

HOUSTON COMMUNITY COLLEGE FOUNDATION

FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011



GAINER | DONNELLY

HOUSTON COMMUNITY COLLEGE FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Houston Community College Foundation (the "Foundation"), a Texas nonprofit foundation, as of August 31, 2012 and 2011, 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 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 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 Houston Community College Foundation as of August 31, 2012 and 2011, 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.

Gainer Donnelly LLP

February 26, 2013

HOUSTON COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2012 AND 2011

ASSETS		2012	2011
CURRENT ASSETS:			
Cash and Cash Equivalents	\$	3,013,661	\$ 2,764,424
Contributions Receivable		3,330,939	2,232,309
Investments, at Fair Value		<u>119,327</u>	<u>141,114</u>
Total Current Assets		6,463,927	5,137,847
NONCURRENT ASSETS:			
Contributions Receivable, Net		4,651,665	747,088
Investments, at Fair Value, Restricted for Endowments		<u>3,845,482</u>	<u>3,102,245</u>
Total Noncurrent Assets		<u>8,497,147</u>	<u>3,849,333</u>
TOTAL ASSETS	\$	<u><u>14,961,074</u></u>	\$ <u><u>8,987,180</u></u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Deferred Revenue	\$	-	\$ 114,891
Due to Affiliate		<u>21,557</u>	<u>79,949</u>
TOTAL LIABILITIES		21,557	194,840
COMMITMENTS AND CONTINGENCIES			
NET ASSETS:			
Unrestricted		299,680	575,372
Temporarily Restricted		6,118,492	4,693,844
Permanently Restricted		<u>8,521,345</u>	<u>3,523,124</u>
Total Net Assets		<u>14,939,517</u>	<u>8,792,340</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u><u>14,961,074</u></u>	\$ <u><u>8,987,180</u></u>

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

HOUSTON COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:								
Contributions and Donations	\$ 436,039	\$ 5,525,926	\$ 4,998,221	\$ 10,960,186	\$ 398,324	\$ 3,730,404	\$ 731,559	\$ 4,860,287
Interest and Dividend Income	-	41,730	-	41,730	-	68,332	-	68,332
In-Kind Revenue	2,153,842	-	-	2,153,842	1,619,034	-	-	1,619,034
Realized and Unrealized Income on Investments	-	156,904	-	156,904	104,993	-	-	104,993
Vending Income	209,843	-	-	209,843	127,176	-	-	127,176
Other Income	2,605	-	-	2,605	3,293	-	-	3,293
Net Assets Released from Restrictions	4,299,912	(4,299,912)	-	-	2,281,956	(2,281,956)	-	-
Total Revenues	7,102,241	1,424,648	4,998,221	13,525,110	4,534,776	1,516,780	731,559	6,783,115
EXPENSES:								
Program Services:								
Scholarships	1,383,136	-	-	1,383,136	1,415,932	-	-	1,415,932
Grant Distributions	3,967,448	-	-	3,967,448	1,189,633	-	-	1,189,633
Total Program Services	5,350,584	-	-	5,350,584	2,605,565	-	-	2,605,565
Support Services:								
Fundraising	216,817	-	-	216,817	8,149	-	-	8,149
Vending Distributions	169,173	-	-	169,173	104,761	-	-	104,761
Administration	1,641,359	-	-	1,641,359	1,360,855	-	-	1,360,855
Total Support Services	2,027,349	-	-	2,027,349	1,473,765	-	-	1,473,765
Total Expenses	7,377,933	-	-	7,377,933	4,079,330	-	-	4,079,330
INCREASE (DECREASE) IN NET ASSETS	(275,692)	1,424,648	4,998,221	6,147,177	455,446	1,516,780	731,559	2,703,785
NET ASSETS, BEGINNING OF YEAR	575,372	4,693,844	3,523,124	8,792,340	119,926	3,177,064	2,791,565	6,088,555
NET ASSETS, END OF YEAR	\$ 299,680	\$ 6,118,492	\$ 8,521,345	\$ 14,939,517	\$ 575,372	\$ 4,693,844	\$ 3,523,124	\$ 8,792,340

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

HOUSTON COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in Net Assets	\$ 6,147,177	\$ 2,703,785
Adjustments to Reconcile Changes in Net Assets to Net Cash		
Provided by (Used In) Operating Activities:		
Contributions Restricted for Permanent Endowments	(4,998,221)	(731,559)
Net Realized and Unrealized Gain on Investments	(156,904)	(104,993)
Change in Operating Assets and Liabilities:		
Contributions Receivable	(5,003,207)	(1,124,279)
Deferred Revenue	(114,891)	114,891
Due to Affiliate	(58,392)	(161,730)
Total Adjustments	<u>(10,331,615)</u>	<u>(2,007,670)</u>
Net Cash Provided by (Used in) Operating Activities	(4,184,438)	696,115
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	10,968,854	-
Purchases of Investments	<u>(11,533,400)</u>	<u>(862,754)</u>
Net Cash Used in Investing Activities	(564,546)	(862,754)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions Restricted for Permanent Endowments	<u>4,998,221</u>	<u>731,559</u>
INCREASE IN CASH AND CASH EQUIVALENTS	249,237	564,920
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,764,424</u>	<u>2,199,504</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,013,661</u>	<u>\$ 2,764,424</u>

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

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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:

- Unrestricted – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.
- Temporarily Restricted – 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 subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on the related investments for specific or general purposes.

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.

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE 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 because 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 if expected to be collected in one year. 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 recorded as refundable advances when received, and are recognized as revenue when the conditions have been 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.

Investments and Investment Return

Investments are mostly comprised of endowed funds invested for the purpose of generating income for scholarships. The Foundation carries investments in marketable securities at fair value. Investment return is reported in the statements of activities as an increase in unrestricted net assets 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. The aggregate unrealized gains and losses on donor-restricted endowment net asset balances are included in unrestricted net assets 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 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.

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Revenue

Contributions raised for the Foundation's 2012 gala have been reported as deferred revenue on the statements of financial position for 2011.

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 2012 and 2011 were approximately \$1,183,000 and \$1,077,000, 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. Approximately \$970,000 and \$542,000 have been reflected in the accompanying financial statements for services, materials, and equipment donated by other parties to the Foundation during 2012 and 2011, respectively, for the benefit of various departments at the System.

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, 2012, management believes there were no uncertain tax positions. The Foundation's federal tax return remains open to examination for a period of three years following its filing with the taxing authority.

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. Actual results could differ from those estimates. Estimates that have the most impact on financial position and results of operations primarily relate to the collectability and present value of contributions receivables, the fair value of investments, and the allocation of expenses among functional areas. Management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

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 fair values of investment securities will occur in the near term and that such change could materially affect the amounts recorded in the financial statements.

Subsequent Events

The Foundation has evaluated subsequent events through the date the financial statements were available for issuance on February 26, 2013. No matters were identified affecting the financial statements and related disclosures that have not already been disclosed elsewhere in these financial statements.

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reclassifications

Certain 2011 amounts have been reclassified to conform to current year presentation. The reclassification did not impact total net assets of the Foundation.

NOTE 3 – PROGRAM AND SUPPORTING SERVICES

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

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

- Scholarships are payments made to the System for tuition and books on behalf of specified students, staff, and faculty of the System and the residents of the geographical area that the System serves.
- Grant distributions are payments 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 4 – CREDIT RISKS

The Foundation maintains its cash balances in financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC). In addition, noninterest-bearing accounts are fully insured under the Dodd-Frank Deposit Insurance Provision. These accounts shall be fully insured through December 31, 2012. In addition, at August 31, 2012 and 2011, the Foundation had \$2,864,998 and \$2,671,229, respectively, in money market mutual funds that were subject to uncollateralized custodial risks. Custodial risk is the risk that, in the event of 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 risk exposure is mitigated by the financial strength of the financial institutions in which the funds are held.

As of August 31, 2012, three donors accounted for 85% of contributions receivable. In 2012, approximately 57% of contributions were provided by two donors. As of August 31, 2011, two donors accounted for 50% of contributions receivable. In 2011, approximately 28% of contributions were provided by two donors.

NOTE 5 – 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.

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – FAIR VALUE INSTRUMENTS – CONTINUED

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 (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). 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). Other alternative investments are carried at fair value based on net asset value ("NAV") as a practical expedient, as provided by the investment managers or administrators of such alternative investments (Level 3). These alternative investments value the underlying investments generally using market value when available, and otherwise will use principles of fair value applied 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 the investments in alternative investments existed.

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 and alternative investments. The fair value of financial assets measured on a recurring basis are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
August 31, 2012:				
Treasury Funds	\$ 224,320	\$ 224,320	\$ -	\$ -
Alternative Investments	<u>3,740,489</u>	<u>86,579</u>	<u>3,170,593</u>	<u>483,317</u>
Total Investments	\$ <u>3,964,809</u>	\$ <u>310,899</u>	\$ <u>3,170,593</u>	\$ <u>483,317</u>
August 31, 2011:				
Money Market Mutual Funds	\$ 558,162	\$ 558,162	\$ -	\$ -
Bonds	1,561,013	-	1,561,013	-
Equities	<u>1,124,184</u>	<u>1,124,184</u>	<u>-</u>	<u>-</u>
Total Investments	\$ <u>3,243,359</u>	\$ <u>1,682,346</u>	\$ <u>1,561,013</u>	\$ <u>-</u>

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – FAIR VALUE INSTRUMENTS – CONTINUED

The following summarizes the investment return in the statements of activities for the years ended August 31:

	<u>2012</u>	<u>2011</u>
Interest and Dividend Income	\$ 41,730	\$ 68,332
Unrealized Gain	<u>156,904</u>	<u>104,993</u>
Total Investment Income	\$ <u>198,634</u>	\$ <u>173,325</u>

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

Balance as of August 31, 2011	\$ -
Purchases, Sales, Settlements, and Gains/Losses (Realized and Unrealized)	<u>483,317</u>
Balance as of August 31, 2012	\$ <u>483,317</u>

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions are due to be collected as follows at August 31:

	<u>2012</u>	<u>2011</u>
Less than One Year	\$ 3,330,939	\$ 2,232,309
One to Five Years	<u>4,999,250</u>	<u>784,750</u>
Total Contributions Receivable	8,330,189	3,017,059
Less: Unamortized Discount to Net Present Value at 3.25%	<u>(347,585)</u>	<u>(37,662)</u>
Contributions Receivable, Net	\$ <u>7,982,604</u>	\$ <u>2,979,397</u>

NOTE 7 – DESIGNATED UNRESTRICTED NET ASSETS

Unrestricted net assets include \$41,150 of amounts designated by the Board of Directors to be awarded for scholarships that have not been disbursed to eligible students as of August 31, 2011. No amounts were board designated in 2012.

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Scholarships	\$ 2,164,841	\$ 2,178,798
Alumni Activities	18,712	19,075
Education	3,830,690	2,463,773
Recruiting	23,423	23,383
Renovations and Beautification	8,939	8,815
Other	<u>71,887</u>	<u>-</u>
Total Temporarily Restricted Net Assets	\$ <u>6,118,492</u>	\$ <u>4,693,844</u>

NOTE 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. Permanently restricted funds consist of the following at August 31:

	<u>2012</u>	<u>2011</u>
Cash and Investments	\$ 3,668,601	\$ 3,098,575
Contributions Receivable, Net	<u>4,852,744</u>	<u>424,549</u>
Total	\$ <u>8,521,345</u>	\$ <u>3,523,124</u>

NOTE 10 – 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 of this interpretation, the Foundation classifies the amount specified by explicit donor stipulation as an endowment as permanently restricted net assets. 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.

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – ENDOWMENT FUNDS – CONTINUED

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. Deficiencies of this nature are reported in unrestricted net assets as an aggregate deficiency of the fair value of net endowment assets over permanently restricted net assets.

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

	<u>2012</u>	<u>2011</u>
Temporarily Restricted Net Assets	\$ 176,881	\$ 3,670
Permanently Restricted Net Assets	<u>3,668,601</u>	<u>3,098,575</u>
Total Endowment Net Assets	\$ <u>3,854,482</u>	\$ <u>3,102,245</u>

Changes in Endowment Net Assets for the Years Ended August 31, 2012 and 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, September 1, 2010	\$ (130,865)	\$ -	\$ 1,921,712	\$ 1,790,847
Investment Income	64,776	-	-	64,776
Net Appreciation	66,089	23,761	-	89,850
Contributions	-	1,607	1,176,863	1,178,470
Appropriations of Endowment Assets for Expenditure	-	(2,907)	-	(2,907)
Advisor Fees	<u>-</u>	<u>(18,791)</u>	<u>-</u>	<u>(18,791)</u>
Endowment Net Assets, August 31, 2011	-	3,670	3,098,575	3,102,245
Investment Income	-	39,011	-	39,011
Net Appreciation	-	156,904	-	156,904
Contributions	-	11,310	570,026	581,336
Appropriations of Endowment Assets for Expenditure	-	(14,302)	-	(14,302)
Advisor Fees	<u>-</u>	<u>(19,712)</u>	<u>-</u>	<u>(19,712)</u>
Endowment Net Assets, August 31, 2012	\$ <u>-</u>	\$ <u>176,881</u>	\$ <u>3,668,601</u>	\$ <u>3,845,482</u>

During 2012, certain changes were made to the classifications of endowment net assets based on a clearer understanding of the nature of the underlying investment accounts holding endowment funds. The 2011 table has been reclassified to conform to the 2012 presentation.

HOUSTON COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – SUPPORT AGREEMENT AND RELATED PARTY TRANSACTIONS

The Foundation and the System have entered into an agreement 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. Administrative support provided includes office space, an executive director and staff for the Foundation. The total support provided by the System to the Foundation in fiscal years ended August 31, 2012 and 2011 was approximately \$1,183,000 and \$1,077,000, respectively, and was included in the financial statements as unrestricted in-kind revenue.

Beginning January 31, 2011, the Foundation amended their Memo of Understanding with the System to increase office space rent to \$14,400 per year. This agreement was renewed effective January 1, 2013 to extend the lease term through December 31, 2014 at the same rental rate. Future lease commitments for fiscal years ending total: 2013 – \$14,400, 2014 – \$14,400, and 2015 – \$4,800. Total rent expense paid for the years ended August 31, 2012 and 2011 totaled \$14,400 and \$9,600, respectively.

During the year, the Foundation remitted scholarship funds to the System to cover tuition, books, and other student fees for specified students of the System. During the years ended August 31, 2012 and 2011, the Foundation remitted \$710,803 and \$714,253, respectively, to the System which is included in scholarship expense in the accompanying financial statements. In addition, for the years ended August 31, 2012 and 2011, the Foundation remitted \$672,333 and \$701,679, respectively, to the System for student organization related costs. The total scholarship funding due from the Foundation to the System at August 31, 2012 and 2011 was \$21,557 and \$79,949, respectively. These amounts have been included in the due to affiliate balances in the accompanying financial statements.

During the year, the Foundation received contributions for the benefit of faculty and staff at the System for various educational needs other than scholarships. Disbursements of these funds totaled approximately \$4 million and \$1.2 million for the years ended August 31, 2012 and 2011, respectively.

The Foundation is the administrator for the System's vending services. In return for administering the contract, the Foundation receives twenty percent of the total revenues from the vending machines before they remit it to the System. Revenue earned from the vending contract totaled \$209,843 and \$127,176 for the years ended August 31, 2012 and 2011, respectively. Disbursements to the System totaled \$169,173 and \$104,761 for the years ended August 31, 2012 and 2011, respectively. The Foundation renewed the contract for five years beginning December 1, 2011.