

**GREATER HOUSTON COMMUNITY FOUNDATION
AND AFFILIATES
COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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INDEPENDENT AUDITOR'S REPORT

To the Governing Board
Greater Houston Community Foundation
Houston, Texas

We have audited the accompanying combined statement of financial position of the Greater Houston Community Foundation and Affiliates (all nonprofit Texas corporations) as of December 31, 2010, and the related combined statements of activities and cash flows for the year then ended. These combined financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on the combined financial statements based on our audit. The prior year summarized comparative information has been derived from Greater Houston Community Foundation and Affiliates' 2009 financial statements and supplemental schedules and, in our report dated April 28, 2010, we expressed an unqualified opinion on those financial statements and supplemental schedules.

We conducted our audit in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined 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 audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Greater Houston Community Foundation and Affiliates at December 31, 2010 and the changes in their net assets and their cash flows for the year then ended in conformity with generally accepted accounting principles in the United States.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplemental schedules accompanying this report are presented for purposes of additional analysis and are not a required part of the basic combined 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.

Harper & Pearson Company, P.C.

Houston, Texas
April 26, 2011

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009**

ASSETS	2010	2009
Cash and cash equivalents	\$ 56,542,260	\$ 53,658,847
Marketable investments	217,620,943	184,593,503
Contributions receivable, net	762,274	927,744
Interest receivable	306,581	428,005
Property and equipment, net	1,385,310	1,463,232
Limited marketable investments	8,389,459	11,230,155
Note receivable	1,383,040	1,394,950
Split interest agreements	7,824,000	7,899,000
Other investments	249,200	166,357
Deposits and other assets	<u>2,108,787</u>	<u>47,933</u>
TOTAL ASSETS	<u>\$ 296,571,854</u>	<u>\$ 261,809,726</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other liabilities	\$ 467,313	\$ 467,783
Grants payable	6,145,936	2,734,131
Funds held for others	<u>18,237,730</u>	<u>18,275,694</u>
TOTAL LIABILITIES	<u>24,850,979</u>	<u>21,477,608</u>
NET ASSETS		
Unrestricted	263,541,461	232,263,118
Temporarily restricted	<u>8,179,414</u>	<u>8,069,000</u>
	<u>271,720,875</u>	<u>240,332,118</u>
	<u>\$ 296,571,854</u>	<u>\$ 261,809,726</u>

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
COMBINED STATEMENTS OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010 WITH COMPARATIVE
TOTALS FOR THE YEAR ENDED DECEMBER 31, 2009**

	2010			2009
	Unrestricted	Temporarily Restricted	Total	
Changes in net assets:				
Revenues and Other Support				
Contributions	\$ 68,107,446	\$ 431,498	\$ 68,538,944	\$ 51,237,828
Interest and dividend income	4,654,341	-	4,654,341	3,446,682
Net realized and unrealized gain on investments	7,870,297	-	7,870,297	30,603,540
Administrative fee revenue	271,607	-	271,607	276,635
Rental income	152,000	-	152,000	152,000
Change in value of split interest agreements	-	371,695	371,695	1,580,409
Net assets released from restrictions	<u>692,779</u>	<u>(692,779)</u>	<u>-</u>	<u>-</u>
Total Revenues and Other Support	<u>81,748,470</u>	<u>110,414</u>	<u>81,858,884</u>	<u>87,297,094</u>
Expenses				
Grants	46,325,575	-	46,325,575	53,833,026
Program	2,145,914	-	2,145,914	2,321,169
Development	512,466	-	512,466	418,959
General and administrative	<u>1,486,172</u>	<u>-</u>	<u>1,486,172</u>	<u>1,513,636</u>
Total Expenses	<u>50,470,127</u>	<u>-</u>	<u>50,470,127</u>	<u>58,086,790</u>
Change in Net Assets	31,278,343	110,414	31,388,757	29,210,304
Net Assets, Beginning of Year	<u>232,263,118</u>	<u>8,069,000</u>	<u>240,332,118</u>	<u>211,121,814</u>
Net Assets, End of Year	<u>\$ 263,541,461</u>	<u>\$ 8,179,414</u>	<u>\$ 271,720,875</u>	<u>\$ 240,332,118</u>

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	\$ 31,388,757	\$ 29,210,304
Adjustments to reconcile net change in net assets to net cash used by operating activities:		
Contributions of marketable investments	(28,129,890)	(12,982,389)
Contributions of limited marketable investments	(884,283)	(3,517,596)
Reinvestment in limited marketable investments	(165,685)	-
Net realized and unrealized gain on investments	(7,870,297)	(30,603,540)
Depreciation of property and equipment	84,014	91,870
Change in operating assets and liabilities:		
Contributions receivable, net	165,470	185,570
Interest receivable	121,424	(90,444)
Split interest agreements	75,000	(2,371,000)
Deposits and other assets	(2,060,854)	(43,024)
Accounts payable and other liabilities	(470)	58,537
Grants payable	3,411,805	(717,429)
Funds held for others	(1,203,187)	(1,557,294)
 Net cash used by operating activities	 (5,068,196)	 (22,336,435)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of marketable investments	(214,860,313)	(114,951,706)
Proceeds from sale of marketable investments	222,661,013	124,293,788
Purchase of property and equipment	(6,092)	-
Proceeds from sale of limited marketable investments	145,091	123,591
Collections on note receivable	13,860	70,616
Issuance of note receivable	(1,950)	(3,000)
 Net cash provided by investing activities	 7,951,609	 9,533,289
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on note payable	-	(1,000,000)
 Net cash used by financing activities	 -	 (1,000,000)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 2,883,413	 (13,803,146)
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 53,658,847	 67,461,993
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 56,542,260</u>	 <u>\$ 53,658,847</u>

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE A ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Greater Houston Community Foundation, a nonprofit Texas corporation (the Foundation), was organized in 1971 to administer and distribute property for charitable purposes, principally within the metropolitan area of Houston, Texas. The broad objectives of the Foundation include growing the amount and impact of charitable giving in Houston by serving individual donors as the most flexible and tax-efficient way to give to our community. The Foundation strives to connect donors to the causes they care about most and to the needs of the community.

Basis of Presentation - The combined financial statements include the accounts of the Greater Houston Community Foundation and its nonprofit supporting organizations. Supporting organizations are Texas nonprofit corporations that are affiliated with the Foundation by their purposes and operations and are deemed to be publicly supported charities rather than private foundations. All inter-entity activity and balances have been eliminated.

Management's Estimates - Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents - Cash and cash equivalents generally consist of demand deposits and money market mutual funds invested in short-term, highly liquid time deposits having maturities in 90 days or less.

Concentrations of Credit Risk - The Foundation places its cash and cash equivalents with high credit quality financial institutions and brokerage firms. Deposits with these financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk.

Investment Risk - The Foundation's investments subject the Foundation to various levels of risk associated with economic, operating, and political events beyond management's control. Consequently, management's judgment as to the level of losses that currently exist or may develop in the future involves the consideration of current and anticipated conditions and their potential effects on the Foundation's investments. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is possible that changes in risks could materially impact the amounts reflected herein.

Limited Marketable Investments - The Foundation receives contributions and assignments of interests in limited partnerships, limited liability companies, and stock in closely held corporations. These investments are recorded at appraised value at the date of contribution. Management annually evaluates these investments for impairment and reduces the carrying value when it believes there has been a permanent decline. Income from these investments is recorded using the cost method whereby non-liquidating distributions of cash or additional ownership units received are reflected as interest and dividend income in the current statement of activities.

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE A ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment - Property and equipment are stated at cost or estimated fair market value at the date of donation. Additions are capitalized and depreciated using the straight-line method over the following estimated useful lives of the assets as follows:

Building and improvements	20 years
Furniture and equipment	3 – 7 years

Maintenance and repairs are expensed as incurred. When property and equipment is retired or otherwise disposed of, the cost thereof and the applicable accumulated depreciation is removed from the respective accounts and the resulting gain or loss is reflected in earnings.

Deposits and Other Assets - Funds were established at the Foundation to receive contributions for the creation of a monument and artwork located near the Harmony Walk project. During the fundraising and construction phases of the projects, the monument and artwork are assets of the Foundation. Upon completion of the projects, the monument and artwork will be granted to the City of Houston. Project costs in 2010 and 2009 for the monument were \$926,203 and \$43,024, respectively. Project costs for the artwork in 2010 were \$1,114,250. There were no project costs for artwork in 2009. Management anticipates that the monument and artwork will be granted to the City of Houston in 2011.

Funds Held for Others - Funds held for others consist of the liability for pledges receivable and monies held in funds established by various not-for-profit organizations which have named themselves or their affiliates as the beneficiary of the fund and money received from court directed judgments administered by the Foundation. Also included are co-mingled investment funds managed by the Foundation with no variance powers.

Net Asset Classifications - The Foundation classifies funds established by donors as unrestricted net assets by virtue of the variance power granted the Board of Directors with certain limited exceptions.

Temporarily Restricted Support - Grants, contributions of cash and other assets and the related earnings are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Net Assets Released From Restrictions - Simultaneous increases and decreases in net asset classes are made when the Foundation fulfills the purposes for which net assets were restricted. Certain donor imposed restrictions expire with the passage of time.

Revenue Recognition - The Foundation recognizes revenue from contributions as pledges are made. Administrative fee revenue includes asset based fee revenue and service fee revenue and is recognized when earned.

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE A ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Contributions - Contributions of non-cash assets are recorded at their fair values in the period received. Contributions of services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. In addition, volunteers assist management in budget analysis, insurance evaluation, and other administrative activities. The values of these donated services are not recognized in the accompanying combined financial statements as the nature of the services received do not meet the guidelines for recognition established by generally accepted accounting principles.

Change in Value of Split Interest Agreements - Change in value of split interest agreements on the statement of activities includes amortization of the discount of the contributions receivable from charitable trusts, changes in the discount of the related annuities payable and changes in the present value of the underlying assets of contributions receivable from charitable trusts.

Federal Income Tax - The Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). However, the Foundation is subject to taxes on unrelated business income. The Foundation paid \$107 in unrelated business income tax in 2010 and no unrelated business income tax in 2009.

Generally accepted accounting principles (GAAP) provide detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. GAAP requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The Foundation believes that all significant tax positions utilized by the Foundation will more likely than not be sustained upon examination. As of December 31, 2010, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2007 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as general and administrative expense in the statement of activities.

Reclassification - During 2010, management determined that certain assets are more appropriately classified as individual line items rather than being included in limited marketable investments. As a result, \$166,357 was reclassified to other investments on the 2009 combined statement of financial position to conform to the 2010 presentation.

Subsequent Events - The Foundation has evaluated subsequent events through April 26, 2011, the date the financial statements were available to be issued. No subsequent events occurred, which require adjustment or disclosure to the financial statements at December 31, 2010.

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE B INVESTMENT RETURN

Investment return is summarized as follows:

	2010	2009
Interest and dividend income	\$ 4,654,341	\$ 3,446,682
Investment management fees	(495,658)	(912,656)
Net realized and unrealized gain on marketable securities	11,533,027	30,450,944
Net realized and unrealized (loss) gain on limited marketable investments and other investments	(3,662,730)	152,596
	\$ 12,028,980	\$ 33,137,566

NOTE C FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP requires the Foundation to disclose the fair value of all financial instruments for which it is practicable to estimate fair value, including those which are not reported at fair value in the combined statements of financial position. At December 31, 2010 and 2009, the fair values of all financial instruments were substantially equal to the carrying values.

The carrying value of certain financial assets and liabilities such as cash, interest receivable, accounts payable and funds held for others is a reasonable estimate of fair value due to the short term nature of these instruments. Following is a description of the techniques used for the fair values of all other financial instruments. There have been no changes in the techniques used during 2010 and 2009.

Marketable Investments - The fair value of equity and fixed income investments is determined by the investment custodians based on recent sales in the open market of same or similar investments. Alternative investments include investment vehicles such as real estate funds, venture capital funds, commodity funds and funds of funds invested with multiple money managers. They have no contractual investment period and are used to further diversify the investment portfolio. The fair value of alternative investments is determined by the managers of the various investment vehicles using fair values of underlying assets, estimates of future earnings and other factors.

Limited Marketable Investments - The fair value of limited marketable investments is determined by the Foundation's management based on information provided by the entity relating to income and total assets in conjunction with projected distributions to be made to the Foundation.

NOTE C FAIR VALUE MEASUREMENTS (CONTINUED)

Split Interest Agreements - The fair value of split interest agreements is estimated by management of the Foundation based on actuarial assumptions and discount rates applied to projected future cash flows. (See Note G).

Other Investments - Other investments include life insurance policies and mineral interests. The fair value of the life insurance policies is the cash surrender value as determined by the insurance company. Mineral interests are recorded at appraised value at the date of contribution and are evaluated annually for impairment based on management's estimate of discounted anticipated future cash flows.

Contributions Receivable and Grants Payable - Contributions receivable and grants payable are discounted to present value at the time of initial recording and amortized to income and expense over the term of the instrument resulting in a carrying value that is a reasonable estimate of fair value.

Note Receivable - The note receivable bears a market rate of interest and therefore the carrying value is a reasonable estimate of fair value.

Financial Instruments Recorded at Fair Value

For financial instruments recorded at fair value on a recurring basis, GAAP provides a framework for measuring fair value using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether the inputs to those valuation techniques are observable or unobservable. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments and the lowest priority to unobservable inputs. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The financial instrument'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.

These inputs are summarized in the three broad levels listed below:

Level 1 – Unadjusted quoted prices for identical financial instruments in active markets that the Foundation has the ability to access.

Level 2 – Other significant observable inputs (including quoted prices in active markets for similar financial instruments), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the financial instruments.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the financial instruments. The fair value of Level 3 financial instruments are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE C FAIR VALUE MEASUREMENTS (CONTINUED)

The estimated fair value amounts of financial instruments have been determined by the Foundation using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Foundation could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2010 and 2009. The Foundation has no financial liabilities measured at fair value.

	2010			
	Level 1	Level 2	Level 3	Total
Fixed income investments	\$ 55,284,368	\$ -	\$ -	\$ 55,284,368
Equity investments	48,034,187	52,484,615	-	100,518,802
Alternative investments	10,676,074	25,263,330	25,878,369	61,817,773
Split interest agreements	-	-	7,824,000	7,824,000
Life insurance	-	182,200	-	182,200
Total	<u>\$ 113,994,629</u>	<u>\$ 77,930,145</u>	<u>\$ 33,702,369</u>	<u>\$ 225,627,143</u>
	2009			
	Level 1	Level 2	Level 3	Total
Fixed income investments	\$ 42,066,199	\$ -	\$ -	\$ 42,066,199
Equity investments	76,458,471	39,098,469	-	115,556,940
Alternative investments	1,187,752	6,155,627	19,626,985	26,970,364
Split interest agreements	-	-	7,899,000	7,899,000
Life insurance	-	99,357	-	99,357
Total	<u>\$ 119,712,422</u>	<u>\$ 45,353,453</u>	<u>\$ 27,525,985</u>	<u>\$ 192,591,860</u>

During 2010, management changed the investment type classifications and the fair value levels based on a clearer understanding of the valuation techniques used by the money managers to value the investments. The 2009 table has been reclassified to conform to the 2010 presentation.

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE C FAIR VALUE MEASUREMENTS (CONTINUED)

The table below sets forth a summary of changes in the fair value of the Foundation's level 3 assets:

	Alternative Investments	Split Interest Agreements	Total
Balance, December 31, 2008	\$ 19,634,398	\$ 5,528,000	\$ 25,162,398
Net realized and unrealized gain	3,242,587	1,580,409	4,822,996
Contributions	-	1,305,000	1,305,000
Purchases, sales, issuances and settlements, net	<u>(3,250,000)</u>	<u>(514,409)</u>	<u>(3,764,409)</u>
			-
Balance, December 31, 2009	19,626,985	7,899,000	27,525,985
Net realized and unrealized gain	1,002,858	371,695	1,374,553
Purchases, sales, issuances and settlements, net	<u>5,248,526</u>	<u>(446,695)</u>	<u>4,801,831</u>
Balance, December 31, 2010	<u>\$ 25,878,369</u>	<u>\$ 7,824,000</u>	<u>\$ 33,702,369</u>

Certain financial assets, such as limited marketable investments and mineral interests, are measured at fair value on a non-recurring basis upon initial recognition or subsequent impairment using level 3 inputs. During 2010, management recorded an impairment of the value of the limited marketable investments amounting to \$3,789,664 relating to the investment in a limited liability company (the LLC) in the construction industry. There were no adjustments for impairment in 2009. The amount of the impairment was determined by management based on information provided in available audit reports and third party appraisals of various holdings of the LLC and general knowledge of the economic performance of the construction industry.

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE D **CONTRIBUTIONS RECEIVABLE, NET**

Contributions receivable in more than one year are discounted to their present value at the time the pledge is made using discount rates of .40% - 3.00%, representing the risk free rate of return as of the date of the gift. Contributions receivable at December 31, 2010 and 2009 are receivable in the following periods:

	2010	2009
Receivable in one year or less	\$ 579,372	\$ 771,115
Receivable in one to five years	158,547	115,714
Receivable in greater than five years	42,857	64,286
Less discount on long-term pledges receivable	(18,502)	(23,371)
	182,902	156,629
Total net receivable	\$ 762,274	\$ 927,744

Contributions receivable relating to assets held for others account for 40% and 72% of the total net receivable at December 31, 2010 and 2009. Management believes that all pledges receivable are collectible; therefore, no allowance for uncollectible amounts has been recorded.

NOTE E **PROPERTY AND EQUIPMENT**

Costs of property and equipment by major asset categories and accumulated depreciation are as follows:

	2010	2009
Land	\$ 528,910	\$ 528,910
Building and improvements	1,643,058	1,643,058
Furniture and equipment	199,914	193,822
	2,371,882	2,365,790
Less accumulated depreciation	(986,572)	(902,558)
	\$ 1,385,310	\$ 1,463,232

Land, building and improvements are included in the assets of a support organization, the purpose of which is to provide operating facilities for another nonprofit organization.

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE F NOTE RECEIVABLE

In 2008, the Foundation received for the benefit of a donor advised fund, an unsecured promissory note for \$1,400,000 as part of the sales proceeds from the sale of a limited marketable investment held by the fund. Accrued and unpaid interest of 4% is due and payable on the last day of each month commencing July 31, 2008. Installments of principal in the amount of 1% of the outstanding principal balance of note are due and payable annually starting on July 30, 2009 and continuing on June 30 of each year until maturity date of June 30, 2013, at which time approximately \$1,344,000 is to be collected.

NOTE G SPLIT INTEREST AGREEMENTS

The Foundation has a beneficial interest in irrevocable charitable remainder trusts (CRT) in which the Foundation is not the trustee. Under the terms of the trust agreements, the donors have established and funded trusts which specify that distributions be made to a designated beneficiary or beneficiaries over the trust terms. Upon termination of the trusts, the Foundation receives the assets remaining in the trust.

The Foundation is also beneficiary of several charitable lead trusts (CLT) in which the Foundation is not the trustee. Under the terms of the trust agreements, the Foundation is to receive either a fixed payment or a percent of the fair value of the trusts' investments annually over the specified terms in the trust agreements. Upon the termination of the trust agreement, the remaining trust assets are distributed to others.

When the Foundation has irrevocable rights to a CRT or CLT, but the Foundation is not the trustee and does not hold the assets, the Foundation's interest in the trust assets and specified future distributions is recorded as a beneficial interest in split interest agreements. Assets are initially recorded as contributions at the present value of the projected future cash flows using the actuarial assumptions and discount rates based on market conditions in effect when the trusts were established and based on terms established in the trust agreements. As of December 31, 2010 and 2009, discount rates ranged from 2.90% - 6%.

The change in value during the year is recorded as a change in value of split interest agreements. At December 31, 2010, beneficial interest in CRTs and CLTs totaled \$6,191,000 and \$1,633,000, respectively. At December 31, 2009, beneficial interest in CRTs and CLTs totaled \$5,964,000 and \$1,935,000, respectively.

During 2010, no contributions to charitable trusts were recorded. During 2009, the Foundation recorded temporarily restricted contributions from charitable trusts amounting to \$1,305,000.

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE H GRANTS PAYABLE

Grants payable in more than one year are discounted, using discount rates of .40% - 4.70%, to their present value at the time the grant is awarded. Grants payable at December 31, 2010 and 2009 are payable in the following periods:

	<u>2010</u>	<u>2009</u>
Payable in one year	\$ <u>2,476,381</u>	\$ <u>1,209,222</u>
Payable in two years	1,391,767	1,033,600
Payable in three years	1,012,100	172,100
Payable in four years	705,600	96,100
Payable in five years	600,500	50,600
Payable in more than five years	-	275,500
Less discount on long-term grants payable	<u>(40,412)</u>	<u>(102,991)</u>
	<u>3,669,555</u>	<u>1,524,909</u>
Total net grants payable	\$ <u>6,145,936</u>	\$ <u>2,734,131</u>

NOTE I TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are time restricted and consist of the following at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Contributions receivable	\$ 355,414	\$ 170,000
Split interest agreements	<u>7,824,000</u>	<u>7,899,000</u>
Temporarily restricted net assets	<u>\$ 8,179,414</u>	<u>\$ 8,069,000</u>

NOTE J ADMINISTRATIVE FEE REVENUE

The Foundation generally charges each fund a fee between .75% and 1% of the fund's balance, computed monthly. For the years ended December 31, 2010 and 2009, total asset based fee revenue amounted to \$1,748,876 and \$1,490,949, respectively. All interfund fees have been eliminated except those charged on the assets held for others amounting to \$271,607 and \$276,635 during 2010 and 2009, respectively.

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE K COMMITMENTS AND CONTINGENCIES

The Foundation leases office space under a multi-year lease agreement through July 31, 2011. The Foundation anticipates negotiating a similar lease upon expiration. Rent expense was \$125,373 and \$143,500 for the years ended December 31, 2010 and 2009, respectively. Future minimum payments due in 2011 are \$71,955.

NOTE L ENDOWMENT

Net Asset Classifications - GAAP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). GAAP also improves disclosures about an organization's endowed funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Texas adopted UPMIFA effective September 1, 2007. The Board of Directors, on the advice of legal counsel, has classified as endowments those funds with spending limits stipulated in the fund agreements.

The Foundation is governed subject to the Certificate of Formation and Bylaws of the Greater Houston Community Foundation. The Bylaws of the Foundation include a variance power provision which gives the Board of Directors the authority to modify any restriction or condition placed on gifts, if in its sole judgment the Board determines that the restriction becomes, in effect, incapable of fulfillment or is inconsistent with the charitable needs of the community. Further, under the governing documents of the Foundation, the Board of Directors has the authority to distribute as much of the corpus of any gift, devise, bequest, or fund as the Board of Directors in its sole discretion shall determine. As a result, all contributions not reported as temporarily time restricted are reported as unrestricted net assets for financial statement purposes, including those classified as endowments.

Temporarily restricted net assets consist of irrevocable split interest agreements and contributions receivable.

Endowment Investment and Spending Policies - The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

To satisfy its long-term rate-of-return 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). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE L ENDOWMENT (CONTINUED)

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds for grant making and administration. The current spending policy is to distribute an amount up to 4% of twelve quarter average fund balance. Accordingly, over the long term, the Foundation expects current spending policy to allow its endowment assets to grow at a rate exceeding inflation at an average rate of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return. The composition of and changes in endowment net assets as of December 31, 2010 and 2009 are as follows:

	Unrestricted	Temporarily Restricted	Total
Endowment net assets, December 31, 2008	\$ 8,212,171	\$ 296,000	\$ 8,508,171
Contributions	6,210	-	6,210
Investment return:			
Investment income, net of fees	47,925	-	47,925
Net realized and unrealized gain	1,703,188	-	1,703,188
Change in value of split interest agreements	-	187,000	187,000
Total revenue	1,757,323	187,000	1,944,323
Grants	(3,525,551)	-	(3,525,551)
Administration and other expenses	(48,578)	-	(48,578)
Total disbursements	(3,574,129)	-	(3,574,129)
Endowment net assets, December 31, 2009	6,395,365	483,000	6,878,365
Contributions	75	-	75
Investment return:			
Investment income, net of fees	36,306	-	36,306
Net realized and unrealized gain	333,838	-	333,838
Change in value of split interest agreements	-	40,000	40,000
Total revenue	370,219	40,000	410,219
Grants	(213,150)	-	(213,150)
Administration and other expenses	(35,392)	-	(35,392)
Total disbursements	(248,542)	-	(248,542)
Endowment net assets, December 31, 2010	\$ 6,517,042	\$ 523,000	\$ 7,040,042

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE M RETIREMENT PLAN

Effective January 1, 2007 the Foundation established a 401(k) plan for all eligible employees. The plan is a defined contribution plan and the investments are selected by the participants. The Foundation matches 100% of the first 6% of an eligible member's pre-tax contribution. Employer and employee contributions vest immediately.

For the years ended December 31, 2010 and 2009, the Foundation's contributions to the plan were \$58,001 and \$73,054, respectively.

NOTE N SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES

	<u>2010</u>	<u>2009</u>
Net realized and unrealized gain on marketable securities related to funds held for others	<u>\$ 1,165,223</u>	<u>\$ 3,076,902</u>

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
SUPPLEMENTAL SCHEDULE OF COMBINED STATEMENT OF ACTIVITIES
NET OF FUNDS HELD FOR OTHERS
YEAR ENDED DECEMBER 31, 2010**

	All Funds	Funds Held For Others	Net of Funds Held For Others
Revenues and Other Support			
Contributions	\$ 68,849,773	\$ 310,829	\$ 68,538,944
Interest and dividend income	4,793,499	139,158	4,654,341
Net realized and unrealized gain on investments	9,035,520	1,165,223	7,870,297
Administrative fee revenue	271,607	-	271,607
Rental income	152,000	-	152,000
Change in value of split interest agreements	371,695	-	371,695
Total Revenues and Other Support	83,474,094	1,615,210	81,858,884
Expenses			
Grants	47,843,405	1,517,830	46,325,575
Program	2,281,258	135,344	2,145,914
Development	512,466	-	512,466
General and administrative	1,486,172	-	1,486,172
Total Expenses	52,123,301	1,653,174	50,470,127
Change in Net Assets	31,350,793	(37,964)	31,388,757
Net Assets, Beginning of Year	258,607,812	18,275,694	240,332,118
Net Assets, End of Year	\$ 289,958,605	\$ 18,237,730	\$ 271,720,875

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
SUPPLEMENTAL SCHEDULE OF COMBINED STATEMENT OF ACTIVITIES
NET OF FUNDS HELD FOR OTHERS
YEAR ENDED DECEMBER 31, 2009**

	<u>All Funds</u>	<u>Funds Held For Others</u>	<u>Net of Funds Held For Others</u>
Revenues and Other Support			
Contributions	\$ 51,551,116	\$ 313,288	\$ 51,237,828
Interest and dividend income	3,630,486	183,804	3,446,682
Net realized and unrealized gain on investments	33,680,442	3,076,902	30,603,540
Administrative fee revenue	276,635	-	276,635
Rental income	152,000	-	152,000
Change in value of split interest agreements	<u>1,580,409</u>	<u>-</u>	<u>1,580,409</u>
Total Revenues and Other Support	<u>90,871,088</u>	<u>3,573,994</u>	<u>87,297,094</u>
Expenses			
Grants	55,629,709	1,796,683	53,833,026
Program	2,578,872	257,703	2,321,169
Development	418,959	-	418,959
General and administrative	<u>1,513,636</u>	<u>-</u>	<u>1,513,636</u>
Total Expenses	<u>60,141,176</u>	<u>2,054,386</u>	<u>58,086,790</u>
Change in Net Assets	30,729,912	1,519,608	29,210,304
Net Assets, Beginning of Year	<u>227,877,900</u>	<u>16,756,086</u>	<u>211,121,814</u>
Net Assets, End of Year	<u>\$ 258,607,812</u>	<u>\$ 18,275,694</u>	<u>\$ 240,332,118</u>