

**NORTH HARRIS MONTGOMERY COMMUNITY
COLLEGE DISTRICT FOUNDATION
dba LONE STAR COLLEGE FOUNDATION
(A TEXAS NON-PROFIT CORPORATION)**

FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

GAINER DONNELLY & DESROCHES

NORTH HARRIS MONTGOMERY COMMUNITY
COLLEGE DISTRICT FOUNDATION
dba LONE STAR COLLEGE FOUNDATION
(A TEXAS NON-PROFIT CORPORATION)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Harris Montgomery Community
College District Foundation
dba Lone Star College Foundation
The Woodlands, Texas

We have audited the accompanying statements of financial position of North Harris Montgomery Community College District Foundation dba Lone Star College Foundation (a Texas non-profit corporation) (the Foundation) as of August 31, 2011 and 2010, and the related statements of activities and changes in net assets 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 North Harris Montgomery Community College District Foundation dba Lone Star College Foundation as of August 31, 2011 and 2010, 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of functional expenses on page 5 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gainer Donnelly & Desroches LLP

December 9, 2011

NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT FOUNDATION
 dba LONE STAR COLLEGE FOUNDATION
 (A TEXAS NON-PROFIT CORPORATION)
 STATEMENTS OF FINANCIAL POSITION
 AUGUST 31, 2011 AND 2010

ASSETS		2011	2010
CURRENT ASSETS:			
Cash and Cash Equivalents	\$	632,143	\$ 487,429
Contributions Receivable		2,300	1,499
Prepaid Expenses		3,569	1,667
Total Current Assets		638,012	490,595
LONG-TERM ASSETS:			
Certificates of Deposit		838,180	735,759
Investments, at Fair Value		10,948,690	9,504,355
TOTAL ASSETS	\$	12,424,882	\$ 10,730,709
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Unearned Revenue	\$	15,480	\$ 23,350
COMMITMENTS AND CONTINGENCIES			
NET ASSETS:			
Unrestricted		685,968	465,964
Temporarily Restricted		3,642,397	2,691,044
Permanently Restricted		8,081,037	7,550,351
Total Net Assets		12,409,402	10,707,359
TOTAL LIABILITIES AND NET ASSETS	\$	12,424,882	\$ 10,730,709

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

NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT FOUNDATION
 dba LONE STAR COLLEGE FOUNDATION
 (A TEXAS NON-PROFIT CORPORATION)
 STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED AUGUST 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT:				
Donations	\$ 5,357	\$ 761,510	\$ 384,890	\$ 1,151,757
Fundraising Donations	360,432	5,060	123,346	488,838
Net Realized and Unrealized Gain on Investments	33,309	795,472	-	828,781
Interest and Dividends, Net of Investment Fees	32,148	262,630	-	294,778
In-Kind Revenue	<u>279,962</u>	<u>-</u>	<u>-</u>	<u>279,962</u>
 TOTAL REVENUE AND SUPPORT	 711,208	 1,824,672	 508,236	 3,044,116
RESTRICCTIONS RELEASED:				
Program Expenditures	<u>850,969</u>	<u>(850,969)</u>	<u>-</u>	<u>-</u>
 TOTAL REVENUE, SUPPORT AND RECLASSIFICATIONS	 <u>1,562,177</u>	 <u>973,703</u>	 <u>508,236</u>	 <u>3,044,116</u>
EXPENSES:				
Program Services:				
Program Enrichment	142,849	-	-	142,849
Student Scholarships	693,943	-	-	693,943
Mini-Grants	15,825	-	-	15,825
Institutional Development	<u>32,033</u>	<u>-</u>	<u>-</u>	<u>32,033</u>
Total Program Services	884,650	-	-	884,650
Non-Program Services:				
Fundraising	140,099	-	-	140,099
General and Administrative	<u>317,324</u>	<u>-</u>	<u>-</u>	<u>317,324</u>
TOTAL EXPENSES	<u>1,342,073</u>	<u>-</u>	<u>-</u>	<u>1,342,073</u>
CHANGE IN NET ASSETS	220,104	973,703	508,236	1,702,043
NET ASSET TRANSFERS	(100)	(22,350)	22,450	-
NET ASSETS AT BEGINNING OF YEAR	<u>465,964</u>	<u>2,691,044</u>	<u>7,550,351</u>	<u>10,707,359</u>
NET ASSETS AT END OF YEAR	<u>\$ 685,968</u>	<u>\$ 3,642,397</u>	<u>\$ 8,081,037</u>	<u>\$ 12,409,402</u>

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

NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT FOUNDATION
 dba LONE STAR COLLEGE FOUNDATION
 (A TEXAS NON-PROFIT CORPORATION)
 STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED AUGUST 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT:				
Donations	\$ 19,887	\$ 450,566	\$ 586,241	\$ 1,056,694
Fundraising Donations	362,899	1,800	143,078	507,777
Net Realized and Unrealized Loss on Investments	2,986	350,899	-	353,885
Interest and Dividends, Net of Investment Fees	20,112	289,196	-	309,308
In-Kind Revenue	296,614	-	-	296,614
TOTAL REVENUE AND SUPPORT	702,498	1,092,461	729,319	2,524,278
RESTRICTIONS RELEASED:				
Program Expenditures	518,025	(518,025)	-	-
TOTAL REVENUE, SUPPORT AND RECLASSIFICATIONS	1,220,523	574,436	729,319	2,524,278
EXPENSES:				
Program Services:				
Program Enrichment	108,226	-	-	108,226
Student Scholarships	532,322	-	-	532,322
Mini-Grants	36,953	-	-	36,953
Institutional Development	36,829	-	-	36,829
Total Program Services	714,330	-	-	714,330
Non-Program Services:				
Fundraising	141,737	-	-	141,737
General and Administrative	338,418	-	-	338,418
TOTAL EXPENSES	1,194,485	-	-	1,194,485
CHANGE IN NET ASSETS	26,038	574,436	729,319	1,329,793
NET ASSETS AT BEGINNING OF YEAR	439,926	2,116,608	6,821,032	9,377,566
NET ASSETS AT END OF YEAR	\$ 465,964	\$ 2,691,044	\$ 7,550,351	\$ 10,707,359

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

NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT FOUNDATION
 dba LONE STAR COLLEGE FOUNDATION
 (A TEXAS NON-PROFIT CORPORATION)
 STATEMENTS OF FUNCTIONAL EXPENSES
 FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

	2011				2010			
	Program Services	Fundraising and Special Events	Management and Support Services	Total	Program Services	Fundraising and Special Events	Management and Support Services	Total
Program Enrichment	\$ 142,849	\$ -	\$ -	\$ 142,849	\$ 108,226	\$ -	\$ -	\$ 108,226
Student Scholarships	693,943	-	-	693,943	532,322	-	-	532,322
Mini-Grants	15,825	-	-	15,825	36,953	-	-	36,953
Institutional Development	32,033	-	-	32,033	36,829	-	-	36,829
Decorations	-	10,571	-	10,571	-	10,025	-	10,025
Hotel and Club Rental	-	14,384	-	14,384	-	12,869	-	12,869
Entertainment	-	6,985	-	6,985	-	8,741	-	8,741
Printing and Reproduction	-	14,905	-	14,905	-	15,140	1,605	16,745
Postage	-	5,533	-	5,533	-	4,744	485	5,229
Catering	-	65,639	-	65,639	-	67,298	-	67,298
Event Supplies	-	17,742	-	17,742	-	17,705	-	17,705
Bank Charges and Credit Card Fees	-	4,340	1,213	5,553	-	5,215	566	5,781
In-Kind Expenses	-	-	279,962	279,962	-	-	296,614	296,614
Professional Fees	-	-	18,322	18,322	-	-	28,995	28,995
Donor Cultivation	-	-	10,276	10,276	-	-	5,832	5,832
Administrative Expense	-	-	7,551	7,551	-	-	4,321	4,321
Total Expenses	\$ 884,650	\$ 140,099	\$ 317,324	\$ 1,342,073	\$ 714,330	\$ 141,737	\$ 338,418	\$ 1,194,485

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

NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT FOUNDATION
dba LONE STAR COLLEGE FOUNDATION
(A TEXAS NON-PROFIT CORPORATION)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 1,702,043	\$ 1,329,793
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Donations Restricted for Permanent Endowments	(508,236)	(729,319)
Net Realized and Unrealized Gain on Investments	(828,781)	(353,885)
Change in Operating Assets and Liabilities		
Contributions Receivable	(801)	7,162
Prepaid Expenses	(1,902)	1,370
Unearned Revenue	(7,870)	(8,435)
Net Cash Provided by Operating Activities	354,453	246,686
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Certificates of Deposit and Reinvestment of Dividend Income	(102,421)	(25,701)
Purchases of Investments	(6,526,151)	(8,857,814)
Proceeds from Sales of Investments	5,910,597	7,972,463
Net Cash Used in Investing Activities	(717,975)	(911,052)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Donations Restricted for Permanent Endowments	508,236	729,319
NET CHANGE IN CASH AND CASH EQUIVALENTS	144,714	64,953
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	487,429	422,476
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 632,143	\$ 487,429

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

NORTH HARRIS MONTGOMERY COMMUNITY
COLLEGE DISTRICT FOUNDATION
dba LONE STAR COLLEGE FOUNDATION
(A TEXAS NON-PROFIT CORPORATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The North Harris Montgomery Community College District Foundation dba Lone Star College Foundation (the Foundation) was organized in the State of Texas on December 20, 1990 to function as a nonprofit corporation. The duration of the Foundation is perpetual. The Foundation was established to raise private funds for the Lone Star College System (the System) for charitable, scientific, literary, and educational purposes, which are to be administered by the Foundation solely for the benefit of the System.

The Foundation operates three major program services. Student scholarships provide financial aid to the System's students based on financial need or academic merit. Program enrichment provides financial support to enhance the quality of the System's educational programs, which includes professional development, resources, equipment and supplies, curriculum updates and speaker honorariums. Institutional development supports activities of the System that are intended to promote the System's best interest, particularly in the areas of fundraising and maintaining effective business and community relations.

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 – These are net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – These are net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation, and/or the passage of time. 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.
- Permanently restricted net assets – These are net assets that are required to be maintained in perpetuity with only the income to be used for operating activities due to donor-imposed restrictions.

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).

NORTH HARRIS MONTGOMERY COMMUNITY
COLLEGE DISTRICT FOUNDATION
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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Considerations - Continued

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.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less at date of purchase to be cash equivalents. Cash and cash equivalents held in a money market account are reported as investments instead of cash because the Foundation holds those funds as an endowment.

At August 31, 2011 and 2010, cash and cash equivalents included \$2,870 and \$40,920, respectively, of permanently restricted contributions for endowment purposes.

Contributions Receivable

Contributions receivable represent amounts owed to the Foundation which are expected to be collected within twelve months. An allowance for doubtful accounts is established for contributions whose collection is uncertain. Contributions are charged against the allowance when all collection efforts have failed. As of August 31, 2011 and 2010, management considered all contributions collectible.

Certificates of Deposits

Certificates of deposits are held at financial institutions in the United States and are recorded at cost which approximates market value.

Investments and Investment Return

Investments are recorded at fair value. Investment return includes interest, dividends, capital gain distributions and realized and unrealized gains and losses. Investment return is reported in the statements of activities and changes in net assets as a change in unrestricted net assets unless the use of the income is limited by donor imposed restrictions. Investment return whose use is restricted by the donor is reported as a change in temporarily restricted net assets until expended in accordance with donor imposed restrictions.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

NORTH HARRIS MONTGOMERY COMMUNITY
COLLEGE DISTRICT FOUNDATION
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(A TEXAS NON-PROFIT CORPORATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributions - Continued

The Foundation recognizes donated services at their fair market value in the period received if the services received create or enhance nonfinancial assets or require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Foundation receives donated services from unpaid volunteers who assist with program services and fundraising. The value of the contributed time is not reflected in the accompanying financial statements because it does not require a specialized skill or create or enhance a nonfinancial asset.

The System performs various administrative functions on behalf of the Foundation. The value of these services is recorded as in-kind revenue in the statements of activities (see Note 5).

Federal Income Taxes

The Foundation is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

In 2010, the Foundation adopted a new accounting standard that clarifies the accounting for uncertainty in income taxes recognized for financial statement reporting purposes as applied to nonprofit organizations. Based on its evaluation, the Foundation has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. The Foundation's evaluation was performed for the tax periods ended August 31, 2008 through August 31, 2011. The latter three tax years principally remain subject to examination by major tax jurisdictions as of August 31, 2011.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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 have the most impact on financial position and results of operations primarily relate to the fair value of investments and the allocation of functional expenses. Management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on various determinations by management.

Subsequent Events

The Foundation has evaluated subsequent events through the date the financial statements were available for issuance on December 9, 2011. No matters were identified affecting the accompanying financial statements and related disclosures.

NORTH HARRIS MONTGOMERY COMMUNITY
COLLEGE DISTRICT FOUNDATION
dba LONE STAR COLLEGE FOUNDATION
(A TEXAS NON-PROFIT CORPORATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – FAIR VALUE MEASUREMENTS

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 fair value three tier hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

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

The Foundation utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Investments in corporate stocks, fixed income funds, money market funds, public real estate investment trusts and commodities that are currently traded in active markets are classified as Level 1. Certificates of Deposit are valued at face value plus accrued interest, which approximates fair value and are classified as Level 2. There have been no changes in valuation techniques and related inputs.

The value of assets and liabilities measured at fair value on a recurring basis is as follows:

	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
August 31, 2011:			
Corporate Stocks	\$ 5,088,411	\$ -	\$ -
Fixed Income Funds	3,546,517	-	-
Money Market Funds	1,284,649	-	-
Public Real Estate Investment Trusts	517,727	-	-
Commodities	<u>511,386</u>	<u>-</u>	<u>-</u>
Investments	\$ <u>10,948,690</u>	\$ <u>-</u>	\$ <u>-</u>
Certificates of Deposit	\$ <u>-</u>	\$ <u>838,180</u>	\$ <u>-</u>

NORTH HARRIS MONTGOMERY COMMUNITY
COLLEGE DISTRICT FOUNDATION
dba LONE STAR COLLEGE FOUNDATION
(A TEXAS NON-PROFIT CORPORATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – FAIR VALUE MEASUREMENTS – CONTINUED

	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
August 31, 2010:			
Corporate Stocks	\$ 4,685,575	\$ -	\$ -
Fixed Income Funds	3,208,985	-	-
Money Market Funds	694,904	-	-
Public Real Estate Investment Trusts	445,016	-	-
Commodities	<u>469,875</u>	<u>-</u>	<u>-</u>
Investments	\$ <u>9,504,355</u>	\$ <u>-</u>	\$ <u>-</u>
 Certificates of Deposit	 \$ <u>-</u>	 \$ <u>735,759</u>	 \$ <u>-</u>

The following summarizes the investment return, including earnings on certificates of deposit:

	<u>2011</u>	<u>2010</u>
Dividends and Interest Income	\$ 380,936	\$ 381,232
Investment Fees	(86,158)	(71,924)
Net Realized and Unrealized Gain	<u>828,781</u>	<u>353,885</u>
Total Investment Gain	\$ <u>1,123,559</u>	\$ <u>663,193</u>

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

The Foundation's remaining financial instruments (primarily cash and cash equivalents, receivables and certificates of deposit) are carried in the financial statements at amounts that reasonably approximate fair value.

NORTH HARRIS MONTGOMERY COMMUNITY
COLLEGE DISTRICT FOUNDATION
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(A TEXAS NON-PROFIT CORPORATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – TEMPORARY RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets include the following at August 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Program Enrichment and Special Scholarships Funds	\$ 1,405,687	\$ 1,094,498
Institutional Development Fund	267,154	266,253
Title V Challenge Grant Fund	22,942	22,273
ASF Board Member Fund	546	407
Accumulated Undistributed Earnings on ASF Endowments	385,932	258,356
Accumulated Undistributed Earnings on Other Endowments	<u>1,560,136</u>	<u>1,049,257</u>
 Total	 <u>\$ 3,642,397</u>	 <u>\$ 2,691,044</u>

NOTE 4 – ENDOWMENTS

The Foundation has donor-restricted endowment funds which are maintained in accordance with explicit donor stipulations. The Foundation is subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) which has been enacted by the state of Texas. The Board has interpreted TUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by TUPMIFA.

In accordance with TUPMIFA, the Foundation considers the following factors in making determination to distribute accumulated donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies and objectives of the Foundation

The primary investment objective of the endowment funds is to provide a long term rate of return at or above the Consumer Price Index plus 5 percent, within a risk standard deviation of 10 percent, to fund scholarships provided to students of the System. Annual distributions from endowment funds are expected to be 5% of the average fair market value of the assets held for investment purposes. In order to achieve these objectives, management of the assets of the Foundation will be performed by professional asset managers to be selected from time to time by the Board. At August 31, 2011 and 2010, the endowments funds were held and managed by Bank of America, N.A.

NORTH HARRIS MONTGOMERY COMMUNITY
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NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – ENDOWMENTS – CONTINUED

The Aldine College Endowment Scholarship Fund (ASF) contributed approximately \$632,000 in August 2001 for the purpose of establishing the ASF Endowment Fund to benefit high school graduates in the Aldine Independent School District. Annual scholarships, not to exceed \$1,000 each, are awarded to eligible students. Out of the total amount initially contributed, approximately \$115,000 was permanently restricted. The ASF Endowment Fund continues to receive contributions from various donors. As of August 31, 2011 and 2010, permanently restricted funds of the ASF Endowment Fund totaled \$1,469,035 and \$1,369,048, respectively. For the years ended August 31, 2011 and 2010, permanently restricted contributions to the ASF Endowment Fund totaled \$96,806 and \$57,223, respectively. The principal balance of the permanently restricted funds will remain in perpetuity and all earnings will be distributed as scholarships.

The Foundation's endowment policy requires a \$15,000 contribution to be a named endowment. The remaining endowment funds consist of a multitude of named endowments. The principal balance of the permanently restricted endowments will remain in perpetuity and earnings will be distributed as scholarships.

Endowment funds by net asset classification are as follows:

	2011	2010
Temporarily Restricted Net Assets	\$ 1,946,068	\$ 1,307,613
Permanently Restricted Net Assets	8,081,037	7,550,351
Total Endowment Net Assets	\$ 10,027,105	\$ 8,857,964

Changes in endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, August 31, 2009	\$ -	\$ 1,069,501	\$ 6,821,032	\$ 7,890,533
Contributions	-	-	729,319	729,319
Investment Return:				
Investment Income, Net of Fees	-	279,422	-	279,422
Net Appreciation of Investments	-	338,791	-	338,791
Amounts Appropriated for Expenditures	-	(380,101)	-	(380,101)
Endowment Net Assets, August 31, 2010	\$ -	\$ 1,307,613	\$ 7,550,351	\$ 8,857,964
Contributions	-	23,328	508,236	531,564
Net Asset Transfers	-	-	22,450	22,450
Investment Return:				
Investment Income, Net of Fees	-	254,715	-	254,715
Net Appreciation of Investments	-	770,667	-	770,667
Amounts Appropriated for Expenditures	-	(410,255)	-	(410,255)
Endowment Net Assets, August 31, 2011	\$ -	\$ 1,946,068	\$ 8,081,037	\$ 10,027,105

NORTH HARRIS MONTGOMERY COMMUNITY
COLLEGE DISTRICT FOUNDATION
dba LONE STAR COLLEGE FOUNDATION
(A TEXAS NON-PROFIT CORPORATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – RELATED PARTY TRANSACTIONS

The System provides office space to the Foundation at no cost. In addition, the Foundation's payroll expenses, all other employee benefits and certain supplies are paid for by the System. The Foundation does not reimburse the System for these costs. As such, in-kind revenue and expense are recorded in the statement of activities for these costs. For the years ended August 31, 2011 and 2010, in-kind revenue and expense totaled \$279,962 and \$296,614, respectively.

All enrichment program, student scholarship, mini-grant and institutional development expenditures are disbursed to the System. These expenses totaled \$884,650 and \$714,330 for the years ended August 31, 2011 and 2010, respectively.

NOTE 6 – CONCENTRATION OF CREDIT RISK

At various times during the year, the Foundation may have bank deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits. At August 31, 2011, the Foundation's deposits in non-interest bearing accounts were fully insured by the FDIC under the Transaction Account Guarantee Program. Management believes any credit risk is low due to the overall financial strength of the financial institution.