prepaid expenses	1,989	(1,989)
(Decrease) increase in accounts payable	(18,990)	8,628
Increase (decrease) in due to an affiliate	95,285	(82,549)
Total adjustment	<u>(27,502)</u>	<u>(59,576)</u>
Net cash provided by operating activities	<u>392,034</u>	<u>505,551</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases and sales, net	(122,353)	(143,234)
Payments to acquire fixed assets	-	(39,650)
Net cash used in investing activities	<u>(122,353)</u>	<u>(182,884)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	269,681	322,667
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,026,108</u>	<u>703,441</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,295,789</u></u>	<u><u>\$ 1,026,108</u></u>
Reconciliation of total cash to cash and cash equivalents in the statements of financial position:		
Total cash and cash equivalents	\$ 1,295,789	\$ 1,026,108
Less: cash and cash equivalents restricted for endowments	(85,171)	(124,297)
Cash and cash equivalents in the statements of financial position	<u><u>\$ 1,210,618</u></u>	<u><u>\$ 901,811</u></u>

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

HOUSTON COMMUNITY COLLEGE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2007 AND 2006

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 purposes for which the Foundation was organized are (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 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.

2. Summary of Significant Accounting Policies

Financial statements presentation

Financial statement presentation follows Financial Accounting Standards Board's Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purpose by action of the Board of Directors.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or passage of time.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of

HOUSTON COMMUNITY COLLEGE FOUNDATION

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these assets permit the Foundation to use all or part of the income earned on the related investments for specific or general purposes.

Cash and cash equivalents

For purposes of the statements of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. As of August 31, 2007 and 2006, cash equivalents included in cash and cash equivalents amounted to \$1,269,894 and \$804,945, respectively.

Investments

Investments are mostly comprised of endowed funds invested for the purpose of generating income for scholarships. The Foundation carries investments in marketable securities at their fair values in the Statements of Financial Position. Unrealized gains and losses are included in the change in 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.

Fixed assets

Fixed assets are stated at cost, or if donated, the fair value on the date received. The Foundation follows the policy of capitalizing all expenditures for fixed assets equal to or in excess of \$5,000. The cost of maintenance and repairs of fixed assets is charged to expense as incurred. At August 31, 2007 and 2006, the Foundation's fixed assets comprised of only computer software. Fixed assets are depreciated or amortized on the straight-line basis over their estimated useful lives as follows:

<u>Depreciable Asset Category</u>	<u>No. of Years</u>
Computer equipment and software	3

Contributions receivable and promises to give

Contributions receivable are amounts recorded for unconditional promises to give by third parties. Unconditional promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give are recorded as refundable advances when received, and are recognized as revenue when the conditions have been met. As of August 31, 2007, the Foundation had unconditional promises to give expected to be

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realized in one year or less and are classified as temporarily restricted net assets in the statement of activities.

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.

Contributions

The Foundation accounts for contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Under SFAS No. 116, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor and is to be used in future periods is reported as an increase in temporarily restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Support that is restricted in perpetuity by the donor is recorded as permanently restricted net assets. In accordance with the donor restrictions, income earned from permanently restricted net assets are recorded as temporarily restricted net assets until such income is released from restrictions.

Gains/losses on investments

In accordance with the terms of the gift instruments, net unrealized and realized gains and losses are included in the accompanying financial statements as unrestricted net assets.

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. The aggregate unrealized gains and losses on donor-restricted endowment net asset balances are included in unrestricted net assets in the financial statements.

HOUSTON COMMUNITY COLLEGE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2007 AND 2006

Donated materials, services, and facilities

The System donates administrative services, materials, and office space to the Foundation. The value of administrative personnel services and office space provided by the System during 2007 and 2006 were approximately \$736,000 and \$310,000, respectively, and are included in unrestricted revenues and administrative expenses. Materials, services, and facilities donated to the Foundation by the System are mostly valued at the actual costs incurred by the System in making those in-kind donations. No amounts have been reflected in the accompanying financial statements for materials and volunteer services donated by other parties since no objective basis is available to measure the value of such materials and volunteer services.

Revenue recognition

The Foundation records earned revenues on the accrual basis. Contributions are recorded as revenue when an unconditional promise to give is received. Contributions received with conditions are recognized as revenue when the conditions have been substantially met. The Foundation records the following types of contributions at fair value: cash, promises to give, and qualifying contributed services and materials.

Use of estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates. There are no significant estimates included in the financial statements for 2007 and 2006.

Risks and uncertainties

Investment securities are exposed to various market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in net values of investment securities will occur in the near term and that such changes could materially affect the amounts recorded in the balance sheet.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

HOUSTON COMMUNITY COLLEGE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

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Recent Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement No. 154, *Accounting Changes and Error Corrections*. This Statement requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in nondiscretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change. The Statement also requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. Statement No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005.. The Foundation adopted Statement No. 154 in fiscal year 2007. The Foundation made no change in accounting principles in fiscal year 2007 or 2006.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. This Statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. Statement No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Foundation has not determined the effects if any of Statement No. 157 on its financial statements.

3. Program Services

The cost of providing the various programs and activities of the Foundation has been summarized on a functional basis in the accompanying statement of activities.

The following program services are included in the statement of activities:

- Scholarships are payments made to the System for tuitions and books on behalf of specified students, staff, and faculty of the System and the residents of the geographical area that the System serves.
- Fundraising activities are directed at soliciting and receiving funds, gifts, grants, and property to enable the Foundation to fulfill its purpose.

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- Administration consists of general supporting services that are necessary for the Foundation's daily operations and coordination of program activities.

4. Credit Risks

The Foundation maintains its cash balances in financial institutions with strong credit ratings. The balances are insured by the Federal Deposit Insurance Foundation up to \$100,000 per bank. Balances in the Foundation's bank accounts at times exceed federally insured credit limits. At August 31, 2007 and 2006, the Foundation's uninsured cash balances totaled \$0 and \$116,358, respectively. In addition, as of August 31, 2007 and 2006, the Foundation had \$1,155,718 and \$801,462, respectively, in money market mutual funds with financial institutions, which were subject to uncollateralized custodial risks. Custodial risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investment. The Foundation's management believes that the Foundation's credit and custodial risk exposures are mitigated by the financial strength of the financial institutions in which the funds are held.

5. Investments

Investments consist of the following for the years ended August 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
U.S. government obligations	\$ -	\$ 892,184
Bonds	567,195	15,925
Equities	538,566	65,098
Total	<u>\$ 1,105,761</u>	<u>\$ 973,207</u>

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) and corporate bonds; and publicly traded equities.

HOUSTON COMMUNITY COLLEGE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2007 AND 2006

6. Fixed Assets

The following is a summary of fixed assets, less accumulated amortization, as of December 31, 2007 and 2006:

	2007	2006
Computer software	\$ 39,649	\$ 39,649
Less: accumulated amortization	16,520	3,304
Fixed assets, net	<u>\$ 23,129</u>	<u>\$ 36,345</u>

Amortization expense included in the statement of activities was \$16,520 and \$3,304 for the fiscal years ended August 31, 2007 and 2006, respectively.

7. Unrestricted Net Assets

Unrestricted net assets are comprised of net assets that are not subject to donor-imposed stipulations as well as the aggregate amount of any deficiency in the donor-restricted endowments net asset balances. The aggregate amount of deficiency in the donor-restricted endowments net asset balances is adjusted each year with the net unrealized gain or loss on investments held for endowment funds. For the fiscal years ended August 31, 2007 and 2006, the aggregate amount of deficiency in the donor-restricted endowments net asset balances was decreased by \$10,201 and \$22,446, respectively, representing the net unrealized gain on investments held for endowment funds in those years. The balances comprising unrestricted net assets as of August 31, 2007 and 2006 were as follows:

	2007	2006
Aggregate deficiency on donor-restricted endowment net asset balances	\$ (21,483)	\$ (31,684)
Undesignated / unrestricted net assets	115,578	120,572
Total unrestricted net assets	<u>\$ 94,095</u>	<u>\$ 88,888</u>

HOUSTON COMMUNITY COLLEGE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2007 AND 2006

8. Temporarily Restricted Net Assets

At August 31, temporarily restricted net assets are available for the following:

	2007	2006
Hi-Tech program	\$ -	\$ 11,844
Scholarships	1,080,123	740,908
Total	<u>\$ 1,080,123</u>	<u>\$ 752,752</u>

9. Permanently Restricted Net Assets

Permanently restricted net assets represent funds received by the Foundation to be held in perpetuity. The earnings on these funds are designated to fund specific scholarships and are included in temporarily restricted net assets until used.

10. Support Agreement and Related Party Transactions

The Foundation and the System have entered into an agreement for the System to provide administrative support to the Foundation. 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. Administrative support provided includes office space and executive director and staff for the Foundation. The total support provided by the System to the Foundation in the fiscal years ended August 31, 2007 and 2006 was valued at approximately \$736,000 and \$310,000, respectively, and was included in the financial statements as unrestricted in-kind revenue.

The agreement term shall last until the period ending on August 31, 2008, and is then subject to an automatic extension on each ensuing September 1 unless either party elects not to extend the agreement, which will require a written notice by June 30 of the same year.

From time to time, the Foundation remits scholarship funds to the System to cover tuitions, books, and other student fees for specified students of the System. During the years ended August 31, 2007 and 2006, the Foundation remitted the total of \$480,672 and \$323,859, respectively, to the system for scholarships. The total scholarship fund due from the Foundation to the System at August 31, 2007 and 2006 was \$182,265 and \$86,980, respectively. These amounts have been included in the due to an affiliate balances in the financial statements.