TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Financial Statements

For the Years Ended June 30, 2023 and 2022

(With Independent Auditors' Report)

TEXAS STATE UNIVERSITY
DEVELOPMENT FOUNDATION

C O N T E N T S

ATCHLEY & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Independent Auditors' Report

Board of Trustees
Texas State University Development Foundation

Opinion

We have audited the accompanying financial statements of Texas State University Development Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Atchley & Associates, LLP
Austin, Texas
December 4, 2023

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION
Statements of Financial Position
As of June 30, 2023 and 2022

	2023	2022
Assets		
Assets:		
Cash and cash equivalents	$ 3,701,331	$ 292,278
Investments	111,135,214	101,988,948
Pledges receivable, net	1,652,302	2,849,068
Prepaid expenses and other assets	-	50,000
Property and equipment	21,822	21,822
Less accumulated depreciation	(21,822)	(21,822)
Total Assets	$ 116,488,847	$ 105,180,294
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 2,569,193	$ 431,124
Accrued expenses	15,503	10,140
Annuities payable	283,972	204,105
Total Liabilities	2,868,668	645,369
Net assets:		
Without donor restriction		
Undesignated	824,484	811,634
Board designated	461,178	286,112
Total Net Assets Without Donor Restriction	1,285,662	1,097,746
With donor restriction		
Time and purpose	33,748,347	26,372,116
In perpetuity	78,586,170	77,065,063
Total Net Assets With Donor Restriction	112,334,517	103,437,179
Total Net Assets	113,620,179	104,534,925
Total Liabilities and Net Assets	$ 116,488,847	$ 105,180,294

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, 2023 and 2022

	2023			2022		
	Without Donor Restriction	**With Donor Restriction**	**Total**	**Without Donor Restriction**	**With Donor Restriction**	**Total**
REVENUES AND OTHER SUPPORT						
Revenues						
Contributions	$ 13,751	$ 2,892,783	$ 2,906,534	$ 400	$ 5,243,760	$ 5,244,160
Investment return, net	(51,919)	12,214,517	12,162,598	(342,014)	(14,992,870)	(15,334,884)
Changes in split interests	-	(27,529)	(27,529)	-	36,719	36,719
Rent and royalties	-	642	642	-	118,020	118,020
Net assets released from restrictions						
Satisfaction of program restrictions	6,183,075	(6,183,075)	-	5,543,673	(5,543,673)	-
Total revenues and other support and releases from restriction	6,144,907	8,897,338	15,042,245	5,202,059	(15,138,044)	(9,935,985)
EXPENSES						
Program services	4,641,652	-	4,641,652	3,821,704	-	3,821,704
Supporting services	688,708	-	688,708	515,199	-	515,199
Fundraising services	626,631	-	626,631	948,267	-	948,267
Total expenses	5,956,991	-	5,956,991	5,285,170	-	5,285,170
Change in net assets	187,916	8,897,338	9,085,254	(83,111)	(15,138,044)	(15,221,155)
Net assets at beginning of year	1,097,746	103,437,179	104,534,925	1,180,857	118,575,223	119,756,080
Net assets at end of year	$ 1,285,662	$ 112,334,517	$ 113,620,179	$ 1,097,746	$ 103,437,179	$ 104,534,925

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, 2023 and 2022

	2023				2022			
	Program Services	**Supporting Services**	**Fundraising Services**	**Total**	**Program Services**	**Supporting Services**	**Fundraising Services**	**Total**
University support	$ 1,959,686	$ -	$ -	$ 1,959,686	$ 1,499,914	$ -	$ -	$ 1,499,914
Student scholarships	2,675,466	-	-	2,675,466	2,316,790	-	-	2,316,790
Purchased services	-	559,701	401,696	961,397	-	394,498	541,308	935,806
Fundraising	-	-	224,935	224,935	-	-	406,959	406,959
Board of trustees costs	6,500	57,679	-	64,179	5,000	37,103	-	42,103
Legal & professional Fees	-	24,472	-	24,472	-	47,732	-	47,732
Accounting fees	-	16,263	-	16,263	-	15,408	-	15,408
Hardware & software	-	9,500	-	9,500	-	9,418	-	9,418
Banking fees	-	4,263	-	4,263	-	8,334	-	8,334
Office supplies	-	4,866	-	4,866	-	2,045	-	2,045
Conferences & training	-	10,653	-	10,653	-	-	-	-
Postage	-	1,311	-	1,311	-	661	-	661
Total Expenses	$ 4,641,652	$ 688,708	$ 626,631	$ 5,956,991	$ 3,821,704	$ 515,199	$ 948,267	$ 5,285,170

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Statements of Cash Flows

For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	$ 9,085,254	$ (15,221,155)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Changes in discount on pledges receivable	(210,988)	269,111
Net unrealized (gains) losses on investments	(9,965,876)	21,549,270
Changes in split interests	27,529	(36,719)
Contributions restricted for endowment	(1,519,952)	(4,793,450)
(Increase) decrease in operating assets:		
Pledges receivable	1,407,754	(1,811,670)
Prepaid expenses and other assets	50,000	18,959
Increase (decrease) in operating liabilities:		
Bank overdraft	-	(41,782)
Accounts payable	2,138,069	122,237
Accrued expenses	5,363	(7,181)
Net cash provided by (used in) operating activities	1,017,153	47,620
Cash flows from investing activities:		
Proceeds from sales of investments, net of purchases	819,610	(4,535,408)
Net cash provided by (used in) investing activities	819,610	(4,535,408)
Cash flows from financing activities:		
Contributions restricted for endowment	1,519,952	4,793,450
Receipts from annuities	81,927	12,856
Payments on annuities	(29,589)	(26,240)
Net cash provided by financing activities	1,572,290	4,780,066
Net increase (decrease) in cash and cash equivalents	3,409,053	292,278
Cash and cash equivalents at beginning of year	292,278	-
Cash and cash equivalents at end of year	$ 3,701,331	$ 292,278

The accompanying notes are an integral part of these financial statements

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.

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.

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.

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, 2023 and 2022, the Foundation has not recognized liabilities for uncertain tax positions or associated interest or penalties.

The tax returns for the years ending June 30, 2020, and after are open to examination by federal, local, and state authorities.

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.

Recently Adopted Accounting Standards

In September 2020, FASB issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* The ASU is expected to increase transparency around contributed nonfinancial assets (also known as “gifts-in-kind”) received by not-for-profit organizations, including transparency on how those assets are used and how they are valued. The Foundation adopted the ASU during the year ended June 30, 2023, and applied the ASU retrospectively to the year ended June 30, 2022. See Note F.

Note B - Investments

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

	June 30, 2023		June 30, 2022	
	Cost	Fair Value	Cost	Fair Value
Natural resources	$ 1,200,000	$ 1,672,830	$ 1,136,310	$ 1,818,757
Mutual funds	83,687,678	105,800,376	89,624,276	100,170,191
Equities	16,073	14,613	-	-
Private Equity	3,069,531	3,647,395	-	-
	$ 87,973,282	$111,135,214	$ 90,760,586	$ 101,988,948

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, 2023	Level 1	Level 2	Level 3	Total
Natural resources	$ -	$ -	$ 1,672,830	$ 1,672,830
Mutual funds	105,800,376	-	-	105,800,376
Pledges receivable	-	-	1,652,302	1,652,302
Equities	14,613	-	-	14,613
Annuities payable	-	-	(283,972)	(283,972)
Private Equity	3,647,395	-	-	3,647,395
	$ 109,462,384	$ -	$ 3,041,160	$ 112,503,544

June 30, 2022	Level 1	Level 2	Level 3	Total
Natural resources	$ -	$ -	$ 1,818,757	$ 1,818,757
Mutual funds	100,170,191	-	-	100,170,191
Pledges receivable	-	-	2,849,068	2,849,068
Annuities payable	-	-	(204,105)	(204,105)
	$ 100,170,191	$ -	$ 4,463,720	$ 104,633,911

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, 2023:

	Natural Resources	Pledges Receivable	Annuities Payable
Beginning balance	$ 1,818,757	$ 2,849,068	$ (204,105)
Pledges and annuities	-	1,890,360	-
Payments/distributions	(237,411)	(3,298,114)	29,589
Collections/proceeds	40,000	-	(81,927)
Net gain/(loss) on investment	51,484	-	-
Change in discount	-	210,988	-
Change in split interests	-	-	(27,529)
Ending balance	$ 1,672,830	$ 1,652,302	$ (283,972)

Note C - Fair Values - Continued

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, 2022:

	Natural Resources	Pledges Receivable	Annuities Payable
Beginning balance	$ 1,422,967	$ 1,306,509	$ (254,208)
Pledges and annuities	-	3,298,114	-
Payments/distributions	(23,943)	(1,486,444)	26,240
Collections/proceeds	115,483	-	(12,856)
Net gain/(loss) on investment	304,250	-	-
Change in discount	-	(269,111)	-
Change in split interests	-	-	36,719
Ending balance	$ 1,818,757	$ 2,849,068	$ (204,105)

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, 2023, 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, 2024, through June 30, 2029, as the discount is amortized over the duration of the pledges.

Note D - Pledges and Contributions - Continued

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

	June 30, 2023	June 30, 2022
Expected to be collected in:		
Less than one	$ 631,167	$ 747,347
One to five years	1,259,193	1,600,767
Over five years	-	950,000
Pledges receivable, gross	1,890,360	3,298,114
Less discount to present value	(238,058)	(449,046)
Contributions receivable, net	$ 1,652,302	$ 2,849,068

Pledges receivable at June 30, 2023 and 2022, included two and three individual pledges totaling $1,098,680 (approximately 58% of the total receivable) and $2,200,000 (approximately 65% of the total receivable), respectively, due in the years ending June 30, 2024, through June 30, 2029.

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, 2023, the amount of the conditional income for which the Foundation has been made aware is $58,840,868 face value and $44,272,848 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, 2023 and 2022, the Foundation accrued for university support and student scholarships expenses of $4,635,152 and $3,816,704, 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, 2023 and 2022, consists of reimbursement due to the University for salaries, benefits, and other reimbursable costs in the amounts of $89,976 and $129,846, respectively.

Notes F - Support from Texas State University - Continued

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.

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, 2023, the Foundation maintained cash balances of $1,500,047 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, 2023, the Foundation maintained cash balances of $1,483,014 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.

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, 2023 and 2022. 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

Note H - Endowments - Continued

Changes in Endowment Net Assets

For the year ended June 30, 2023:	Time and Purpose	Restricted in Perpetuity	Total
Endowment net assets, beginning of year	$ 26,372,116	$ 77,065,063	$ 103,437,179
Investment return	12,016,698	-	12,016,698
Changes in split interests	-	(27,529)	(27,529)
Rent and royalties	197,819	642	198,461
Contributions	1,372,831	1,519,952	2,892,783
Appropriation of endowment assets for expenditure	(6,211,117)	28,042	(6,183,075)
Endowment net assets, end of year	$ 33,748,347	$ 78,586,170	$ 112,334,517

For the year ended June 30, 2022:	Time and Purpose	Restricted in Perpetuity	Total
Endowment net assets, beginning of year	$ 46,477,332	$ 72,097,891	$ 118,575,223
Investment return	(15,014,440)	-	(15,014,440)
Changes in split interests	-	36,719	36,719
Rent and royalties	21,570	118,020	139,590
Contributions	450,310	4,793,450	5,243,760
Appropriation of endowment assets for expenditure	(5,562,656)	18,983	(5,543,673)
Endowment net assets, end of year	$ 26,372,116	$ 77,065,063	$ 103,437,179

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, 2023 and 2022, was $461,178 and $286,112, respectively.

Note J - Related Party Transactions

The Foundation received contributions totaling $90,372 and $26,500 from Board members of the Foundation during the years ended June 30, 2023 and 2022, respectively. As of June 30, 2023 and 2022, pledges receivable included amounts due from Board members totaling $131,900 and $82,000, respectively.

Note K - Available Resources and Liquidity

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

	2023	2022
Financial assets at year-end		
Cash and cash equivalents	$ 3,701,331	$ 292,278
Pledge receivables, net	1,652,302	2,849,068
Investments	111,135,214	101,988,948
Less amounts not available to be used within one year		
Investments held for corpus of endowments	(76,323,326)	(73,699,762)
Investments for endowment earnings	(23,016,029)	(16,529,176)
Investments for quasi-endowments	(5,720,703)	(4,947,298)
Investments for non-endowed funds	(1,192,145)	(1,080,471)
Investments held for annuities	(311,040)	(235,208)
Contribution receivable - for restricted gifts	(1,652,302)	(2,936,592)
Board designated reserves	(461,178)	(286,112)
Financial assets available to meet general expenditures over the next year	$ 7,812,124	$ 5,415,675

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.

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.

Note K - Available Resources and Liquidity - Continued

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.

ATCHLEY & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Audit & Finance Committee
Texas State University Development Foundation
601 University Drive
J.C. Kellam Bldg, Suite 960
San Marcos, Texas 78666-4612

We are pleased to present this report related to our audit of the financial statements of Texas State University Development Foundation (the Foundation) as of and for the year ended June 30, 2023. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Foundation's financial reporting process.

Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Our Responsibilities With Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated April 6, 2021. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication dated August 29, 2023, regarding the planned scope and timing of our audit and identified significant risks.

Qualitative Aspects of the Entity's Significant Accounting Practices

Preferability of Accounting Policies and Practices

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Foundation. The following is a description of significant accounting policies or their application that were either initially selected or changed during the year:

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- The Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* The ASU is expected to increase transparency around contributed nonfinancial assets (also known as "gifts-in-kind") received by not-for-profit organizations, including transparency on how those assets are used and how they are valued. The Foundation applied the ASU during the year ended June 30, 2023, and also retrospectively to the year ended June 30, 2022.

Significant Accounting Policies

We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Unusual Transactions

We did not identify any significant unusual transactions.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

- Management's estimate of the fair value of money market and mutual funds securities. This estimate is based on the net asset value (NAV) of shares held by Texas State University Development Foundation at fiscal year-end.
- Management's estimate of the fair value of natural resources investments. This estimate is based at NAV which management believes approximates fair value.
- Management's estimate of the fair value of stocks. This estimate is based on the closing price of shares at fiscal year-end reported on the active market on which the individual securities are traded.
- Management's estimate of the allowance for uncollectible pledges receivable, which is based on analysis of collectability of individual pledges.
- The allocation of expenses by functional classification. This estimate is based on time and effort.

We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Audit Adjustments and Uncorrected Misstatements

None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Observations About the Audit Process

Disagreements With Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations With Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed With Management

No significant issues arising from the audit were discussed or the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Significant Written Communications Between Management and Our Firm

Copies of significant written communications between our firm and the management of the Foundation, including the representation letter provided to us by management, is included in an attached letter.

This report is intended solely for the information and use of the Audit & Finance Committee and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to Texas State University Development Foundation.

Atchley & Associates, LLP
Austin, Texas
December 4, 2023

TEXAS STATE UNIVERSITY
DEVELOPMENT
FOUNDATION

December 4, 2023

Atchley & Associates, LLP
1005 La Posada Drive
Austin, Texas 78752

This representation letter is provided in connection with your audit of the financial statements of Texas State University Development Foundation (the Foundation) which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of activities, and cash flows in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audits:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated April 6, 2021, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. With respect to preparation of the financial statements, we have performed the following:
    a. Made all management decisions and performed all management functions;
    b. Assigned a competent individual to oversee the services;
    c. Evaluated the adequacy of the services performed;
    d. Evaluated and accepted responsibility for the result of the service performed; and
    e. Established and maintained internal controls, including monitoring ongoing activities.
7. We have no knowledge of any uncorrected misstatements in the financial statements.
8. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

9. The following have been properly recorded and/or disclosed in the financial statements:

   a. All significant estimates and material concentrations known to management that are required to be disclosed in accordance with the Risks and Uncertainties Topic of the FASB Accounting Standards Codification. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur that would significantly disrupt normal finances within the next year.

   b. Concentrations of credit risk.

   c. All recordable contributions, by appropriate net asset class.

   d. Conditional promises to give.

   e. Reclassifications between net asset classes.

   f. Allocations of functional expenses based on reasonable basis.

   g. Composition of assets in amounts needed to comply with all donor restrictions.

   h. Assets and liabilities measured at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification.

   i. Board designated net assets without donor restrictions.

Information Provided

10. We have provided you with:

    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;

    b. Additional information that you have requested from us for the purpose of the audit;

    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

    d. Minutes of the meetings of trustees and committees of trustees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

11. All transactions have been recorded in the accounting records and are reflected in the financial statements.

12. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.

13. We have no knowledge of allegations of fraud or suspected fraud, affecting the entity's financial statements involving:

    a. Management.

    b. Employees who have significant roles in the internal control.

    c. Others where the fraud could have a material effect on the financial statements.

14. We have no knowledge of any allegations of fraud or suspected fraud affecting the Foundation's financial statements received in communications from employees, former employees, regulators, or others.

15. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

16. We are not aware of any pending or threatened litigation and claims that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP and we have not consulted legal counsel concerning litigation or claims.

17. We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.

18. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Foundation's ability to record, process, summarize, and report financial data.

19. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

20. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:

    a. The Foundation has no plans or intentions to discontinue operations.

    b. Provision has been made to reduce all assets that have permanently declined in value to their realizable values.

21. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:

    a. To reduce pledge receivables to their estimated net collectable amounts.

22. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

    b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingencies Topic of the FASB Accounting Standards Codification.

    c. Guarantees, whether written or oral, under which the Foundation is contingently liable.

    d. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.

    e. Amounts held for others under agency and/or split interest agreements.

    f. Lines of credit or similar arrangements.

    g. Agreements to repurchase assets previously sold.

    h. Security agreements in effect under the Uniform Commercial Code.

    i. Liens or encumbrances on assets and all other pledges of assets.

    j. Liabilities that are subordinated to any other actual or possible liabilities of the Foundation.

    k. Leases or material amounts of rental obligations under long-term leases.

23. The Foundation has satisfactory title to all owned assets.

24. We have complied with all aspects of contractual agreements, grants, and donor restrictions that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act and Uniform Guidance, because we have not received, expended, or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.

25. We have received a determination from the Internal Revenue Service that we are exempt from federal income taxes as a Section 501(c)(3) not-for-profit corporation, and we have complied with the IRS regulations regarding this exemption.

26. We are responsible for determining that significant events or transactions that have occurred since the statement of financial position date and through the date of this letter have been recognized or disclosed in the financial statements. No events or transactions have occurred subsequent to the statement of financial position date and through the date of this letter that would require recognition or disclosure in the financial statements. We further represent that, as of the date of this letter, the financial statements were complete in a form and format that complied with U.S. GAAP, and all approvals necessary for issuance of the financial statements had been obtained.

27. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Texas State University Development Foundation

Brooks Hull, Executive Director

alison mott

Alison Mott, Accountant