



CALIFORNIA STATE UNIVERSITY
FULLERTON

Philanthropic Foundation

Financial Statements
June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of
Cal State Fullerton Philanthropic Foundation:

We have audited the accompanying financial statements of Cal State Fullerton Philanthropic Foundation (a nonprofit organization, the Foundation), 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 Cal State Fullerton Philanthropic 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.

Winder, Inc.

Long Beach, California
September 2, 2014

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2014	2013
ASSETS		
Cash and cash equivalents, including restricted cash	\$ 18,620,196	\$ 14,811,514
Investments	47,543,529	42,385,943
Contributions receivable, net of allowance for doubtful pledges	9,484,796	9,286,729
Accounts receivable	18,739	122,534
Prepaid expenses	86,650	68,000
Other receivables	95,052	196,057
Other assets	<u>90,711</u>	<u>71,566</u>
TOTAL ASSETS	<u>\$ 75,939,673</u>	<u>\$ 66,942,343</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued liabilities	<u>\$ 1,309,282</u>	<u>\$ 743,702</u>
Total Liabilities	<u>1,309,282</u>	<u>743,702</u>
NET ASSETS		
Unrestricted	1,741,368	1,547,792
Temporarily restricted	24,474,670	19,788,204
Permanently restricted	48,414,353	44,862,645
Total Net Assets	<u>74,630,391</u>	<u>66,198,641</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 75,939,673</u>	<u>\$ 66,942,343</u>

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

CAL STATE FULLERTON PHILANTHROPIC 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>
REVENUES AND SUPPORT				
Contributions and gifts	\$ 1,000	\$ 5,988,559	\$ 3,305,266	\$ 9,294,825
Campus programs	—	792,138	—	792,138
Alumni Association membership fees and programs	—	344,788	—	344,788
Investment income, net	560,737	4,832,066	43,833	5,436,636
Other income	2,143	—	—	2,143
Change in value of split interest agreements	—	52,759	202,609	255,368
Net assets released from restrictions	<u>7,323,844</u>	<u>(7,323,844)</u>	<u>—</u>	<u>—</u>
 Total Revenues and Support	 <u>7,887,724</u>	 <u>4,686,466</u>	 <u>3,551,708</u>	 <u>16,125,898</u>
EXPENSES				
Program Expenses:				
Campus	5,187,353	—	—	5,187,353
Scholarships	2,034,531	—	—	2,034,531
Alumni association	<u>225,603</u>	<u>—</u>	<u>—</u>	<u>225,603</u>
Total Program Expenses	<u>7,447,487</u>	<u>—</u>	<u>—</u>	<u>7,447,487</u>
Supporting Services:				
General and administrative	<u>246,661</u>	<u>—</u>	<u>—</u>	<u>246,661</u>
Total Supporting Services	<u>246,661</u>	<u>—</u>	<u>—</u>	<u>246,661</u>
 Total Expenses	 <u>7,694,148</u>	 <u>—</u>	 <u>—</u>	 <u>7,694,148</u>
 CHANGES IN NET ASSETS	 193,576	 4,686,466	 3,551,708	 8,431,750
 NET ASSETS AT BEGINNING OF YEAR	 <u>1,547,792</u>	 <u>19,788,204</u>	 <u>44,862,645</u>	 <u>66,198,641</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 1,741,368</u>	 <u>\$ 24,474,670</u>	 <u>\$ 48,414,353</u>	 <u>\$ 74,630,391</u>

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

CAL STATE FULLERTON PHILANTHROPIC 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>
REVENUES AND SUPPORT				
Contributions and gifts	—	\$ 4,968,465	\$ 2,938,471	\$ 7,906,936
Campus programs	—	1,094,745	—	1,094,745
Alumni Association membership fees and programs	—	311,241	—	311,241
Investment income, net	\$ 877,104	1,498,990	314,532	2,690,626
Other income	2,723	—	30,906	33,629
Change in value of split interest agreements	—	1,877	149,479	151,356
Net assets released from restrictions	<u>6,865,018</u>	<u>(6,865,018)</u>	<u>—</u>	<u>—</u>
Total Revenues and Support	<u>7,744,845</u>	<u>1,010,300</u>	<u>3,433,388</u>	<u>12,188,533</u>
EXPENSES				
Program Expenses:				
Campus	4,593,766	—	—	4,593,766
Scholarships	2,067,168	—	—	2,067,168
Alumni association	<u>240,054</u>	<u>—</u>	<u>—</u>	<u>240,054</u>
Total Program Expenses	<u>6,900,988</u>	<u>—</u>	<u>—</u>	<u>6,900,988</u>
Supporting Services:				
General and administrative	<u>192,616</u>	<u>—</u>	<u>—</u>	<u>192,616</u>
Total Supporting Services	<u>192,616</u>	<u>—</u>	<u>—</u>	<u>192,616</u>
Total Expenses	<u>7,093,604</u>	<u>—</u>	<u>—</u>	<u>7,093,604</u>
CHANGES IN NET ASSETS	651,241	1,010,300	3,433,388	5,094,929
NET ASSETS AT BEGINNING OF YEAR	<u>896,551</u>	<u>18,777,904</u>	<u>41,429,257</u>	<u>61,103,712</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,547,792</u>	<u>\$ 19,788,204</u>	<u>\$ 44,862,645</u>	<u>\$ 66,198,641</u>

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

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

STATEMENTS OF CASH FLOWS

	For the Year Ended June 30,	
	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 8,431,750	\$ 5,094,929
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions of investments	(64,257)	(9,502)
Reinvested investment income	(429,360)	(228,627)
Contributions restricted for long-term investments	(3,305,266)	(2,938,471)
Change in discount on contributions receivable	(13,352)	(357,032)
Change in allowance for doubtful pledges	22,010	(2,633)
Noncash change in split-interest agreements	(255,368)	(151,356)
Realized gain on sale of contributed investments	(153)	(296)
Net realized and unrealized gain on investments	(4,452,541)	(1,527,312)
Net (increase) decrease in:		
Contributions receivable	48,643	4,076,840
Accounts receivable	103,795	(16,631)
Prepaid expenses	(18,650)	-
Other assets and receivables	81,860	9,970
Net increase (decrease) in:		
Accounts payable and accrued liabilities	<u>565,580</u>	<u>(275,843)</u>
Net Cash Provided By Operating Activities	<u>714,691</u>	<u>3,674,036</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(8,486,242)	(41,447,454)
Proceeds from sale of investments	8,210,506	35,110,872
Proceeds from sale of contributed investments	<u>64,461</u>	<u>7,771</u>
Net Cash Used In Investing Activities	<u>(211,275)</u>	<u>(6,328,811)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investments	<u>3,305,266</u>	<u>2,938,471</u>
Net Cash Provided By Financing Activities	<u>3,305,266</u>	<u>2,938,471</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,808,682	283,696
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>14,811,514</u>	<u>14,527,818</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 18,620,196</u>	<u>\$ 14,811,514</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for:		
Income taxes	None	None
Interest	None	None

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

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 1 – Nature of Activities and Significant Accounting Policies

Nature of Activities

The Cal State Fullerton Philanthropic Foundation (the Foundation) is a nonprofit organization serving as an auxiliary to California State University, Fullerton (the University). The mission of the Foundation is to actively promote, pursue and steward private support, mainly in southern California, for the advancement of the University.

Financial Statement Presentation

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.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or 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's 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. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Permanently restricted contributions and net assets have restrictions stipulated by the donor that the corpus be invested in perpetuity and only income be made available for operations.

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, liabilities, and net assets, the disclosure of contingent assets, liabilities, and net assets and the reported revenues and support and expenses. Actual results can vary from the estimates that were assumed in preparing the financial statements. Significant items subject to such estimates and assumptions include the valuation of contributions receivable.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

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

Cash and Cash Equivalents

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

As of June 30, 2014 and at times throughout the year, the Foundation has maintained cash balances at its financial institutions in excess of federally insured limits.

Included in cash and cash equivalents at June 30, 2014 and 2013 is \$2,811,500 and \$2,338,278, respectively, restricted for endowment purposes.

Investments

The Foundation manages a significant number of individual endowment fund accounts. The purpose of an endowment fund is to ensure that the original contribution is held in perpetuity, its value grows consistent with inflation, and that a portion of the investment income is used for scholarships or other University support. The Foundation pools all of the endowment funds for investment purposes and annually sets a percentage of endowment investment income that may be spent on scholarships and other University support. Substantially all investments are directed toward funds managed by Goldman Sachs Institutional Wealth Management.

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. Unrealized gains and losses are included in the statements of activities.

Investment income is allocated to unrestricted, temporarily restricted, and permanently restricted as stipulated by the individual agreements.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

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

Charitable Remainder Trusts

The Foundation is the beneficiary of certain charitable remainder trusts held and administered by others. The present value of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established. (See Note 6.) Distributions from the trusts are recorded as investment returns and the carrying value of the assets is adjusted for the changes in the estimates of future amounts. Charitable remainder trusts amount to approximately \$1,285,000 and \$1,029,000 on June 30, 2014 and 2013, respectively, and are included in contributions receivable in the statements of financial position.

Promises to Give

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.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fair Value Measurements

The Foundation recognizes or discloses financial assets, financial liabilities and nonfinancial items at fair value, which 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.

The availability of inputs observable in the market varies from instrument to instrument and depends on a variety of factors including the type of instrument, whether the instrument is actively traded, and other characteristics particular to the transaction. For many financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely accepted by market participants, and the valuation does not require significant management discretion. For other financial instruments, pricing inputs are less observable in the market and may require management judgment.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

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

Tax Status

The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and 23701(d) of the Revenue and Taxation Code, respectively. In addition, the Foundation has been determined by the Internal Revenue Service to be a public charity. The Foundation recognizes the financial statement benefit of tax positions, such as its filing status as 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 purposes is three years and for state purposes is generally three to four years.

Subsequent Events

The Foundation’s management has evaluated subsequent events through September 2, 2014, the date the financial statements were available to be issued for the year ended June 30, 2014, and determined that there were no other items to disclose.

Reclassification

Certain reclassifications have been made to the 2013 financial information. There was no impact to the 2013 changes in net assets as a result of these changes.

NOTE 2 – Investments

Investments consists of the following:

	June 30,	
	2014	2013
Precious metal index funds	\$ 1,532,480	\$ 1,427,981
Domestic equity index funds	17,985,959	13,009,313
Fixed income index funds	12,491,204	12,923,442
International equity index funds	7,052,944	4,516,366
Certificates of deposit	–	2,000,000
Capital partners fund	779,267	682,186
Commonfund realty fund	570	17,412
Emerging markets fund	797,398	1,914,533
Hedge funds	3,332,975	3,135,186
Mutual funds	3,570,732	2,759,524
	\$ 47,543,529	\$ 42,385,943

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

NOTE 2 – Investments (Continued)

Investment income, net, is comprised of the following amounts in the accompanying statements of activities:

	For the Year Ended June 30,	
	2014	2013
Endowment investment income	\$ 1,045,470	\$ 1,042,499
Less endowment investment expenses	(163,488)	(31,548)
Net endowment investment income	881,982	1,010,951
Realized gain on sale of contributed investments	153	296
Net realized and unrealized gain on endowments and other investments	4,452,541	1,527,312
	5,334,676	2,538,559
Short-term interest income	101,960	152,067
	<u>\$ 5,436,636</u>	<u>\$ 2,690,626</u>

NOTE 3 – Contributions Receivable

Contributions receivable includes pledges and trusts that have been discounted at rates ranging from 3.94% to 4.81%. The following is a summary of the Foundation's contributions receivable classified by the expected date of collection:

	June 30,	
	2014	2013
Receivable in less than one year	\$ 2,503,425	\$ 2,668,979
Receivable in one to five years	5,533,988	5,210,827
Receivable in more than five years	1,006,500	1,212,750
	9,043,913	9,092,556
Less discount to reflect present value	(770,094)	(783,446)
Less allowance for doubtful pledges	(73,861)	(51,851)
Net pledges receivable	8,199,958	8,257,259
Net charitable remainder trusts receivable	1,284,838	1,029,470
	<u>\$ 9,484,796</u>	<u>\$ 9,286,729</u>

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

NOTE 4 – Net Assets

The following is a summary of the Foundation’s temporarily and permanently restricted net assets:

Temporarily Restricted Net Assets

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Time and performance restriction – contributions receivable	\$ 2,027,185	\$ 1,631,900
Scholarships and campus programs	19,573,051	15,358,174
Quasi/term endowments	<u>2,874,434</u>	<u>2,798,130</u>
	<u>\$ 24,474,670</u>	<u>\$ 19,788,204</u>

Permanently Restricted Net Assets

Scholarships	\$ 20,016,746	\$ 17,654,592
Other University support	<u>28,397,607</u>	<u>27,208,053</u>
	<u>\$ 48,414,353</u>	<u>\$ 44,862,645</u>

NOTE 5 – Related-Party Transactions

The University processes certain transactions on behalf of the Foundation, which consist mainly of payroll-related and contract-service transactions. The Foundation reimburses the University for these transactions on a monthly basis. For the years ended June 30, 2014 and 2013, these reimbursements were \$1,372,411 and \$2,331,969, respectively. At June 30, 2014 and 2013, the Foundation had \$857,691 and \$160,003, respectively, payable to the University, which is included in accounts payable and accrued liabilities on the accompanying statements of financial position.

The Foundation receives payments from the University for various advancement activities that totaled \$53,139 and \$422,934 for the years ended June 30, 2014 and 2013, respectively. The Foundation purchases equipment for various campus program accounts and then transfers title to the University. For the years ended June 30, 2014 and 2013, these purchases were \$211,446 and \$220,925, respectively.

The Foundation receives contributed services from the University for various administrative duties. The value of such contributed services totaled approximately \$254,000 and \$207,000, for the years ended June 30, 2014 and 2013, respectively. These amounts are not included in the accompanying statements of activities; however, if recorded, amounts would be recorded as unrestricted contributions and unrestricted administrative expenses.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

NOTE 6 – Fair Value Measurements

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to measurements involving significant unobservable inputs (Level 3). 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: The fair value of the investments is measured using significant other observable inputs.

Contributions receivable from charitable remainder trusts: The fair value of the contributions receivable from charitable remainder trusts is estimated as the present value of the projected proceeds that will be received from the charitable remainder trust.

Contributions receivable from promises to give: The fair value of the contributions receivable from promises to give for current year gifts is estimated as the present value of the projected proceeds that will be received from the promise to give.

Investments in limited partnerships: Since the investments in limited partnerships are valued utilizing unobservable inputs, and do not permit redemption at the measurement date, such investments are classified within Level 3. The limited partnership investments are presented at fair value, as determined by the General Partner. The General Partner's determination of fair value is based upon the best available information provided by the limited partnerships and may incorporate management assumptions.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

NOTE 6 – Fair Value Measurements (Continued)

Investments in hedge funds: The Foundation follows the authoritative guidance under US GAAP for estimating the fair value of investments in investment companies that have calculated net asset value (NAV) in accordance with the specialized accounting guidance for investment companies.

According to this guidance, a reporting entity is permitted, as a practical expedient, to estimate the fair value of an investment in an investment company using the NAV of the investment without further adjustment, if the NAV of the investment is determined in accordance with the specialized accounting guidance for investment companies as of the reporting entity's measurement date. The guidance also requires certain additional disclosures.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. The Foundation generally uses the NAV reported by the investment fund as the primary input to its valuation; 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 the NAV, the reporting date of the NAV, and probable sales of any individual investment funds as of the measurement date.

An individual investment fund's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the investment manager. The investment manager considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by multiple, independent sources that are actively involved in the relevant market.

The investment funds are generally open-end hedge funds, as they typically offer subscription and redemption options to investors. The frequency of such subscriptions and redemptions is dictated by the investment fund's governing documents. The Foundation's total investment in a particular investment fund may be comprised of investments made at different points in time with differing liquidity terms that may result in differences in the effective minimum holding period or lockup or participation in sidepocket investments. Liquidity may also be impacted by gate provisions or redemption suspensions imposed by the board of directors or investment managers of the hedge funds. An investment is generally classified as Level 2 if the Foundation has the ability to redeem its investment with the investment fund at NAV within 95 days after the measurement date upon no greater than 90 days prior written notice, with no other potential liquidity restrictions. All other investments are classified as Level 3. The categorization of an investment fund within the hierarchy is based upon the Foundation's ability to redeem that investment fund and does not necessarily correspond to the investment manager's perceived risk of that investment fund. Transfers between Level 2 and Level 3 are typically the result of changes in the liquidity terms of investment funds or investments made in investment funds where the Foundation's right to redeem the investment without penalty is based on a rolling anniversary date greater than one year apart such that at a given year-end, the investment may or may not meet the requirement to be classified as Level 2.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

NOTE 6 – Fair Value Measurements (Continued)

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

	<u>Assets at Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using Quoted Prices</u>		
		<u>in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
June 30, 2014:				
Investments (see Note 2)	\$ 47,543,529	\$ 43,430,717	\$ 3,332,975	\$ 779,837
Contributions receivable from charitable remainder trusts	1,284,838	—	—	1,284,838
Other receivables from charitable gift annuities	<u>95,052</u>	<u>—</u>	<u>—</u>	<u>95,052</u>
	<u>\$ 48,923,419</u>	<u>\$ 43,430,717</u>	<u>\$ 3,332,975</u>	<u>\$ 2,159,727</u>
	<u>Assets at Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using Quoted Prices</u>		
		<u>in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
June 30, 2013:				
Investments (see Note 2)	\$ 42,385,943	\$ 38,551,159	\$ 3,135,186	\$ 699,598
Contributions receivable from charitable remainder trusts	1,029,470	—	—	1,029,470
Other receivables from charitable gift annuities	<u>196,057</u>	<u>—</u>	<u>—</u>	<u>196,057</u>
	<u>\$ 43,611,470</u>	<u>\$ 38,551,159</u>	<u>\$ 3,135,186</u>	<u>\$ 1,925,125</u>

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

NOTE 6 – Fair Value Measurements (Continued)

The following table presents assets that are measured at fair value on a nonrecurring basis at June 30, 2014 and 2013:

	<u>Assets at Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using Quoted Prices</u>		
		<u>in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
June 30, 2014:				
Contributions receivable from promises to give	\$ 853,113	–	–	\$ 853,113
	<u>\$ 853,113</u>	<u>None</u>	<u>None</u>	<u>\$ 853,113</u>
	<u>Assets at Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using Quoted Prices</u>		
		<u>in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
June 30, 2013:				
Contributions receivable from promises to give	\$ 375,160	–	–	\$ 375,160
	<u>\$ 375,160</u>	<u>None</u>	<u>None</u>	<u>\$ 375,160</u>

As of June 30, 2014 and 2013, the Foundation has no liabilities measured at fair value.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

NOTE 6 – Fair Value Measurements (Continued)

Accounting standards require a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period. For the Level 3 assets, the reconciliation is as follows:

	Contributions Receivable From Charitable Remainder Trusts	Contributions Receivable From Charitable Gift Annuities	Investments
Balance at June 30, 2012	\$ 878,114	\$ 224,594	\$ 650,703
Additions	121,712	–	51,000
Change in value	<u>29,644</u>	<u>(28,537)</u>	<u>(2,105)</u>
Balance at June 30, 2013	1,029,470	196,057	699,598
Additions	76,065	–	57,373
Change in value	<u>179,303</u>	<u>(101,005)</u>	<u>22,866</u>
Balance at June 30, 2014	<u>\$ 1,284,838</u>	<u>\$ 95,052</u>	<u>\$ 779,837</u>

NOTE 7 – Endowments

The Foundation’s endowments consist of individual donor-designated funds established for the purpose of supporting education. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Through December 31, 2008, the Foundation’s management and investment of donor-restricted endowment funds was subject to the provisions of the *Uniform Management of Institutional Funds Act* (UMIFA). In 2006, the Uniform Law Commission approved the model act, *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) that serves as a guideline to states to use in enacting legislation. Among UPMIFA’s most significant changes is the elimination of UMIFA’s concept of historic dollar value threshold, the amount below which an organization could not spend from a donor-designated endowment fund, in favor of a more robust set of guidelines about what constitutes prudent spending. Effective January 1, 2009, the state of California has enacted UPMIFA, the provisions of which apply to endowment funds existing on or established after that date.

CAL STATE FULLERTON PHILANTHROPIC 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* 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 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 endowment fund
- (2) The purposes of the institution and the endowment fund
- (3) General economic conditions
- (4) The expected total return from income and the appreciation of investments
- (5) Other resources of the institution
- (6) The investment policy of the institution

The Finance and Investment Committee of the Board of Governors is charged with the responsibility of managing the investment of endowment assets for the Foundation. The objective in management of these funds is to achieve an average annual rate of return, over a period of five years, of the S&P 500 Index plus 1% for the aggregate equity investments, and the Barclay's U.S. Aggregate Bond Index plus 0.5% for the aggregate fixed income investments.

The Finance and 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.

The Foundation's investment policy stipulates that the Board of Governors will distribute earnings on an annual basis to further the purposes of the individual donor-designated funds. The intent of this policy is to provide a stable spending distribution policy to allow university departments to effectively manage programs funded by endowment funds, while maintaining the purchasing power of the endowment funds' assets.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

NOTE 7 – Endowments (Continued)

For the fiscal year ended June 30, 2012, the Foundation’s Board of Governors approved an earnings distribution equal to 3.00% of the endowment funds’ market value over a rolling five-year average. This distribution of \$961,747 was made on June 30, 2012.

For the fiscal year ended June 30, 2013, the Foundation’s Board of Governors approved an earnings distribution equal to 3.00% of the endowment funds’ market value over a rolling five-year average. The total amount of \$1,053,411 was distributed during the year ended June 30, 2013.

This year the Foundation’s Board of Governors has approved moving to a semi-annual endowment distribution method. The annual spending rate for endowment distribution will be approved by the Board of Governors on a semi-annual basis. The current annual spending rate of 3.00% was set at the June 5, 2014 Board of Governors meeting. The first distribution will be calculated based on June 30, 2014 unitized totals at 1.5%. The second half of the distribution will be calculated on December 31, 2014 unitized totals. The annual rate will again be reviewed at the December 2014 Board of Governors meeting. The first semi-annual distribution will be in September.

Net changes in endowment funds 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	(\$ 59,397)	\$ 5,863,976	\$ 44,862,645	\$ 50,667,224
Investment return:				
Investment income	718,494	–	43,833	762,327
Net appreciation (realized and unrealized)	(659,097)	3,638,922	–	2,979,825
Total investment return	59,397	3,628,922	43,833	3,742,152
Contributions	–	23,545	3,305,266	3,328,811
Change in value of charitable remainder trusts receivable	–	52,759	202,609	255,368
Endowment net assets, end of year	<u>None</u>	<u>\$ 9,579,202</u>	<u>\$ 48,414,353</u>	<u>\$ 57,993,555</u>

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

NOTE 7 – Endowments (Continued)

Net changes in endowment funds 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	(\$ 474,378)	\$ 4,379,205	\$ 41,429,257	\$ 45,334,084
Investment return:				
Investment income	979,403	–	314,532	1,293,935
Net appreciation (realized and unrealized)	(564,422)	1,463,637	–	899,215
Total investment return	414,981	1,463,637	314,532	2,193,150
Contributions	–	10,929	2,938,471	2,949,400
Change in value of charitable remainder trusts receivable	–	–	149,479	149,479
Other income	–	10,205	30,906	41,111
Endowment net assets, end of year	(\$ <u>59,397</u>)	<u>\$ 5,863,976</u>	<u>\$ 44,862,645</u>	<u>\$ 50,667,224</u>

Included in the Endowment net assets are contributions receivable restricted to the endowment of \$7,626,523 and \$7,902,737 as of June 30, 2014 and 2013, respectively.

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. Deficiencies of this nature, which were reported in unrestricted net assets, was \$59,397 as of June 30, 2013, which resulted in a deficit in unrestricted net assets. There were no such deficiencies as of June 30, 2014. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriations for certain programs that were deemed prudent by the Foundation.

As of June 30, 2014, there were no Board-designated endowment funds.