

FINANCIAL REPORT
TEXAS STATE UNIVERSITY -
SAN MARCOS
DEVELOPMENT FOUNDATION

AUGUST 31, 2004

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Carneiro, Chumney & Co., L.C.

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Texas State University – San Marcos
Development Foundation

We have audited the statement of financial position of Texas State University – San Marcos Development Foundation (the Foundation) as of August 31, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards. Those standards require that we 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas State University – San Marcos Development Foundation as of August 31, 2004, and the results of its operations and changes in net assets, and its cash flows for the year then ended in conformity with United States generally accepted accounting principles.

Carneiro Chumney & Co L.C.

January 20, 2005

TEXAS STATE UNIVERSITY - SAN MARCOS DEVELOPMENT FOUNDATION

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2004

ASSETS	
Cash	80,002
Investments:	
Marketable securities	18,674,253
Real estate	86,007
Estate receivable	<u>15,280</u>
TOTAL ASSETS	<u><u>18,855,542</u></u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Agency accounts	311,898
Annuities payable	<u>686,134</u>
Total Liabilities	<u>998,032</u>
Net Assets:	
Unrestricted	820,422
Temporarily restricted	2,289,237
Permanently restricted	<u>14,747,851</u>
Total Net Assets	<u><u>17,857,510</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>18,855,542</u></u>

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

TEXAS STATE UNIVERSITY - SAN MARCOS DEVELOPMENT FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, Revenue, and Other:				
Contributions	329,086	555,072	1,217,456	2,101,614
Contributions - In-kind	41,200	--	--	41,200
Special events - Net (less expenses of \$46,075)	106,009	--	--	106,009
Investment income	30,431	236,100	25,517	292,048
Realized and unrealized gains	119,500	790,419	85,424	995,343
Loss on sale of real estate	(31,662)	--	--	(31,662)
Rent and royalties	82	3,250	--	3,332
Net assets released from restrictions - Scholarships, University advancement and management and general	1,584,841	(1,584,841)	--	--
Total Support, Revenue, and Other	2,179,487	--	1,328,397	3,507,884
Expenses:				
Program:				
Scholarships	786,615	--	--	786,615
University advancement	636,285	--	--	636,285
Supporting Services:				
Management and general	147,599	--	--	147,599
Fundraising	32,988	--	--	32,988
Total Expenses	1,603,487	--	--	1,603,487
Change in Net Assets	576,000	--	1,328,397	1,904,397
Net assets at beginning of year	406,046	2,056,657	33,013,530	35,476,233
Prior period adjustments - Note 6	(161,624)	232,580	(19,594,076)	(19,523,120)
Net Assets at Beginning of Year, Restated	244,422	2,289,237	13,419,454	15,953,113
 NET ASSETS AT END OF YEAR	 820,422	 2,289,237	 14,747,851	 17,857,510

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

TEXAS STATE UNIVERSITY - SAN MARCOS DEVELOPMENT FOUNDATION

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2004

Net (Decrease) in Cash

Change in net assets	1,904,397
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Loss on sale of real estate	31,662
Net realized/unrealized (gain) on investments	(995,343)
Decrease in -	
Agency accounts	(32,220)
Net Cash Provided by Operating Activities	<u>908,496</u>
Cash Flows from Investing Activities:	
Purchase of investments	(5,527,353)
Proceeds from sale of investments	4,187,435
Proceeds from sale of real estate	304,318
Net Cash (Used in) Investing Activities	<u>(1,035,600)</u>
Cash flows from financing activities -	
Payments on annuities	<u>(44,845)</u>
Net (Decrease) in Cash and Cash Equivalents	(171,949)
Cash at beginning of year	<u>251,951</u>
CASH AT END OF YEAR	<u><u>80,002</u></u>

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

TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2004

Note 1: Organization

Texas State University – San Marcos Development Foundation (Foundation) (formerly Southwest Texas State University Development Foundation) is a non-profit corporation formed to assist in the educational advancement of Texas State University – San Marcos (University). The Foundation:

- invests and administers funds for the University's benefit;
- conducts development efforts for the benefit of the University, utilizing the expertise of those employees of the University who are assigned to work with the Development Foundation and the resources of the Development Foundation for that purpose;
- works with other groups which express an interest in assisting the University in pursuit of fund-raising efforts;
- renders the same assistance to the University as it has rendered in the past and such additional assistance as may, in the future, appear mutually desirable, with changes that take place from time to time as agreed upon by the University and the Development Foundation, provided, however, that the Development Foundation's primary focus in the future will be on developing and maintaining long-term and short-term endowment monies; and
- recognizes the University as the sole beneficiary of its development policies and its educational support.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Foundation are prepared on the accrual basis of accounting, which follows United States generally accepted accounting principles.

Basis of Reporting

The classes of net assets of the Foundation included in the accompanying financial statements are described below:

Unrestricted: Resources that are expendable at the discretion of the Foundation.

Temporarily Restricted: Resources whose use is restricted by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and otherwise removed by actions of the Foundation pursuant to those stipulations.

Permanently Restricted: Resources whose use is restricted by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Continued)

TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2004

(Continuation)

Note 2: Summary of Significant Accounting Policies (Continued)

Cash

Cash held in the trust account are considered investments rather than cash and cash equivalents.

Investments and Investment Income

Investments are principally comprised of publicly traded equity and debt securities. Fair market trade value is based on the last sale price on the last business day of the year or on the most current traded date subsequent to year end. The Foundation follows the principles in Statement of Financial Accounting Standards No. 124 (SFAS 124). "Accounting for Certain Investments Held in Not-for-Profit Organizations." SFAS 124 requires that investments in equity securities with readily determinable fair values and all investments in debt securities be reported at fair value with gains and losses included in the statements of activity.

The majority of investments are pooled for the purpose of maximizing income. Income consists of investment income (interest and dividends) as well as realized and unrealized gains and/or losses. Revenue and gains are allocated based on the principle of individual accounts. These investments are maintained by a registered dealer and are managed by an investment manager (see Note 3).

Unrestricted investment income is recognized as revenue and gains as earned. Unrestricted investment income includes income from net assets where no restriction has been placed by the donor on its use. Temporarily or permanently restricted investment income is reclassified to unrestricted net assets, when the donor imposed stipulations are fulfilled.

Pledges and Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Conditional promises (such as matching grants) to give are not included as support until the conditions are substantially met.

Contributed real estate is recorded at fair value at the date of donation. Real estate is reported at its original fair value until sold. The Foundation records contributed property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. If a donor stipulates how long the assets must be used, the contribution is recorded as restricted support.

(Continued)

TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2004

(Continuation)

Note 2: Summary of Significant Accounting Policies (Continued)

Pledges and Contributions (Continued)

The Foundation entered into an agreement with Texas State University – San Marcos to use its administration and employees to provide reasonable and necessary support to the Foundation. These contributed services and supplies are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not contributed. These services are recognized at the fair value and included in the statement of activities (see Note 4).

Notes Receivable – Texas State University

This note receivable is carried at estimated collectible amount. No allowance or discount has been computed by management due to the nature of the receivable.

Agency Accounts

Amounts held by the Foundation for other associations or clubs affiliated with Texas State University.

Annuities Payable

Amounts estimated by management for future payments to donor designated beneficiaries.

Federal Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Foundation is subject to taxation on the net income, if any, derived from activities that are not considered to be related to the operations for which the Foundation's tax exemption was granted.

Note 3: Investments

The cost and fair value of investments is as follows:

	<u>Cost</u>	<u>Fair Value</u>
Money market accounts	30,667	30,667
Mutual funds	<u>17,458,211</u>	<u>18,729,593</u>
Total	<u>17,488,878</u>	<u>18,760,260</u>

Note 4: Contributed Expenses

The Foundation recognizes in-kind contributions for certain expenses at the fair value of those expenses. In-kind contributions were \$41,200 for 2004 and have been included in contributions and management and general expenses in the statement of activities. These services included: office rent and supplies, personnel services, printing, telephone, and utilities.

Note 5: Net Asset Receivable/Payable

Net assets include an interfund receivable/payable between net asset classifications. Because the statement of financial position of the Foundation is presented as a comprehensive statement of financial position, interfund receivables/payables are not detailed.

(Continued)

TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2004

(Continuation)

Note 5: Net Asset Receivable/Payable (Continued)

Temporarily restricted net assets include individual funds, some of which have over-expended balances and some have under-expended balances. Management is aware that funds are owed individual account balances and will make future expenses in accordance with the nature and amounts available. Total individual funds are over-expended by \$358,521 of earnings; total individual funds available to spend are \$2,647,758.

Permanently restricted net assets include an individual fund which had been previously classified as a gift to the University. It has subsequently been determined to be a permanently restricted gift requiring the principle to be held by the Foundation in perpetuity. At August 31, 2004 \$380,000 is due from unrestricted net assets to repay this fund. The Foundation has put in place a plan for repayment in 2004/2005.

Note 6: Prior Period Adjustments

Beginning net assets have been adjusted to reflect corrected balances for the following:

	Net Assets			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Conditional pledge recognized in prior periods as unconditional - See Note 2	--	(435,057)	(18,355,433)	(18,790,490)
Agency accounts controlled by organizations or clubs	(160,303)	(159,972)	(23,843)	(344,118)
Amounts due beneficiaries in future years classified as net assets	--	--	(388,512)	(388,512)
Amounts incorrectly classified	1,321	827,609	(826,288)	--
Total Adjustments	(161,624)	232,580	(19,594,076)	(19,523,120)
Beginning net asset balance	<u>406,046</u>	<u>2,056,657</u>	<u>33,013,530</u>	<u>35,476,233</u>
Restated Beginning Net Asset Balances	<u>244,422</u>	<u>2,289,237</u>	<u>13,419,454</u>	<u>15,953,113</u>

(Continued)

TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2004

(Continuation)

Note 7: Schedule of Conditional Future Income

The Foundation is the named beneficiary of various cash pledges, wills, and life insurance policies. These assets are conditional in that the future payment cannot be legally enforced and so they are not recorded as assets. In the case of the wills and life insurance policies, discounted values of the future collections under the instruments are calculated from actuarial tables based on the donor's date of birth. Detailed records and relevant documents in connection with these accounts are maintained by Texas State University Advancement Department and the Development Foundation.

<u>Source</u>	<u>Face Value</u>	<u>Discounted Value</u>
Conditional Pledges:		
Pledge held by donor foundation	12,500,000	12,500,000
Other Pledges:		
Current	583,739	583,739
Future	1,017,207	1,017,207
Less: Allowance for doubtful pledges	--	(161,000)
Net Other Pledges	<u>1,600,946</u>	<u>1,439,946</u>
Total Conditional Pledges	14,100,946	13,939,946
Wills	13,375,000	8,300,239
Life insurance policies	<u>1,670,000</u>	<u>1,081,655</u>
Total Wills and Insurance	<u>15,045,000</u>	<u>9,381,894</u>
Total Conditional Future Income	<u>29,145,946</u>	<u>23,321,840</u>

Note 8: Schedule of Expenses - Supporting Services

	<u>Amount Paid</u>	<u>In-Kind Expenses - Note 4</u>	<u>Total</u>
Management and General:			
Investment fees	37,996	--	37,996
Office rent	--	4,100	4,100
Travel and entertainment	4,526	--	4,526
Office printing and supplies	990	1,200	2,190
Legal and professional	22,351	--	22,351
Salaries	4,843	35,000	39,843
Insurance	19,161	--	19,161

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TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2004

(Continuation)

Note 8: Schedule of Expenses - Supporting Services (Continued)

	<u>Amount Paid</u>	<u>In-Kind Expenses - Note 4</u>	<u>Total</u>
Management and General: (Continued)			
Tax	1,064	--	1,064
Utilities	2,271	--	2,271
Telephone	--	900	900
Equipment	1,759	--	1,759
Trust distribution expense	<u>11,438</u>	<u>--</u>	<u>11,438</u>
	106,399	41,200	147,599
Fundraising:			
Travel and entertainment	16,774	--	16,774
Other	<u>16,214</u>	<u>--</u>	<u>16,214</u>
	<u>32,988</u>	<u>--</u>	<u>32,988</u>
Total Supporting Services	<u>139,387</u>	<u>41,200</u>	<u>180,587</u>