

TEXAS STATE ALUMNI ASSOCIATION

FINANCIAL REPORT

DECEMBER 31, 2010 AND 2009

CONTENTS

	PAGE
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	2
Statement of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5

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CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
Texas State Alumni Association
San Marcos, Texas

We have audited the Statements of Financial Position of the Texas State Alumni Association (the Association) as of December 31, 2010 and 2009, and the related Statement of Activities for the year ended December 31, 2010 (with summarized financial information for the year ended December 31, 2009), and the Statements of Cash Flows for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year's summarized comparative information for the Statement of Activities has been derived from the Association's 2009 financial statements and, in our report dated August 23, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Texas State Alumni Association as of December 31, 2010 and 2009, and the changes in its net assets for the year ended December 31, 2010, and cash flows for the years ended December 31, 2010 and 2009, in conformity with United States generally accepted accounting principles.



August 3, 2011

TEXAS STATE ALUMNI ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2010 AND 2009

ASSETS

	2010	2009
Assets:		
Cash and Cash Equivalents:		
Operating account	\$ 75,723	\$ 54,866
Frost National Bank	39,080	33,498
Frost Brokerage Services	23,778	171,228
Cash accounts managed by		
Texas State University-San Marcos	192,872	116,413
Total Cash and Cash Equivalents	331,453	376,005
Prepays	4,503	--
Investments	1,275,534	946,860
TOTAL ASSETS	\$ 1,611,490	\$ 1,322,865

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 16,591	\$ 9,915
Deferred revenue	4,320	--
Total Liabilities	20,911	9,915
Net Assets:		
Unrestricted:		
Undesignated	285,298	60,892
Board-Designated:		
Frost Investment Account	660,245	591,250
Lifetime memberships	467,237	446,502
Temporarily restricted	77,799	114,306
Permanently restricted	100,000	100,000
Total Net Assets	1,590,579	1,312,950
TOTAL LIABILITIES AND NET ASSETS	\$ 1,611,490	\$ 1,322,865

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

TEXAS STATE ALUMNI ASSOCIATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010

(With Summarized Financial Information for the Year Ended December 31, 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
Support and Revenue:					
Memberships and donations	\$ 343,858	--	--	343,858	\$ 365,880
Royalties	127,911	--	--	127,911	108,191
Special events - net of expenses of \$58,063	(9,742)	--	--	(9,742)	(14,241)
Chapter events/fundraising	2,627	--	--	2,627	29,894
Merchandise sales	2,539	--	--	2,539	4,476
Texas State University-San Marcos in-kind support	346,583	--	--	346,583	343,008
Other income	3,153	--	--	3,153	4,012
Dividends and interest	33,539	--	--	33,539	33,288
Other investment income	2,309	--	--	2,309	2,267
Realized and unrealized gains on marketable securities	80,420	--	--	80,420	158,352
Total	933,197	--	--	933,197	1,035,127
Net assets released from restriction	36,507	(36,507)	--	--	--
Total Support and Revenue	969,704	(36,507)	--	933,197	1,035,127
Expenses:					
Program Services:					
Alumni support	351,972	--	--	351,972	394,747
University support	27,829	--	--	27,829	33,150
Student support	65,474	--	--	65,474	106,740
Support Services:					
Administrative	109,380	--	--	109,380	83,174
Fundraising	100,913	--	--	100,913	257,792
Total Expenses	655,568	--	--	655,568	875,603
Increase (Decrease) in Net Assets	314,136	(36,507)	--	277,629	159,524
Net assets, beginning of year	1,098,644	114,306	100,000	1,312,950	1,153,426
NET ASSETS, END OF YEAR	\$ 1,412,780	77,799	100,000	1,590,579	\$ 1,312,950

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

TEXAS STATE ALUMNI ASSOCIATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash Flows from Operating Activities:		
Change in net assets	\$ 277,629	\$ 159,524
Adjustments to Reconcile Change in Net Assets to		
Net Cash (Used in) Provided by Operating Activities:		
Realized and unrealized gains on marketable securities	(80,420)	(158,352)
Increase (decrease) in accounts payable	6,676	(2,228)
Net Cash Provided by (Used in) Operating Activities	203,885	(1,056)
Cash Flows from Investing Activities:		
Purchase of investments	(248,437)	(66,283)
Proceeds from maturities of bonds	--	94,220
Net Cash (Used in) Provided by Investing Activities	(248,437)	27,937
Net (Decrease) Increase in Cash and Cash Equivalents	(44,552)	26,881
Cash and cash equivalents, beginning of year	376,005	349,124
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 331,453	\$ 376,005

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

TEXAS STATE ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 1: Organization

Texas State Alumni Association (the Association) is a non-profit corporation established in May 1983 and incorporated in September 1995. The Association was established to support the educational activities of Texas State University-San Marcos (the University), perpetuate the association of former students and faculty, and recognize and honor those individuals who have made significant contributions to the Association or the University.

The University supports the Association with administrators, faculty, and staff, and provides space, facilities, and equipment for its operations.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Association are prepared on the accrual basis of accounting, which means that revenue is reported when earned and expenditures are reported when the liability is incurred.

Net Assets

Net assets of the Association and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors (the Board).

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Association and/or the passage of time.

Permanently Restricted Net Assets – Resources that are limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Association.

Revenue is reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or law. 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.

Fair Value of Financial Instruments

The Fair Value Measurements and Disclosures Topic of the FASB ASC, 820-10, defines fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurements, and expands disclosures about fair value measurements. An instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

TEXAS STATE ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 2: Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments (Continued)

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, that are typically based on an entity's own assumptions as there is little, if any, information related to market activity.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Association considers all highly liquid investments available for current use, with maturities of three months or less, to be cash equivalents.

Membership Receivable

Memberships are recorded on a cash basis. The use of this method is not considered to be materially different from the accrual method, as required under United States generally accepted accounting principles (GAAP).

Deferred Revenue

Amounts are for special events to be held in the future.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Federal Income Taxes

The Association is a not-for-profit organization that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Association adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, in 2007. Management of the Association believes it has no material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits.

Summarized Financial Information

The financial statements include certain prior year summarized financial information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2009, from which the summarized financial information was derived.

TEXAS STATE ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 3: Concentrations of Credit Risk

Financial instruments which potentially subject the Association to a concentration of credit risk consist principally of cash. The Association maintains bank accounts in multiple banks in San Marcos, Texas. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing accounts, and without limit for noninterest-bearing transaction accounts. At various times during the year, there were balances in the banks that were over the FDIC limit.

The Association maintains accounts that are managed by the University, which are subject to FDIC coverage.

Note 4: Investments

Marketable securities at Frost Brokerage Services, stated at cost and market value on December 31, were:

Description:	2010		2009	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Mutual Funds	\$ 523,402	554,369	285,402	\$ 289,109
Certificate of Deposit	100,000	100,000	--	--
Marketable equities	286,900	338,779	329,468	344,657
Fixed income	<u>273,276</u>	<u>282,386</u>	<u>301,796</u>	<u>313,094</u>
Totals	\$ <u>1,183,578</u>	<u>1,275,534</u>	<u>916,666</u>	\$ <u>946,860</u>

Note 5: Unrestricted Net Assets and Temporarily Restricted Net Assets

Unrestricted net assets include Board-designated funds for both the Teague Alumni Endowment (the Endowment) as well as lifetime memberships. The Endowment was set up by the Board from an initial donation from Marvin O. Teague. The Board's intention is to grow the Endowment to one million dollars, and then use only earnings after that. The Endowment has grown from royalty revenue received under a contract with First USA Bank, which expired April 30, 2001, and a new royalty contract with MBNA American Bank, NA beginning on that date. Additional funds have been designated by the Board to expand lifetime memberships. Funds collected for this purpose are amortized over a twenty-year period. All Board-designated funds are held in investments that are managed by Frost National Bank.

Temporarily restricted net assets represent alumni donations restricted to the University's departments, student scholarships and to local chapters of alumni associations. Temporarily restricted net assets as of December 31, 2010 and 2009 totaled \$77,799 and \$114,306, respectively.

Note 6: Contributed Services

In 2010, the Association received donated services totaling \$346,583, which have been reported as the University's in-kind support. This support has been allocated as \$235,676 to alumni support and \$110,907 to administrative expense on the Statement of Activities for the year ended December 31, 2010. In 2009, the Association received donated services totaling \$343,008, which have been reported as the University's in-kind support. This support has been allocated as \$251,358 to alumni support and \$91,650 to administrative expense on the Statement of Activities for the year ended December 31, 2009.

TEXAS STATE ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 6: Contributed Services (Continued)

Total support and revenue, other than in-kind support, consist of \$586,614 and \$692,119 for 2010 and 2009, respectively. Expenses, not including donated services, consist of \$308,985 and \$532,595 for 2010 and 2009, respectively.

Note 7: Charter Lifetime Memberships

In 2004, the Association began offering Charter lifetime memberships for a donation of \$1,000. After December 31, 2004, the lifetime membership donation was increased to \$2,000, with the option of a payment plan. For the years ended December 31, 2010 and 2009, there were donations of \$46,000 and \$56,000, respectively, for Charter lifetime memberships.

Note 8: Functional Allocations of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 9: Fair Value of Financial Instruments

The reporting entity uses fair value measurements to record fair value adjustments to certain assets and liabilities to determine fair value disclosures. For additional information on how the Association measures fair value, refer to Note 2: Summary of Significant Accounting Policies.

The following is a description of valuation methods and assumptions used by the Association in estimating the fair value disclosures for financial assets. There have been no changes in valuation methodologies used during the years ended December 31, 2010 and 2009:

Mutual funds, certificates of deposit, marketable equities, and fixed income are valued at the fair value of shares at quoted market prices held by the Association at fiscal year end.

The following tables set forth by level, within the fair value hierarchy, the Association's investments at fair value on December 31:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2010:				
Mutual funds	\$ 554,369	--	--	\$ 554,369
Certificates of deposit	100,000	--	--	100,000
Marketable equities	338,779	--	--	338,779
Fixed income	<u>282,386</u>	<u>--</u>	<u>--</u>	<u>282,386</u>
 Total Assets at Fair Value	 \$ <u>1,275,534</u>	 <u>--</u>	 <u>--</u>	 \$ <u>1,275,534</u>
2009:				
Mutual funds	\$ 289,109	--	--	\$ 289,109
Marketable equities	344,657	--	--	344,657
Fixed income	<u>313,094</u>	<u>--</u>	<u>--</u>	<u>313,094</u>
 Total Assets at Fair Value	 \$ <u>946,860</u>	 <u>--</u>	 <u>--</u>	 \$ <u>946,860</u>

TEXAS STATE ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 10: Endowment

Interpretation of Relevant Law

The Board of the Association has interpreted the Texas Prudent Management of Institutional Funds Act (the Act) as requiring the exercise of prudence to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment fund, subject to (a) explicit donor stipulations to the contrary, and (b) the application of other contrary applicable laws. As a result of this interpretation, the Association classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of the subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by the Act. To maintain prudence, if the value of the permanently restricted assets falls below the corpus, expenditures from the fund will be suspended until the value returns and remains stable for one year. In accordance with the Act, the Association considers the following in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) the duration and preservation of the fund
- 2) the purposes of the Association 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 Association, and
- 7) the investment policies of the Association.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level of the original contribution. In accordance with the Act, the Association deems it prudent to allow the donor-restricted endowment funds to recover unassisted. As of December 31, 2010 and 2009, there were no deficiencies in the donor-restricted endowment fund.

Return Objectives and Risk Parameters

The Association has adopted investment and spending policies for endowment assets that attempt to provide the best real return on those assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for a donor-specified period, as well as Board-designated endowment funds. Under this policy, as approved by the Board, the desired rate of return for various asset classes (Pooled and Alternative) will be analyzed by the Finance Committee (the Committee) at least annually.

TEXAS STATE ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 10: Endowment (Continued)

Return Objectives and Risk Parameters (Continued)

For the Association, risk is defined as the probability of not meeting the desired primary investment goal. The Committee will evaluate this probability periodically. Based on these evaluations, the Committee may make adjustments in the asset mix to maintain an acceptable level of risk to the Association's portfolio.

In its broadest sense, risk refers to the unpredictability of future asset value and, specifically, the chance that assets may decrease as well as increase in value. Investment principles and practical experience both support the notion that expected returns are proportional to the risk taken. The Committee recognizes that the assumption of risk is necessary to meet the investment objectives; that is, there are no "risk-free" assets which are sufficient to generate the return needed to support planned spending. Thus, risk management does not require the elimination of risk, but the balancing of risk and expected return. Risk in itself is intrinsically neither good nor bad; it is a resource used to generate investment returns.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Association 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 Association targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Currently, there is only one donor-restricted endowment fund. The investment policy of that donor-restricted fund is clearly defined by the donor document which clearly defines the spending policy. The donor-restricted fund is to be invested in a one-year certificate of deposit. The earnings from that certificate of deposit may be spent annually to promote fundraising. Currently, the Board-restricted endowment is not to be spent. The investment policy of the Board-restricted funds is set out in the bylaws and policies and procedures. This investment policy will be used to help grow the Board-restricted endowment to the goal of one million dollars. Once the goal is met, only the earnings from that endowment will be used to support the Association.

Endowment Net Assets Composition by Type of Fund as of December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ --	--	100,000	\$ 100,000
Board-designated endowment funds	<u>660,245</u>	--	--	<u>660,245</u>
Total Funds	\$ <u>660,245</u>	<u>--</u>	<u>100,000</u>	\$ <u>760,245</u>

TEXAS STATE ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 10: Endowment (Continued)

Changes in Endowment Net Assets for the Year ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment nets assets, beginning of year	\$ 591,250	--	100,000	\$ 691,250
Investment Return:				
Interest and dividends	21,135	--	--	21,135
Net appreciation (realized and unrealized)	<u>53,159</u>	<u>--</u>	<u>--</u>	<u>53,159</u>
Total Investment Return	74,294	--	--	74,294
Transfers	--	--	--	--
Appropriations of endowment net assets for expenditure	<u>(5,299)</u>	<u>--</u>	<u>--</u>	<u>(5,299)</u>
Endowment Net Assets, End of Year	\$ <u>660,245</u>	<u>--</u>	<u>100,000</u>	\$ <u>760,245</u>

Total Net Asset Composition for the Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds	\$ 660,245	--	100,000	\$ 760,245
Non-endowment funds	<u>752,535</u>	<u>77,799</u>	<u>--</u>	<u>830,334</u>
Total Funds	\$ <u>1,412,780</u>	<u>77,799</u>	<u>100,000</u>	\$ <u>1,590,579</u>

Endowment Net Assets Composition by Type of Fund as of December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ --	--	100,000	\$ 100,000
Board-designated endowment funds	<u>591,250</u>	<u>--</u>	<u>--</u>	<u>591,250</u>
Total Funds	\$ <u>591,250</u>	<u>--</u>	<u>100,000</u>	\$ <u>691,250</u>

TEXAS STATE ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 10: Endowment (Continued)

Changes in Endowment Net Assets for the Year ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment nets assets, beginning of year	\$ 573,433	--	--	\$ 573,433
Investment Return:				
Interest and dividends	21,052	--	--	21,052
Net appreciation (realized and unrealized)	<u>99,665</u>	<u>--</u>	<u>--</u>	<u>99,665</u>
Total Investment Return	120,717	--	--	120,717
Transfers	(100,000)	--	100,000	--
Appropriations of endowment net assets for expenditure	<u>(2,900)</u>	<u>--</u>	<u>--</u>	<u>(2,900)</u>
Endowment Net Assets, End of Year	\$ <u>591,250</u>	<u>--</u>	<u>100,000</u>	\$ <u>691,250</u>

Total Net Asset Composition for the Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds	\$ 591,250	--	100,000	\$ 691,250
Non-endowment funds	<u>507,394</u>	<u>114,306</u>	<u>--</u>	<u>621,700</u>
Total Funds	\$ <u>1,098,644</u>	<u>114,306</u>	<u>100,000</u>	\$ <u>1,312,950</u>

Note 11: Reclassification

Various expenses on the 2009 Statement of Activities have been reclassified to enhance comparability with the December 31, 2010 Statement of Activities.

Note 12: Subsequent Events

Subsequent events have been evaluated through the date of this report, which is the date the financial statements were available to be issued.