

**FINANCIAL REPORT**  
**TEXAS STATE UNIVERSITY –**  
**SAN MARCOS**  
**DEVELOPMENT FOUNDATION**  
**AUGUST 31, 2008**

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Carneiro, Chumney & Co., L.C.

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Trustees  
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, 2008 and 2007, 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, 2008 and 2007, 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.*

February 17, 2009

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**TEXAS STATE UNIVERSITY - SAN MARCOS DEVELOPMENT FOUNDATION**

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2008 AND 2007

ASSETS

	2008	2007
Assets:		
Cash	557,681	272,482
Investments:		
Marketable securities	34,058,584	33,756,984
Real estate	6,969	9,400
Pledges receivable - Net	1,007,422	507,818
Prepaid expenses and other assets	93,993	53,376
Property and equipment - Net	11,457	15,821
	<u>35,736,106</u>	<u>34,615,881</u>
TOTAL ASSETS	<u>35,736,106</u>	<u>34,615,881</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	23,450	9,010
Annuities payable	540,036	518,107
Total Liabilities	<u>563,486</u>	<u>527,117</u>
Net Assets:		
Unrestricted	178,967	178,861
Temporarily restricted	7,842,222	8,608,367
Permanently restricted	27,151,431	25,301,536
Total Net Assets	<u>35,172,620</u>	<u>34,088,764</u>
TOTAL LIABILITIES AND NET ASSETS	<u>35,736,106</u>	<u>34,615,881</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, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, Revenue, and Other:				
Contributions	2,121	687,710	2,075,280	2,765,111
Contributions - In-kind	3,600	--	--	3,600
Investment income	6,570	2,326,574	70,045	2,403,189
Realized and unrealized (losses) on marketable securities	(3,405)	(2,518,367)	(146,416)	(2,668,188)
Changes in split interests	--	12,607	(149,014)	(136,407)
Rent and royalties	--	4,831	--	4,831
Other income	569	18	--	587
Net assets released from restrictions - Scholarships, University advancement, and management and general	1,279,518	(1,279,518)	--	--
Total Support, Revenue, and Other	1,288,973	(766,145)	1,849,895	2,372,723
Expenses:				
Program:				
Scholarships	414,920	--	--	414,920
University advancement	618,486	--	--	618,486
Supporting services - Management and general	255,461	--	--	255,461
Total Expenses	1,288,867	--	--	1,288,867
Change in Net Assets	106	(766,145)	1,849,895	1,083,856
Net assets at beginning of year	178,861	8,608,367	25,301,536	34,088,764
NET ASSETS AT END OF YEAR	178,967	7,842,222	27,151,431	35,172,620

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, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, Revenue, and Other:				
Contributions	1,999	721,339	6,094,546	6,817,884
Contributions - In-kind	3,600	--	--	3,600
Investment income	7,902	1,410,349	96,333	1,514,584
Realized and unrealized gains on marketable securities	499	1,948,268	54,798	2,003,565
Changes in split interests	--	--	(118,883)	(118,883)
Rent and royalties	--	3,790	--	3,790
Net assets released from restrictions - Scholarships, University advancement, and management and general	2,030,343	(2,030,343)	--	--
Total Support, Revenue, and Other	2,044,343	2,053,403	6,126,794	10,224,540
Expenses:				
Program:				
Scholarships	814,146	--	--	814,146
University advancement	936,637	--	--	936,637
Supporting Services:				
Management and general	233,730	--	--	233,730
Total Expenses	1,984,513	--	--	1,984,513
Change in Net Assets	59,830	2,053,403	6,126,794	8,240,027
Net assets at beginning of year before reclassifications	119,031	6,554,964	19,174,742	25,848,737
NET ASSETS AT END OF YEAR	178,861	8,608,367	25,301,536	34,088,764

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, 2008 AND 2007

	2008	2007
Change in net assets	1,083,856	8,240,027
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	4,364	4,365
Realized and unrealized (losses) gains on marketable securities	2,668,188	(2,003,565)
Changes in split interests	149,014	118,883
Gain on sale of land	(569)	--
Changes in Assets and Liabilities:		
Decrease (increase) in pledges receivable	(499,604)	229,801
Decrease (increase) in prepaid expenses and other assets	(40,617)	70,180
(Decrease) increase in accounts payable	14,440	(8,441)
(Decrease) increase in annuities payable	21,929	(4,963)
Net Cash Provided by Operating Activities	3,401,001	6,646,287
Cash Flows from Investing Activities:		
Purchase of marketable securities	(17,818,390)	(14,124,093)
Proceeds from sale of marketable securities	14,721,517	6,971,499
Proceeds from sale of land	3,000	--
Net Cash (Used in) Investing Activities	(3,093,873)	(7,152,594)
Cash flows (used in) financing activities -		
Payments on annuities	(21,929)	(58,909)
Net Increase (Decrease) in Cash	285,199	(565,216)
Cash at beginning of year	272,482	837,698
CASH AT END OF YEAR	557,681	272,482

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

# TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

### Note 1: Organization

Texas State University – San Marcos Development Foundation (the 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 Foundation and the resources of the 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 Foundation, provided, however, that the 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, 2008 AND 2007

(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 activities.

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 when earned. Unrestricted investment income includes income from net assets where no restriction has been placed by the donor on its use. Investment income that is temporarily or permanently restricted by the donor 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, 2008 AND 2007

(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 as income and expense 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 8).

*Bad Debt Expense*

The Foundation uses the direct write-off method to record bad debts. This method is not considered to be materially different from the allowance method as required under United States generally accepted accounting principles..

*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. The Foundation utilizes a “sweep” bank account to eliminate the risk of having a bank account balance which exceeds the FDIC limit. Subsequent to year end, the federal government increased the FDIC insurance limit to \$250,000 until December 31, 2009.

The Foundation maintains accounts with two brokerage firms. The accounts contain cash, mutual funds, and other securities. Balances are insured up to \$500,000 (with a limit of \$100,000 for cash) by the Securities Investor Protection Corporation (SIPC). Cash and investment balances exceed SIPC coverage at one brokerage firm at August 31, 2008 and 2007.

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TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

(Continuation)

Note 4: Investments

The cost and fair value of investment in marketable securities at August 31 are as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Corporate bonds	123,357	93,418	122,750	113,210
Equity securities	1,500,000	1,437,067	857,324	1,356,209
Money market accounts	95,963	95,963	1,508,353	1,508,353
Mutual funds	<u>33,023,300</u>	<u>32,432,136</u>	<u>27,991,637</u>	<u>30,779,212</u>
Total	<u>34,742,620</u>	<u>34,058,584</u>	<u>30,480,064</u>	<u>33,756,984</u>

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 using a discount rate of 5%. Pledges receivable at August 31 consisted of the following:

	<u>2008</u>	<u>2007</u>
Pledges permanently restricted	1,090,979	585,135
Less: Unamortized discount	<u>(83,558)</u>	<u>(77,317)</u>
Pledges Receivable – Net	<u>1,007,422</u>	<u>507,818</u>
Amount Due In:		
Less than one year	239,500	189,893
One to five years - net	739,006	317,925
Over five years - net	<u>28,916</u>	<u>--</u>
	<u>1,007,422</u>	<u>507,818</u>

Note 6: Property and Equipment

Property and equipment at August 31 is as follows:

	<u>2008</u>	<u>2007</u>
Computer equipment and software	21,822	21,822
Less: Accumulated depreciation	<u>(10,366)</u>	<u>(6,001)</u>
Net Property and Equipment	<u>11,457</u>	<u>15,821</u>

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TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

(Continuation)

Note 7: Net Asset Receivable/Payable (Unaudited)

Temporarily restricted net assets are comprised of individual funds, some of which have over-expended balances and some have under-expended balances. Management is aware that amounts are owed between funds and will make future expenses in accordance with the nature and amounts available. Total individual funds for 2008 and 2007 were over-expended by \$64,367 and \$39,724 of earnings; total individual funds available to spend as of August 31, 2008 and 2007 were \$7,906,589 and \$8,787,228, respectively.

Note 8: In-Kind Contributions

The Foundation recognizes in-kind contributions for certain eligible expenses at the fair value of those expenses. In-kind contributions totaled \$3,600 for each of the fiscal 2008 and 2007 years 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 10).

Note 9: Schedule of Conditional Future Income

The Foundation is the named beneficiary of various wills and life insurance policies, which it owns. These assets are conditional in that the future payment cannot be legally enforced, and so they are not recorded as assets. As of August 31, 2008, the cash surrender value of the life insurance policies was \$436,457 (unaudited). In the case of the wills and the proceeds from 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, 2008 consists of:

<u>Source</u>	<u>Face Value</u>	<u>Discounted Value</u>
Wills	15,385,000	11,278,611
Life insurance policies	<u>3,539,664</u>	<u>1,005,316</u>
Total Conditional Future Income	<u>18,924,664</u>	<u>12,283,927</u>

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TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

(Continuation)

Note 10: Schedule of Expenses - Supporting Services

	2008			2007		
	Amount Paid	In-Kind Expenses - Note 8	Total	Amount Paid	In-Kind Expenses - Note 8	Total
Supporting Services:						
Management and General:						
Allocated services	114,630	--	114,630	104,780	--	104,780
Bad debt expense	6,241	--	6,241	5,496	--	5,496
Depreciation expense	4,364	--	4,364	4,365	--	4,365
Equipment	4,842	--	4,842	4,515	--	4,515
Insurance	7,645	--	7,645	5,145	--	5,145
Investment and banking fees	83,285	--	83,285	79,394	--	79,394
Legal and professional	14,901	--	14,901	13,597	--	13,597
Office printing and supplies	6,956	--	6,956	2,177	--	2,177
Office rent	--	2,400	2,400	--	2,400	2,400
Postage	442	--	442	5,005	--	5,005
Tax	1,527	--	1,527	1,457	--	1,457
Telephone	--	600	600	(189)	600	411
Utilities	--	600	600	--	600	600
Total Management and General	244,833	3,600	248,433	225,742	3,600	229,342
Fundraising - Travel and entertainment	7,028	--	7,028	4,388	--	4,388
Total Fundraising	7,028	--	7,028	4,388	--	4,388
Total Supporting Services	<u>251,861</u>	<u>3,600</u>	<u>255,461</u>	<u>230,130</u>	<u>3,600</u>	<u>233,730</u>