

ALAMO COLLEGES FOUNDATION, INC.

(A Texas Nonprofit Foundation &
Component Unit of Alamo Colleges District)

AUDITED FINANCIAL STATEMENTS

Years Ended

December 31, 2017 and 2016

ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation & Component unit of Alamo Colleges District)
Contents
December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of Alamo Colleges Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America: this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alamo Colleges Foundation, Inc. as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "R. D. Harrison". The signature is fluid and cursive, with a long horizontal stroke at the end.

R. D. Harrison, CPA
Certified Public Accountant
San Antonio, Texas

July 9, 2018

ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation & component unit of Alamo Colleges District)
Statements of Financial Position
December 31, 2017 and 2016

	December 31	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 2,134,263	\$ 2,299,775
Contributions receivable	381,730	971,070
Investments:		
Fixed income securities	4,414,646	4,236,723
Mutual funds	17,527,335	15,107,803
Marketable securities	<u>2,550,332</u>	<u>2,035,951</u>
TOTAL ASSETS	<u>\$27,008,306</u>	<u>\$24,651,322</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	\$ 13,491	\$ 3,322
Due to affiliates	<u>35,335</u>	<u>21,960</u>
TOTAL LIABILITIES	48,826	25,282
NET ASSETS		
Unrestricted	92,707	2,196
Temporarily restricted	9,471,656	8,124,006
Permanently restricted - endowments	<u>17,395,117</u>	<u>16,499,838</u>
TOTAL NET ASSETS	<u>26,959,480</u>	<u>24,626,040</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$27,008,306</u>	<u>\$24,651,322</u>

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

ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation & component unit of Alamo Colleges District)
Statements of Activities
December 31, 2017 and 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets at January 1, 2016	\$ 103,233	\$ 6,281,597	\$ 13,846,843	\$ 20,231,673
Support and revenue:				
Contributions	35,381	4,159,548	2,523,590	6,718,519
In-kind revenue	509,667	-	-	509,667
Interest and dividend income	-	326,357	-	326,357
Gain on investments	-	807,898	-	807,898
Net assets released from restrictions	<u>3,354,739</u>	<u>(3,354,739)</u>	<u>-</u>	<u>-</u>
Total revenue	3,899,787	1,939,064	2,523,590	8,362,441
Expenses:				
Program support and scholarships	3,473,598	-	-	3,473,598
General and administrative	335,519	-	-	335,519
Fundraising	<u>158,957</u>	<u>-</u>	<u>-</u>	<u>158,957</u>
Total expenses	<u>3,968,074</u>	<u>-</u>	<u>-</u>	<u>3,968,074</u>
Increase in net assets	(68,287)	1,939,064	2,523,590	4,394,367
Designated transfers	<u>(32,750)</u>	<u>(96,655)</u>	<u>129,405</u>	<u>-</u>
Net Assets at December 31, 2016	2,196	8,124,006	16,499,838	24,626,040
Support and revenue:				
Contributions	94,497	1,608,630	662,614	2,365,741
In-kind revenue	490,090	-	-	490,090
Interest and dividend income	-	370,630	-	370,630
Gain on investments	-	2,510,880	-	2,510,880
Net assets released from restrictions	<u>2,867,734</u>	<u>(2,867,734)</u>	<u>-</u>	<u>-</u>
Total revenue	3,452,321	1,622,406	662,614	5,737,341
Expenses:				
Program support and scholarships	2,973,371	-	-	2,973,371
General and administrative	305,203	-	-	305,203
Fundraising	<u>125,327</u>	<u>-</u>	<u>-</u>	<u>125,327</u>
Total expenses	<u>3,403,901</u>	<u>-</u>	<u>-</u>	<u>3,403,901</u>
Increase (decrease) in net assets	48,420	1,622,406	662,614	2,333,440
Designated transfers	<u>42,091</u>	<u>(274,756)</u>	<u>232,665</u>	<u>-</u>
Net Assets at December 31, 2017	<u>\$ 92,707</u>	<u>\$ 9,471,656</u>	<u>\$ 17,395,117</u>	<u>\$ 26,959,480</u>

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

ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation & component unit of Alamo Colleges District)
Statements of Cash Flows
December 31, 2017 and 2016

	December 31 <u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 2,333,440	\$ 4,394,367
Adjustments to reconcile (decrease) increase in net assets		
To net cash provided by (used in) operating activities:		
Contributions restricted for endowments	(662,614)	(2,523,590)
Net gain on investments	(2,510,880)	(807,898)
Change in operating assets and liabilities		
Contributions receivable	589,340	105,801
Accounts payable and accrued liabilities	10,169	(18,155)
Due to affiliate	<u>13,375</u>	<u>(15,412)</u>
Net cash (used in) provided by operating activities	(227,170)	1,135,113
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment sales	1,474,572	16,475,867
Purchases of investments	<u>(2,075,528)</u>	<u>(19,831,930)</u>
Net cash (used in) investing activities	(600,956)	(3,356,063)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for endowments	<u>662,614</u>	<u>2,523,590</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(165,512)	302,640
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,299,775</u>	<u>1,997,135</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 2,134,263</u></u>	<u><u>\$ 2,299,775</u></u>

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

ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation & component unit of Alamo Colleges District)
Notes to Financial Statements
December 31, 2017 and 2016

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 District; (2) to provide broad educational opportunities to the Alamo Colleges District students, staff, faculty and the residents of the geographical area that the Alamo Colleges District 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 District, or to the benefit of other organizations identified and associated with the Alamo Colleges District and which are tax-exempt organizations.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an Amendment of GASB Statement No. 14*, the Foundation is considered to be a component unit of Alamo Colleges District because of the nature and significance of its relationship with Alamo Colleges District. The economic resources received or held by the Foundation are almost entirely for the direct benefit of Alamo Colleges District; Alamo Colleges District is entitled to, or can otherwise access, a majority of these resources; and the resources received or held by the Foundation are significant to Alamo Colleges District.

Note 2 – Summary of Significant Accounting Policies

The financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP) under FASB ASC 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC Topic 958-205, the Foundation’s net assets, support and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation are classified and reported as follows:

- *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, for them to be used.
- *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.

In addition, the Foundation is required by FASB ASC Topic 958-205 to present a statement of cash flows in its separately issued financial statements.

ALAMO COLLEGES FOUNDATION, INC.
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Notes to Financial Statements
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Note 2 – Summary of Significant Accounting Policies, continued

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 and mutual funds with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Realized and unrealized gains and losses are reported in the statements of activities as changes in temporarily restricted 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 Morgan Stanley Smith Barney LLC in a manner consistent with the investment goals and policies established by the Board of Directors of the Foundation.

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

Contributions receivable

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. Unconditional promises to give are recorded at net realizable value if expected to be collected in one year. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Conditional promises to give are recorded as refundable advances when received, and are recognized as revenues when the conditions have been met.

ALAMO COLLEGES FOUNDATION, INC.
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Notes to Financial Statements
December 31, 2017 and 2016

Note 2 – Summary of Significant Accounting Policies, continued

If contributions receivable become doubtful of collection, allowances are made to the extent the amounts are determined to be doubtful and are charged to expense. If doubtful amounts are subsequently determined to be uncollectible, they are written off against allowances in the period determined. Contributions are recorded when received in cash as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of donor restrictions. When a donor 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 activities as net assets released from restrictions. Contributions of assets other than cash are recorded at their estimated fair value. The Foundation considers contributions receivable to be fully collectible.

Fixed assets

The Foundation operates from facilities provided by the Alamo Colleges District and does not own any buildings, equipment or other capital assets. See Note 7 for an estimated amount of in-kind contributions provided by the Alamo Colleges District that includes an estimate of donated rent. Donated rents are included in the financial statements as unrestricted in-kind revenue.

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.

- Program Support and Scholarships - consists of scholarships and program support payments made to Alamo Colleges District for tuition and books on behalf of specified students, staff and faculty of the Alamo Colleges District and the residents of the geographical area that the Alamo Colleges District serve, and to maintain, develop, increase and extend the facilities and services of the Alamo Colleges District.
- General and Administrative - consists of general supporting services that are necessary for the Foundation's daily operations and coordination of program activities and includes salaries and benefits related to administrative personnel.
- Fundraising - activities are directed at soliciting and receiving funds, gifts, grants and property to enable the Foundation to fulfill its purpose. It also includes salaries and benefits paid to fundraising personnel.

ALAMO COLLEGES FOUNDATION, INC.
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Notes to Financial Statements
December 31, 2017 and 2016

Note 2 – Summary of Significant Accounting Policies, continued

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. 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 District. The Alamo Colleges District also provides office space and equipment at no cost to the Foundation. The value of these contributed services is provided in Note 7 and is included in the financial statements as unrestricted in-kind revenue.

Revenue recognition

The Foundation records contributions at fair value when an unconditional commitment is received from the donor. Contributions that are restricted by the donor and are to be used in future periods are reported as an increase in temporarily restricted net assets in the reporting period in which the contribution is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted in perpetuity by the donor are recorded as permanently restricted net assets. In accordance with donor restrictions, income earned from permanently restricted net assets are recorded as temporarily restricted net assets until such income is released from 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, revenues and expenses. Actual results could differ from those estimates. Estimates that have the most impact on financial position and results of operations primarily relate to the collectability and present

ALAMO COLLEGES FOUNDATION, INC.
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Notes to Financial Statements
December 31, 2017 and 2016

Note 2 – Summary of Significant Accounting Policies, continued

value of contributions receivable, the fair value of investments, and the allocation of expenses among functional areas.

New Pronouncements

In February 2016, the Financial Accounting Standard Board (FASB) issued Accounting Standard Update (ASU) 2016-02, *Leases (Topic 842)*. Under ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. This ASU requires a modified retrospective transition approach, which includes a number of optional practical expedients, described in ASU 2016-02, which may be applied. The ASU is effective for fiscal years beginning after December 15, 2019. The impact of the new standard has not been determined, however it is expected that there will not be an increase to the Foundation's assets and liabilities.

In August 2016, the (FASB) issued (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, intended to improve financial reporting for a not-for-profit entity. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the statement of activities. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, and functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early application is permitted. The ASU should be applied on a retrospective basis in the year that the ASU is first implemented. While this ASU will change the presentation of the Foundation's financial statements it is not expected to alter the Foundation's reported financial position or activities.

ALAMO COLLEGES FOUNDATION, INC.
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Notes to Financial Statements
December 31, 2017 and 2016

Note 3 – Investments

The composition of the Foundation's investments as of December 31, 2017 and 2016 is as follows:

Type of Security	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Fixed income securities	\$ 4,370,834	\$ 4,414,646	\$ 4,210,686	\$ 4,236,723
Mutual funds	14,959,400	17,527,335	14,498,717	15,107,803
Marketable securities	1,891,758	2,550,332	1,855,659	2,035,951
Total	<u>\$21,221,992</u>	<u>\$24,492,313</u>	<u>\$ 20,565,061</u>	<u>\$ 21,380,477</u>

Net investment income for the years ended December 31, 2017 and 2016 is comprised of the following:

	2017	2016
Interest and dividend income	\$ 370,630	\$ 326,357
Gain on investments	2,510,880	807,898
Total	<u>\$ 2,881,510</u>	<u>\$ 1,134,255</u>

The Foundation elects to net investment expenses with earnings from investments. Total investment expenses in 2017 and 2016 were \$102,840 and \$101,506, respectively.

ALAMO COLLEGES FOUNDATION, INC.
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Notes to Financial Statements
December 31, 2017 and 2016

Note 4 – Functional Expenses

The cost of providing the various programs and activities of the Foundation has been summarized on a functional basis in the accompanying statements of activities. Functional expenses categorized by program, general and administrative, and fundraising costs for the years ended December 31, 2017 and 2016 are as follows:

	Program Support and Scholarships	General and Administrative	Fundraising	Total
Year ended December 31, 2017:				
Scholarships and educational support	\$ 2,889,319	\$ -	\$ -	\$ 2,889,319
Salaries and benefits	79,023	208,028	115,791	402,842
Rent	-	61,612	-	61,612
Professional services	-	20,105	-	20,105
Professional development, fees and subscriptions	-	2,219	-	2,219
Other	5,029	13,239	9,536	27,804
Total	<u>\$ 2,973,371</u>	<u>\$ 305,203</u>	<u>\$ 125,327</u>	<u>\$ 3,403,901</u>
	Program Support and Scholarships	General and Administrative	Fundraising	Total
Year ended December 31, 2016:				
Scholarships and educational support	\$ 3,375,424	\$ -	\$ -	\$ 3,375,424
Salaries and benefits	80,925	178,854	109,554	369,333
Rent	-	61,612	-	61,612
Professional services	-	54,392	-	54,392
Other	17,249	40,661	49,403	107,313
Total	<u>\$ 3,473,598</u>	<u>\$ 335,519</u>	<u>\$ 158,957</u>	<u>\$ 3,968,074</u>

Note 5 – Endowment Net Assets

The Foundation's endowment consists of 170 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation & component unit of Alamo Colleges District)
Notes to Financial Statements
December 31, 2017 and 2016

Note 5 – Endowment Net Assets, continued

The Board of Directors of the Foundation has interpreted the Texas Uniform Prudent Management 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 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 effects 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

Realized and unrealized investment gains/losses are recorded as temporarily restricted net assets.

ALAMO COLLEGES FOUNDATION, INC.
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Notes to Financial Statements
December 31, 2017 and 2016

Note 5 – Endowment Net Assets, continued

Endowment net assets and classifications of related unappropriated income at December 31, 2017 and 2016 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
As of December 31, 2017			
Endowment funds	<u>\$ 5,582,081</u>	<u>\$ 17,395,117</u>	<u>\$ 22,977,198</u>
As of December 31, 2016			
Endowment funds	<u>\$ 3,579,596</u>	<u>\$ 16,499,838</u>	<u>\$ 20,079,434</u>

The changes in endowment net assets and related income classification for the year ended December 31, 2017 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	\$ 3,579,596	\$ 16,499,838	\$ 20,079,434
Contributions	-	662,614	662,614
Investment return:			
Interest and dividends	370,630	-	370,630
Gain on investments	<u>2,510,880</u>	<u>-</u>	<u>2,510,880</u>
Total revenues	2,881,510	662,614	3,544,124
Designated transfers	(107,436)	232,665	125,229
Deductions:			
Net assets released from restrictions	<u>(771,589)</u>	<u>-</u>	<u>(771,589)</u>
Increase in net assets	<u>2,002,485</u>	<u>895,279</u>	<u>2,897,764</u>
End of year	<u>\$ 5,582,081</u>	<u>\$ 17,395,117</u>	<u>\$ 22,977,198</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

ALAMO COLLEGES FOUNDATION, INC.
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Notes to Financial Statements
December 31, 2017 and 2016

Note 5 – Endowment Net Assets, continued

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 organization must hold in perpetuity or for a donor-specified period as well as board-designated funds.

The Board of Directors through its Investments Committee has adopted a specific investment objective for the Foundation. The investment objective is to invest all endowment and other available funds to optimize the return on investment to the extent possible, balanced with the appropriate level of risk.

Under the laws of the State of Texas, the Board of Directors may appropriate for expenditure, for the uses and purposes for which the endowment was established, a prudent rate of spending considering the duration and preservation of the endowment. The Board of Directors determines the amount of such appropriation annually. The rate for 2017 was 4.00%. The rate for 2018 has been set at 4.25%.

Note 6 – Fair Value of Financial Instruments

FASB ASC Topic 820-10, *Fair Value Measurements and Disclosures*, provides a framework for measuring fair value. FASB ASC Topic 820-10 also establishes a fair value hierarchy that distinguishes between inputs based on market data from independent sources (observable inputs) and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs).

The fair value hierarchy in FASB ASC Topic 820 prioritizes fair value measurements into three levels based on the nature of the inputs. The three levels of the fair value hierarchy under FASB ASC Topic 820-10 are as follows:

Level 1 – Investments in this category are valued based on quoted prices in active markets for identical assets that are accessible at the measurement date. An active market is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Investments in this category are valued based on inputs, in the absence of actively quoted market prices, which are observable for the asset, either directly or indirectly. Level 2 inputs include: (a) quoted prices for similar assets in active markets, (b) quoted prices for identical or similar assets in markets that are not active, (c) inputs other than quoted prices that are observable for the asset such as interest rates and yield curves

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Notes to Financial Statements
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Note 6 – Fair Value of Financial Instruments, continued

observable at commonly quoted intervals, and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Investments in this category are valued based on unobservable inputs for the asset. Unobservable inputs are used to the extent observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date.

The fair value hierarchy of investments at December 31, 2017 is as follows:

	2017			
	Level 1	Level 2	Level 3	Total
Fixed income securities	\$ -	\$ 4,414,646	\$ -	\$ 4,414,646
Mutual funds	17,527,335	-	-	17,527,335
Marketable securities	<u>2,550,332</u>	<u>-</u>	<u>-</u>	<u>2,550,332</u>
Total	<u>\$20,077,667</u>	<u>\$ 4,414,646</u>	<u>\$ -</u>	<u>\$24,492,313</u>

Note 7 – Support Agreement and Related Party Transactions

By agreement, the Alamo Colleges District provides administrative support for Foundation activities at a level determined by the Alamo Colleges District to be appropriate, but only to the extent of availability of funds within Alamo Colleges District's budget. Administrative support provided includes office space and an executive director and staff for the Foundation. The total support provided by Alamo Colleges District to the Foundation in the fiscal years ended December 31, 2017 and 2016 was valued at approximately \$490,090 and \$509,667, respectively, and is included in the financial statements as unrestricted in-kind revenue.

From time to time the Foundation remits scholarship funds to the Alamo Colleges District to cover tuition, books, and other student fees for specified students of the Alamo Colleges District. During the years ended December 31, 2017 and 2016, the Foundation remitted a total of \$2,103,127 and \$2,040,519 to the Alamo Colleges District to fund approximately 2,175 and 2,184 scholarships, respectively. In addition, for the years ended December 31, 2017 and 2016, the Foundation remitted \$609,936 and \$1,283,211, respectively, to Alamo Colleges District for program related costs.

ALAMO COLLEGES FOUNDATION, INC.
(A Texas nonprofit Foundation & component unit of Alamo Colleges District)
Notes to Financial Statements
December 31, 2017 and 2016

Note 7 – Support Agreement and Related Party Transactions, continued

The total scholarship funds due from the Foundation to the Alamo Colleges District at December 31, 2017 and 2016 was \$35,335 and \$21,960, respectively. These amounts have been included in the due to affiliates balances in the accompanying financial statements.

Note 8 – Future Commitments

At December 31, 2017, outstanding donor match commitments are as follows:

Year ended December 31,	
2018	25,000
2019	25,000
2020	25,000
2021	<u>25,000</u>
Total	<u>\$ 100,000</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.

Note 10- Restricted Title III and Title V Funds

In compliance with federal grant restrictions, Title III and 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. The balances comprising unrestricted net assets as of December 31, 2016 and 2015 were as follows:

	<u>2017</u>	<u>2016</u>
Undesignated/unrestricted net assets	<u>\$ 92,707</u>	<u>\$ 2,196</u>

Note 12- Subsequent Events

Management has evaluated subsequent events through July 9, 2018, the date the financial statements were available to be issued and no changes were necessary to be made to the financial statements as a result of this evaluation.