

TEXAS STATE ALUMNI ASSOCIATION
AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
SAN MARCOS, TEXAS

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Texas State Alumni Association (the Association, a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statement of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of the Association as of December 31, 2020 were audited by other auditors whose report dated November 3, 2021 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Ridout, Barrett & Co., P.C.
San Antonio, Texas
August 13, 2022

**TEXAS STATE ALUMNI ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and Cash Equivalents	\$ 251,073	\$ 327,730
Accounts Receivable	66,259	42,600
Investments	2,609,539	2,381,209
Certificate of Deposit (Held in Perpetuity)	<u>100,000</u>	<u>100,000</u>
TOTAL ASSETS	<u>\$ 3,026,871</u>	<u>\$ 2,851,539</u>
LIABILITIES		
Accounts Payable	\$ 61,854	\$ 9,669
Scholarships Payable	<u>12,000</u>	<u>26,000</u>
TOTAL LIABILITIES	<u>73,854</u>	<u>35,669</u>
NET ASSETS		
Without Donor Restrictions	2,853,017	2,715,870
With Donor Restrictions	<u>100,000</u>	<u>100,000</u>
TOTAL NET ASSETS	<u>2,953,017</u>	<u>2,815,870</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,026,871</u>	<u>\$ 2,851,539</u>

TEXAS STATE ALUMNI ASSOCIATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
WITHOUT DONOR RESTRICTIONS:		
Support and Revenue		
Memberships and Donations	\$ 501,863	\$ 606,852
Royalties	110,295	167,808
Chapter Events/Fundraising	130,628	7,165
Dividends and Interest, Net	31,957	33,303
Realized and Unrealized Gain on Investments	206,873	156,413
Total	981,616	971,541
Net Assets Released from Restrictions	11	451
Total Support and Revenue	981,627	971,992
Expenses		
Program Services:		
Alumni Support	395,630	295,731
University Support	116,639	121,471
Student Support	175,755	117,659
Support Services:		
Administrative	116,976	132,332
Fundraising	39,480	46,132
Total Expenses	844,480	713,325
Increase in Net Assets Without Donor Restrictions	137,147	258,667
WITH DONOR RESTRICTIONS:		
Interest, Net	11	451
Net Assets Released from Restrictions	(11)	(451)
Increase in Net Assets With Donor Restrictions	-	-
Change in Net Assets	137,147	258,667
NET ASSETS - BEGINNING OF YEAR	2,815,870	2,557,203
NET ASSETS - END OF YEAR	\$ 2,953,017	\$ 2,815,870

**TEXAS STATE ALUMNI ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Program Services</u>			<u>Supporting Services</u>		2021 Total
	<u>Alumni Support</u>	<u>University Support</u>	<u>Student Support</u>	<u>Administrative</u>	<u>Fundraising</u>	
Salaries	\$ 162,454	\$ 101,322	\$ 88,807	\$ 50,329	\$ 13,390	\$ 416,302
Alumni Events	179,317	-	-	-	-	179,317
Student Scholarship and Engagement	-	-	81,669	-	-	81,669
Advertising	23,938	-	-	-	-	23,938
Postage and shipping	3,182	-	-	-	-	3,182
Professional Fees	-	-	-	23,100	-	23,100
Rent Expense	24,558	15,317	5,279	7,608	2,024	54,786
Travel and Transportation	-	-	-	-	4,466	4,466
Sponsorship Commission	-	-	-	-	19,600	19,600
Other	2,181	-	-	35,939	-	38,120
TOTAL EXPENSES	<u>\$ 395,630</u>	<u>\$ 116,639</u>	<u>\$ 175,755</u>	<u>\$ 116,976</u>	<u>\$ 39,480</u>	<u>\$ 844,480</u>

**TEXAS STATE ALUMNI ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Program Services</u>			<u>Supporting Services</u>		2020 Total
	<u>Alumni Support</u>	<u>University Support</u>	<u>Student Support</u>	<u>Administrative</u>	<u>Fundraising</u>	
Salaries	\$ 195,616	\$ 109,708	\$ 55,174	\$ 54,220	\$ 17,628	\$ 432,346
Alumni Events	56,229	-	-	-	-	56,229
Student Scholarship and Engagement	-	-	58,074	-	-	58,074
Membership Development	-	-	-	-	5,827	5,827
Advertising	19,091	-	-	-	-	19,091
Postage and shipping	3,493	-	-	-	-	3,493
Professional Fees	-	-	-	18,250	-	18,250
Rent Expense	20,975	11,763	4,411	5,814	1,890	44,853
Travel and Transportation	-	-	-	-	2,637	2,637
Sponsorship Commission	-	-	-	-	18,150	18,150
Other	327	-	-	54,048	-	54,375
TOTAL EXPENSES	<u>\$ 295,731</u>	<u>\$ 121,471</u>	<u>\$ 117,659</u>	<u>\$ 132,332</u>	<u>\$ 46,132</u>	<u>\$ 713,325</u>

**TEXAS STATE ALUMNI ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 137,147	\$ 258,667
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net Gain on Investments	(206,873)	(156,413)
Change in Operating Assets and Liabilities:		
Accounts Receivable	(23,659)	2,133
Accounts Payable	52,185	(223)
Scholarships Payable	<u>(14,000)</u>	<u>(18,750)</u>
Total Adjustments	<u>(192,347)</u>	<u>(173,253)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(55,200)</u>	<u>85,414</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Purchases of Investments	<u>(21,457)</u>	<u>(36,669)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(21,457)</u>	<u>(36,669)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(76,657)	48,745
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>327,730</u>	<u>278,985</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 251,073</u>	<u>\$ 327,730</u>

**TEXAS STATE ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITIES – Texas State Alumni Association (the “Association”), is a not-for-profit corporation 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, staff, and provides space, facilities, and equipment for its operations.

BASIS OF PRESENTATION – The financial statements of the Association are prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

CLASSIFICATION OF NET ASSETS – Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. The Association’s Board of Directors has the ability to designate net assets without restrictions to be used by management for specific future projects or activities. The designation can be modified or removed by the Board of Directors at any time.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulated that resources be maintained in perpetuity.

REVENUE RECOGNITION – The Association follows Accounting Standards Update (ASU) 2018-08, *Not for profit entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, issued by Financial Accounting Standards Board (FASB) to improve the scope and accounting guidance for contributions received and contributions made. This ASU provided guidance in evaluating whether transactions should be accounted for as contributions or as exchange transactions subject to other guidance. This standard establishes that contributions received and made by the Association are nonreciprocal transactions, therefore, properly accounted for as a contribution. Gifts of securities are recorded at their fair value when received. Memberships and donations revenue is recognized as received, as the Association considers this as a donation.

**TEXAS STATE ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

REVENUE RECOGNITION (Continued) – The Association recognized promises to give in the financial statements when there is sufficient evidence that a promise was made. Unconditional promises to give are recognized in the period in which the promise is made, and according to any donor restrictions. Conditional promises to give are not included as support until the conditions are substantially met.

The Association reports all contributions as without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods, or are restricted by the donor for specific purposes, are reported as with donor restrictions. Contributions are recorded as revenue upon receipt of the gift or receipt of unconditional promise to give, whichever comes first.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with donor restrictions net assets are classified to without donor restrictions net assets and are reported on the statement of activities and changes in net assets as net assets released from restrictions.

Royalties' revenue is recognized over time as the performance obligation is met.

Chapter events/fundraising revenue is recognized at a point in time, net of direct cost of benefits to attendees.

IN-KIND CONTRIBUTIONS AND CONTRIBUTED SERVICES – In-kind contributions, which are included as part of memberships and donations on the statements of activities and changes in net assets, are reflected as contributions at their estimated fair value at the date of donation and are reported as revenue without donor restrictions (see Note 5).

FUNCTIONAL ALLOCATION OF EXPENSES – The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include rent expense, which is allocated on a square-footage basis, as well as salaries, postage and shipping, copier services, and hosting, which are all allocated on the basis of estimates of time and effort. All other allocated costs are based on actual figures.

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

TEXAS STATE ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

INCOME TAXES – The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, requires recognition and disclosure of uncertain tax positions in the financial statements. Under ASC 740-10, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will be sustained. The Association's management believes that it has appropriate support for any tax positions taken and that it has no material uncertain tax positions. Accordingly, it will not recognize any related liability for uncertain tax positions.

Tax years 2018 and later remain open to examination by the taxing jurisdictions to which the Association is subject, and these periods have not been extended beyond the applicable statute of limitations.

CASH AND CASH EQUIVALENTS – For purposes of reporting cash flows, the Association considers all highly liquid investments available for current use, with maturities of three months or less, to be cash equivalents.

ACCOUNTS RECEIVABLE – Accounts receivable represent amounts owed to the Association for royalties and unconditional promises to give. The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision in bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. The allowance for doubtful accounts is evaluated on a regular basis by management. Management considers accounts receivable at December 31, 2021 and 2020, to be fully collectible; accordingly, no allowance for doubtful accounts has been recorded. There was no bad debt expense recognized in 2021 and 2020.

INVESTMENTS – Investments in marketable securities are nonderivative instruments carried at fair value. All investment securities are held in trust with a financial institution and are managed externally by a third party. Marketable securities are not insured or collateralized. Investments received as gifts are recorded at the fair value as of the date of the gift. The Province does not engage in the lending of investment securities.

CERTIFICATE OF DEPOSIT – Certificate of deposit is held in perpetuity and is recorded at cost plus accrued interest, which approximates its fair value (see Note 8). The fair value of the certificate of deposit was \$100,000 at December 31, 2021 and 2020.

RECLASSIFICATIONS – Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net assets.

**TEXAS STATE ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

ACCOUNTING FOR UNCERTAINTY DURING A PANDEMIC – On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Association’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry and workforce.

Given the daily evolution of the COVID-19 outbreak and the global responses to curb the spread, the Association is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for the years ended December 31, 2021 and 2020.

RECENT ACCOUNTING PRONOUNCEMENTS

Leases – In February 2016, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases*. The guidance in this ASU supersedes the current leasing guidance. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. In June 2020, FASB issued ASU No. 2020-05 which delayed the effective date of the new leasing standard. Under the new guidance, the effective dates were extended to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of its pending adoption of the new standard on its financial statements.

NOTE 2 – CONCENTRATIONS OF CREDIT RISK

The Association maintains accounts that are managed by the University. All accounts, including all non-interest-bearing transaction accounts, are insured by the Federal Deposit Insurance Corporation (FDIC) up to the standard maximum deposit insurance amount of \$250,000. At certain times during 2021, the bank balances may have exceeded the federally insured limits. The Association has not experienced any losses in such accounts.

**TEXAS STATE ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 3 – INVESTMENTS

The cost and fair value of investments were as follows:

	<u>2021</u>		<u>2020</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
<u>Equity Funds:</u>				
Real Estate	\$ 70,849	\$ 99,301	\$ 70,849	\$ 72,672
Large Blend	230,172	492,269	236,270	408,199
Foreign Large Growth	218,722	307,352	218,722	243,627
Mid-Cap Value	52,490	53,564	33,515	41,441
Mid-Cap Growth	82,775	86,425	38,069	49,739
Small Growth	178,228	230,822	291,950	312,858
Diversified Emerging Market:	111,876	120,599	63,488	69,565
Foreign Small/Mid Growth	41,257	45,053	20,963	29,713
Subtotal	<u>986,369</u>	<u>1,435,385</u>	<u>973,826</u>	<u>1,227,814</u>
<u>Fixed Income Funds:</u>				
High-Yield Bond	67,320	73,144	65,939	72,802
World Bond	145,575	135,390	140,370	146,230
Short-Term Bond	244,841	234,791	234,227	231,584
Intermediate-Term Bond	506,545	496,297	468,416	470,053
Multisector Bond	246,018	234,532	236,158	232,726
Subtotal	<u>1,210,299</u>	<u>1,174,154</u>	<u>1,145,110</u>	<u>1,153,395</u>
Total	<u>\$ 2,196,668</u>	<u>\$ 2,609,539</u>	<u>\$ 2,118,936</u>	<u>\$ 2,381,209</u>

The Association believes that the recorded values of all the other financial instruments approximate their current fair values because of their nature and relatively short maturity dates or durations. All of the Association's investments at December 31, 2021 and 2020, which include the endowed investments, are classified as Level 1 investments.

Dividends and interest in the statements of activities and changes in net assets are reported net of associated investment management fees of \$19,103 and \$15,510 for the years December 31, 2021 and 2020, respectively

NOTE 4 – BOARD-DESIGNATED NET ASSETS

Net assets without donor restrictions include Board-designated funds for both the Frost Investment Trust (Trust) and Lifetime Memberships. The Trust was funded by the Board and initially included a donation from Marvin O. Teague.

**TEXAS STATE ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 4 – BOARD-DESIGNATED NET ASSETS (Continued)

The Trust has grown from royalty revenue received. Additional funds have been designated by the Board from lifetime memberships. Allocations for expenditures from lifetime memberships are limited to 5% of the designated amount. All Board-designated funds are held in investments that are managed by Frost Bank.

As of December 31, 2021 and 2020, Board-designated funds for the Trust amounted to \$1,857,304 and \$1,621,036, respectively, and the Lifetime Memberships amounted to \$773,492 and \$766,679, respectively.

NOTE 5 – DONATIONS IN-KIND

In 2021, the Association received donated services totaling \$417,199, representing the University's in-kind support, which have been reported as memberships and donations on the statements of activities and changes in net assets. This support has been allocated \$343,848 to program services and \$73,351 to support services on the statement of activities and changes in net assets for the year ended December 31, 2021.

In 2020, the Association received donated services totaling \$463,167, representing the University's in-kind support, which have been reported as memberships and donations on the statements of activities and changes in net assets. This support has been allocated \$383,615 to program support and \$79,552 to support services on the statement of activities and changes in net assets for the year ended December 31, 2020.

NOTE 6 – LIFETIME MEMBERSHIPS

In 2020, the Association recognized alumni who gave \$1,000 or more in cumulative support as Forever Bobcats, which was previously the Lifetime Membership category. For new alumni who have graduated with an undergraduate degree in the last five years, this cumulative amount is reduced to \$500. All alumni donations received in 2021 and 2020 will accumulate towards this recognition of the members who gave the donation.

NOTE 7 – FAIR VALUE MEASUREMENTS

Fair Value Hierarchy – Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories:

**TEXAS STATE ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 7 – FAIR VALUE MEASUREMENTS (Continued)

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3: Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

Valuation Techniques and Inputs:

Level 1 – Level 1 assets include:

Investments in short-term investments (consisting primarily of money market funds), equities, and mutual funds for which quoted prices are readily available.

Transfers between levels of the fair value hierarchy are considered to be made as of the beginning of the fiscal year. There were no such transfers during the years ended December 31, 2021 and 2020.

There have been no changes in the techniques and inputs used during the years ended December 31, 2021 and 2020.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

While the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

**TEXAS STATE ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 7 – FAIR VALUE MEASUREMENTS (Continued)

The Association uses fair value measurements to record fair value adjustments to certain assets and liabilities to determine fair value disclosures. The following methods and assumptions were used by the Association in estimating the fair value disclosures for financial assets:

Investments in money market funds, equities, bond funds, equity funds, and other funds held by the Association at fiscal year-end are considered Level 1 as the fair value of the shares are at quoted market prices that are readily available.

NOTE 8 – 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 net assets with donor restrictions as endowment held in perpetuity (1) the original value of gifts donated to the endowment held in perpetuity, (2) the original value of the subsequent gifts to the endowment held in perpetuity, and (3) accumulations to the endowment held in perpetuity 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 endowment fund that is not classified as held in perpetuity is classified as net assets without donor restrictions, 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 net assets held in perpetuity 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:

- The duration and preservation of the fund.
- The purposes of the Association and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the Association.
- The investment policies of the Association.

**TEXAS STATE ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 8 – ENDOWMENT (Continued)

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, 2021 and 2020, 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.

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 that 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.

**TEXAS STATE ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 8 – ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

Currently, there is only one donor-restricted endowment, and one Board-designated endowment. The investment policy of the 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.

The investment policy of the Board-designated funds is set out in the bylaws and policies and procedures. This investment policy will be used to help grow the Board-designated endowment to the goal of \$1 million. Once the goal is met, only the earnings from that endowment will be used to support the Association. Currently, the Board-designated endowment earnings are not being spent.

Endowment Net Assets Composition by Type of Fund

December 31, 2021

	<u>Witout Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 100,000	\$ 100,000
Board-Designated Endowment Funds	1,857,304	-	1,857,304
Total Funds	<u>\$ 1,857,304</u>	<u>\$ 100,000</u>	<u>\$ 1,957,304</u>

December 31, 2020

	<u>Witout Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 100,000	\$ 100,000
Board-Designated Endowment Funds	1,621,036	-	1,621,036
Total Funds	<u>\$ 1,621,036</u>	<u>\$ 100,000</u>	<u>\$ 1,721,036</u>

**TEXAS STATE ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 8 – ENDOWMENT (Continued)

Changes in Endowment Net Assets

December 31, 2021

	<u>Witout Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets - beginning of year	\$ 1,621,036	\$ 100,000	\$ 1,721,036
Investment (loss) return:			
Dividends and interest	48,498	11	48,509
Net appreciation	206,873	-	206,873
Investment fees	<u>(19,103)</u>	<u>-</u>	<u>(19,103)</u>
Total Investment (Loss) Return	<u>236,268</u>	<u>11</u>	<u>236,279</u>
Appropriations of Endowment Net Assets for expenditure	<u>-</u>	<u>(11)</u>	<u>(11)</u>
Endowment Net Assets - end of year	<u>\$ 1,857,304</u>	<u>\$ 100,000</u>	<u>\$ 1,957,304</u>

December 31, 2020

	<u>Witout Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets - beginning of year	\$ 1,432,781	\$ 100,000	\$ 1,532,781
Investment (loss) return:			
Dividends and interest	49,569	451	50,020
Net appreciation	154,196	-	154,196
Investment fees	<u>(15,510)</u>	<u>-</u>	<u>(15,510)</u>
Total Investment (Loss) Return	<u>188,255</u>	<u>451</u>	<u>188,706</u>
Appropriations of Endowment Net Assets for expenditure	<u>-</u>	<u>(451)</u>	<u>(451)</u>
Endowment Net Assets - end of year	<u>\$ 1,621,036</u>	<u>\$ 100,000</u>	<u>\$ 1,721,036</u>

**TEXAS STATE ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 9 – LIQUIDITY AND AVAILABLE RESOURCES

Financial assets, without donor or other restrictions limiting their use, and available for general expenditure within one year of the statements of financial position date are comprised of the following:

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ 251,073	\$ 327,730
Accounts Receivable	66,259	42,600
Investments, Held for Operations	2,609,539	2,381,209
Less: Board-Designated, Endowed Funds	(1,857,304)	(1,621,036)
Less: Board-Designated, Lifetime Memberships	<u>(773,492)</u>	<u>(766,679)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 296,075</u>	<u>\$ 363,824</u>

The Association manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. To achieve these objectives, the Association forecasts its future cash flows, monitors its liquidity, and manages reserve funding on a monthly basis. During the years ended December 31, 2021 and 2020, the level of liquidity and reserve balances were managed within these guiding principles.

The Association's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Association does not intend to spend its Board-designated endowment of \$1,857,304, which is included in the net assets without donor restrictions account on the statements of financial position, other than amounts appropriated for general expenditure as part of its Board's annual budget approval and appropriation. However, these amounts could be made available if necessary.

NOTE 10 – SUBSEQUENT EVENTS

The Association's management has evaluated subsequent events through August 13, 2022, the date the financial statements were available to be issued. Management is not aware of any events requiring disclosure.