



Houston Community College Foundation

FINANCIAL STATEMENTS

August 31, 2024 and 2023



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INDEPENDENT AUDITOR'S 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, 2024 and 2023, 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, 2024 and 2023, 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 Auditor's 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.

Correction of Error

As discussed in Note 3 to the financial statements, certain errors resulting in the understatement of amounts previously reported for liabilities as of August 31, 2023, were discovered by management of Houston Community College Foundation during the current year. Accordingly, amounts reported for amounts held on behalf of donors for private scholarships, revenues and expenses have been restated in the 2023 financial statements now presented, and an adjustment has been made to net assets as of August 31, 2022, to correct the error. Our opinion is not modified with respect to that matter.

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.

Auditor's 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 auditor's 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
December 2, 2024

Houston Community College Foundation Statements of Financial Position

| <i>August 31,</i> | 2024 | (Restated) 2023 |
|--|---------------|--------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 2,315,320 | \$ 1,363,560 |
| Cash and cash equivalents - held on behalf of donors for private scholarships | 514,131 | 512,154 |
| Promises to give, current | 949,534 | 849,892 |
| Prepays and other current assets | 70,597 | 126,546 |
| Total current assets | 3,849,582 | 2,852,152 |
| Noncurrent assets | | |
| Promises to give, net of current | 477,134 | 153,334 |
| Investments | 8,487,518 | 6,316,123 |
| Cash equivalents, restricted for endowments | 166,357 | 395,310 |
| Investments, restricted for endowments | 11,281,380 | 10,677,965 |
| Total noncurrent assets | 20,412,389 | 17,542,732 |
| Total assets | \$ 24,261,971 | \$ 20,394,884 |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Held on behalf of donors for private scholarships | \$ 514,131 | \$ 512,154 |
| Due to related party | 1,216,217 | 711,494 |
| Total current liabilities | 1,730,348 | 1,223,648 |
| Net assets | | |
| Without donor restrictions | 612,246 | 281,516 |
| With donor restrictions | 21,919,377 | 18,889,720 |
| Total net assets | 22,531,623 | 19,171,236 |
| Total liabilities and net assets | \$ 24,261,971 | \$ 20,394,884 |

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

Houston Community College Foundation Statement of Activities

For the year ended August 31,

2024

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|---------------|
| Revenue and Other Support | | | |
| Contributions: | | | |
| Cash and other financial assets | \$ 98,829 | \$ 7,117,978 | \$ 7,216,807 |
| Less: amounts raised for private scholarships | - | (1,784,527) | (1,784,527) |
| Net cash and other financial assets | 98,829 | 5,333,451 | 5,432,280 |
| Non-financial assets | 75,474 | 636,623 | 712,097 |
| Non-financial assets from the System | 1,762,435 | - | 1,762,435 |
| Special event revenue: | | | |
| Cash and other financial assets | 611,318 | - | 611,318 |
| Non-financial assets | 42,265 | - | 42,265 |
| Less: Direct donor benefit | (204,579) | - | (204,579) |
| Investment return, net | 305,369 | 2,244,680 | 2,550,049 |
| Vending income | 207,762 | - | 207,762 |
| Net assets released from restrictions | 5,185,097 | (5,185,097) | - |
| Total revenue and other support | 8,083,970 | 3,029,657 | 11,113,627 |
| Expenses | | | |
| <i>Program services</i> | | | |
| Scholarships | 1,384,006 | - | 1,384,006 |
| Grant distributions | 3,676,293 | - | 3,676,293 |
| Donated items | 947,536 | - | 947,536 |
| Total program services | 6,007,835 | - | 6,007,835 |
| <i>Supporting services</i> | | | |
| Administration | 690,472 | - | 690,472 |
| Fundraising | 1,054,933 | - | 1,054,933 |
| Total supporting services | 1,745,405 | - | 1,745,405 |
| Total expenses | 7,753,240 | - | 7,753,240 |
| Change in net assets | 330,730 | 3,029,657 | 3,360,387 |
| Net assets, beginning of year | 281,516 | 18,889,720 | 19,171,236 |
| Net assets, end of year | \$ 612,246 | \$ 21,919,377 | \$ 22,531,623 |

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

Houston Community College Foundation Statement of Activities

| <i>For the year ended August 31,</i> | 2023 (Restated) | | |
|---|-------------------------------|----------------------------|------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenue and Other Support | | | |
| Contributions: | | | |
| Cash and other financial assets | \$ 406,273 | \$ 5,122,069 | \$ 5,528,342 |
| Less: amounts raised for private scholarships | - | (1,349,630) | (1,349,630) |
| Net cash and other financial assets | 406,273 | 3,772,439 | 4,178,712 |
| Non-financial assets | 25,866 | 1,627,148 | 1,653,014 |
| Non-financial assets from the System | 1,446,248 | - | 1,446,248 |
| Investment return, net | 63,723 | 1,053,710 | 1,117,433 |
| Vending income | 120,618 | - | 120,618 |
| Net assets released from restrictions | 4,644,435 | (4,644,435) | - |
| Total revenue and other support | 6,707,163 | 1,808,862 | 8,516,025 |
| Expenses | | | |
| <i>Program services</i> | | | |
| Scholarships | 1,203,347 | - | 1,203,347 |
| Grant distributions | 2,342,652 | - | 2,342,652 |
| Donated items | 1,801,601 | - | 1,801,601 |
| Total program services | 5,347,600 | - | 5,347,600 |
| <i>Supporting services</i> | | | |
| Administration | 564,069 | - | 564,069 |
| Fundraising | 840,641 | - | 840,641 |
| Total supporting services | 1,404,710 | - | 1,404,710 |
| Total expenses | 6,752,310 | - | 6,752,310 |
| Change in net assets | (45,147) | 1,808,862 | 1,763,715 |
| Net assets, beginning of year, before restatement | 326,663 | 17,472,132 | 17,798,795 |
| Prior period adjustment (Note 3) | - | (391,274) | (391,274) |
| Net assets, beginning of year, after restatement | 326,663 | 17,080,858 | 17,407,521 |
| Net assets, end of year | \$ 281,516 | \$ 18,889,720 | \$ 19,171,236 |

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,

2024

| | Program Services | | | | Supporting Services | | | Total |
|---|---------------------|---------------------|-------------------|----------------------|---------------------|---------------------|------------------------|---------------------|
| | Scholarships | Grants | Donated Items | Programs Subtotal | Administrative | Fundraising | Supporting Subtotal | |
| Services provided to the System | \$ 1,148,557 | \$ 3,440,844 | \$ 712,097 | \$ 5,301,498 | \$ - | \$ - | \$ - | \$ 5,301,498 |
| Administrative support provided by the System | 217,971 | 217,971 | 217,971 | 653,913 | 554,261 | 554,261 | 1,108,522 | 1,762,435 |
| Bank fees | - | - | - | - | 26,606 | 56,783 | 83,389 | 83,389 |
| Events and campaigns - venues and related expenses | - | - | - | - | - | 429,694 | 429,694 | 429,694 |
| Donor hospitality | - | - | - | - | - | 14,287 | 14,287 | 14,287 |
| Software expenses | 4,318 | 4,318 | 4,318 | 12,954 | 8,873 | 80,183 | 89,056 | 102,010 |
| Rent | 1,929 | 1,929 | 1,929 | 5,787 | 4,907 | 4,906 | 9,813 | 15,600 |
| Professional services | - | - | - | - | 67,266 | 90,826 | 158,092 | 158,092 |
| General expenses and supplies | 11,231 | 11,231 | 11,221 | 33,683 | 28,559 | 28,572 | 57,131 | 90,814 |
| Total expenses | 1,384,006 | 3,676,293 | 947,536 | 6,007,835 | 690,472 | 1,259,512 | 1,949,984 | 7,957,819 |
| Less: Direct donor benefits | - | - | - | - | - | (204,579) | (204,579) | (204,579) |
| Total expenses - Statement of Activities | \$ 1,384,006 | \$ 3,676,293 | \$ 947,536 | \$ 6,007,835 | \$ 690,472 | \$ 1,054,933 | \$ 1,745,405 | \$ 7,753,240 |

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

Houston Community College Foundation Statement of Functional Expenses

(Restated)
2023

For the year ended August 31,

| | Program Services | | | | Supporting Services | | | |
|---|---------------------|---------------------|---------------------|----------------------|---------------------|-------------------|------------------------|---------------------|
| | Scholarships | Grants | Donated Items | Programs Subtotal | Administrative | Fundraising | Supporting Subtotal | Total |
| Services provided to the System | \$ 1,054,455 | \$ 2,168,199 | \$ 1,627,148 | \$ 4,849,802 | \$ - | \$ - | \$ - | \$ 4,849,802 |
| Administrative support provided by the System | 145,600 | 170,596 | 170,596 | 486,792 | 486,779 | 472,677 | 959,456 | 1,446,248 |
| Bank fees | - | - | - | - | 13,953 | - | 13,953 | 13,953 |
| Events and campaigns - venues and related expenses | - | - | - | - | - | 137,796 | 137,796 | 137,796 |
| Donor hospitality | - | - | - | - | - | 49,975 | 49,975 | 49,975 |
| Software expenses | - | - | - | - | - | 55,247 | 55,247 | 55,247 |
| Rent | 1,450 | 1,699 | 1,699 | 4,848 | 4,847 | 4,705 | 9,552 | 14,400 |
| Professional services | - | - | - | - | 52,333 | 114,260 | 166,593 | 166,593 |
| General expenses and supplies | 1,842 | 2,158 | 2,158 | 6,158 | 6,157 | 5,981 | 12,138 | 18,296 |
| Total expenses | \$ 1,203,347 | \$ 2,342,652 | \$ 1,801,601 | \$ 5,347,600 | \$ 564,069 | \$ 840,641 | \$ 1,404,710 | \$ 6,752,310 |

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> | 2024 | (Restated) 2023 |
|---|---------------------|---------------------------|
| Operating activities | | |
| Change in net assets | \$ 3,360,387 | \$ 1,763,715 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Contributions restricted for permanent endowments | (309,462) | (285,108) |
| Net realized and unrealized gains on investments | (1,899,855) | (660,874) |
| Change in operating assets and liabilities | | |
| Promises to give | (488,442) | (422,745) |
| Prepays and other current assets | 55,949 | (46,570) |
| Due to related party | 504,723 | (445,177) |
| Total adjustments | (2,137,087) | (1,860,474) |
| Net cash provided by (used in) operating activities | 1,223,300 | (96,759) |
| Investing activities | | |
| Proceeds from sales of investments | 7,851,964 | 30,284,190 |
| Purchases of investments | (8,726,919) | (30,210,677) |
| Net cash provided by (used in) investing activities | (874,955) | 73,513 |
| Financing activities | | |
| Contributions restricted for permanent endowments | 374,462 | 258,441 |
| Change in cash, cash equivalents and restricted cash equivalents | 722,807 | 235,195 |
| Cash, cash equivalents and restricted cash equivalents, beginning of year | 1,758,870 | 1,523,675 |
| Cash, cash equivalents and restricted cash equivalents, end of year | \$ 2,481,677 | \$ 1,758,870 |
| Reconciliation of cash, cash equivalents and restricted cash equivalents | | |
| Cash and cash equivalents | \$ 2,315,320 | \$ 1,363,560 |
| Cash equivalents, restricted for endowments | 166,357 | 395,310 |
| Total cash, cash equivalents and restricted cash equivalents | \$ 2,481,677 | \$ 1,758,870 |

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.
- 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. Estimates that are particularly susceptible to significant change in the near term are related to contributions of non-financial assets and allocation of functional expenses.

Houston Community College Foundation Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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.

Funds Held on Behalf of Others – Private Scholarships

The Foundation receives funds in an agency capacity for private scholarships from various donors. Since the Foundation does not determine the recipient of the scholarships, does not have variance power for the funds received, and any unused amounts are refundable to the original provider, neither the receipt nor the disbursement of the funds is recognized as an operating activity in the Foundation's financial statements. At August 31, 2024 and 2023, the Foundation held cash of \$514,131 and \$512,154, respectively, as well as a corresponding liability held on behalf of others for private scholarships.

Promises to Give

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met or explicitly waived by the donor. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Investments

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

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

Houston Community College Foundation Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The Foundation reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources 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.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity. The donors of these assets permit the Foundation to use all of the income earned on relative investments for general or specific use.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Revenue Recognition

Contributions are recognized when cash, other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met or the donor has explicitly removed the conditions.

Special event revenue is comprised of an exchange element based upon the direct benefit donors received and a contribution element for the difference. Special event 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 totaled \$204,579 for the year ended August 31, 2024. There were no direct benefits to donors for the year ended August 31, 2023.

Houston Community College Foundation Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Assets and Services

Donated investments and other noncash donations are recognized at fair value at the date of donation. The related expense is recognized as the item is used. Donated 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

Directly identifiable expenses are charged to programs and supporting services. Certain costs are allocated based upon management's estimates of the proportion of these costs applicable to each function. The expenses that are allocated are administrative support (staff salaries, benefits, and professional development) received from the System, software, rent, and general expenses and supplies, which are allocated based on estimates of time and effort among the programs 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 utilizes the accounting requirements associated with uncertainty in income taxes using the provisions of FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the positions will be sustained upon examination by the tax authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of August 31, 2024 and 2023, the Foundation has no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

Subsequent Events

The Foundation has evaluated subsequent events through the date the financial statements were available for issuance on December 2, 2024. 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.

Houston Community College Foundation Notes to Financial Statements

Note 3: PRIOR PERIOD ADJUSTMENT

The Foundation receives amounts from donors for scholarships which are to benefit specific students as identified by the donors (private scholarships). During fiscal year 2024, the Foundation determined that these receipts more appropriately represent agency transactions as the donors determine the specific student recipients of the scholarship, the Foundation does not have variance power, and any unused amounts are refundable to the original provider. As a result, the effect of the correction was to record a reduction in revenues and expenses and a liability for the amounts held by the Foundation not yet distributed to students or returned to the donors.

The effect of the restatement on the change in net assets with donor restrictions and financial position as of and for the year ended August 31, 2023 are as follows:

| | 2023 | |
|--|---------------------------|--------------|
| | As previously reported | Restated |
| Contributions of cash and other financial assets with donor restrictions | \$ 5,122,069 | \$ 3,772,439 |
| Program services - Scholarships | 2,432,097 | 1,203,347 |
| Change in net assets with donor restrictions | 1,929,742 | 1,808,862 |
| Liability - held on behalf of donors for private scholarships | \$ - | \$ 512,154 |
| Net assets with donor restrictions, September 1, 2022 | 17,472,132 | 17,080,858 |

Note 4: LIQUIDITY AND FINANCIAL ASSET AVAILABILITY

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

| <i>August 31,</i> | 2024 | 2023 |
|---|----------------------|---------------|
| Total assets at year-end | \$ 24,261,971 | \$ 20,394,884 |
| Less non-financial assets | | |
| Prepays and other current assets | (70,597) | (126,546) |
| Financial assets at year-end | 24,191,374 | 20,268,338 |
| Less those not available for general expenditures within one year, due to contractual or donor-imposed restrictions | | |
| Held on behalf of donors for private scholarships | (514,131) | (512,154) |
| Amounts restricted for programs | (10,309,973) | (7,589,778) |
| Amounts restricted for permanent endowment | (11,609,404) | (11,299,942) |
| Amounts available for general expenditure within one year | \$ 1,757,866 | \$ 866,464 |

Houston Community College Foundation Notes to Financial Statements

Note 4: LIQUIDITY AND FINANCIAL ASSET AVAILABILITY (Continued)

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 2025 in the amount of \$1,841,775 (unaudited), excluding benefits.

Note 5: PROMISES TO GIVE

Promises to give consist of the following:

| <i>August 31,</i> | 2024 | 2023 |
|-------------------------------|---------------------|---------------------|
| Less than one year | \$ 949,534 | \$ 849,892 |
| One to five years | 477,134 | 153,334 |
| Total promises to give | \$ 1,426,668 | \$ 1,003,226 |

Note 6: INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- 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.

Houston Community College Foundation Notes to Financial Statements

Note 6: INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used on August 31, 2024 and 2023.

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

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

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

Alternative investments: The Investment Funds are valued at market value when available, and otherwise will use principles of fair value in good faith. Because of the inherent uncertainty of valuation, fair value may differ significantly from the value that would have been used had readily available markets for investments in Investment Funds existed. Investments in these entities are generally redeemable over the life of the investment subject to certain holdback provisions by the investment company.

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 preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in different fair value measurements at the reporting date.

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.

Houston Community College Foundation Notes to Financial Statements

Note 6: INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

- (3) 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.
- (4) The investment seeks potentially higher yields than a portfolio that only invests in Treasury securities, while maintaining high credit quality.

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

| | Quoted Market Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total |
|--------------------------------|---|--|-------------------------------------|----------------------|
| August 31, 2024: | | | | |
| Current Use Funds: | | | | |
| Fixed income | \$ 1,030,926 | \$ - | \$ - | \$ 1,030,926 |
| Exchange traded funds | 2,304,597 | - | - | 2,304,597 |
| Mutual Funds | | | | |
| Money market (4) | 175,750 | - | - | 175,750 |
| Total Current Use Funds | 3,511,273 | - | - | 3,511,273 |
| Endowment Funds: | | | | |
| Common stocks | 382,019 | - | - | 382,019 |
| Exchange traded funds | 8,543,281 | - | - | 8,543,281 |
| Fixed income | 1,666,549 | - | - | 1,666,549 |
| Mutual Funds | | | | |
| Global real estate (2) | 410,202 | - | - | 410,202 |
| Common stock (3) | 4,918,070 | - | - | 4,918,070 |
| Alternative investments | | | | |
| Salient Private Access Fund | - | - | 337,504 | 337,504 |
| Total Endowment Funds | 15,920,121 | - | 337,504 | 16,257,625 |
| Total investments | | | | \$ 19,768,898 |

Houston Community College Foundation Notes to Financial Statements

Note 6: INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

| | Quoted Market Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total |
|--------------------------------|---|--|-------------------------------------|----------------------|
| August 31, 2023: | | | | |
| Current Use Funds: | | | | |
| Fixed income | \$ 319,955 | \$ - | \$ - | \$ 319,955 |
| Exchange traded funds | 2,305,637 | - | - | 2,305,637 |
| Mutual Funds | | | | |
| Municipal (1) | 545,756 | - | - | 545,756 |
| Common stock (3) | 113,769 | - | - | 113,769 |
| Money market (4) | 1,480 | - | - | 1,480 |
| Total Current Use Funds | 3,286,597 | - | - | 3,286,597 |
| Endowment Funds: | | | | |
| Common stocks | 1,700,626 | - | - | 1,700,626 |
| Exchange traded funds | 7,236,944 | - | - | 7,236,944 |
| Fixed income | 976,072 | - | - | 976,072 |
| Mutual Funds | | | | |
| Common stock (3) | 3,480,664 | - | - | 3,480,664 |
| Alternative investments | - | - | - | - |
| Salient Private Access Fund | - | - | 313,185 | 313,185 |
| Total Endowment Funds | 13,394,306 | - | 313,185 | 13,707,491 |
| Total investments | | | \$ 313,185 | \$ 16,994,088 |

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> | 2024 | 2023 |
|--|-------------------|-------------------|
| Balance, beginning of year | \$ 313,185 | \$ 327,429 |
| Net change in unrealized appreciation (depreciation) | 24,319 | (14,244) |
| Balance, end of year | \$ 337,504 | \$ 313,185 |

Houston Community College Foundation Notes to Financial Statements

Note 6: INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluated the significance of transfer between levels based upon the nature of the financial instrument and size of the transfer relative to total assets. For the year ended December 31, 2024, there were no significant transfers in or out of Levels 1, 2 or 3.

Note 7: DONATED GOODS AND SERVICES

Contributed nonfinancial assets recognized within the statements of activities include:

| <i>For the years ended August 31,</i> | 2024 | 2023 |
|---------------------------------------|-------------------|---------------------|
| Property and equipment | \$ 522,503 | \$ 1,474,301 |
| Books | 65,123 | 54,851 |
| Art supplies | 33,260 | 77,582 |
| Miscellaneous monetized | 133,476 | 46,280 |
| Total | \$ 754,362 | \$ 1,653,014 |

The Foundation recognized contributed nonfinancial assets within revenue, including donated property and equipment, books, and supplies. 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 lab equipment, laptops, iPads, Chromebooks, and subscription and license agreements that were utilized by the students of the System. These items have been recorded based on the retail values of the products sold by the donors. The Foundation also received donor restricted book donations utilized by students of the System from a local business. The books are recorded at estimated retail value. Art supplies received with donor restrictions to be utilized by the students of the System and are recorded at estimated retail value.

Houston Community College Foundation Notes to Financial Statements

Note 7: DONATED GOODS AND SERVICES (Continued)

Approximately \$712,000 and \$1,627,000 of the contributed nonfinancial assets for services, materials and equipment donated by other parties to the Foundation during 2024 and 2023, respectively, were for the benefit of and transferred to various departments at the System and are reflected as program costs in the accompanying financial statements.

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

| <i>For the years ended August 31,</i> | 2024 | 2023 |
|---------------------------------------|---------------------|---------------------|
| Salaries and wages | \$ 1,400,133 | \$ 1,153,490 |
| Benefits | 278,364 | 209,646 |
| Supplies and general expenses | 50,079 | 15,863 |
| Travel | 6,231 | 6,814 |
| Contracted services | 2,355 | 10,208 |
| Other institutional expenditures | 25,273 | 50,227 |
| Total | \$ 1,762,435 | \$ 1,446,248 |

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 non-financial 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.

Note 8: NET ASSETS WITH DONOR RESTRICTIONS

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

| <i>August 31,</i> | 2024 | (Restated) 2023 |
|---|----------------------|----------------------|
| Subject to expenditure for specific purpose | | |
| Scholarships | \$ 6,978,462 | \$ 5,155,767 |
| Alumni activities | 23,109 | 23,109 |
| Education | 3,018,815 | 2,179,550 |
| Other | 289,587 | 231,352 |
| Subject to spending policy and appropriation | | |
| Perpetual endowment fund | 11,609,404 | 11,299,942 |
| Total net assets with donor restrictions | \$ 21,919,377 | \$ 18,889,720 |

Houston Community College Foundation Notes to Financial Statements

Note 8: NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Perpetual in nature net assets consist of the following:

| <i>August 31,</i> | 2024 | 2023 |
|--|----------------------|---------------|
| Investments and cash equivalents restricted for endowments | \$ 11,447,737 | \$ 11,073,275 |
| Promises to give | 161,667 | 226,667 |
| | \$ 11,609,404 | \$ 11,299,942 |

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.

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.

Houston Community College Foundation Notes to Financial Statements

Note 9: ENDOWMENT FUNDS (Continued)

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, 2024 or 2023.

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> | 2024 | 2023 |
|--|----------------------|----------------------|
| With donor restrictions | | |
| Donor restricted endowment funds | | |
| Original donor-restricted gift amount required to be retained by donor in perpetuity | \$ 11,447,737 | \$ 11,073,275 |
| Accumulated undistributed earnings on donor restricted net asset balance | 5,653,090 | 3,677,552 |
| Total endowment net assets | \$ 17,100,827 | \$ 14,750,827 |

Changes in Endowment Net Assets for the Years Ended August 31, 2024 and 2023:

| | With Donor Restrictions | | |
|--|-----------------------------|----------------------|----------------------|
| | Accumulated gains and other | Original gift amount | Total |
| Endowment net assets, August 31, 2022 | \$ 2,840,905 | \$ 10,814,834 | \$ 13,655,739 |
| Investment income | 391,816 | - | 391,816 |
| Net appreciation | 728,388 | - | 728,388 |
| Contributions | - | 258,441 | 258,441 |
| Amounts appropriated for expenditure | (283,557) | - | (283,557) |
| Endowment net assets, August 31, 2023 | 3,677,552 | 11,073,275 | 14,750,827 |
| Investment income | 491,385 | - | 491,385 |
| Net appreciation | 1,820,982 | - | 1,820,982 |
| Contributions | - | 374,462 | 374,462 |
| Amounts appropriated for expenditure | (336,829) | - | (336,829) |
| Endowment net assets, August 31, 2024 | \$ 5,653,090 | \$ 11,447,737 | \$ 17,100,827 |

Houston Community College Foundation Notes to Financial Statements

Note 10: SUPPORT AGREEMENT AND RELATED PARTY TRANSACTIONS

The Foundation and the System have entered into a memo of understanding in which the System provides administrative support for Foundation activities at a level determined by the System to be appropriate, but only to the extent of availability of funds within the System's budget and in accordance with the terms of the agreement. A new agreement was effective May 23, 2018. Administrative support provided includes Foundation president and staff. The total support provided by the System to the Foundation for the fiscal years ended August 31, 2024 and 2023 totaled \$1,762,435 and \$1,446,248, respectively, and is included in the financial statements as contributed nonfinancial assets.

The Foundation's amended agreement effective January 1, 2013, includes office space rent of \$14,400 per year. This agreement also extended the lease term through December 31, 2016 and then on a month-to-month basis at the same rental rate. The Foundation's new agreement with the System effective May 23, 2018 also provides for use of office space which will be established under a separate lease agreement. The Foundation continues under the previous agreement on a month-to-month basis until the new lease agreement is executed, and therefore no obligation is recorded under ASC 842, *Leases*. Total rent expense paid for the years ended August 31, 2024 and 2023 totaled \$15,600 and \$14,400, respectively.

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, 2024 and 2023, funds disbursed or due to the System totaled \$5,301,498 and \$4,849,802, respectively. These funds are included within the scholarship expense, grant distributions, and donated items in the accompanying financial statements.

The Foundation is also in charge of administering private scholarships which benefit specific students, as identified by the donors, but are not reflected as contributions or scholarship expense in the accompanying financial statements. During the years ended August 31, 2024 and 2023, the Foundation was responsible for administering the following related to private scholarships.

| <i>For the years ended August 31,</i> | 2024 | 2023 |
|---|-------------|-------------|
| Amounts held on behalf of donors for | | |
| private scholarships, beginning of year | \$ 512,154 | \$ 391,274 |
| Receipts from donors | 1,784,527 | 1,349,630 |
| Payments to the System for students specified by donors | (1,741,211) | (1,214,223) |
| Refunds to donors for unused private scholarships | (41,339) | (14,527) |
| Amounts held on behalf of donors for | | |
| private scholarships, end of year | \$ 514,131 | \$ 512,154 |

Scholarship, private scholarship and grant funding, of \$1,216,217 and \$711,494 was due to the System as of August 31, 2024 and 2023, respectively.

Houston Community College Foundation Notes to Financial Statements

Note 10: SUPPORT AGREEMENT AND RELATED PARTY TRANSACTIONS

Effective September 1, 2022, the System entered into a new contract with the vending services provider that requires month-to-month fixed commission payments by the vendor. A portion of the revenue earned from the vending contract is remitted to the Foundation and totaled \$207,762 and \$120,618 for the years ended August 31, 2024 and 2023, respectively.

For the years ended August 31, 2024 and 2023, the Foundation contributed to the System, including private scholarships, \$7,042,709 and \$6,064,025, respectively.

Note 11: CONCENTRATIONS

The Foundation maintains cash accounts at various banks, which at times, may exceed the Federal Deposit Insurance Corporation's limit. 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 to the financial strength of the financial institutions where deposits are held. The Foundation's deposits with financial institutions were in excess of federally insured limits by approximately \$2,600,000 and \$1,600,000 at August 31, 2024 and 2023, respectively.

As of August 31, 2024 and 2023, approximately 80% and 77% of promises to give were due from five and four donors, respectively. For each of the years ending 2024 and 2023, the Foundation had one donor account for approximately 15% of contributions.