

**FINANCIAL REPORT**  
**TEXAS STATE UNIVERSITY –**  
**SAN MARCOS**  
**DEVELOPMENT FOUNDATION**  
**AUGUST 31, 2009**

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Carneiro, Chumney & Co., L.C.

CERTIFIED PUBLIC ACCOUNTANTS

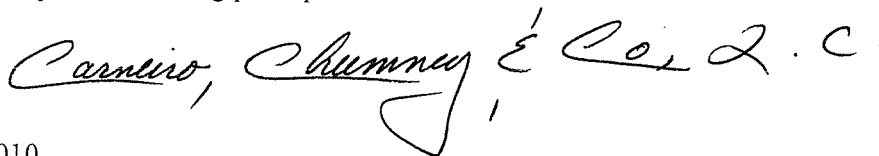
**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

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, 2009 and 2008, 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, 2009 and 2008, 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.



March 9, 2010

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

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2009 AND 2008

	2009	2008
<b>ASSETS</b>		
Assets:		
Cash	332,981	557,681
Investments:		
Marketable securities	34,343,537	34,058,584
Real estate	4,322	6,969
Pledges receivable - net	790,420	1,007,422
Prepaid expenses and other assets	56,636	93,993
Property and equipment - net	7,092	11,457
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>35,534,988</b>	<b>35,736,106</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	16,952	23,450
Annuities payable	521,358	540,036
	<hr/>	<hr/>
<b>Total Liabilities</b>	<b>538,310</b>	<b>563,486</b>
Net Assets:		
Unrestricted	155,581	178,967
Temporarily restricted	5,100,988	7,842,222
Permanently restricted	29,740,109	27,151,431
	<hr/>	<hr/>
<b>Total Net Assets</b>	<b>34,996,678</b>	<b>35,172,620</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>35,534,988</b>	<b>35,736,106</b>

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, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, Revenue, and Other:				
Contributions	452	235,300	2,784,574	3,020,326
Contributions - in-kind	3,600	--	--	3,600
Investment income	881	1,048,599	24,657	1,074,137
Realized and unrealized gains/(losses) on marketable securities	1,779	(2,404,013)	(171,955)	(2,574,189)
Changes in split interests	--	(21,975)	(48,598)	(70,573)
Rent and royalties	--	14,360	--	14,360
Other (expense) income	(1,737)	303	--	(1,434)
Net Assets Released from Restrictions - Scholarships, university advancement, and management and general	1,613,808	(1,613,808)	--	--
Total Support, Revenue, and Other	1,618,783	(2,741,234)	2,588,678	1,466,227
Expenses:				
Program:				
Scholarships	694,862	--	--	694,862
University advancement	669,995	--	--	669,995
Supporting Services	277,312	--	--	277,312
Total Expenses	1,642,169	--	--	1,642,169
Change in Net Assets	(23,386)	(2,741,234)	2,588,678	(175,942)
Net assets at beginning of year	178,967	7,842,222	27,151,431	35,172,620
NET ASSETS AT END OF YEAR	155,581	5,100,988	29,740,109	34,996,678

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)/gains 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	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**

STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2009 AND 2008

	2009	2008
Change in net assets	(175,942)	1,083,856
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	4,364	4,364
Realized and unrealized losses on marketable securities	2,574,189	2,668,188
Changes in split interests	70,573	149,014
(Gain) on sale of land	--	(569)
Changes in Assets and Liabilities:		
Decrease (increase) in pledges receivable	217,002	(499,604)
Decrease (increase) in prepaid expenses and other assets	37,357	(40,617)
(Decrease) increase in accounts payable	(6,498)	14,440
(Decrease) increase in annuities payable	(18,678)	21,929
Net Cash Provided by Operating Activities	2,702,367	3,401,001
Cash Flows from Investing Activities:		
Purchase of marketable securities	(10,397,320)	(17,818,390)
Proceeds from sale of marketable securities	7,530,352	14,721,517
Proceeds from sale of land	--	3,000
Net Cash (Used in) Investing Activities	(2,866,968)	(3,093,873)
Cash Flows (Used in) Financing Activities -		
Payments on annuities	(60,099)	(21,929)
Net (Decrease) Increase in Cash	(224,700)	285,199
Cash at beginning of year	557,681	272,482
CASH AT END OF YEAR	332,981	557,681

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

# TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

### 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 (the 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 revenue 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, 2009 AND 2008

Note 2: Summary of Significant Accounting Policies (Continued)

*Fair Value of Financial Instruments*

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurements, and expands disclosures about fair value measurements. An instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the University and the Foundation have the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

*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. As required by the Fair Value Measurements Topic of the FASB Accounting Standards Codification, the Foundation reports investments in equity securities with readily determinable fair values and all investments in debt securities 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.

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TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

Note 2: Summary of Significant Accounting Policies (Continued)

*Pledges and Contributions (Continued)*

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.

The Foundation entered into an agreement with the University 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 (FDIC) up to \$250,000. The Foundation utilizes a "sweep" bank account to eliminate the risk of having a bank account balance which exceeds the FDIC limit.

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TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

Note 3: Concentration of Credit Risk (Continued)

On October 14, 2008, the FDIC announced its temporary Transaction Account Guarantee Program, which provides full coverage for non-interest bearing transaction deposit accounts at FDIC-insured institutions that agree to participate in the program. The transaction account guarantee applies to all personal and business checking deposit accounts that do not earn interest at participating institutions. This unlimited insurance coverage is temporary and will remain in effect for participating institutions until June 30, 2010. At August 31, 2009, all Foundation operating funds are held in non-interest bearing accounts.

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, 2009 and 2008.

Note 4: Investments

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

	2009		2008	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Corporate bonds	123,357	65,560	123,357	93,418
Equity securities	1,500,000	516,054	1,500,000	1,437,067
Money market accounts	427,073	427,073	95,963	95,963
Mutual funds	<u>35,101,589</u>	<u>33,334,850</u>	<u>33,023,300</u>	<u>32,432,136</u>
Total	<u>37,152,019</u>	<u>34,343,537</u>	<u>34,742,620</u>	<u>34,058,584</u>

Note 5: Pledges Receivable

As required by the Fair Value Measurements Topic of the FASB Accounting Standards Codification, 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>2009</u>	<u>2008</u>
Pledges permanently restricted	850,338	1,090,979
Less: Unamortized discount	<u>(59,918)</u>	<u>(83,557)</u>
Pledges Receivable – Net	<u>790,420</u>	<u>1,007,422</u>
Amount Due In:		
Less than one year	249,385	239,500
One to five years - net	512,119	739,006
Over five years - net	<u>28,916</u>	<u>28,916</u>
	<u>790,420</u>	<u>1,007,422</u>

(Continued)

TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

Note 6: Property and Equipment

Property and equipment at August 31 is as follows:

	<u>2009</u>	<u>2008</u>
Computer equipment and software	21,822	21,822
Less: Accumulated depreciation	(14,730)	(10,365)
Net Property and Equipment	<u>7,092</u>	<u>11,457</u>

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 2009 and 2008 were over-expended by \$341,803 and \$64,367 of earnings; total individual funds available to spend as of August 31, 2009 and 2008, were \$4,807,952 and \$7,906,589, 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 2009 and 2008 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. Receipt of the related assets is conditional in that the future payment cannot be legally enforced, and so they are not recorded as assets. As of August 31, 2009, the cash surrender value of the life insurance policies was \$767,057 (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.

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TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

Note 9: Schedule of Conditional Future Income (Continued)

Total conditional future income as of August 31, 2009, consists of:

<u>Source</u>	<u>Face Value</u>	<u>Discounted Value</u>
Wills	15,385,000	11,278,611
Life insurance policies	<u>3,386,243</u>	<u>898,076</u>
Total Conditional Future Income	<u>18,771,243</u>	<u>12,176,687</u>

Note 10: Schedule of Expenses - Supporting Services

	<u>2009</u>			<u>2008</u>		
	<u>Amount Paid</u>	<u>In-Kind Expenses (Note 8)</u>	<u>Total</u>	<u>Amount Paid</u>	<u>In-Kind Expenses (Note 8)</u>	<u>Total</u>
Supporting Services:						
Management and General:						
Allocated services	121,220	--	121,220	114,630	--	114,630
Bad debt expense	--	--	--	6,241	--	6,241
Depreciation expense	4,364	--	4,364	4,364	--	4,364
Equipment	3,445	--	3,445	4,842	--	4,842
Insurance	27,255	--	27,255	7,645	--	7,645
Investment and banking fees	85,427	--	85,427	83,285	--	83,285
Legal and professional	18,463	--	18,463	14,901	--	14,901
Office printing and supplies	1,961	--	1,961	6,956	--	6,956
Office rent	--	2,400	2,400	--	2,400	2,400
Postage	643	--	643	442	--	442
Tax	76	--	76	1,527	--	1,527
Telephone	--	600	600	--	600	600
Utilities	--	<u>600</u>	<u>600</u>	--	<u>600</u>	<u>600</u>
Total Management and General	262,854	3,600	266,454	244,833	3,600	248,433
Fundraising -						
Travel and entertainment	<u>10,858</u>	--	<u>10,858</u>	<u>7,028</u>	--	<u>7,028</u>
Total Fundraising	<u>10,858</u>	--	<u>10,858</u>	<u>7,028</u>	--	<u>7,028</u>
Total Supporting Services	<u>273,712</u>	<u>3,600</u>	<u>277,312</u>	<u>251,861</u>	<u>3,600</u>	<u>255,461</u>

(Continued)

TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

Note 11: Fair Values of Financial Instruments

The reporting entity uses fair value measurements to record fair value adjustments to certain assets and liabilities to determine fair value disclosures. For additional information on how the Foundation measures fair value, refer to Note 2: Summary of Significant Accounting Policies.

The following description of the valuation methods and assumptions were used by the Foundation in estimating the fair value disclosures for financial assets. There have been no changes in methodologies used at August 31, 2009 and 2008:

Investments – Valued at the fair value of shares at quoted market prices held by the Foundation at fiscal year end.

Promises to Give – Valued at the discounted present value of the long-term promises to give.

Annuities Payable – Valued at the estimated present value of the annuitant obligation using discount rates provided by IRS guidelines.

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of August 31:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2009:				
Investments	33,827,483	--	516,054	34,343,537
Promises to give	--	--	790,420	790,420
Annuities payable	<u>--</u>	<u>--</u>	<u>521,358</u>	<u>521,358</u>
Total Assets and Liabilities at Fair Value	<u>33,827,483</u>	<u>--</u>	<u>1,827,832</u>	<u>35,655,315</u>
2008:				
Investments	32,621,517	--	1,437,067	34,058,584
Promises to give	--	--	1,007,422	1,007,422
Annuities payable	<u>--</u>	<u>--</u>	<u>540,036</u>	<u>540,036</u>
Total Assets and Liabilities at Fair Value	<u>32,621,517</u>	<u>--</u>	<u>2,984,525</u>	<u>35,606,042</u>

*Level 3 Gains and Losses*

The following tables set forth a summary of changes in the fair value of the Foundation's level 3 assets for the year ended August 31, 2009:

Investments:	
Balance, beginning of year	1,437,067
Unrealized (losses)	<u>(921,013)</u>
Balance, End of Year	<u>516,054</u>

(Continued)

TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

Note 11: Fair Values of Financial Instruments (Continued)

*Level 3 Gains and Losses (Continued)*

Promises to give:

Balance, beginning of year	1,007,422
New pledges	75,000
Payments on pledges	(209,094)
Change in discount	<u>(82,908)</u>

Balance, end of year	<u>790,420</u>
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Annuities payable:

Balance, beginning of year	540,036
Payments to annuitants	60,866
Change in split interests affecting annuities payable	<u>(42,188)</u>

Balance, end of year	<u>521,358</u>
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Note 12: Endowment Funds

*Implementation of FSP FAS 117-1*

In August 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Texas enacted UPMIFA effective September 1, 2007, the provisions of which apply to endowment funds existing on or established after that date. The Foundation has adopted FSP FAS 117-1 for the year ending August 31, 2009. The Board of Trustees, on the advice of legal counsel, has determined that the majority of the Foundation's permanently restricted net assets meet the definition of endowment funds under UPMIFA. Based on the Foundation's interpretation of UPMIFA, the Foundation has reviewed all of its endowment funds and has reclassified \$0 from unrestricted net assets to temporarily restricted net assets as of August 31, 2009.

*General Information*

The Foundation maintains various endowment funds established for a variety of purposes. These endowments include both donor-restricted endowment contributions and funds designated by the Board of Trustees to function as endowments. The donor-restricted endowment funds fall under the provisions of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the State of Texas, with an effective date of September 1, 2007. This policy defines the Foundation's interpretation of the provisions of this law as it relates to the prudent management of its endowment fund.

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TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

Note 12: Endowment Funds (Continued)

*Background*

In July, 2006, the Uniform Law Commission (ULC) approved UPMIFA as a modernized version of the Uniform Management of Institutional Funds Act of 1972 (UMIFA) which governed the investment and management of donor-restricted endowment funds by not-for-profit organizations. The major change of the new law is that UPMIFA prescribes new guidelines for expenditure of a donor-restricted endowment fund when there are no explicit donor stipulations. These guidelines require the Foundation to determine what constitutes prudent spending based upon consideration of the donor's intent that the endowment fund continues permanently, the purpose of the fund, and relevant economic factors. UPMIFA emphasizes the perpetuation of the purchasing power of the fund, not just the original dollars contributed to the fund. Although the Act does not require that a specified amount be set aside as principal, the Act assumes that an organization will preserve "principal" by maintaining the purchasing power of amounts contributed and will spend "income" by making distributions using a reasonable spending rate.

*Endowment "Principal" Interpretation*

The Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment (the "Principal"). The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

*Endowment Investment Objectives*

Endowment investments are managed by professional money manager(s) under the direction of the Business Affairs Committee of the Board of Trustees of the Foundation. Funds are invested in a manner that seeks to produce results that meet or exceed the performance of generally recognized market indices while assuming a moderate level of investment risk.

To satisfy this performance objective, the Foundation 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 Foundation 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.

*Endowment "Income" Appropriation (Spending Policy)*

The Foundation's policy is to appropriate for distribution each year a percentage of each endowment fund based on a rate determined by the audit committee annually. For fiscal year ended 2009 the percentage was 3%, and for 2010 the percentage is 3%. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the spending policy to allow its endowment to grow at an average of 4% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as provide additional real growth through new gifts and investment return.

(Continued)

TEXAS STATE UNIVERSITY – SAN MARCOS DEVELOPMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

Note 12: Endowment Funds (Continued)

In accordance with UPMIFA, in all its endowment spending activity, the Foundation considers the following factors in making a determination to appropriate (spend) or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic and investment market conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation and
7. The investment policies of the Foundation

*Total Net Asset Composition by Type of Fund as of August 31, 2009*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	--	5,100,988	29,740,109	34,841,097
Undesignated	<u>155,581</u>	<u>    --</u>	<u>    --</u>	<u>155,581</u>
 Total Funds	 <u>155,581</u>	 <u>5,100,988</u>	 <u>29,740,109</u>	 <u>34,996,678</u>

*Changes in Endowment Net Assets for the Year Ended August 31, 2009  
(All Donor Restricted Endowment Funds)*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	--	7,842,222	27,151,431	34,993,653
Investment Return:				
Investment income	--	1,062,959	24,657	1,087,616
Net losses (realized and unrealized)	<u>    --</u>	<u>(2,425,988)</u>	<u>(220,553)</u>	<u>(2,646,541)</u>
 Total Investment Return	 --	 (1,363,029)	 (195,896)	 (1,558,925)
Contributions	--	235,300	2,784,574	3,019,874
Appropriations of endowment net assets for expenditure	--	(1,613,808)	--	(1,613,808)
Other changes	<u>    --</u>	<u>    303</u>	<u>    --</u>	<u>    303</u>
 Endowment Net Assets, End of Year	 <u>    --</u>	 <u>5,100,988</u>	 <u>29,740,109</u>	 <u>34,841,097</u>