

**TEXAS STATE UNIVERSITY
DEVELOPMENT FOUNDATION**

Financial Statements

For the Years Ended June 30, 2016 and 2015
(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, 2016 and 2015, and the related statements of activities and cash flows for the years ended 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, 2016 and 2015, 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.

Atchley & Associates, LLP

Austin, Texas

November 9, 2016

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Statements of Financial Position

As of June 30, 2016 and 2015

	2016	2015
Assets		
Assets:		
Cash and cash equivalents	\$ 2,799,746	\$ 6,724,034
Investments	68,058,383	70,677,707
Pledges receivable, net	2,138,622	1,278,301
Other receivables	10,113	125,137
Prepaid expenses and other assets	62,500	-
Property and equipment, net	21,822	21,822
Less accumulated depreciation	<u>(21,822)</u>	<u>(21,822)</u>
Total Assets	<u>\$ 73,069,364</u>	<u>\$ 78,805,179</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 140,687	\$ 59,353
Accrued expenses	20	49,547
Annuities payable	<u>396,918</u>	<u>380,453</u>
Total Liabilities	537,625	489,353
Net assets:		
Unrestricted	1,518,489	1,678,601
Temporarily restricted	15,783,007	25,693,703
Permanently restricted	<u>55,230,243</u>	<u>50,943,522</u>
Total net assets	<u>72,531,739</u>	<u>78,315,826</u>
Total Liabilities and Net Assets	<u>\$ 73,069,364</u>	<u>\$ 78,805,179</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, 2016 and 2015

	2016			2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Unrestricted	Temporarily restricted	Permanently restricted	Total
REVENUES AND OTHER SUPPORT							
Revenues							
Contributions	\$ 13,216	\$ 451,498	\$ 4,378,993	\$ 4,843,707	\$ 122,833	\$ 5,111,533	\$ 11,929,793
Investment Income (loss)	139	1,724,900	6,607	1,731,646	2,414	41,975	1,786,174
Net realized and unrealized gains (loss) on investments	530	(4,074,576)	(16,306)	(4,090,352)	5,608	(8,337)	(2,487,925)
Changes in split interests	-	-	(30,222)	(30,222)	-	12,780	12,780
Rent and royalties	-	42,577	-	42,577	358	-	126,325
Net assets released from restrictions							
Satisfaction of program restrictions	8,230,274	(8,023,934)	(206,340)	-	3,629,188	(16,277)	-
Total revenues and other support and releases from restriction	8,244,159	(9,879,535)	4,132,732	2,497,356	3,760,401	5,141,674	11,367,147
Expenses:							
Program services	1,462,977	-	-	1,462,977	1,508,014	-	1,508,014
Scholarships	6,270,395	-	-	6,270,395	1,491,765	-	1,491,765
Distributions to University	7,733,372	-	-	7,733,372	2,999,779	-	2,999,779
Total program services							
Supporting services							
Investment fees	126,565	-	-	126,565	94,667	-	94,667
General and administrative	421,506	-	-	421,506	378,270	-	378,270
Total supporting services	548,071	-	-	548,071	472,937	-	472,937
Total expenses	8,281,443	-	-	8,281,443	3,472,716	-	3,472,716
Change in net assets	(37,284)	(9,879,535)	4,132,732	(5,784,087)	287,685	2,465,072	7,894,431
Return to principal	(122,828)	(31,161)	153,989	-	-	(71,283)	-
Net assets at beginning of year	1,678,601	25,693,703	50,943,522	78,315,826	1,390,916	45,730,565	70,421,395
Net assets at end of year	<u>\$ 1,518,489</u>	<u>\$ 15,783,007</u>	<u>\$ 55,230,243</u>	<u>\$ 72,531,739</u>	<u>\$ 1,678,601</u>	<u>\$ 50,943,522</u>	<u>\$ 78,315,826</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, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (5,784,087)	\$ 7,894,431
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Changes in discount on pledges receivable	88,075	(17,871)
Net unrealized (gains) losses on investments	1,824,414	2,765,386
Changes in split interests	30,222	(12,780)
Contributions restricted for endowment	(4,378,993)	(5,111,533)
Increase (decrease) in operating assets:		
Pledges receivable	(948,396)	61,274
Other receivables	115,024	(125,137)
Prepaid expenses and other assets	(62,500)	2,455
Increase (decrease) in operating liabilities:		
Accounts payable	81,334	(203,586)
Accrued expenses	(49,527)	16,805
Annuities payable	31,414	-
	(9,053,020)	5,269,444
Cash flows from investing activities:		
Proceeds from sales of investments, net of purchases	794,910	(5,788,424)
	794,910	(5,788,424)
Cash flows from financing activities:		
Contributions restricted for endowment	4,378,993	5,111,533
Payments on annuities	(45,171)	(48,239)
	4,333,822	5,063,294
Net cash provided by (used) by financing activities	4,333,822	5,063,294
Net increase (decrease) in cash and cash equivalents	(3,924,288)	4,544,314
Cash and cash equivalents at beginning of year	6,724,034	2,179,720
Cash and cash equivalents at end of year	\$ 2,799,746	\$ 6,724,034

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, 2016 and 2015

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 rendered in the past and such additional assistance as may, in the future, appear mutually desirable, with changes that take place from time to time as agreed upon by the University and the Foundation; provided, however that the Foundation's primary focus in the future will be on developing and maintaining long-term and short-term endowment monies; and
- Recognizes the University as the sole beneficiary of its development policies and its educational support.

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 three classes of net assets:

Unrestricted net assets - net assets that are not subject to donor-imposed stipulations as to the use or purpose.

Temporarily restricted net assets - 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets - net assets subject to permanent donor-imposed stipulations.

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

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

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.

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.

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.

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. This results of using this method is not considered to be materially different from the allowance method as required under GAAP.

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

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

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 tax returns for the years ending June 30, 2013, and after are open to examination by federal, local, and state authorities.

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, 2016		June 30, 2015	
	Cost	Fair Value	Cost	Fair Value
Money market	\$ 233,412	\$ 233,412	\$ 1,060,122	\$ 1,060,122
Real estate trust	1,086,714	58,878	1,338,706	340,850
Natural resources	2,350,690	2,411,454	2,221,799	2,497,728
Stocks	-	-	178,042	210,179
Mutual funds	61,212,176	65,354,639	62,195,754	66,568,828
	<u>\$64,882,992</u>	<u>\$68,058,383</u>	<u>\$66,994,423</u>	<u>\$70,677,707</u>

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements

For the Years Ended June 30, 2016 and 2015

Note C - Fair Values

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

<u>June 30, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 233,412	\$ -	\$ -	\$ 233,412
Real estate trust	-	-	58,878	58,878
Mutual funds	67,766,093	-	-	67,766,093
Pledges receivable	-	-	2,138,622	2,138,622
Annuities payable	-	-	(396,918)	(396,918)
	<u>\$67,999,505</u>	<u>\$ -</u>	<u>\$ 1,800,582</u>	<u>\$69,800,087</u>
<u>June 30, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 1,060,122	\$ -	\$ -	\$ 1,060,122
Real estate trust	-	-	340,850	340,850
Stocks	210,179	-	-	210,179
Mutual funds	69,066,556	-	-	69,066,556
Pledges receivable	-	-	1,278,301	1,278,301
Annuities payable	-	-	(380,453)	(380,453)
	<u>\$70,336,857</u>	<u>\$ -</u>	<u>\$ 1,238,698</u>	<u>\$71,575,555</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, 2016:

	<u>Real estate trust</u>	<u>Pledges receivable</u>	<u>Annuities payable</u>
Beginning balance	\$ 340,850	\$ 1,278,301	\$ (380,453)
Pledges and annuities	-	2,022,010	(31,414)
Payments/Distributions	(251,993)	-	45,171
Collections	-	(1,073,614)	-
Net gain/(loss) on investment	(29,979)	-	-
Change in discount	-	(88,075)	-
Change in split interests	-	-	(30,222)
Ending balance	<u>\$ 58,878</u>	<u>\$ 2,138,622</u>	<u>\$ (396,918)</u>

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements

For the Years Ended June 30, 2016 and 2015

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, 2015:

	Real estate trust	Pledges receivable	Annuities payable
Beginning balance	\$ 541,144	\$ 1,321,704	\$ (441,472)
Pledges	-	543,996	-
Payments/Distributions	(161,294)	-	48,239
Collections	-	(605,270)	-
Net gain/(loss) on investment	(39,000)	-	-
Change in discount	-	17,871	-
Change in split interests	-	-	12,780
Ending balance	<u>\$ 340,850</u>	<u>\$ 1,278,301</u>	<u>\$ (380,453)</u>

Note D - Pledges and Contributions

Unconditional Contributions

The Foundation recognizes promises to give (pledges) in the financial statements when there is sufficient evidences 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 temporarily restricted support.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods, or are restricted by the donor for specific purposes, are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements

For the Years Ended June 30, 2016 and 2015

Note D - Pledges and Contributions - Continued

Unconditional Contributions - Continued

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, 2016, are recorded at the present value of the estimated future cash flows, using a discount rate of 5%. The discount will be recognized as pledges income in the fiscal years ending June 30, 2017, through June 30, 2023, 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, 2016</u>	<u>June 30, 2015</u>
Expected to be collected in:		
Less than one year	\$ 916,529	\$ 615,045
One to five years	1,409,702	767,790
Over five years	5,000	-
Pledges receivable, gross	<u>2,331,231</u>	<u>1,382,835</u>
Less discount to present value	<u>(192,609)</u>	<u>(104,534)</u>
Contributions receivable, net	<u><u>\$ 2,138,622</u></u>	<u><u>\$ 1,278,301</u></u>

Pledges receivable at June 30, 2016, include three individual pledges in the amount of \$1,400,000 (approximately 60% of the total receivable) due in the years ending June 30, 2017, through June 30, 2019.

Conditional Pledges

On November 8, 2010, a donor, hereafter "first pledge donor," made a conditional pledge of \$1,200,000, benefiting the Mathworks Program at the University, and paid an initial installment of \$300,000. The original pledge stated that, for each \$300,000 received or irrevocably pledged by other donors to new endowment funds benefiting the Mathworks Program, the first pledge donor will grant the next incremental funding of \$300,000. In 2013, the donor elected to match amounts received or irrevocably pledged from other donors totaling \$171,836, disregarding the \$300,000 incremental funding requirement for the 2013 fiscal year. In 2015, the Foundation received \$571,779. As of June 30, 2015, there are no outstanding amounts that remain to be fulfilled.

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note D - Pledges and Contributions - Continued

Conditional Pledges - Continued

In June 2012, a donor, hereafter "second pledge donor," made a conditional pledge of \$350,000. The conditional pledge will be used to match amounts received that benefit the College of Engineering and Science at the University and its Mathworks Program. The second pledge donor made an initial installment of \$115,000. In 2015, the Foundation received \$120,000. As of June 30, 2015, there are no outstanding amounts that remain to be fulfilled.

In August 2013, a donor, hereafter "third pledge donor", made a conditional pledge of \$5,000,000. The funds will benefit the Meadows Center for Water and Environment at the University. The third pledge donor made an initial installment of \$1,000,000. The pledge allows for the third pledge donor to annually review and determine if the third pledge donor wishes to continue to fund the pledge. An additional payment of \$2,000,000 was received in 2013. In 2015, the Foundation received the remaining pledge amount of \$2,000,000. As of June 30, 2015 there are no outstanding amounts that remain to be fulfilled.

Conditional and Revocable Income (Unaudited)

In accordance with generally accepted accounting principles, 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, 2016, the amount of the conditional income for which the Foundation has been made aware is approximately \$19,836,412 face value and \$14,875,206 discounted value.

Note E - Support to Texas State University

The Foundation's spending policy is to appropriate for distribution each year a percentage of each endowment fund 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, 2016 and 2015, the Foundation distributed \$7,733,372 and \$2,999,779 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. These services are recognized at their fair value. Accounts payable and accrued expenses at June 30, 2016 and 2015, consists of reimbursement due the University for salaries and benefits in the amounts of \$30,554 and \$23,797, respectively.

In addition, the University provides the Foundation 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.

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

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, 2016, the Foundation maintained cash balances of \$2,692,576 at one financial institution which exceeded 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.

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, 2016 and 2015

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 permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

Endowment Investment Objectives

Endowment investments are managed by professional money 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 appropriate for distribution each year a percentage of each endowment fund based on a rate determined annually by the audit committee. The percentage was 4% for fiscal years ended June 30, 2016 and 2015. 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

TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Notes to Financial Statements

For the Years Ended June 30, 2016 and 2015

Note H - Endowments - Continued

Changes in Endowment Net Assets

<u>For the year Ended June 30, 2016:</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$25,693,703	\$50,943,522	\$76,637,225
Investment return:			
Investment income	1,767,477	6,607	1,774,084
Net depreciation (realized and unrealized)	(4,074,576)	(46,528)	(4,121,104)
Total investment return	<u>23,386,604</u>	<u>50,903,601</u>	<u>74,290,205</u>
Contributions	451,498	4,378,993	4,830,491
Principal return	(31,161)	153,989	122,828
Appropriation of endowment assets for expenditure	<u>(8,023,934)</u>	<u>(206,340)</u>	<u>(8,230,274)</u>
Endowment net assets, end of year	<u>\$15,783,007</u>	<u>\$55,230,243</u>	<u>\$71,013,250</u>
<u>For the year Ended June 30, 2015:</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$23,299,914	\$45,730,565	\$69,030,479
Investment return:			
Investment income	1,867,752	41,975	1,909,727
Net depreciation (realized and unrealized)	(2,485,196)	4,443	(2,480,753)
Total investment return	<u>22,682,470</u>	<u>45,776,983</u>	<u>68,459,453</u>
Contributions	6,695,427	5,111,533	11,806,960
Principal return	(71,283)	71,283	-
Appropriation of endowment assets for expenditure	<u>(3,612,911)</u>	<u>(16,277)</u>	<u>(3,629,188)</u>
Endowment net assets, end of year	<u>\$25,693,703</u>	<u>\$50,943,522</u>	<u>\$76,637,225</u>