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ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation)

AUDITED
FINANCIAL STATEMENTS

Year Ended
December 31, 2010

ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation)

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December 31, 2010 and 2009

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REPORT OF INDEPENDENT AUDITOR

To the Boards of Directors of
Alamo Colleges Foundation, Inc.

I have audited the accompanying statement of assets, liabilities and net assets (modified cash basis) of Alamo Colleges Foundation, Inc. as of December 31, 2010 and 2009; the related statements of support, revenue and expenses (modified cash basis); and changes in cash arising from cash transactions (modified cash basis) for the years then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 2, these financial statements were prepared on the basis of cash receipts and cash disbursements, except for the inclusion of unrealized gains and losses on investments, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of the Alamo Colleges Foundation, Inc. as of December 31, 2010 and 2009, and its support, revenue and expenses for the years then ended on the basis of accounting described in Note 2.



R. D. Harrison, CPA
Certified Public Accountant

April 29, 2011

ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation)
Statement of Assets, Liabilities and Net Assets
(Modified Cash Basis)
December 31, 2010 and 2009

| | December 31 | |
|-------------------------------------|-----------------------|-----------------------|
| | <u>2010</u> | <u>2009</u> |
| ASSETS | | |
| Cash and Certificates of Deposit | \$ 8,529,064. | \$ 8,981,420. |
| Investments: | | |
| Fixed Income Securities | 764,838. | - |
| Mutual Funds | 11,102. | 1,652,218. |
| Marketable Securities | <u>2,977,312.</u> | <u>2,110.</u> |
| TOTAL ASSETS | <u>\$ 12,282,316.</u> | <u>\$ 10,635,748.</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | \$ - | \$ - |
| NET ASSETS | | |
| Unrestricted | 56,572. | (147,976) |
| Temporarily restricted | 2,530,063. | 2,017,625. |
| Permanently restricted - Endowments | <u>9,695,681.</u> | <u>8,766,099.</u> |
| TOTAL NET ASSETS | <u>12,282,316.</u> | <u>10,635,748.</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 12,282,316.</u> | <u>\$ 10,635,748.</u> |

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

ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation)
Statement of Support, Revenue and Expenses
(Modified Cash Basis)
Years ended December 31, 2010 and 2009

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--------------------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Net Assets at January 1, 2009 | \$ (332,134) | \$ 1,502,239. | \$ 5,498,779. | \$ 6,668,884. |
| Support and Revenue: | | | | |
| Contributions | 84,620. | 1,274,340. | 3,112,608. | 4,471,568. |
| Interest and Dividend Income | 16,512. | 179,390. | - | 195,902. |
| Unrealized Gain on Investments | 229,187. | 23,531. | - | 252,718. |
| Net Asset Released From Restrictions | <u>913,723.</u> | <u>(913,723)</u> | <u>-</u> | <u>-</u> |
| Total Revenue | 1,244,042. | 563,538. | 3,112,608. | 4,920,188. |
| Expenses: | | | | |
| Program | 914,599. | - | - | 914,599. |
| General and Administrative | 21,701. | - | - | 21,701. |
| Fund-raising | <u>17,024.</u> | <u>-</u> | <u>-</u> | <u>17,024.</u> |
| Total Expenses | <u>953,324.</u> | <u>-</u> | <u>-</u> | <u>953,324.</u> |
| Increase in Net Assets | 290,718. | 563,538. | 3,112,608. | 3,966,864. |
| Board Designated Transfers | <u>(106,560)</u> | <u>(48,152)</u> | <u>154,712.</u> | <u>-</u> |
| Net Assets at December 31, 2009 | (147,976) | 2,017,625. | 8,766,099. | 10,635,748. |
| Support and Revenue: | | | | |
| Contributions | 53,448. | 1,410,868. | 836,889. | 2,301,205. |
| Interest and Dividend Income | 25,185. | 148,851. | - | 174,036. |
| Unrealized Gain on Investments | 181,693. | - | - | 181,693. |
| Net Asset Released From Restrictions | <u>962,381.</u> | <u>(962,381)</u> | <u>-</u> | <u>-</u> |
| Total Revenue | 1,222,707. | 597,338. | 836,889. | 2,656,934. |
| Expenses: | | | | |
| Program | 933,059. | - | - | 933,059. |
| General and Administrative | 11,605. | - | - | 11,605. |
| Fund-raising | <u>65,702.</u> | <u>-</u> | <u>-</u> | <u>65,702.</u> |
| Total Expenses | <u>1,010,366.</u> | <u>-</u> | <u>-</u> | <u>1,010,366.</u> |
| Increase in Net Assets | 212,341. | 597,338. | 836,889. | 1,646,568. |
| Board Designated Transfers | <u>(7,793)</u> | <u>(84,900)</u> | <u>92,693.</u> | <u>-</u> |
| Net Assets at December 31, 2010 | <u>\$ 56,572.</u> | <u>\$ 2,530,063.</u> | <u>\$9,695,681.</u> | <u>\$12,282,316.</u> |

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

ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation)
Statement of Changes in Cash Arising From Cash Transactions
(Modified Cash Basis)
December 31, 2010 and 2009

| | December 31 | |
|--|-----------------------------|-----------------------------|
| | <u>2010</u> | <u>2009</u> |
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Increase in net assets | \$ 1,646,568. | \$ 3,966,864. |
| Adjustments to reconcile increase in net assets to net | | |
| Cash provided by operating activities: | | |
| Contributions restricted for endowments | (836,889) | (3,112,608) |
| Net unrealized gain on investments | <u>(181,693)</u> | <u>(252,718)</u> |
| Net cash provided by operating activities | 627,986. | 601,538. |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment purchases and sales, net | (1,917,231) | (51,366) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Contributions restricted for endowments | <u>836,889.</u> | <u>3,112,608.</u> |
| INCREASE (DECREASE) IN CASH AND CASH | | |
| EQUIVALENTS | (452,356) | 3,662,780. |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>8,981,420.</u> | <u>5,318,640.</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u><u>\$ 8,529,064.</u></u> | <u><u>\$ 8,981,420.</u></u> |

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

ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation)
Notes to Financial Statements
December 31, 2010 and 2009

Note 1 – Organization

The Alamo Colleges Foundation, Inc. (the “Foundation”) was organized in the State of Texas in 1985 to function as a nonprofit foundation. The purposes for which the Foundation was organized are (1) to maintain, develop, increase and extend the facilities and services of the Alamo Colleges; (2) to provide broad educational opportunities to the Alamo Colleges’ students, staff, faculty and the residents of the geographical area that the Alamo Colleges serves; (3) to solicit and receive by gift, grant, devise, or otherwise, property, both real and personal, and to manage and administer the same; and (4) to make contributions, grants, gifts and transfers of property to or for the benefit of the Alamo Colleges, or to the benefit of other organizations identified and associated with the Alamo Colleges and which are tax-exempt organizations.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

In June, 2009, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Codification (ASC) Topic 958-205, *Financial Statements of Not-for-Profit Organizations* as the single source of authoritative generally accepted accounting principles (GAAP). While the adoption of the ASC as of December 31, 2010 changes how the Foundation references accounting standards, the adoption did not have an impact on the Foundation’s financial position, results of operations, cash flows, or accounting policies.

The accompanying financial statements have been prepared on a modified cash basis of accounting, which is on the basis of cash receipts and disbursements, except for the inclusion of unrealized gains and losses on investments.

Under FASB ASC Topic 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets:

- *Unrestricted Net Assets* – These are net assets that are not subject to donor-imposed restrictions and may be used for any operating purpose of the Foundation.
- *Temporarily Restricted Net Assets* – These are net assets that are subject to donor imposed stipulations that require the passage of time and/or the occurrence of a specific event.
- *Permanently Restricted Net Assets* – These are net assets required to be maintained in perpetuity, with only the income used for operating activities, due to donor-imposed restrictions.

Use of estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets, liabilities,

ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation)
Notes to Financial Statements
December 31, 2010 and 2009

Note 2 – Summary of Significant Accounting Policies (continued)

revenues, and expenses. Actual results could differ from those estimates. There are no significant estimates included in the financial statements for 2010 and 2009.

Cash and cash equivalents

The Foundation considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. The Foundation maintains cash and cash equivalents at financial institutions, which at times may not be federally insured or may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on such accounts.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of assets, liabilities and net assets. Realized and unrealized gains and losses are reported in the statements of support, revenue and expenses as changes in unrestricted net assets, unless restricted by donor or law. Donated marketable securities are recorded as contributions at their estimated fair value at the date of the donation.

The investments of the Foundation are managed under agreement with the Bank of America Merrill Lynch in a manner consistent with the investment goals and policies established by the Board of Trustees of the Foundation.

Under the laws of the State of Texas, the Board of Trustees may appropriate for expenditure, for the uses and purposes for which the endowment was established, a prudent rate of spending considering the duration and preservation of the endowment. The Board of Trustees determines the amount of such appropriation annually. The aggregate unrealized gains and losses on donor-restricted endowment net asset balances are included in unrestricted net assets in the financial statements.

Contributions receivable

In accordance with FASB ASC Topic 958-605, Accounting for Contributions received and Contributions Made, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions receivable are amounts recorded for unconditional or conditional promises to give by third parties. Because the Foundation reports under the modified cash basis, no balances for contributions receivable are recorded, and contributions receivable are only recorded as revenues when fully realized. Contributions are recorded when received in cash as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of the donor restrictions. When a donor

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(A Texas nonprofit Foundation)
Notes to Financial Statements
December 31, 2010 and 2009

Note 2 – Summary of Significant Accounting Policies (continued)

restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of support, revenue and expenses as net assets released from restrictions. Contributions of assets other than cash are recorded at their estimated fair value.

Fixed assets

The Foundation operates from facilities provided by the Alamo Colleges and does not own any buildings, equipment, or other capital assets. Donated equipment, which generally benefits Alamo Colleges operations, is recorded as revenues by the Alamo Colleges. See Note 7 for an estimated amount of in-kind contributions provided by the Alamo Colleges that includes an estimate of donated rent.

Presentation of expenses

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

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

- Scholarships are payments made to Alamo Colleges for tuition and books on behalf of specified students, staff, and faculty of the Alamo Colleges and the residents of the geographical area that the Alamo Colleges serve.
- Fundraising activities are directed at soliciting and receiving funds, gifts, grants, and property to enable the Foundation to fulfill its purpose.
- Administration consists of general supporting services that are necessary for the Foundation's daily operations and coordination of program activities.

Income Taxes

The Foundation is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended, as an organization described in Section 501 (c)(3) of the Code. However, income generated from activities unrelated to the Foundation's exempt purpose is subject to tax under Section 511 of the Code. The Foundation did not conduct any unrelated business activities in the current fiscal year. Therefore, the Foundation made no provision for federal income taxes in the accompanying financial statements. Accordingly, contributions to the Foundation are tax deductible within the limitations prescribed by the Code. The Foundation has also been classified as a publicly supported organization which is not a private foundation under Section 509(a) of the Code.

ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation)
Notes to Financial Statements
December 31, 2010 and 2009

Note 2 – Summary of Significant Accounting Policies (continued)

The Foundation applied the provisions of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes (ASC 740-10) – an Interpretation of FASB Statement No. 109* (ASC Topic 740, Income Taxes), which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Donated materials, services, and facilities

The salaries of certain Foundation employees were donated by the Alamo Colleges. The Alamo Colleges also provides office space and equipment at no cost to the Foundation. The value of these contributed services is provided in Note 7. Because the Foundation is on a modified cash basis, the value of these contributed services has not been reflected in the financial statements.

Revenue recognition

The Foundation records earned revenues on the cash basis when received, with the exception of unrealized gains which are included in the financial statements. Contributions are recorded when paid. Contributions paid with conditions are recognized as revenue when the conditions have been substantially met.

New Accounting Pronouncements

In June 2009, the FASB issued the FASB *Accounting Standards Codification* (ASC), which is effective for financial statements issued for periods ended after September 15, 2009. The FASB ASC is an aggregation of previously issued authoritative U.S. generally accepted accounting principles (GAAP) in one comprehensive set of guidance organized by subject area. At the effective date, except for rules and interpretive releases of the Securities and Exchange Commission, all accounting literature outside of the FASB ASC are no longer authoritative. In accordance with the FASB ASC, references to previously issued accounting standards have been replaced by FASB ASC references. Subsequent revisions to GAAP will be incorporated into the FASB ASC through Accounting Standards Updates. As the FASB ASC did not change existing GAAP, the adoption of the FASB ASC did not affect the Foundation's accounting policies.

In May 2009, the FASB issued guidance (codified in ASC 855, *Subsequent Events*) which establishes a general standard of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The guidance requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The guidance is effective for financial periods ended after June 15, 2009. The adoption of this guidance did not result in any significant change in the Foundation's existing practice of evaluating

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December 31, 2010 and 2009

Note 2 – Summary of Significant Accounting Policies (continued)

subsequent events through the date the financial statements are available to be issued. See Note 12 for more information on subsequent events.

In September 2006, the FASB issued ASC Topic 820-10 (formerly known as FASB Statement of Financial Accounting Standard (SFAS) No. 157), *Fair Value Measurements*. Topic 820-10 defines fair value, establishes a framework for measuring fair value, and expands disclosures about the fair value measurements. The new standards became effective for reporting periods beginning after November 15, 2007 (i.e., during fiscal year 2009). See Note 6 for more information on the measurement of fair value.

During fiscal year 2009, the Foundation adopted the disclosure requirements of FASB ASC Section 958-205-45-28 through 45-31 (formerly known as FASB Staff Position No. 117-1), *Endowment of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 requires specific disclosures among other things, of the governing board's interpretation of the laws that underlie the Foundation's net asset classification of donor-restricted endowment funds, its endowment spending policies, and its endowment investment policies, including the return objectives, risk parameters, and strategies for achieving those objectives. See Note 5 for more information.

Reclassification

Certain 2009 amounts have been reclassified to conform with the 2010 financial statement presentation.

Note 3 – Investments

The composition of the Foundation's investments is as follows:

| | 2010 | | 2009 | |
|-------------------------|----------------------|----------------------|----------------------|----------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Fixed income securities | \$ 764,545. | \$ 764,838. | \$ - | \$ - |
| Mutual funds | 10,612. | 11,102. | 2,019,952. | 1,652,218. |
| Marketable securities | <u>2,822,059.</u> | <u>2,977,312.</u> | <u>2,279.</u> | <u>2,110.</u> |
| Total | <u>\$ 3,597,216.</u> | <u>\$ 3,753,252.</u> | <u>\$ 2,022,231.</u> | <u>\$ 1,654,328.</u> |

ALAMO COLLEGES FOUNDATION, INC.
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Notes to Financial Statements
December 31, 2010 and 2009

Note 3 – Investments, continued

Net investment income is comprised of the following:

| | <u>2010</u> | <u>2009</u> |
|-------------------------------------|--------------------|--------------------|
| Interest and dividend income | \$ 174,036. | \$ 195,902. |
| Net unrealized gains on investments | <u>181,693.</u> | <u>252,718.</u> |
| Total | <u>\$ 355,729.</u> | <u>\$ 448,620.</u> |

Note 4 – General and Administrative Expenses:

General and administrative expenses consist of expenditures for the Foundation's daily operations and coordination of program activities as follows:

| | <u>2010</u> | <u>2009</u> |
|------------|-------------------|-------------------|
| Accounting | \$ 8,000. | \$ 12,914. |
| Office | <u>3,605.</u> | <u>8,787.</u> |
| Total | <u>\$ 11,605.</u> | <u>\$ 21,701.</u> |

Note 5 – Endowment Net Assets

The Foundation's endowment consists of 135 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act of 2007 (the Act) 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 this 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) 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

ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation)
Notes to Financial Statements
December 31, 2010 and 2009

Note 5 – Endowment Net Assets, continued

those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Foundation considers the following factors 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 Board-designated and donor-restricted endowment funds
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 of the Foundation

Endowment net assets and classifications of related unappropriated income at December 31, 2010 and 2009:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| As of December 31, 2010 | | | | |
| Endowment Funds | <u>\$ (47,331)</u> | <u>\$ 740,070.</u> | <u>\$ 9,695,681.</u> | <u>\$10,388,420.</u> |
| As of December 31, 2009 | | | | |
| Endowment Funds | <u>\$ (229,024)</u> | <u>\$ 697,664.</u> | <u>\$ 8,766,099.</u> | <u>\$ 9,234,739.</u> |

ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation)
Notes to Financial Statements
December 31, 2010 and 2009

Note 5 – Endowment Net Assets, continued

The changes in endowment net assets and related income classification for the year ended December 31, 2010 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-----------------------|
| Beginning of the year | \$ (229,024) | \$ 697,664. | \$8,766,099. | \$ 9,234,739. |
| Contributions | - | - | 836,889. | 836,889. |
| Investment return: | | | | |
| Interest and dividends | - | 144,847. | - | 144,847. |
| Unrealized gain on investments | <u>181,693.</u> | <u>-</u> | <u>-</u> | <u>181,693.</u> |
| Total revenues | 181,693. | 144,847. | 836,889. | 1,163,429. |
| Board designated transfer | - | - | 92,693. | 92,693. |
| Deductions: | | | | |
| Net assets released from restrictions | <u>-</u> | <u>(102,441)</u> | <u>-</u> | <u>(102,441)</u> |
| Total deductions | <u>-</u> | <u>(102,441)</u> | <u>-</u> | <u>(102,441)</u> |
| Increase in net assets | <u>181,693.</u> | <u>42,406.</u> | <u>929,582.</u> | <u>1,153,681.</u> |
| End of year | <u>\$ (47,331)</u> | <u>\$ 740,070</u> | <u>\$9,695,681.</u> | <u>\$ 10,388,420.</u> |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Foundation to retain as a fund of perpetual duration.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organizations must hold in perpetuity or for a donor-specified period as well as board-designated funds. The Board of Trustees has adopted a specific investment objective for the Foundation. The investment objective is to invest all endowments, local, or other available funds to optimize the return on investment to the extent possible, balanced with the appropriate level of risk. The objective is pursued by holding mostly fixed income investments such as money market funds (cash equivalents) and corporate bonds, and publicly traded mutual funds.

ALAMO COLLEGES FOUNDATION, INC.

(A Texas nonprofit Foundation)

Notes to Financial Statements

December 31, 2010 and 2009

Note 5 – Endowment Net Assets, continued

Under the laws of the State of Texas, the Board of Trustees may appropriate for expenditure, for the uses and purposes for which the endowment was established, a prudent rate of spending considering the duration and preservation of the endowment. The Board of Trustees determines the amount of such appropriation annually.

Note 6 – Fair Value of Financial Instruments

The carrying amounts of all applicable asset and liability financial instruments reported in the statements of assets, liabilities and net assets approximate their fair values at December 31, 2010 and 2009. Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties.

In accordance with ASC 820, the Foundation has categorized its financial instruments, based on the priority of inputs used in related valuation techniques, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 (including net asset value) that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair value hierarchy of investments at December 31, 2010 follows:

| | 2010 | | | | 2009 |
|-------------------------|---------------------|-------------|-------------|---------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total | |
| Fixed Income Securities | \$ 764,838. | \$ - | \$ - | \$ 764,838. | \$ - |
| Mutual funds | 11,102. | - | - | 11,102. | 1,652,218. |
| Marketable Securities | 2,977,312. | - | - | 2,977,812. | 2,110. |
| Total | <u>\$3,753,252.</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$3,753,252.</u> | <u>\$1,654,328.</u> |

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Note 7 – Support Agreement and Related Party Transactions

The Foundation and the Alamo Colleges have entered into an agreement for the Alamo Colleges to provide administrative support to the Foundation. The Alamo Colleges provide administrative support for the Foundation activities at a level determined by the Alamo Colleges to be appropriate, but only to the extent of availability of funds within the Alamo Colleges' budget. Administrative support provided includes office space and executive director and staff for the Foundation. The total support provided by the Alamo Colleges to the Foundation in the fiscal year ended December 31, 2010 and 2009, was valued at approximately \$375,000 and \$328,000, respectively. These amounts have not been recorded in the modified cash basis financial statements.

From time to time the Foundation remits scholarship funds to the Alamo Colleges to cover tuition, books, and other student fees for specified students of the Alamo Colleges. During the years ended December 31, 2010 and 2009, the Foundation remitted the total of \$816,000 and \$635,936 to the Alamo Colleges to fund 1,000 and 734 scholarships, respectively. The total scholarship fund due from the Foundation to the Alamo Colleges at December 31, 2010 and 2009 was \$43,000 and \$100,000, respectively. These amounts have not been included as liabilities in the financial statements.

Note 8 – Future Commitments

At December 31, 2010, outstanding donor match commitments for the next five years and thereafter are as follows:

| Year Ended December 31, | |
|-------------------------|--------------------|
| 2011 | 25,000 |
| 2012 | 25,000 |
| 2013 | 25,000 |
| 2014 | 25,000 |
| Thereafter | 175,000 |
| Total | <u>\$ 275,000.</u> |

Note 9 – Commitments

The Parent-Child Scholarship Program provides multi-generational scholarships. Parents who are eligible under this program and complete all requirements qualify their first-born child. The Foundation has not determined what amount, if any, will eventually be payable under this program.

ALAMO COLLEGES FOUNDATION, INC.
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Note 10 – Restricted Title V Funds

In compliance with the federal grant restrictions, Title V grant funds are deposited into segregated bank accounts and/or other investment accounts.

Note 11 – Unrestricted Net Assets

Unrestricted net assets are comprised of net assets that are not subject to donor-imposed stipulations as well as the aggregate amount of any deficiency in the donor-restricted endowments' net asset balances. The aggregate amount of deficiency in the donor-restricted endowments' net asset balances is adjusted each year with the net unrealized gain or loss on investments held for endowment funds. For the fiscal years ended December 31, 2010 and 2009, the aggregate amount of deficiency in the donor-restricted endowments' net asset balances was decreased by \$(181,693) and (\$229,188) respectively, representing the net unrealized gain on investments held for endowment funds in those years. The balances comprising unrestricted net assets as of December 31, 2010 and 2009 were as follows:

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|---------------------|
| Aggregate deficiency on donor-restricted endowment net asset balances | \$ (47,331) | \$ (229,024) |
| Undesignated/unrestricted net assets | <u>103,903.</u> | <u>81,048.</u> |
| Total | <u>\$ 56,572.</u> | <u>\$ (147,976)</u> |

Note 12 – Subsequent Events

Management has evaluated subsequent events through April 29, 2011, the date financial statements were available to be issued. No changes are necessary to be made to the financial statements as a result of this evaluation.