

**TEXAS STATE UNIVERSITY
DEVELOPMENT FOUNDATION**

Financial Statements

For the Years Ended June 30, 2021 and 2020
(With Independent Auditors' Report)

**TEXAS STATE UNIVERSITY
DEVELOPMENT FOUNDATION**

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Independent Auditors' Report

Board of Trustees
Texas State University Development Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of the Texas State University Development Foundation (the Foundation) which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Texas State University Development Foundation as of June 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Austin, Texas

DATE

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Statements of Financial Position

As of June 30, 2021 and 2020

	2021	2020
Assets		
Assets:		
Cash and cash equivalents	\$ -	\$ 1,837,082
Investments	119,002,810	92,473,048
Pledges receivable, net	1,306,509	1,916,321
Prepaid expenses and other assets	68,959	67,292
Property and equipment	21,822	21,822
Less accumulated depreciation	(21,822)	(21,822)
	<u>120,378,278</u>	<u>96,293,743</u>
Total Assets	<u>\$ 120,378,278</u>	<u>\$ 96,293,743</u>
Liabilities and Net Assets		
Liabilities:		
Bank overdraft	\$ 41,782	\$ -
Accounts payable	308,887	168,234
Accrued expenses	17,321	91,297
Annuities payable	254,208	220,077
	<u>622,198</u>	<u>479,608</u>
Total Liabilities	622,198	479,608
Net assets:		
Without donor restriction		
Undesignated	837,786	537,554
Board designated	343,071	295,169
Total Net Assets Without Donor Restriction	<u>1,180,857</u>	<u>832,723</u>
With donor restriction		
Time and purpose	46,477,332	24,143,257
In perpetuity	72,097,891	70,838,155
Total Net Assets With Donor Restriction	<u>118,575,223</u>	<u>94,981,412</u>
Total Net Assets	<u>119,756,080</u>	<u>95,814,135</u>
Total Liabilities and Net Assets	<u>\$ 120,378,278</u>	<u>\$ 96,293,743</u>

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

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Statements of Activities

For the Years Ended June 30, 2021 and 2020

	2021			2020		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>	<u>With Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT						
Revenues						
Contributions	\$ 3,017	\$ 2,095,970	\$ 2,098,987	\$ -	\$ 5,078,114	\$ 5,078,114
Investment return, net	197,549	26,710,962	26,908,511	(122,863)	1,724,781	1,601,918
Changes in split interests	-	(15,613)	(15,613)	-	(15,096)	(15,096)
Rent and royalties	-	114,383	114,383	-	161,201	161,201
Net assets released from restrictions						
Satisfaction of program restrictions	5,311,891	(5,311,891)	-	6,037,938	(6,037,938)	-
Total revenues and other support and releases from restriction	<u>5,512,457</u>	<u>23,593,811</u>	<u>29,106,268</u>	<u>5,915,075</u>	<u>911,062</u>	<u>6,826,137</u>
EXPENSES						
Program services	3,829,431	-	3,829,431	4,639,349	-	4,639,349
Supporting services	502,210	-	502,210	579,719	-	579,719
Fundraising services	832,682	-	832,682	1,118,847	-	1,118,847
Total expenses	<u>5,164,323</u>	<u>-</u>	<u>5,164,323</u>	<u>6,337,915</u>	<u>-</u>	<u>6,337,915</u>
Change in net assets	348,134	23,593,811	23,941,945	(422,840)	911,062	488,222
Net assets at beginning of year	832,723	94,981,412	95,814,135	1,255,563	94,070,350	95,325,913
Net assets at end of year	<u>\$ 1,180,857</u>	<u>\$ 118,575,223</u>	<u>\$ 119,756,080</u>	<u>\$ 832,723</u>	<u>\$ 94,981,412</u>	<u>\$ 95,814,135</u>

The accompanying notes are an integral part of these financial statements

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Statements of Functional Expenses
For the Years Ended June 30, 2021 and 2020

	2021				2020			
	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fundraising Services</u>	<u>Total</u>	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fundraising Services</u>	<u>Total</u>
University support	\$ 1,721,163	\$ -	\$ -	\$ 1,721,163	\$ 2,492,259	\$ -	\$ -	\$ 2,492,259
Student scholarships	2,099,664	-	-	2,099,664	2,136,221	-	-	2,136,221
Purchased services	-	447,574	580,584	1,028,158	-	524,448	646,141	1,170,589
Fundraising	-	-	252,098	252,098	-	-	442,135	442,135
Board of trustees costs	5,000	14,808	-	19,808	-	5,000	30,571	35,571
Legal & professional Fees	3,604	220	-	3,824	10,353	6,605	-	16,958
Accounting fees	-	14,698	-	14,698	-	14,174	-	14,174
Hardware & software	-	9,418	-	9,418	-	8,614	-	8,614
Banking fees	-	6,550	-	6,550	-	7,802	-	7,802
Office supplies	-	5,988	-	5,988	479	6,255	-	6,734
Conferences & training	-	514	-	514	37	5,803	-	5,840
Postage	-	1,940	-	1,940	-	906	-	906
Insurance	-	500	-	500	-	112	-	112
Total Expenses	<u>\$ 3,829,431</u>	<u>\$ 502,210</u>	<u>\$ 832,682</u>	<u>\$ 5,164,323</u>	<u>\$ 4,639,349</u>	<u>\$ 579,719</u>	<u>\$ 1,118,847</u>	<u>\$ 6,337,915</u>

The accompanying notes are an integral part of these financial statements

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 23,941,945	\$ 488,222
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Changes in discount on pledges receivable	(94,966)	(4,073)
Net unrealized (gains) losses on investments	(23,781,745)	(78,787)
Changes in split interests	15,613	15,096
Contributions restricted for endowment	(1,179,484)	(2,955,724)
(Increase) decrease in operating assets:		
Pledges receivable	704,778	64,315
Other receivables	-	12,019
Prepaid expenses and other assets	(1,667)	(31,821)
Increase (decrease) in operating liabilities:		
Bank overdraft	41,782	-
Accounts payable	140,653	(57,860)
Accrued expenses	(73,976)	9,555
	<u>(287,067)</u>	<u>(2,539,058)</u>
Cash flows from investing activities:		
Proceeds from sales of investments, net of purchases	<u>(2,748,017)</u>	<u>236,482</u>
	<u>(2,748,017)</u>	<u>236,482</u>
Cash flows from financing activities:		
Contributions restricted for endowment	1,179,484	2,955,724
Receipts from annuities	45,833	44,871
Payments on annuities	<u>(27,315)</u>	<u>(24,811)</u>
	<u>1,198,002</u>	<u>2,975,784</u>
Net increase (decrease) in cash and cash equivalents	(1,837,082)	673,208
Cash and cash equivalents at beginning of year	<u>1,837,082</u>	<u>1,163,874</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 1,837,082</u>

The accompanying notes are an integral part of these financial statements

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

Note A - Nature of Activities and Significant Accounting Policies

Nature of Activities

Texas State University Development Foundation (the Foundation) is a nonprofit corporation established in October 1978 to assist in the educational advancement of Texas State University (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 that express an interest in assisting the University in the pursuit of fundraising efforts;
- Renders the same assistance to the University as it has provided 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; however 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.

The Foundation is governed by a Board of Trustees.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities, which follows accounting principles generally accepted in the United States of America (GAAP).

Basis of Presentation

The Foundation is required to report information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions - net assets that are not subject to donor-imposed stipulations as to the use or purpose.

Net assets with donor restrictions - net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation or by the passage of time. When the restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

Note A - Nature of Activities and Significant Accounting Policies - Continued

Fair Value Measurements

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads, and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The asset or liability's fair value measurement within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

Money market and mutual funds - Valued at the net asset value (NAV) of shares held by the Foundation at fiscal year-end.

Natural resources - Valued at NAV which management believes approximates fair value.

Stocks - Valued at the closing price of shares at fiscal year-end reported on the active market on which the individual securities are traded.

Pledges receivable - Valued at carrying amounts of the pledges net of discount to present value.

Annuities payable - The carrying amounts reported in the statements of financial position for all annuities payable approximate those liabilities' fair values.

Land held for investment - Valued at the appraised value upon donation which management believes approximates fair value.

Cash and Cash Equivalents

The Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

Note A - Nature of Activities and Significant Accounting Policies - Continued

Investments

The Foundation carries investments in marketable equity securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. 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.

Bad Debt Expense

The Foundation uses the direct write-off method to record bad debts. The results of using this method are not considered to be materially different from the allowance method as required under GAAP.

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 and Split Interest Agreements

The Foundation has entered into several Charitable Gift Annuity Agreements whereby the donor contributes assets in exchange for distributions based on the value of trust assets for a specified period of time. Management estimates the amounts for future payments to donor-designated beneficiaries. On an annual basis, the Foundation revalues the liability based on applicable mortality tables and varying discount rates, currently at approximately 6%.

Income Tax Status

The Foundation is a not-for-profit corporation that is exempt from federal income tax under Section 501 (c)(3) of the Internal Revenue Code, except for income from unrelated investments in a limited partnership and state franchise tax. It has conducted no unrelated business activities subject to federal income tax.

The Foundation has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Accounting for Uncertainty in Income Taxes*. The benefit of a tax position is recognized in the financial statements in the period ending during which, based on all available evidence, management believes it is more likely than not the positions will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. As of June 30, 2021 and 2020, the Foundation has not recognized liabilities for uncertain tax positions or associated interest or penalties.

The tax returns for the years ending June 30, 2018, and after are open to examination by federal, local, and state authorities.

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

Note A - Nature of Activities and Significant Accounting Policies - Continued

Functional Expenses

The expense information contained in the statements of activities and functional expenses is presented on a functional basis. Accordingly, certain costs have been allocated between functional categories based on management's estimates. The expenses that are allocated have been allocated based on time and effort.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditors' Report, which is the date the financial statements were available to be issued.

Note B - Investments

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

	June 30, 2021		June 30, 2020	
	Cost	Fair Value	Cost	Fair Value
Money market	\$ 768,999	\$ 768,999	\$ 327,003	\$ 327,003
Natural resources	984,770	1,422,967	1,215,000	1,012,930
Mutual funds	83,773,805	116,733,704	81,252,995	91,133,115
Real estate	77,140	77,140	-	-
	<u>\$ 85,604,714</u>	<u>\$119,002,810</u>	<u>\$ 82,794,998</u>	<u>\$ 92,473,048</u>

Note C - Fair Values

The following tables set forth, by level within the fair value hierarchy, the Foundation's financial assets and liabilities:

June 30, 2021	Level 1	Level 2	Level 3	Total
Money market	\$ 768,999	\$ -	\$ -	\$ 768,999
Natural resources	-	-	1,422,967	1,422,967
Mutual funds	116,733,704	-	-	116,733,704
Pledges receivable	-	-	1,306,509	1,306,509
Real estate	-	-	77,140	77,140
Annuities payable	-	-	(254,208)	(254,208)
	<u>\$ 117,502,703</u>	<u>\$ -</u>	<u>\$ 2,552,408</u>	<u>\$120,055,111</u>

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

Note C - Fair Values - Continued

<u>June 30, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 327,003	\$ -	\$ -	\$ 327,003
Natural resources	-	-	1,012,930	1,012,930
Mutual funds	91,133,115	-	-	91,133,115
Pledges receivable	-	-	1,916,321	1,916,321
Annuities payable	-	-	(220,077)	(220,077)
	<u>\$ 91,460,118</u>	<u>\$ -</u>	<u>\$ 2,709,174</u>	<u>\$ 94,169,292</u>

The table below sets forth a summary of changes in fair value of the Foundation's Level 3 assets for the year ended June 30, 2021:

	<u>Natural Resources</u>	<u>Pledges Receivable</u>	<u>Annuities Payable</u>
Beginning balance	\$ 1,012,930	\$ 1,916,321	\$ (220,077)
Pledges and annuities	-	1,486,454	
Payments/distributions	-	(2,191,222)	27,315
Collections/proceeds	120,107	-	(45,833)
Net gain/(loss) on investment	289,930	-	-
Change in discount	-	94,956	-
Change in split interests	-	-	(15,613)
Ending balance	<u>\$ 1,422,967</u>	<u>\$ 1,306,509</u>	<u>\$ (254,208)</u>

The table below sets forth a summary of changes in fair value of the Foundation's Level 3 assets for the year ended June 30, 2020:

	<u>Natural Resources</u>	<u>Pledges Receivable</u>	<u>Annuities Payable</u>
Beginning balance	\$ 1,357,508	\$ 1,976,563	\$ (184,921)
Pledges and annuities	-	2,191,222	(44,871)
Payments/distributions	-	-	24,811
Collections	-	(2,255,537)	-
Net gain/(loss) on investment	(344,578)	-	-
Change in discount	-	4,073	-
Change in split interests	-	-	(15,096)
Ending balance	<u>\$ 1,012,930</u>	<u>\$ 1,916,321</u>	<u>\$ (220,077)</u>

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

Note D - Pledges and Contributions

Unconditional Contributions

The Foundation recognizes promises to give (pledges) in the financial statements when there is sufficient evidence, in the form of verifiable documentation, that the promise was made. Unconditional promises to give that are expected to be collected beyond one year from the date of the financial statements are recorded at discounted cash flow. 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 contributions are recorded as support with donor restrictions for time and purpose.

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 are restricted by the donor for specific purposes, are reported as support with donor restrictions for time and purpose or in perpetuity that increases those net asset classes. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions for time and purpose are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Pledges receivable represent unconditional promises to give by donors and are recorded at their estimated fair value. Pledges received are distinguished for each net asset category in accordance with donor-imposed restrictions. Amounts due after June 30, 2021, are recorded at the present value of the estimated future cash flows, using a discount rate of 5%. The discount will be recognized as pledge income in the fiscal years ending June 30, 2021, through June 30, 2031, as the discount is amortized over the duration of the pledges.

Pledges receivable, net of discount to present value, consist of the following at:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Expected to be collected in:		
Less than one	\$ 564,227	\$ 727,895
One to five years	814,817	1,323,527
Over five years	<u>107,400</u>	<u>139,800</u>
Pledges receivable, gross	1,486,444	2,191,222
Less discount to present value	<u>(179,935)</u>	<u>(274,901)</u>
Contributions receivable, net	<u><u>\$ 1,306,509</u></u>	<u><u>\$ 1,916,321</u></u>

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

Note D - Pledges and Contributions - Continued

Pledges receivable at June 30, 2021 and 2020, included three and two individual pledges totaling \$550,000 (approximately 37% of the total receivable) and \$550,000 (approximately 25% of the total receivable), respectively, due in the years ending June 30, 2021, through June 30, 2031.

Conditional and Revocable Income (Unaudited)

In accordance with GAAP, the Foundation has not recorded revocable contributions or conditional contributions for which the specified conditions have not been substantially met. The Foundation has been named as a beneficiary in various individuals' wills and life insurance policies. As of June 30, 2021, the amount of the conditional income for which the Foundation has been made aware is \$49,194,868 face value and \$36,482,496 discounted value.

Note E - Support to Texas State University

The Foundation's spending policy is to annually appropriate a percentage of each endowment fund for distribution based on a rate determined annually by the audit committee to support the scholarships, projects, and activities of each endowment. During the years ended June 30, 2021 and 2020, the Foundation distributed \$3,820,827 and \$4,628,480 to the University, respectively.

Notes F - Support from Texas State University

The Foundation entered into an agreement with the University to use its administration and employees to provide reasonable and necessary support to the Foundation. The Foundation is staffed by individuals who are employees of the University, and the Foundation reimburses the University for the Foundation's portion of their salaries and benefits, as well as other expenses incurred by the University and directly related to the Foundation. These services are recognized at their fair value. Accounts payable and accrued expenses at June 30, 2021 and 2020, consists of reimbursement due to the University for salaries, benefits, and other reimbursable costs in the amounts of \$142,183 and \$124,783, respectively.

In addition, the University provides the Foundation with office space, telephone service, utilities, and the use of other equipment and facilities at no charge to the Foundation. No amounts have been reflected in the financial statements for the donated facilities as management believes the value is immaterial.

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

Note G - Concentration of Credit Risk

Financial instruments, which potentially subject the Foundation to a concentration of credit risk, consist principally of cash in financial institutions. The Foundation maintains its cash in bank deposit and brokerage firm accounts which may at times exceed federally insured limits. Commercial bank accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for each deposit insurance ownership category. At June 30, 2021, the Foundation maintained no cash balances in excess of the \$250,000 amount covered by FDIC Insurance. Balances on deposit in the brokerage firm accounts are insured up to \$500,000 by the Securities Investor Protection Corporation (SIPC), and additional insurance protection for securities is maintained by the brokerage firm. At June 30, 2021, the Foundation maintained no cash balances in excess of the \$500,000 amount covered by SIPC Insurance.

Note H - Endowments

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 they relate to the prudent management of its endowment fund.

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. UPMIFA prescribes 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, it does assume 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.

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

Note H - Endowments - Continued

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 the original value of gifts donated to the permanent endowment (the Principal) as net assets with donor restrictions in perpetuity. The remaining portion of the donor-restricted endowment fund that is not classified as net assets with donor restrictions in perpetuity is classified as net assets with donor restrictions for time and purpose 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 managers under the direction of the Investment 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 spending policy is to annually appropriate a percentage of each endowment fund for distribution based on a rate determined annually by the audit committee. The percentage was 4% for fiscal years ended June 30, 2021 and 2020. 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.

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

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Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

Note H - Endowments - Continued

Changes in Endowment Net Assets

<u>For the year ended June 30, 2021:</u>	<u>Time and Purpose</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 24,143,257	\$ 70,838,155	\$ 94,981,412
Investment return	26,710,872	-	26,710,872
Changes in split interests	-	(15,613)	(15,613)
Rent and royalties	90	114,383	114,473
Contributions	916,486	1,179,484	2,095,970
Appropriation of endowment assets for expenditure	<u>(5,293,373)</u>	<u>(18,518)</u>	<u>(5,311,891)</u>
Endowment net assets, end of year	<u>\$ 46,477,332</u>	<u>\$ 72,097,891</u>	<u>\$118,575,223</u>
<u>For the year ended June 30, 2020:</u>	<u>Time and Purpose</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 26,358,983	\$ 67,711,367	\$ 94,070,350
Investment return	1,724,781	-	1,724,781
Changes in split interests	-	(15,096)	(15,096)
Rent and royalties	-	161,201	161,201
Contributions	2,122,390	2,955,724	5,078,114
Appropriation of endowment assets for expenditure	<u>(6,062,897)</u>	<u>24,959</u>	<u>(6,037,938)</u>
Endowment net assets, end of year	<u>\$ 24,143,257</u>	<u>\$ 70,838,155</u>	<u>\$ 94,981,412</u>

Note I - Board Designated Net Assets

The Foundation's Board of Trustees established an operating reserve which designates a reserve of funds for development communications expenses, as well as for the Planned Giving Program and management and general operations travel and event expenses. The amount of the reserve is determined and approved by the Board during approval of the annual budget. The designated reserve balance as of June 30, 2021 and 2020, was \$343,071 and \$295,169, respectively.

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

Note J - Related Party Transactions

The Foundation received contributions totaling \$23,850 and \$240,125 from Board members of the Foundation during the years ended June 30, 2021 and 2020, respectively. As of June 30, 2021 and 2020, pledges receivable included amounts due from Board members totaling \$66,000 and \$100, respectively.

Note K - Available Resources and Liquidity

The following represents the Foundation's financial assets at June 30:

	<u>2021</u>	<u>2020</u>
Financial assets at year-end		
Cash and cash equivalents	\$ -	\$ 1,837,082
Pledge receivables, net	1,306,509	1,916,321
Investments	<u>119,002,810</u>	<u>92,473,048</u>
Less amounts not available to be used within one year		
Investments held for corpus of endowments	(70,249,543)	(68,365,731)
Investments for endowment earnings	(39,042,526)	(14,903,547)
Investments for quasi-endowments	(5,631,188)	(5,068,315)
Investments for non-endowed funds	(1,101,873)	(743,030)
Investments held for annuities	(361,369)	(248,717)
Contribution receivable - for restricted gifts	(1,306,509)	(1,916,321)
Board designated reserves	<u>(343,071)</u>	<u>(295,169)</u>
Financial assets available to meet general expenditures over the next year	<u>\$ 2,273,240</u>	<u>\$ 4,685,621</u>

The Foundation receives significant contributions to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs in accordance with the associated purpose restrictions. It also receives non-endowed gifts with donor restrictions to be used in accordance with the associated purpose restrictions. In addition, the Foundation receives a limited amount of support without donor restrictions. Annual program needs are funded by investment income, donor restricted funds used in accordance with the associated purpose restrictions, and appropriated earnings from gifts with donor restrictions.

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

Note K - Available Resources and Liquidity - Continued

The Foundation considers investment income without donor restrictions, appropriated earnings from donor-restricted endowments, contributions without donor restrictions, and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses, scholarship commitments, and academic program commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term scholarship and academic program commitments and obligations under endowments with donor restrictions that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The Foundation's Audit/Finance and Investment Committees meet annually to review and approve the Foundation's spending policy as well as scholarship and academic program expenditures for the subsequent year. Annual distributions to the University from the Foundation for scholarships and academic programs are currently calculated at a rate of 4% applied to the trailing three-year fair market value of the endowments computed on an annual basis at the end of the fiscal year.

The Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses for administrative, general, and fundraising expenses plus an amount that represents the next expected payment for annual scholarship and academic program commitments approved by the Audit/Finance and Investment Committees, which typically represents approximately 50% of the expected annual cash needs.