



THE CALIFORNIA STATE UNIVERSITY
FOUNDATION

FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of
California State University Foundation:

We have audited the accompanying financial statements of California State University Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers 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 California State University Foundation as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Long Beach, California
September 16, 2014

CALIFORNIA STATE UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2014	2013
CURRENT ASSETS		
Cash	\$ 1,549,640	\$ 911,621
Pledges receivable, current portion	5,276,250	667,000
Other current receivables	8,000	3,000
Other current assets	<u>9,200</u>	<u>4,000</u>
	<u>6,843,090</u>	<u>1,585,621</u>
NONCURRENT ASSETS		
Investments	23,485,584	17,959,639
Pledges receivable, net of current portion	2,775,983	—
Charitable gift annuity assets	5,792,251	5,126,999
Other receivables	<u>120,309</u>	<u>114,200</u>
	<u>32,174,127</u>	<u>23,200,838</u>
TOTAL ASSETS	<u>\$ 39,017,217</u>	<u>\$ 24,786,459</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 562,665	\$ 81,706
Local agency liability, current portion	<u>20,082</u>	<u>24,593</u>
	<u>582,747</u>	<u>106,299</u>
NONCURRENT LIABILITIES		
Charitable gift annuity liability	5,792,251	5,126,999
Other payables	120,309	114,200
Local agency liability, net of current portion	<u>118,595</u>	<u>103,981</u>
	<u>6,031,155</u>	<u>5,345,180</u>
TOTAL LIABILITIES	<u>6,613,902</u>	<u>5,451,479</u>
NET ASSETS		
Unrestricted	4,278,358	3,887,889
Temporarily restricted	16,753,578	7,074,659
Permanently restricted	<u>11,371,379</u>	<u>8,372,432</u>
Total Net Assets	<u>32,403,315</u>	<u>19,334,980</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 39,017,217</u>	<u>\$ 24,786,459</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, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 376,362	\$ 11,322,535	\$ 2,998,947	\$ 14,697,844
Investment income	482,261	2,259,411	—	2,741,672
Other	314,604	—	—	314,604
Net assets released from restrictions	<u>3,903,027</u>	<u>(3,903,027)</u>	<u>—</u>	<u>—</u>
Total Support and Revenue	<u>5,076,254</u>	<u>9,678,919</u>	<u>2,998,947</u>	<u>17,754,120</u>
EXPENSES				
Program Services:				
Projects, grants and other assistance	3,474,503	—	—	3,474,503
Student scholarships	414,184	—	—	414,184
Conferences, conventions and meetings	262,715	—	—	262,715
Other expenses	<u>127,466</u>	<u>—</u>	<u>—</u>	<u>127,466</u>
Total Program Services	<u>4,278,868</u>	<u>—</u>	<u>—</u>	<u>4,278,868</u>
Supporting Services:				
Compensation of officers	32,540	—	—	32,540
Professional services	33,781	—	—	33,781
Conferences, conventions and meetings	27,997	—	—	27,997
Overhead	2,627	—	—	2,627
Administrative expenses	235,970	—	—	235,970
Other expenses	<u>71,948</u>	<u>—</u>	<u>—</u>	<u>71,948</u>
Total Supporting Services	<u>404,863</u>	<u>—</u>	<u>—</u>	<u>404,863</u>
Fund-raising	2,054	—	—	2,054
Total Expenses	<u>4,685,785</u>	<u>—</u>	<u>—</u>	<u>4,685,785</u>
CHANGE IN NET ASSETS	390,469	9,678,919	2,998,947	13,068,335
NET ASSETS AT BEGINNING OF YEAR	<u>3,887,889</u>	<u>7,074,659</u>	<u>8,372,432</u>	<u>19,334,980</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,278,358</u>	<u>\$ 16,753,578</u>	<u>\$ 11,371,379</u>	<u>\$ 32,403,315</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, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 613,928	\$ 4,094,605	\$ 397,797	\$ 5,106,330
Investment income	278,620	1,134,852	—	1,413,472
Other	72,706	—	—	72,706
Net assets released from restrictions	<u>4,143,999</u>	<u>(4,143,999)</u>	<u>—</u>	<u>—</u>
Total Support and Revenue	<u>5,109,253</u>	<u>1,085,458</u>	<u>397,797</u>	<u>6,592,508</u>
EXPENSES				
Program Services:				
Projects, grants and other assistance	3,819,616	—	—	3,819,616
Student scholarships	366,694	—	—	366,694
Conferences, conventions and meetings	192,380	—	—	192,380
Other expenses	<u>121,789</u>	<u>—</u>	<u>—</u>	<u>121,789</u>
Total Program Services	<u>4,500,479</u>	<u>—</u>	<u>—</u>	<u>4,500,479</u>
Supporting Services:				
Compensation of officers	31,435	—	—	31,435
Professional services	40,419	—	—	40,419
Conferences, conventions and meetings	11,126	—	—	11,126
Overhead	3,000	—	—	3,000
Administrative expenses	234,868	—	—	234,868
Other expenses	<u>37,301</u>	<u>—</u>	<u>—</u>	<u>37,301</u>
Total Supporting Services	<u>358,149</u>	<u>—</u>	<u>—</u>	<u>358,149</u>
Fund-raising	2,739	—	—	2,739
Total Expenses	<u>4,861,367</u>	<u>—</u>	<u>—</u>	<u>4,861,367</u>
CHANGE IN NET ASSETS	247,886	1,085,458	397,797	1,731,141
NET ASSETS AT BEGINNING OF YEAR	<u>3,640,003</u>	<u>5,989,201</u>	<u>7,974,635</u>	<u>17,603,839</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,887,889</u>	<u>\$ 7,074,659</u>	<u>\$ 8,372,432</u>	<u>\$ 19,334,980</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,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 13,068,335	\$ 1,731,141
Adjustments to reconcile change in net assets to net cash from operating activities:		
Unrealized and realized gain on investments	(2,741,672)	(1,413,472)
Contributions for long-term investments	(3,253,956)	(2,455,852)
Noncash donation capitalized	(5,200)	(4,000)
Change in discounts to present value of pledges receivable	186,417	(5,714)
Net (increase) decrease in:		
Pledges receivable	(7,571,650)	636,375
Other current receivables	(5,000)	(1,042)
Other current assets	-	2,454
Net increase in:		
Accounts payable	480,959	54,784
Local agency liability	10,103	4,597
Net Cash Provided By (Used In) Operating Activities	<u>168,336</u>	<u>(1,450,729)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	310,000	200,000
Purchases of investments	-	(478,000)
Net Cash Provided By (Used In) Investing Activities	<u>310,000</u>	<u>(278,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for long-term investments	159,683	397,797
Net Cash Provided By Financing Activities	<u>159,683</u>	<u>397,797</u>
NET CHANGE IN CASH	638,019	(1,330,932)
CASH AT BEGINNING OF YEAR	<u>911,621</u>	<u>2,242,553</u>
CASH AT END OF YEAR	<u>\$ 1,549,640</u>	<u>\$ 911,621</u>

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

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

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 nature of any donor restrictions. Upon expiration of the restriction, the contributions are reclassified to unrestricted net assets.

Contributions of noncash goods and services are recorded at the estimated fair value on the date of the contribution.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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.

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.

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.

Concentration of Cash

The Foundation maintains cash with financial institutions which, at various times, may exceed federally insured limits. The Foundation has not experienced any losses in the past and believes it is not exposed to any significant credit risk.

Investments

Investments held by the Foundation include marketable securities, fixed income securities, alternative investments, and venture capital and partnerships. The investments are reflected in the statements of financial position at fair value. Unrealized gains and losses are included in the change in net assets on the statements of activities.

The Foundation's investments in marketable securities and fixed income securities are generally publicly traded on national securities exchanges and have readily available quoted market values. The Foundation's investments in alternative investments and venture capital and partnerships are carried at estimated fair value. Management established fair value of these nonmarketable investments based on valuations provided by investment advisors/custodians, on their most recent statements available. Venture capital and partnerships estimated fair value is based on financial information that is six months in arrears. The Foundation believes that the carrying amount of these financial instruments is a reasonable estimate of fair value.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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

Investments (Continued)

At June 30, 2014 and at various times throughout the year, the Foundation maintains cash and cash equivalents, and investment balances at brokers which may not be covered by federally insured limits, exceed amounts insured by Securities Investor Protection Corporation (SIPC), or be alternative investments which are not covered by SIPC. Certain investments not covered by SIPC may or may not be insured by supplemental insurance carried by the brokers. Given the current economic environment and risks in the financial institution industry, there is a risk that these deposits may not be readily available. The Foundation has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on these accounts.

The Foundation's investments are exposed to various risks, such as market and credit risks. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

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, 2014 and 2013.

Charitable Gift Annuity Assets and Liability

The Foundation administers charitable gift annuities for various California State University (CSU) 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 \$5,792,251 and are reported at fair market value in the Foundation's statement of financial position as of June 30, 2014. 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, 2014 totaled \$2,907,493 and \$2,884,758, respectively. The present value of the estimated future payments is calculated using discount rates ranging from 1.0% to 7.6% and applicable mortality tables.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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

Other Noncurrent 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.

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.

The Foundation recognizes the financial statement benefit of tax positions, such as its 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 16, 2014, the date the financial statements were available to be issued, and determined there were no other items to disclose.

NOTE 2 – Pledges Receivable

Pledges receivable are scheduled to be collected as follows:

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Current receivable in less than one year	\$ 5,276,250	\$ 667,000
Noncurrent receivable in one to five years	2,962,400	—
Less 5% discount factor to present value	(186,417)	—
Net noncurrent receivable	<u>2,775,983</u>	<u>—</u>
	<u>\$ 8,052,233</u>	<u>\$ 667,000</u>

CALIFORNIA STATE UNIVERSITY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 – Investments

Investments consist of the following:

	June 30,			
	2014		2013	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 84,018	\$ 84,018	\$ 81,799	\$ 81,799
Common stock and options	1,670,406	2,025,695	1,314,114	1,465,651
Mutual funds	13,986,440	16,289,148	10,169,354	11,370,337
Exchange-traded and closed-end funds	668,689	688,859	2,101,838	1,978,577
Alternative investments	2,768,667	4,066,995	2,578,563	2,731,925
Venture capital and partnerships	<u>242,373</u>	<u>330,869</u>	<u>303,180</u>	<u>331,350</u>
	<u>\$ 19,420,593</u>	<u>\$ 23,485,584</u>	<u>\$ 16,548,848</u>	<u>\$ 17,959,639</u>

Investment return is summarized as follows:

	For the Year Ended June 30,	
	<u>2014</u>	<u>2013</u>
Reinvested interest and dividend income, net of investment fees	\$ 479,306	\$ 428,391
Net unrealized gains (losses)	1,545,898	73,074
Net realized gains	<u>716,468</u>	<u>912,007</u>
	<u>\$ 2,741,672</u>	<u>\$ 1,413,472</u>

Investment fees totaled \$24,529 and \$23,809 for the years ended June 30, 2014 and 2013, respectively.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 4 – Charitable Gift Annuity Assets

Charitable gift annuity assets consists of the following:

	<u>June 30, 2014</u>	
	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 643,648	\$ 643,648
Marketable securities	2,018,887	3,533,813
Fixed income securities	<u>1,585,470</u>	<u>1,614,790</u>
	<u>\$ 4,248,005</u>	<u>\$ 5,792,251</u>
	<u>June 30, 2013</u>	
	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 187,210	\$ 187,210
Marketable securities	1,745,368	2,767,388
Fixed income securities	<u>2,114,081</u>	<u>2,172,401</u>
	<u>\$ 4,046,659</u>	<u>\$ 5,126,999</u>

NOTE 5 – Local Agency Liability

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 all accounting and financial management services to the CSU Alumni Council. As of June 30, 2014 and 2013, the Foundation had a liability balance due to the CSU Alumni Council of \$136,303 and \$128,362, respectively. The balance was related to the net assets held by the Foundation on behalf of the CSU Alumni Council.

During fiscal year 2011, the Foundation began providing limited accounting services for CSU Student Association. At June 30, 2014 and 2013, the Foundation had a liability due to CSU Student Association of \$2,374 and \$212, respectively, for the net assets held by the Foundation on behalf of CSU Student Association.

CALIFORNIA STATE UNIVERSITY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 5 – Local Agency Liability (Continued)

	<u>Alumni Council Liability</u>	<u>Student Association Liability</u>
Balance at July 1, 2012	\$ 113,296	\$ 1,081
Investment gain	9,600	–
Operating income (loss)	<u>5,466</u>	<u>(869)</u>
Balance at June 30, 2013	128,362	212
Investment gain	14,614	
Operating income (loss)	<u>(6,673)</u>	<u>2,162</u>
Balance at June 30, 2014	<u>\$ 136,303</u>	<u>\$ 2,374</u>

NOTE 6 – Net Assets

The following is a summary of the Foundation’s net assets:

Unrestricted Net Assets

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Available for current operations	\$ 4,148,358	\$ 3,757,899
Board designated Reed Quasi Endowment	<u>130,000</u>	<u>130,000</u>
	<u>\$ 4,278,358</u>	<u>\$ 3,887,899</u>

Temporarily Restricted Net Assets

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Scholarships	\$ 4,390,593	\$ 3,075,211
Haworth Family Quasi Endowment	91,563	91,563
State University House Quasi Endowment	1,895,249	1,895,249
Inflation Reserve	1,433,265	940,598
University Projects	<u>8,942,908</u>	<u>1,072,038</u>
	<u>\$ 16,753,578</u>	<u>\$ 7,074,659</u>

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 6 – Net Assets (Continued)

Temporarily Restricted Net Assets (Continued)

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.

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 an endowment, technically known as Haworth Family Quasi Endowment.

The State University House Quasi Endowment was transferred from the CSU to the Foundation. In 1972, real property in Bel Air, California, was donated to the CSU Foundation for the purpose of a residence for the Chancellor. The property was transferred to the California State University. In 1991, the Bel Air property was sold and a new State University House purchased in Long Beach, California. The net proceeds of the sale were held in a quasi endowment for State University House operations, maintenance, and facility improvement. The CSU Board of Trustees approved transferring the quasi endowment back to the CSU Foundation in May 2013.

Permanently Restricted Net Assets

	June 30,	
	2014	2013
Robert M. Odell Endowment Scholarship in Public Administration	\$ 75,000	\$ 75,000
William Randolph Hearst/CSU Trustees' Award for Outstanding Achievement	415,050	415,051
Glenn and Dorothy Dumke Fellowship	24,617	24,617
Dr. Ali C. Razi Endowed Scholarship	225,000	175,000
Angelina Aliberti Ruggie and Lawrence L. Ruggie Endowed Scholarship	34,346	34,346
Dale M. Schoettler Scholarship for Visually Impaired Students	5,830,940	5,829,821
Gregson Bautzer University Fund Scholarship	150,000	150,000
Nathaniel R. and Valarie Dumont Scholarship	525,000	525,000
Wilson C. Riles Education Scholarship	100,000	100,000
Dr. Murray L. Galinson Endowed Scholarship	153,710	153,710
William and Jan Lahey Art Education and Visual Art Scholarship Endowment	289,200	289,200
William and Jan Lahey Summer Arts Endowment	289,199	289,199
William Hauck Endowed Scholarship	88,939	30,000
Stauffer Foundation Endowment	27,000	18,000

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 6 – Net Assets (Continued)

Permanently Restricted Net Assets (Continued)

	June 30,	
	2014	2013
Charles and Catherine Reed Endowment	20,000	20,000
Robert D. and Dorothy W. Talty Endowment	134,114	93,488
Kenneth Fong Scholar Endowment	150,000	150,000
Trustee Emerita Claudia Hampton Endowed Scholarship	150,000	—
Hampton Scholars Endowed Scholarship	259,264	—
Real Estate and Land Use Institute Program Endowment	1,000,000	—
Real Estate and Land Use Institute Scholarship Endowment	1,430,000	—
	<u>\$ 11,371,379</u>	<u>\$ 8,372,432</u>

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.

NOTE 7 – Endowments

The Foundation’s endowments consist of several individual donor-designated funds established to support a program or 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.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 7 – Endowments (Continued)

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.

The Board of Governors will allow up to 4% of the portfolio value, based upon the 3-year moving average of portfolio market value determined one year before the fiscal year in which funds are to be spent.

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, alternative investments, 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.

CALIFORNIA STATE UNIVERSITY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 7 – Endowments (Continued)

Endowment net assets consist of the following at June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	\$ 6,051,162	\$ 11,371,379	\$ 17,422,541
Quasi endowment funds	<u>130,000</u>	<u>1,986,812</u>	<u>—</u>	<u>2,116,812</u>
Total	<u>\$ 130,000</u>	<u>\$ 8,037,974</u>	<u>\$ 11,371,379</u>	<u>\$ 19,539,353</u>

Endowment net assets consist of the following at June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	\$ 3,871,787	\$ 8,372,432	\$ 12,244,219
Quasi endowment funds	<u>130,000</u>	<u>1,986,812</u>	<u>—</u>	<u>2,116,812</u>
Total	<u>\$ 130,000</u>	<u>\$ 5,858,599</u>	<u>\$ 8,372,432</u>	<u>\$ 14,361,031</u>

Net changes in endowment funds and the related portion of temporarily restricted net assets for the year ended June 30, 2014 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 130,000</u>	<u>\$ 5,858,599</u>	<u>\$ 8,372,432</u>	<u>\$ 14,361,031</u>
Investment return:				
Investment income	—	453,710	—	453,710
Net appreciation (realized and unrealized)	—	<u>1,786,657</u>	—	<u>1,786,657</u>
Total investment return	—	<u>2,240,367</u>	—	<u>2,240,367</u>
Contributions	—	378,491	2,998,947	3,377,438
Appropriated for expenditure	—	<u>(439,483)</u>	—	<u>(439,483)</u>
Endowment net assets, end of year	<u>\$ 130,000</u>	<u>\$ 8,037,974</u>	<u>\$ 11,371,379</u>	<u>\$ 19,539,353</u>

CALIFORNIA STATE UNIVERSITY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 7 – Endowments (Continued)

Net changes in endowment funds and the related portion of temporarily restricted net assets for the year ended June 30, 2013 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ —	\$ 2,958,555	\$ 7,974,635	\$ 10,933,190
Investment return:				
Investment income	—	346,724	—	346,724
Net appreciation (realized and unrealized)	—	765,141	—	765,141
Total investment return	—	1,111,865	—	1,111,865
Contributions	130,000	2,138,681	397,797	2,666,478
Appropriated for expenditure	—	(350,502)	—	(350,502)
Endowment net assets, end of year	<u>\$ 130,000</u>	<u>\$ 5,858,599</u>	<u>\$ 8,372,432</u>	<u>\$ 14,361,031</u>

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, 2014 and 2013.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 8 – 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. Also included in Level 2 are investments measured using a net asset value ("NAV") per share, or its equivalent, that may be redeemed at that NAV at the date of the statement of financial position or in the near term, which is generally considered to be within 90 days.
- Level 3 inputs are unobservable inputs for the asset or liability. This valuation is accomplished using management's best estimate of fair value, with inputs into the determination of fair value that require significant management judgment or estimation. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at the NAV or for which redemption at NAV is uncertain due to lockup periods or other investment restrictions.

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.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 8 – Fair Value Measurements (Continued)

The Foundation determines the fair value of financial instruments for which it cannot obtain quoted market prices in active markets as follows:

Alternative investments: The valuation of alternative investments is determined through consideration of the net asset values provided by the investment advisors. The investment advisors' determination of fair value is based upon the best available information and other market factors which may include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment. For alternative investments, which are composed of hedge funds, the Foundation has determined that the NAV reported by the underlying fund is a practical expedient to fair value; however, adjustments to the reported NAV may be made based on various factors including, but not limited to, the basis of accounting used in determining NAV, the reporting date of the NAV, and probable sales of any individual investment funds as of the measurement date. The Foundation has concluded that these investments are redeemable with the fund at NAV under the original terms of the partnership agreements and/or subscription agreements and operations of underlying fund agreements. Due to the nature of these investments, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the Foundation's interest in the funds.

Investments in venture capital and partnerships: The fair value of investments in venture capital and partnerships is based on the Foundation's estimated capital account as determined by the asset custodians. The asset custodians' determination of fair value uses quoted prices for any assets traded on a recognized securities exchange, and all other assets are valued based upon the best available information and other market factors which may include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment. The capital account is also adjusted for cumulative contributions and distributions. The investments are not eligible for redemption or transfer unless written consent has been obtained from the fund's General Partner. Assets of the investments are expected to be liquidated/distributed through 2017, and the Foundation's remaining unfunded commitment is \$25,140 as of June 30, 2014 and 2013. Due to the nature of these investments, changes in market conditions and the economic environment may significantly impact the value of the funds and, consequently, the fair value of the Foundation's interest in the funds.

Other receivables and payables: The fair value of other receivables and payables is calculated by using recent life expectancy tables with a discount rate of 5%.

CALIFORNIA STATE UNIVERSITY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 – Fair Value Measurements (Continued)

The following tables present assets that are measured at fair value on a recurring basis at June 30, 2014 and 2013:

	<u>Balance at June 30, 2014</u>	<u>Fair Value Measurements at Reporting Date</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Cash and cash equivalents	\$ 84,018	\$ 84,018	\$ —	\$ —
Common stock and options	2,025,695	2,025,695	—	—
Mutual funds	16,289,148	16,289,148	—	—
Exchange-traded and closed-end funds	688,859	688,859	—	—
Alternative investments	4,066,995	—	1,046,535	3,020,460
Venture capital and partnerships	<u>330,869</u>	<u>—</u>	<u>—</u>	<u>330,869</u>
	<u>\$ 23,485,584</u>	<u>\$ 19,087,720</u>	<u>\$ 1,046,535</u>	<u>\$ 3,351,329</u>
Charitable gift annuity assets and liability:				
Cash and cash equivalents	\$ 643,648	\$ 643,648	—	—
Marketable securities	3,533,813	3,533,813	—	—
Fixed income securities	<u>1,614,790</u>	<u>1,614,790</u>	<u>—</u>	<u>—</u>
	<u>\$ 5,792,251</u>	<u>\$ 5,792,251</u>	<u>None</u>	<u>None</u>
Other receivables and payables:	<u>\$ 120,309</u>	<u>None</u>	<u>None</u>	<u>\$ 120,309</u>

CALIFORNIA STATE UNIVERSITY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 – Fair Value Measurements (Continued)

	<u>Balance at June 30, 2013</u>	<u>Fair Value Measurements at Reporting Date</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Cash and cash equivalents	\$ 81,799	\$ 81,799	\$ –	\$ –
Common stock and options	1,465,651	1,465,651	–	–
Mutual funds	11,370,337	11,370,337	–	–
Exchange-traded and closed-end funds	1,978,577	1,978,577	–	–
Alternative investments	2,731,925	–	663,420	2,068,505
Venture capital and partnerships	331,350	–	–	331,350
	<u>\$ 17,959,639</u>	<u>\$ 14,896,364</u>	<u>\$ 663,420</u>	<u>\$ 2,399,855</u>
Charitable gift annuity assets and liability:				
Cash and cash equivalents	\$ 187,210	\$ 187,210	–	–
Marketable securities	2,767,388	2,767,388	–	–
Fixed income securities	2,172,401	2,172,401	–	–
	<u>\$ 5,126,999</u>	<u>\$ 5,126,999</u>	<u>None</u>	<u>None</u>
Other receivables and payables:	<u>\$ 114,200</u>	<u>None</u>	<u>None</u>	<u>\$ 114,200</u>

CALIFORNIA STATE UNIVERSITY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 – Fair Value Measurements (Continued)

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>	<u>Alternative Investments</u>	<u>Other Receivables and Payables</u>
Balance at July 1, 2012	\$ 326,979	\$ 1,520,910	\$ 108,024
Realized and unrealized gains, net	33,701	256,595	6,176
Purchases	—	291,000	—
Distributions	<u>(29,330)</u>	<u>—</u>	<u>—</u>
Balance at June 30, 2013	331,350	2,068,505	114,200
Realized and unrealized gains, net	56,084	951,955	6,109
Distributions	<u>(56,565)</u>	<u>—</u>	<u>—</u>
Balance at June 30, 2014	<u>\$ 330,869</u>	<u>\$ 3,020,460</u>	<u>\$ 120,309</u>

All unrealized gains (losses) associated with the investments in venture capital and partnerships, and hedge funds and alternative investments are reported in investment gain (loss) on the statements of activities for the years ended June 30, 2014 and 2013. The unrealized gains (losses) for the other receivables and payables are reflected as an increase or decrease in the respective asset and liability on the statements of financial position as of June 30, 2014 and 2013.

Hedge Fund Investments Reported at Net Asset Value

The following table summarized the Foundation's Hedge Fund investments in funds valued using the fair value practical expedient of net asset value as of June 30, 2014:

	<u>Fair Value June 30, 2014</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period (Days)</u>
Level 2:				
Hedge fund (a)	<u>\$ 1,046,535</u>	<u>\$ —</u>	Daily	1
Level 3:				
Hedge fund (b)	1,294,856	—	Quarterly	65
Hedge fund (c)	<u>1,725,604</u>	<u>—</u>	Quarterly	65
	<u>3,020,460</u>	<u>—</u>		
	<u>\$ 4,066,995</u>	<u>\$ —</u>		

CALIFORNIA STATE UNIVERSITY FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 – Fair Value Measurements (Continued)

Hedge Fund Investments Reported at Net Asset Value (Continued)

- (a) Approximately 70% of the portfolio is invested in fixed income and cash equivalents, which consist of treasury bills and short-term deposits.

Approximately 26% of this fund includes other net assets and liabilities for receivables and payables of the fund.

While the liquidity of the underlying assets may vary, the total portfolio offers daily liquidity with notification required by one-day notice. There are no lockups.

- (b) Approximately 55% of this fund includes investments in event-driven strategies. These strategies focus on transactional events such as spinoffs, mergers and acquisitions, bankruptcies, recapitalizations and buyback shares, and may also include merger arbitrage and distressed corporate securities.

Approximately 29% of this fund includes investments in relative value strategies. These strategies seek to take advantage of specific pricing anomalies while seeking to maintain minimal exposure to systematic market risk.

While the liquidity of the underlying assets may vary, the total portfolio offers quarterly liquidity with 65 days written notice. The fund has a 5-25% cap on repurchases for any given period at the discretion of the fund's management. There are no lockups.

- (c) This fund includes investments in US, global and emerging market long/short equity strategies. These strategies focus on bottom-up fundamental company analysis, but may also include top-down macro-based views, market trends and sentiment factors, and investments across sectors in the equity market, both long and short.

While the liquidity of the underlying assets may vary, withdrawals in this portfolio have a one-year lockup with a 4% early redemption penalty, and quarterly withdrawals thereafter with 65 days written notice. At June 30, 2014, there is no remaining lockup restriction. Redemptions in full are subject to a holdback of 10% on redemption proceeds under the sole discretion of the fund's management until the fund's subsequent audit is completed as set forth in more detail in the fund's private placement memorandum. Interest will not be paid on amounts held back.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 9 – Related-Party Transactions

The Foundation receives grants for the California State University Office of the Chancellor or CSU Campuses, which it then disburses to the respective organization. During the years ended June 30, 2014 and 2013, approximately \$3,153,000 and \$3,578,000, respectively, was disbursed to CSU organizations, and is presented on the accompanying statements of activities as projects grants, and other assistance expenses.

In October 2013, the CSU transferred two endowments and their related earnings totaling approximately \$2,489,000 to the Foundation. The funds represent and support the Real Estate and Land Use Institute program and scholarship. The endowments are included as permanently restricted contributions and the related earnings as temporarily restricted contributions on the accompanying statement of activities for the year ended June 30, 2014.

In December 2013, CSU Dominguez Hills Foundation transferred two endowments and their related earnings totaling approximately \$636,000 to the Foundation. The funds represent and support Claudia Hampton Scholarships. The endowments are included as permanently restricted contributions and the related earnings as temporarily restricted contributions on the accompanying statement of activities for the year ended June 30, 2014.

The Foundation reimburses the California State University Office of the Chancellor or Campuses for salaries or other expenses incurred for personnel working on contracts, grants and other programs. For the years ended June 30, 2014 and 2013, these reimbursements were approximately \$3,000 and \$77,000, respectively.

At June 30, 2014 and 2013, the Foundation had approximately \$504,000 and \$18,000, respectively, payable to the California State University Office of the Chancellor, which is included in accounts payable on the accompanying statements of financial position.

During fiscal years 2014 and 2013, 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 \$236,000 and \$235,000, respectively, and is presented on the accompanying statements of activities as unrestricted contributions and unrestricted administrative expenses.

NOTE 10 – In-Kind Support

During the year ended June 30, 2014, the Foundation received in-kind support totaling \$37,600 presented on the accompanying statement of activities as temporarily restricted contributions and \$32,400 unrestricted other expenses for program services. At June 30, 2014, \$9,200 of the tangible in-kind support was not disbursed and is presented as other current assets on the statements of financial position.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 11 – Supplemental Disclosure of Noncash Investing and Financing Activities

The Foundation increased (decreased) investment and alumni council liability for the investment gain (loss) on behalf of Alumni Council of \$14,614 and 9,600 during the years ended June 30, 2014 and 2013, respectively.