



THE CALIFORNIA STATE UNIVERSITY
FOUNDATION

FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of
California State University Foundation:

We have audited the accompanying statements of financial position of California State University Foundation (the Foundation) (a nonprofit organization) as of June 30, 2011 and 2010, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California State University Foundation as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Long Beach, California
September 22, 2011

CALIFORNIA STATE UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,315,239	\$ 2,534,770
Pledges receivable	523,125	466,750
Other current receivables	18,159	—
	<u>2,856,523</u>	<u>3,001,520</u>
NONCURRENT ASSETS		
Investments	14,568,398	11,905,933
Pledges receivable, net of current portion	—	615,896
Charitable gift annuity assets	4,454,702	3,975,874
Other receivables	117,549	110,877
	<u>19,140,649</u>	<u>16,608,580</u>
TOTAL ASSETS	<u>\$ 21,997,172</u>	<u>\$ 19,610,100</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 422,037	\$ 212,169
NONCURRENT LIABILITIES		
Charitable gift annuity liability	4,454,702	3,975,874
Other payables	117,549	110,877
Local agency liability	111,482	90,062
	<u>4,683,733</u>	<u>4,176,813</u>
NET ASSETS		
Unrestricted	3,580,105	3,021,866
Temporarily restricted	5,393,662	4,850,122
Permanently restricted	7,917,635	7,349,130
Total Net Assets	<u>16,891,402</u>	<u>15,221,118</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,997,172</u>	<u>\$ 19,610,100</u>

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

CALIFORNIA STATE UNIVERSITY FOUNDATION

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 722,282	\$ 860,646	\$ 568,505	\$ 2,151,433
Investment gain	402,616	1,812,216	—	2,214,832
Other	37,808	26	—	37,834
Net assets released from restrictions	<u>2,129,348</u>	<u>(2,129,348)</u>	<u>—</u>	<u>—</u>
Total Support and Revenue	<u>3,292,054</u>	<u>543,540</u>	<u>568,505</u>	<u>4,404,099</u>
EXPENSES				
Program Services:				
Projects, grants and other assistance to organizations	1,723,954	—	—	1,723,954
Student scholarships	431,903	—	—	431,903
Conferences, conventions and meetings	176,470	—	—	176,470
Other expenses	<u>50,559</u>	<u>—</u>	<u>—</u>	<u>50,559</u>
Total Program Services	<u>2,382,886</u>	<u>—</u>	<u>—</u>	<u>2,382,886</u>
Supporting Services:				
Compensation of officers	30,000	—	—	30,000
Professional services	33,719	—	—	33,719
Conferences, conventions and meetings	21,169	—	—	21,169
Overhead	2,553	—	—	2,553
Administrative expenses	233,199	—	—	233,199
Other expenses	<u>27,651</u>	<u>—</u>	<u>—</u>	<u>27,651</u>
Total Supporting Services	<u>348,291</u>	<u>—</u>	<u>—</u>	<u>348,291</u>
Fund-raising	2,638	—	—	2,638
Total Expenses	<u>2,733,815</u>	<u>—</u>	<u>—</u>	<u>2,733,815</u>
CHANGE IN NET ASSETS	558,239	543,540	568,505	1,670,284
NET ASSETS AT BEGINNING OF YEAR	<u>3,021,866</u>	<u>4,850,122</u>	<u>7,349,130</u>	<u>15,221,118</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,580,105</u>	<u>\$ 5,393,662</u>	<u>\$ 7,917,635</u>	<u>\$ 16,891,402</u>

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

CALIFORNIA STATE UNIVERSITY FOUNDATION

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 558,078	\$ 1,693,448	\$ 42,877	\$ 2,294,403
Investment gain	305,217	1,236,467	—	1,541,684
Other	26,233	20,048	—	46,281
Net assets released from restrictions	<u>1,436,314</u>	<u>(1,436,314)</u>	<u>—</u>	<u>—</u>
Total Support and Revenue	<u>2,325,842</u>	<u>1,513,649</u>	<u>42,877</u>	<u>3,882,368</u>
EXPENSES				
Program services:				
Projects, grants and other assistance to organizations	1,244,025	—	—	1,244,025
Student scholarships	209,751	—	—	209,751
Conferences, conventions and meetings	162,511	—	—	162,511
Other expenses	<u>29,798</u>	<u>—</u>	<u>—</u>	<u>29,798</u>
Total Program Services	<u>1,646,085</u>	<u>—</u>	<u>—</u>	<u>1,646,085</u>
Supporting Services:				
Compensation of officers	30,000	—	—	30,000
Professional services	29,629	—	—	29,629
Conferences, conventions and meetings	7,756	—	—	7,756
Overhead	3,000	—	—	3,000
Administrative expenses	217,625	—	—	217,625
Other expenses	<u>7,437</u>	<u>—</u>	<u>—</u>	<u>7,437</u>
Total Supporting Services	<u>295,447</u>	<u>—</u>	<u>—</u>	<u>295,447</u>
Fund-raising	4,277	—	—	4,277
Total Expenses	<u>1,945,809</u>	<u>—</u>	<u>—</u>	<u>1,945,809</u>
CHANGE IN NET ASSETS	380,033	1,513,649	42,877	1,936,559
NET ASSETS AT BEGINNING OF YEAR	<u>2,641,833</u>	<u>3,336,473</u>	<u>7,306,253</u>	<u>13,284,559</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,021,866</u>	<u>\$ 4,850,122</u>	<u>\$ 7,349,130</u>	<u>\$ 15,221,118</u>

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

CALIFORNIA STATE UNIVERSITY FOUNDATION

STATEMENTS OF CASH FLOWS

	For the Year Ended	
	June 30,	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,670,284	\$ 1,936,559
Adjustments to reconcile change in net assets to net cash from operating activities:		
Unrealized and realized gain on investments	(2,214,832)	(1,541,684)
Noncash donation of securities	(32,660)	—
Contributions for long-term investments	(608,399)	(45,538)
Change in discounts to present value of pledges receivable	(32,604)	(14,312)
Net (increase) decrease in:		
Pledges receivable	592,125	79,850
Other current receivables	(18,159)	—
Net increase (decrease) in:		
Accounts payable	209,868	183,390
Local agency liability	6,447	(1,856)
Net Cash Provided By (Used In) Operating Activities	<u>(427,930)</u>	<u>596,409</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(400,000)	—
Net Cash Used In Investing Activities	<u>(400,000)</u>	<u>—</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for long-term investments	608,399	45,538
Net Cash Provided By Financing Activities	<u>608,399</u>	<u>45,538</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(219,531)	641,947
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,534,770</u>	<u>1,892,823</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,315,239</u>	<u>\$ 2,534,770</u>

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

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 1 – Nature of Activities and Significant Accounting Policies

Nature of Activities

California State University Foundation (the Foundation) is a nonprofit organization serving as an auxiliary to the Office of the Chancellor of the California State University. The Foundation administers charitable gift annuities and other funds in accordance with specific agreements.

Financial Statement Presentation

The accompanying financial statements are presented on the accrual basis of accounting, and the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Revenues, gains, expenses, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- **Unrestricted net assets** – Unrestricted net assets represent net assets that are not subject to donor-imposed restrictions and that may be expendable for any purpose in performing the primary objectives of the Foundation.
- **Temporarily restricted net assets** – Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.
- **Permanently restricted net assets** – Permanently restricted net assets include gifts and pledges which require, by donor restriction, that the corpus be invested in perpetuity and only the income be recorded as unrestricted or temporarily restricted net assets for program operations in accordance with donor restrictions.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Upon expiration of the restriction, the contributions are reclassified to unrestricted net assets.

CALIFORNIA STATE UNIVERSITY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – Nature of Activities and Significant Accounting Policies (Continued)

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all highly liquid, short-term investments with an original maturity of three months or less when purchased to be cash equivalents.

As of June 30, 2011 and at times throughout the year, the Foundation maintained cash balances at its financial institution in excess of federally insured limits. Given the current economic environment and risks in the banking industry, there is risk that these deposits may not be readily available or covered by insurance.

Investments

Investments held by the Foundation include marketable securities, US government and agency notes, and fixed income securities.

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the statements of financial position. The valuation of marketable securities is based upon quoted market prices. Unrealized gains and losses are included in the change in net assets on the statements of activities.

Pledges Receivable

The two forms of pledges receivable are unconditional promises to give and conditional promises to give. Unconditional promises to give are recognized as receivables and as revenues in the period in which the Foundation is notified by the donor of his or her commitment to make a contribution. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount amounts. An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable at year-end. The Foundation did not deem an allowance necessary at June 30, 2011 and 2010.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 1 – Nature of Activities and Significant Accounting Policies (Continued)

Charitable Gift Annuity Liability

The Foundation administers charitable gift annuities for various California State University campuses. The Foundation acts as an intermediary for the campuses for which they administer the charitable gift annuities for an agreed-upon percentage of the corpus.

Assets held for charitable gift annuities totaled \$4,454,702 and are reported at fair market value in the Foundation's statement of financial position as of June 30, 2011. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. Present value of amounts owed to annuitants and to various campuses in the California State University system at June 30, 2011 totaled \$2,826,880 and \$1,627,822, respectively. The present value of the estimated future payments is calculated using discount rates ranging from 5% to 12% and applicable mortality tables.

Other Receivables and Payables

The Foundation was named as an agent by the donors of two charitable remainder trusts which are recorded in other receivables and payables. Accordingly, the Foundation has recorded on its books an asset and a liability for the trusts at their fair market values.

Fair Value Measurements

The Foundation follows the provisions required for fair value measurements and disclosures of financial and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring and nonrecurring basis. 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. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The Foundation's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

Tax Status

The Foundation has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code, and Section 23701(d) of the Revenue and Taxation Code, respectively.

CALIFORNIA STATE UNIVERSITY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – Nature of Activities and Significant Accounting Policies (Continued)

Tax Status (Continued)

The Foundation recognizes the financial statement benefit of tax positions, such as filing status of tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Foundation is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Subsequent Events

The Foundation’s management has evaluated subsequent events from the statement of financial position date through September 22, 2011, the date the financial statements were available to be issued, and determined there were no other items to disclose.

NOTE 2 – Investments

Investments consists of the following:

	June 30,			
	2011		2010	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 105,136	\$ 105,136	\$ 1,167,175	\$ 1,167,175
Mortgage and asset-backed securities	187,666	190,212	193,780	198,985
Common stock and options	1,582,553	1,944,811	1,247,576	1,323,569
Mutual funds	10,190,684	11,825,479	8,358,927	8,780,912
US Government bonds and government-sponsored entity bonds	190,205	190,397	194,720	195,323
Venture capital and partnerships	299,044	312,363	251,432	239,969
	<u>\$ 12,555,288</u>	<u>\$ 14,568,398</u>	<u>\$ 11,413,610</u>	<u>\$ 11,905,933</u>

CALIFORNIA STATE UNIVERSITY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 2 – Investments (Continued)

Investment return is summarized as follows:

	For the Year Ended June 30,	
	2011	2010
Interest and dividend income, net of investment fees	\$ 361,642	\$ 261,324
Net unrealized gains (losses)	1,514,098	(422,200)
Net realized gains	<u>339,092</u>	<u>1,702,560</u>
	<u><u>\$ 2,214,832</u></u>	<u><u>\$ 1,541,684</u></u>

Investment fees totaled \$24,174 and \$39,937 for the years ended June 30, 2011 and 2010, respectively.

NOTE 3 – Pledges Receivable

Pledges receivable are scheduled to be collected as follows:

	June 30,	
	2011	2010
Receivable in less than one year	\$ 523,125	\$ 466,750
Receivable in one to five years	<u>—</u>	<u>648,500</u>
	523,125	1,115,250
Less 5% discount factor to present value	<u>—</u>	<u>(32,604)</u>
	<u><u>\$ 523,125</u></u>	<u><u>\$ 1,082,646</u></u>

NOTE 4 – Charitable Gift Annuity Assets

Charitable gift annuity assets consists of the following:

	June 30, 2011	
	Cost	Fair Value
Cash	\$ 259,580	\$ 259,580
Marketable securities	1,470,552	2,131,594
Fixed income securities	<u>1,973,843</u>	<u>2,063,528</u>
	<u><u>\$ 3,703,975</u></u>	<u><u>\$ 4,454,702</u></u>

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 4 – Charitable Gift Annuity Assets (Continued)

	June 30, 2010	
	Cost	Fair Value
Cash	\$ 146,664	\$ 146,664
Marketable securities	1,240,187	1,556,739
Fixed income securities	2,158,986	2,272,471
	\$ 3,545,837	\$ 3,975,874

NOTE 5 – Contributed Services

During fiscal years 2011 and 2010, the Foundation received contributed services from the California State University Office of the Chancellor for various administrative duties. The value of such contributed services totaled approximately \$233,000 and \$218,000, respectively, and is presented on the accompanying statements of activities as unrestricted contributions and unrestricted administrative expenses.

NOTE 6 – Temporarily Restricted Net Assets

Temporarily restricted net assets are as follows:

	June 30,	
	2011	2010
Scholarships	\$ 2,941,238	\$ 2,074,667
Haworth Family Quasi Endowment	91,563	91,563
Inflation Reserve	641,268	94,208
University Projects	1,719,593	2,589,684
	\$ 5,393,662	\$ 4,850,122

Included in temporarily restricted net assets, in accordance with the endowment agreements, are inflation reserves for each endowment. The inflation reserve funds are maintained to preserve the purchasing power of the endowment principal; however, they can be spent in support of the endowments purposes at the discretion of the Board of Governors. During periods of inflation, the Foundation allocates amounts from the scholarship funds to the inflation reserve funds at a rate commensurate with the Consumer Price Index.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 6 – Temporarily Restricted Net Assets (Continued)

Haworth Family Quasi Endowment is included in temporarily restricted net assets. The donor instructed the funds to be used for scholarships at the Board's direction. The Board elected to preserve the funds as endowment, technically known as Haworth Family Quasi Endowment.

NOTE 7 – Endowments

The Foundation's endowments consist of several individual donor-designated funds established to support a scholarship fund recorded in temporarily restricted net assets. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets: (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in 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 prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic 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 organization
- (7) The investment policies of the organization

The Investment Committee of the Board of Governors is charged with the responsibility of managing the investment of endowment assets for the Foundation. The overall goal in management of these funds is to generate a long-term total rate of return that provides sustainable distributions to support program expenditures within a reasonable level of risk. As a result, the endowment assets are invested in a manner that is intended to produce results that, over the long-term, allow them to grow at a rate exceeding expected inflation. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as, to provide additional real growth through new gifts and investment return.

CALIFORNIA STATE UNIVERSITY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 7 – Endowments (Continued)

The Investment Committee of the Board of Governors adheres to modern portfolio theory, which has, as its basis, risk reduction through diversification. Diversification is obtained through the use of multiple asset classes, as well as, multiple investments within these asset classes. Asset classes that may be used include (but are not limited to) domestic and international corporate stocks and bonds, hedge funds, and government issued debt securities. The investment strategy is implemented through the selection of external advisors and managers with the expertise and successful histories in the management of specific asset classes.

Endowment net assets consists of the following at June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	\$ 3,171,632	\$ 7,917,635	\$ 11,089,267
Donor-restricted/board designated quasi endowment fund	<u>—</u>	<u>91,563</u>	<u>—</u>	<u>91,563</u>
Total	<u>\$ —</u>	<u>\$ 3,263,195</u>	<u>\$ 7,917,635</u>	<u>\$ 11,180,830</u>

Endowment net assets consists of the following at June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	\$ 1,705,126	\$ 7,349,130	\$ 9,054,256
Donor-restricted/board designated quasi endowment fund	<u>—</u>	<u>91,563</u>	<u>—</u>	<u>91,563</u>
Total	<u>\$ —</u>	<u>\$ 1,796,689</u>	<u>\$ 7,349,130</u>	<u>\$ 9,145,819</u>

CALIFORNIA STATE UNIVERSITY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 7 – Endowments (Continued)

Net changes in endowment funds and the related portion of temporarily restricted net assets for the year ended June 30, 2011 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ —	\$ 1,796,689	\$ 7,349,130	\$ 9,145,819
Investment return:				
Investment income	—	348,987	—	348,987
Net appreciation (realized and unrealized)	—	<u>1,390,902</u>	—	<u>1,390,902</u>
Total investment return	—	1,739,889	—	1,739,889
Contributions	—	42,795	608,399	651,194
Other expense	—	(580)	(39,894)	(40,474)
Appropriated for expenditure	—	<u>(315,598)</u>	—	<u>(315,598)</u>
Endowment net assets, end of year	<u>\$ —</u>	<u>\$ 3,263,195</u>	<u>\$ 7,917,635</u>	<u>\$ 11,180,830</u>

Net changes in endowment funds and the related portion of temporarily restricted net assets for the year ended June 30, 2010 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ —	\$ 709,341	\$ 7,306,253	\$ 8,015,594
Investment return:				
Investment income	—	207,850	—	207,850
Net appreciation (realized and unrealized)	—	<u>975,850</u>	—	<u>975,850</u>
Total investment return	—	1,183,700	—	1,183,700
Contributions	—	27,750	45,538	73,288
Other income (expense)	—	8,721	(2,661)	6,060
Appropriated for expenditure	—	<u>(132,823)</u>	—	<u>(132,823)</u>
Endowment net assets, end of year	<u>\$ —</u>	<u>\$ 1,796,689</u>	<u>\$ 7,349,130</u>	<u>\$ 9,145,819</u>

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 7 – Endowments (Continued)

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2011 and 2010.

NOTE 8 – Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investments in perpetuity as follows:

	June 30,	
	2011	2010
Robert M. Odell Endowment Scholarship in Public Administration	\$ 75,000	\$ 75,000
William Randolph Hearst/CSU Trustees' Award for Outstanding Achievement	314,792	314,792
Glenn and Dorothy Dumke Fellowship	24,617	24,617
Dr. Ali C. Razi Endowed Scholarship	175,000	175,000
Angelina Aliberti Ruggie and Lawrence L. Ruggie Endowed Scholarship	34,346	34,346
Dale M. Schoettler Scholarship for Visually Impaired Students	5,829,821	5,829,821
Gregson Bautzer University Fund Scholarship	150,000	150,000
Nathaniel R. and Valarie Dumont Scholarship	500,000	500,000
Wilson C. Riles Education Scholarship	100,000	100,000
Dr. Murray L. Galinson Endowed Scholarship	105,660	145,554
William and Jan Lahey Art Education and Visual Art Scholarship Endowment	289,200	—
William and Jan Lahey Summer Arts Endowment	289,199	—
William Hauck Endowed Scholarship	30,000	—
	\$ 7,917,635	\$ 7,349,130

Each of the Foundation's endowments has been established to support a scholarship or program fund recorded in temporarily restricted net assets. Investment gains and losses from the endowment funds are recorded as increases or decreases to the scholarship or program funds in accordance with the endowment agreements.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

NOTE 9 – Fair Value Measurements

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine the fair value disclosures. The fair value of a financial instrument is 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. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for the Foundation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The Foundation groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Investments in marketable and fixed income securities and charitable gift annuity assets: The fair value of the investments in marketable and fixed income securities and charitable gift annuity assets is measured using quoted prices used in active markets or significant other observable inputs.

Investments in venture capital and partnerships: The fair value of investments in venture capital and partnerships is based on the net asset value of underlying investments as determined by the asset custodians.

Pledges receivable from promises to give: The fair value of the pledges receivable from promises to give is estimated as the present value of the projected proceeds that will be received from the promise to give.

CALIFORNIA STATE UNIVERSITY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 9 – Fair Value Measurements (Continued)

The following tables present assets that are measured at fair value on a recurring basis at June 30, 2011 and 2010:

	<u>Balance at June 30, 2011</u>	<u>Fair Value Measurements at Reporting Date</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Investments				
Cash and Equivalents	\$ 105,136	\$ 105,136		
Mortgage and asset-backed securities	190,212	190,212		
Common stock and options	1,944,811	1,944,811		
Mutual funds	11,825,479	11,825,479		
US Government bonds and government-sponsored entity bonds	190,397	190,397		
Venture capital and partnerships	312,363			\$ 312,363
Charitable Gift Annuity Assets				
Cash and equivalents	259,580	259,580		
Mutual funds	2,131,594	2,131,594		
US Government bonds and notes	<u>2,063,528</u>	<u>2,063,528</u>		
Total	<u>\$ 19,023,100</u>	<u>\$ 18,710,737</u>	<u>None</u>	<u>\$ 312,363</u>

CALIFORNIA STATE UNIVERSITY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 9 – Fair Value Measurements (Continued)

	<u>Balance at June 30, 2010</u>	<u>Fair Value Measurements at Reporting Date</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Investments				
Cash and Equivalents	\$ 1,167,175	\$ 1,167,175		
Mortgage and asset-backed securities	198,985	198,985		
Common stock and options	1,323,569	1,323,569		
Mutual funds	8,780,912	8,780,912		
US Government bonds and government-sponsored entity bonds	195,323	195,323		
Venture capital and partnerships	239,969			\$ 239,969
Charitable Gift Annuity Assets				
Cash and equivalents	146,664	146,664		
Mutual funds	1,556,739	1,556,739		
US Government bonds and notes	<u>2,272,471</u>	<u>2,272,471</u>		
Total	\$ <u>15,881,807</u>	\$ <u>15,641,838</u>	<u>None</u>	\$ <u>239,969</u>

The table below presents additional information about assets measured at fair value on a recurring basis using Level 3 inputs to determine fair value:

	<u>Investments in Venture Capital and Partnerships</u>
Balance at July 1, 2009	\$ 222,935
Realized and unrealized gains (losses), net	47,005
Purchases and sales, net	<u>(29,971)</u>
Balance at June 30, 2010	239,969
Realized and unrealized gains (losses), net	24,782
Purchases and sales, net	<u>47,612</u>
Balance at June 30, 2011	<u>\$ 312,363</u>

CALIFORNIA STATE UNIVERSITY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 9 – Fair Value Measurements (Continued)

The following tables present assets that are measured at fair value on a nonrecurring basis at June 30, 2011 and 2010:

	<u>Balance at June 30, 2011</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Pledges receivable	\$ 523,125	—	—	\$ 523,125
	<u>\$ 523,125</u>	<u>None</u>	<u>None</u>	<u>\$ 523,125</u>

	<u>Balance at June 30, 2010</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Pledges receivable	\$ 1,082,646	—	—	\$ 1,082,646
	<u>\$ 1,082,646</u>	<u>None</u>	<u>None</u>	<u>\$ 1,082,646</u>

As of June 30, 2011 and 2010, the Foundation has no liabilities measured at fair value.

NOTE 10 – Local Agency Transactions

The Foundation entered into an operating agreement with the CSU Alumni Council on March 31, 2006. Pursuant to the agreement, the Foundation agreed to provide accounting and financial management services to the CSU Alumni Council. As of June 30, 2011 and 2010, the Foundation had a liability balance due to the CSU Alumni Council of \$110,841 and \$90,062, respectively. The balance was related to the net assets held by the Foundation on behalf of the CSU Alumni Council.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 10 – Local Agency Transactions (Continued)

During fiscal year 2011, the Foundation began providing accounting services for CSU Student Association. At June 30, 2011 the Foundation had a liability due to CSU Student Association of \$641 for the net assets held by the Foundation on behalf of CSU Student Association.

	<u>Alumni Council Liability</u>	<u>Student Association Liability</u>
Balance at July 1, 2009	\$ 81,476	\$ –
Investment gain	10,442	–
Operating loss	(1,856)	–
Balance at June 30, 2010	90,062	–
Funds deposited with the Foundation	–	1,000
Investment gain	14,973	–
Operating income (expense)	<u>5,806</u>	<u>(359)</u>
Balance at June 30, 2011	<u>\$ 110,841</u>	<u>\$ 641</u>

NOTE 11 – Supplemental Disclosure of Noncash Investing and Financing Activities

The Foundation increased investment and alumni council liability for the investment gain on behalf of Alumni Council of \$14,973 and \$10,442 during the years ended June 30, 2011 and 2010, respectively.