

FINANCIAL REPORT
TEXAS STATE UNIVERSITY -
SAN MARCOS
DEVELOPMENT FOUNDATION

AUGUST 31, 2006

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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
San Marcos, Texas

We have audited the statements of financial position of Texas State University – San Marcos Development Foundation (the Foundation) as of August 31, 2006 and 2005, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas State University – San Marcos Development Foundation as of August 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with United States generally accepted accounting principles.

Carneiro, Chumney & Co., L.C.

January 19, 2007

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TEXAS STATE UNIVERSITY - SAN MARCOS DEVELOPMENT FOUNDATION

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2006 AND 2005

	2006	2005 (Restated)
ASSETS		
Assets:		
Cash	837,698	502,352
Investments:		
Marketable securities	24,660,799	21,615,845
Real estate	9,400	9,400
Pledges receivable - Net	737,619	417,317
Estate receivable	--	15,280
Prepaid expenses and other assets	123,556	--
Property and equipment - Net	20,186	--
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TOTAL ASSETS	26,389,258	22,560,194
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LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	17,451	27,587
Annuities payable	523,070	494,300
Total Liabilities	540,521	521,887
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Net Assets:		
Unrestricted	124,851	155,295
Temporarily restricted	7,310,043	5,497,446
Permanently restricted	18,413,843	16,385,566
Total Net Assets	25,848,737	22,038,307
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TOTAL LIABILITIES AND NET ASSETS	26,389,258	22,560,194
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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, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, Revenue, and Other:				
Contributions	3,210	935,229	2,063,589	3,002,028
Contributions - In-kind	25,253	--	--	25,253
Special events - Net (less expenses of \$48,425)	--	114,450	--	114,450
Investment income	20,733	1,033,738	--	1,054,471
Realized and unrealized gains on marketable securities	1,834	1,078,066	--	1,079,900
(Loss) on annuities	--	(21,127)	(35,312)	(56,439)
Rent and royalties	--	5,577	--	5,577
Other income	8,549	1,199	--	9,748
Net assets released from restrictions - Scholarships, University advancement, and management and general	1,334,535	(1,334,535)	--	--
Total Support, Revenue, and Other	1,394,114	1,812,597	2,028,277	5,234,988
Expenses:				
Program:				
Scholarships	712,021	--	--	712,021
University advancement	416,408	--	--	416,408
Supporting Services:				
Management and general	276,457	--	--	276,457
Fundraising	19,672	--	--	19,672
Total Expenses	1,424,558	--	--	1,424,558
Change in Net Assets	(30,444)	1,812,597	2,028,277	3,810,430
Net assets at beginning of year	155,295	5,497,446	16,385,566	22,038,307
 NET ASSETS AT - END OF YEAR	 124,851	 7,310,043	 18,413,843	 25,848,737

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

TEXAS STATE UNIVERSITY - SAN MARCOS DEVELOPMENT FOUNDATION

STATEMENT OF ACTIVITIES
(Restated)

YEAR ENDED AUGUST 31, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, Revenue, and Other:				
Contributions	5,880	1,112,783	1,195,242	2,313,905
Contributions - In-kind	44,300	--	--	44,300
Special events - Net (less expenses of \$51,500)	--	90,245	--	90,245
Investment income	6,727	408,418	--	415,145
Realized and unrealized (loss) gains on marketable securities	(1,298)	2,020,137	--	2,018,839
Gains on annuities	--	--	143,324	143,324
Gain on sale of real estate	--	118,393	--	118,393
Rent and royalties	--	19,771	--	19,771
Other income	3,467	--	--	3,467
Net assets released from restrictions - Scholarships, University advancement, and management and general	874,091	(874,091)	--	--
Total Support, Revenue, and Other	933,167	2,895,656	1,338,566	5,167,389
Expenses:				
Program:				
Scholarships	399,701	--	--	399,701
University advancement	326,892	--	--	326,892
Supporting Services:				
Management and general	231,830	--	--	231,830
Fundraising	28,169	--	--	28,169
Total Expenses	986,592	--	--	986,592
Change in Net Assets	(53,425)	2,895,656	1,338,566	4,180,797
Net assets at beginning of year, before reclassifications	820,422	2,289,237	14,747,851	17,857,510
Reclassifications	(611,702)	312,553	299,149	--
Beginning Net Asset Balances, as Reclassified	208,720	2,601,790	15,047,000	17,857,510
NET ASSETS AT END OF YEAR	155,295	5,497,446	16,385,566	22,038,307

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

TEXAS STATE UNIVERSITY - SAN MARCOS DEVELOPMENT FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2006 AND 2005

	2006	2005
Change in net assets	3,810,430	4,180,797
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,636	--
Realized and unrealized gains on marketable securities	(1,079,900)	(2,018,839)
Loss (gain) on annuities	56,439	(143,324)
Gain on sale of real estate	--	(118,393)
Changes in Assets and Liabilities:		
(Increase) in pledges receivable	(320,302)	(417,317)
Decrease in estate receivable	15,280	--
(Increase) in prepaid expenses and other assets	(123,556)	--
(Decrease) in accounts payable	(10,136)	(284,311)
Increase (decrease) in annuities payable	28,770	(191,834)
Net Cash Provided by Operating Activities	2,378,661	1,006,779
Cash Flows from Investing Activities:		
Purchase of marketable securities	(20,820,206)	(7,086,151)
Proceeds from sale of marketable securities	18,847,222	6,355,231
Proceeds from sale of real estate	--	195,000
Additions to property and equipment	(21,822)	--
Net Cash (Used in) Investing Activities	(1,994,806)	(535,920)
Cash flows from financing activities -		
Payments on annuities	(48,509)	(48,509)
Net Increase in Cash	335,346	422,350
Cash at beginning of year	502,352	80,002
CASH AT END OF YEAR	837,698	502,352

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

TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2006 AND 2005

Note 1: Organization

Texas State University – San Marcos Development Foundation (Foundation) (formerly Southwest Texas State University Development Foundation) is a nonprofit 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.

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TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2006 AND 2005

(Continuation)

Note 2: Summary of Significant Accounting Policies (Continued)

Cash

Cash held in the trust account by brokers is 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 principal of individual accounts. These investments are maintained by a registered dealer and are managed by an investment manager (see Note 4).

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

The Foundation recognizes promises to give (pledges) in the financial statements when there is sufficient evidence in the form of verifiable documentation that a promise was made. 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 temporarily restricted support.

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 statements of activities as net assets released from restrictions.

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TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2006 AND 2005

(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 statements of activities (see Note 9).

Property and Equipment

Purchased equipment is recorded at historical cost. Depreciation of equipment is calculated on the straight-line basis based on estimated useful lives of five years.

Annuities Payable

These are 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: Concentration of Credit Risk

The Foundation maintains cash balances at one financial institution located in San Marcos, Texas. Accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. As of August 31, 2006 and 2005, the Foundation's uninsured cash balance totaled \$50,000 and \$429,761.

Note 4: Investments

The cost and fair value of marketable securities investments is as follows:

	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Corporate bonds	123,357	116,584	--	--
Equity securities	2,197,185	2,508,751	--	--
Money market accounts	70,630	70,630	504,965	504,965
Mutual funds	<u>20,560,530</u>	<u>21,964,834</u>	<u>19,856,244</u>	<u>21,110,880</u>
Total	<u>22,951,702</u>	<u>24,660,799</u>	<u>20,361,209</u>	<u>21,615,845</u>

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TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2006 AND 2005

(Continuation)

Note 5: Pledges Receivable

In accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, the recorded pledges have been discounted to their present value at 5%. Pledges receivable consisted of the following:

	August 31	
	2006	2005
Pledges permanently restricted	587,500	287,500
Pledges temporarily restricted	221,700	196,000
Less: Unamortized discount	<u>(71,581)</u>	<u>(66,183)</u>
Pledges Receivable – Net	<u>737,619</u>	<u>417,317</u>
Amount Due In:		
Less than one year	348,700	161,500
One to five years	369,020	202,042
Over five years	<u>19,899</u>	<u>53,775</u>
	<u>737,619</u>	<u>417,317</u>

Note 6: Property and Equipment

Property and equipment at August 31, 2006 and is as follows:

Computer equipment and software	21,822
Less: Accumulated depreciation	<u>(1,636)</u>
Net Property and Equipment	<u>20,186</u>

Note 7: Net Asset Receivable/Payable

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

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 for 2006 and 2005 were over-expended by \$141,474 and \$149,707 of earnings; total individual funds available to spend as of August 31, 2006 and 2005 were \$7,493,337 and \$5,843,529, respectively.

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 principal to be held by the Foundation in perpetuity. At August 31, 2005, \$125,000 was due from unrestricted net assets to repay this fund. The Foundation put in place a plan for repayment during the 2005/2006 year and the fund has been successfully repaid as of August 31, 2006.

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TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2006 AND 2005

(Continuation)

Note 8: Reclassifications

During the 2006 and 2005 audits, management reviewed the classification of net assets and determined that some individual accounts were incorrectly categorized. Certain amounts in the financial statements have been reclassified in order to comply with donor stipulations.

Note 9: In-Kind Contributions

The Foundation recognizes in-kind contributions for certain expenses at the fair value of those expenses. In-kind contributions were \$25,253 and \$44,300 for 2006 and 2005 and have been included in contributions and management and general expenses in the statements of activities. These services included: office rent, supplies, personnel services, printing, telephone, and utilities (see Note 11).

Note 10: Schedule of Conditional Future Income

The Foundation is the named beneficiary of various 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 life expectancy. Detailed records and relevant documents in connection with these accounts are maintained by Texas State University Advancement Department and the Development Foundation. Total conditional future income as of August 31, 2006 and 2005 consists of:

<u>Source</u>	<u>Face Value</u>	<u>Discounted Value</u>
Wills	16,685,000	9,637,095
Life insurance policies	<u>3,795,940</u>	<u>2,538,094</u>
Total Conditional Future Income	<u>20,480,940</u>	<u>12,175,189</u>

Note 11: Schedule of Expenses - Supporting Services

	<u>2006</u>			<u>2005</u>		
	<u>Amount Paid</u>	<u>In-Kind Expenses - Note 9</u>	<u>Total</u>	<u>Amount Paid</u>	<u>In-Kind Expenses - Note 9</u>	<u>Total</u>
Supporting Services:						
Management and General:						
Allocated services	98,433	20,000	118,433	37,769	38,000	75,769
Bad debt expense	15,281	--	15,281	--	--	--
Depreciation expense	1,636	--	1,636	--	--	--
Equipment	6,875	--	6,875	4,123	--	4,123
Insurance	4,600	--	4,600	12,612	--	12,612
Investment and banking fees	82,632	--	82,632	21,568	--	21,568
Legal and professional	31,839	--	31,839	97,020	--	97,020
Office printing and supplies	3,036	600	3,636	6,137	1,900	8,037

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TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2006 AND 2005

(Continuation)

Note 11: Schedule of Expenses - Supporting Services (Continued)

	<u>2006</u>			<u>2005</u>		
	<u>Amount Paid</u>	<u>In-Kind Expenses - Note 9</u>	<u>Total</u>	<u>Amount Paid</u>	<u>In-Kind Expenses - Note 9</u>	<u>Total</u>
Supporting Services: (Continued)						
Management and General: (Continued)						
Office rent	--	3,750	3,750	--	3,600	3,600
Postage	1,497	--	1,497	1,976	--	1,976
Tax	1,054	--	1,054	389	--	389
Telephone	3,685	300	3,985	5,011	800	5,811
Utilities	<u>636</u>	<u>603</u>	<u>1,239</u>	<u>925</u>	<u>--</u>	<u>925</u>
Total Management and General	251,204	25,253	276,457	187,530	44,300	231,830
Fundraising:						
Travel and entertainment	19,672	--	19,672	27,432	--	27,432
Other	<u>--</u>	<u>--</u>	<u>--</u>	<u>737</u>	<u>--</u>	<u>737</u>
Total Fundraising	<u>19,672</u>	<u>25,253</u>	<u>19,672</u>	<u>28,169</u>	<u>--</u>	<u>28,169</u>
Total Supporting Services	<u>270,876</u>	<u>25,253</u>	<u>296,129</u>	<u>215,699</u>	<u>44,300</u>	<u>259,999</u>

Note 12: Reclassifications

Management has reviewed the classifications of net assets and has determined that some accounts were incorrectly categorized. These reclassifications include \$90,245 that was incorrectly classified as unrestricted rather than temporarily restricted in fiscal 2005 and \$601,702 that was incorrectly classified as unrestricted prior to fiscal 2005 which should have been classified \$312,553 as temporarily restricted and \$299,149 as permanently restricted net assets.