CALIFORNIA STATE UNIVERSITY
FULLERTON
Philanthropic Foundation

# Financial Statements
# June 30, 2010 and 2009

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# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Cal State Fullerton Philanthropic Foundation (a nonprofit organization, the Foundation) as of June 30, 2010 and 2009, 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 Cal State Fullerton Philanthropic Foundation as of June 30, 2010 and 2009, 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.

Windes & McClaughry

Long Beach, California
September 28, 2010

## CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

## STATEMENTS OF FINANCIAL POSITION

### ASSETS

| | June 30, 2010 | June 30, 2009 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents, including restricted cash | $ 10,569,531 | $ 2,913,215 |
| Investments | 28,669,501 | 32,070,475 |
| Contributions receivable, net of allowance for doubtful pledges | 17,031,103 | 17,780,623 |
| Accounts receivable | 39,765 | 26,552 |
| Prepaid expenses | 3,716 | 1,979 |
| Other receivables | 207,207 | 209,478 |
| Other assets | 18,165 | – |
| **TOTAL ASSETS** | $ 56,538,988 | $ 53,002,322 |

### LIABILITIES AND NET ASSETS

| | 2010 | 2009 |
|---|---|---|
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities | $ 457,738 | $ 933,870 |
| Total Liabilities | 457,738 | 933,870 |
| **NET ASSETS** | | |
| Unrestricted | ( 275,804) | ( 1,493,569) |
| Temporarily restricted | 19,528,280 | 18,738,847 |
| Permanently restricted | 36,828,774 | 34,823,174 |
| Total Net Assets | 56,081,250 | 52,068,452 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 56,538,988 | $ 53,002,322 |

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, 2010

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **REVENUES AND SUPPORT** | | | | |
| Contributions and gifts | – | $ 6,646,289 | $ 2,001,677 | $ 8,647,966 |
| Campus programs | – | 673,383 | – | 673,383 |
| Alumni Association membership fees and programs | – | 213,050 | – | 213,050 |
| Investment income, net | $ 1,494,227 | 716,655 | – | 2,210,882 |
| Other income | 2,136 | 33,443 | 2,135 | 37,714 |
| Change in value of split interest agreements | – | 4,580 | 1,788 | 6,368 |
| Net assets released from restrictions | 7,497,967 | ( 7,497,967) | – | – |
| Total Revenues and Support | 8,994,330 | 789,433 | 2,005,600 | 11,789,363 |
| **EXPENSES** | | | | |
| Program Expenses: | | | | |
| Campus | 5,592,661 | – | – | 5,592,661 |
| Scholarships | 1,658,267 | – | – | 1,658,267 |
| Alumni association | 247,039 | – | – | 247,039 |
| Total Program Expenses | 7,497,967 | – | – | 7,497,967 |
| Supporting Services: | | | | |
| General and administrative | 278,598 | – | – | 278,598 |
| Total Supporting Services | 278,598 | – | – | 278,598 |
| Total Expenses | 7,776,565 | – | – | 7,776,565 |
| **CHANGES IN NET ASSETS** | 1,217,765 | 789,433 | 2,005,600 | 4,012,798 |
| **NET ASSETS AT BEGINNING OF YEAR** | ( 1,493,569) | 18,738,847 | 34,823,174 | 52,068,452 |
| **NET ASSETS AT END OF YEAR** | ($ 275,804) | $ 19,528,280 | $ 36,828,774 | $ 56,081,250 |

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, 2009

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **REVENUES AND SUPPORT** | | | | |
| Contributions and gifts | – | $ 7,739,298 | $ 5,248,904 | $ 12,988,202 |
| Campus programs | – | 1,099,874 | – | 1,099,874 |
| Alumni Association membership fees and programs | – | 330,721 | – | 330,721 |
| Investment income (loss), net | ($ 3,617,892) | 601,025 | 4,700 | ( 3,012,167) |
| Other income | 885 | 87,500 | 1,129 | 89,514 |
| Change in value of split interest agreements | – | ( 14,686) | ( 38,391) | ( 53,077) |
| Net assets released from restrictions | 8,412,431 | ( 8,412,431) | – | – |
| Total Revenues and Support | 4,795,424 | 1,431,301 | 5,216,342 | 11,443,067 |
| **EXPENSES** | | | | |
| Program Expenses: | | | | |
| Campus | 6,873,194 | – | – | 6,873,194 |
| Scholarships | 1,308,697 | – | – | 1,308,697 |
| Alumni association | 230,540 | – | – | 230,540 |
| Total Program Expenses | 8,412,431 | – | – | 8,412,431 |
| Supporting Services: | | | | |
| General and administrative | 616,956 | – | – | 616,956 |
| Total Supporting Services | 616,956 | – | – | 616,956 |
| Total Expenses | 9,029,387 | – | – | 9,029,387 |
| **CHANGES IN NET ASSETS** | ( 4,233,963) | 1,431,301 | 5,216,342 | 2,413,680 |
| **NET ASSETS AT BEGINNING OF YEAR** | 2,740,394 | 17,307,546 | 29,606,832 | 49,654,772 |
| **NET ASSETS AT END OF YEAR** | ($ 1,493,569) | $ 18,738,847 | $ 34,823,174 | $ 52,068,452 |

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, 2010 | 2009 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Changes in net assets | $ 4,012,798 | $ 2,413,680 |
| Adjustments to reconcile changes in net assets to net cash from operating activities: | | |
| Contributions of investments | ( 288,860) | ( 235,963) |
| Reinvested investment income | ( 480,329) | – |
| Contributions restricted for long-term investments | ( 2,001,677) | ( 5,248,904) |
| Change in discount on contributions receivable | ( 544,141) | 505,732 |
| Change in allowance for doubtful pledges | 7,588 | 39,965 |
| Noncash change in split-interest agreements | ( 6,368) | 53,077 |
| Realized loss on sale of contributed investments | 1,017 | 591 |
| Unrealized (gain) loss on investments | ( 1,478,263) | 3,630,770 |
| Net (increase) decrease in: | | |
| Contributions receivable | 1,166,923 | ( 248,866) |
| Accounts receivable | ( 13,213) | 2,046 |
| Prepaid expenses | ( 1,737) | 6,806 |
| Other assets and receivables | ( 15,894) | 6,606 |
| Net increase (decrease) in: | | |
| Accounts payable and accrued liabilities | ( 476,132) | 610,108 |
| Net Cash Provided By (Used In) Operating Activities | ( 118,288) | 1,535,648 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of investments | ( 3,734,093) | ( 15,635,931) |
| Proceeds from sale of investments | 7,662,249 | – |
| Proceeds from sale of contributed investments | 287,843 | 235,372 |
| Change in short-term investments | 1,431,410 | ( 1,431,410) |
| Proceeds from split-interest agreements | 125,518 | – |
| Net Cash Provided By (Used In) Investing Activities | 5,772,927 | ( 16,831,969) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Contributions restricted for long-term investments | 2,001,677 | 5,248,904 |
| Net Cash Provided By Financing Activities | 2,001,677 | 5,248,904 |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | 7,656,316 | ( 10,047,417) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 2,913,215 | 12,960,632 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | $ 10,569,531 | $ 2,913,215 |
| **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.

## NOTE 1 – Nature of Activities and Significant Accounting Policies

***Nature of Activities***

The Cal State Fullerton Philanthropic Foundation (the Foundation), formerly known as the University Advancement 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***

In June 2009, the Financial Accounting Standards Board (FASB) established the Accounting Standards Codification (Codification or ASC) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with US Generally Accepted Accounting Principles (GAAP). Existing GAAP is not intended to be changed as a result of the Codification and, accordingly, the change did not impact the Foundation's financial statements. The ASC does change the way the guidance is organized and presented.

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/or 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.

**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, 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. 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 purchased with an original maturity of three months or less to be cash equivalents.

As of June 30, 2010 and at times throughout the year, the Foundation has maintained cash balances at its financial institutions in excess of federally insured limits. Given the current economic environment and risks in the banking industry, there is a risk that these deposits may not be readily available or covered by insurance.

Included in cash and cash equivalents at June 30, 2010 and 2009 is $1,532,369 and $250,573, respectively, restricted for endowment purposes.

***Investments***

The Foundation manages a significant number of individual endowment fund accounts. The purpose of the 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 the Commonfund, or in certificates of deposit.

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. Investments in the Commonfund, where the fair value is not readily determinable, are valued using third-party pricing sources and/or as determined by the pricing committee of the Commonfund. 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.

**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 $468,000 and $587,000 on June 30, 2010 and 2009, 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***

On July 1, 2008, the Foundation adopted the provisions of FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 defines fair value 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. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements. (See Note 6.)

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

***Fair Value Measurements (Continued)***

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. On July 1, 2009, the Foundation was required to apply the provisions of ASC Topic 820 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

***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 and not a "private foundation." 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 28, 2010, the date the financial statements were available to be issued for the year ended June 30, 2010, and determined that there were no other items to disclose.

## NOTE 2 – Investments

Investments consists of the following:

| | June 30, 2010 | June 30, 2009 |
|---|---|---|
| Government securities fund | $ – | $ 2,366,349 |
| Multi-strategy equity fund | 11,723,780 | 9,358,807 |
| Multi-strategy bond fund | 7,384,310 | 5,335,417 |
| Multi-strategy international equity fund | 2,184,013 | 1,969,701 |
| Certificates of deposit | 7,115,015 | 11,122,226 |
| Realty fund | – | 341,207 |
| Short-term common fund | – | 1,431,410 |
| Capital partners fund | 262,383 | 144,357 |
| Other | – | 1,001 |
| | $ 28,669,501 | $ 32,070,475 |

Of the investments, $22,154,487 and $18,410,586 are permanently restricted for endowment purposes as of June 30, 2010 and 2009, respectively.

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

| | For the Year Ended June 30, 2010 | For the Year Ended June 30, 2009 |
|---|---|---|
| Endowment investment income | $ 503,138 | $ 514,177 |
| Less endowment investment expenses | ( 59,453) | ( 49,623) |
| Net endowment investment income | 443,685 | 464,554 |
| Realized loss on sale of contributed investments | ( 1,017) | ( 591) |
| Unrealized gain (loss) on endowments and other investments | 1,478,263 | ( 3,630,770) |
| | 1,920,931 | ( 3,166,807) |
| Short-term interest income | 289,951 | 154,640 |
| | $ 2,210,882 | ($ 3,012,167) |

## NOTE 3 – Contributions Receivable

Contributions receivable includes pledges and trusts that have been discounted at rates ranging from 4.23% to 5.05%. The following is a summary of the Foundation's contributions receivable classified by the expected date of collection:

| | June 30, 2010 | June 30, 2009 |
|---|---|---|
| Receivable in less than one year | $ 3,867,872 | $ 3,469,822 |
| Receivable in one to five years | 10,211,013 | 9,895,986 |
| Receivable in more than five years | 4,800,000 | 6,680,000 |
| | 18,878,885 | 20,045,808 |
| Less discount to reflect present value | ( 2,225,673) | ( 2,769,814) |
| Less allowance for doubtful pledges | ( 89,620) | ( 82,032) |
| Net pledges receivable | 16,563,592 | 17,193,962 |
| Net charitable remainder trusts receivable | 467,511 | 586,661 |
| | $ 17,031,103 | $ 17,780,623 |

## NOTE 4 – Net Assets

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

***Temporarily Restricted Net Assets***

| | June 30, 2010 | June 30, 2009 |
|---|---|---|
| Time and performance restriction – contributions receivable | $ 4,143,704 | $ 3,392,784 |
| Scholarships and campus programs | 14,156,162 | 14,672,818 |
| Quasi/term endowments | 1,228,414 | 673,245 |
| | $ 19,528,280 | $ 18,738,847 |

***Permanently Restricted Net Assets***

| | 2010 | 2009 |
|---|---|---|
| Receivable – endowments | $ 13,184,226 | $ 14,679,349 |
| Scholarships | 13,024,888 | 11,734,266 |
| Other University support | 10,619,660 | 8,409,559 |
| | $ 36,828,774 | $ 34,823,174 |

**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, 2010 and 2009, these reimbursements were $850,405 and $676,610, respectively. At June 30, 2010 and 2009, the Foundation had $157,623 and $767,138, respectively, payable to the University, which is included in accounts payable and accrued liabilities on the accompanying statements of financial position. At June 30, 2010 and 2009, the Foundation had $0 and $556, respectively, receivable from the University, which is included in accounts receivable on the accompanying statements of financial position.

The Foundation receives payments from the University for various advancement activities that totaled $54,505 and $275,172, for the years ended June 30, 2010 and 2009, respectively. The Foundation purchases equipment for various campus program accounts and then transfers title to the University. For the years ended June 30, 2010 and 2009, these purchases were $181,130 and $126,296, respectively.

**NOTE 6 – Fair Value Measurements**

As discussed in Note 1, the Foundation adopted the provisions for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 establishes 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 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). 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.

**NOTE 6 – Fair Value Measurements (Continued)**

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 is estimated as the present value of the projected proceeds that will be received from the promise to give.

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2010 and 2009:

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| **June 30, 2010:** | **Assets at Fair Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Investments (see Note 2) | $ 28,669,501 | – | $ 28,669,501 | – |
| Contributions receivable from charitable remainder trusts | 467,511 | – | – | $ 467,511 |
| Cash and cash equivalents | 10,569,531 | $ 10,569,531 | – | – |
| | $ 39,706,543 | $ 10,569,531 | $ 28,669,501 | $ 467,511 |

**NOTE 6 – Fair Value Measurements (Continued)**

| June 30, 2009: | Assets at Fair Value | Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Investments (see Note 2) | $ 32,070,475 | – | $ 32,070,475 | – |
| Contributions receivable from charitable remainder trusts | 586,661 | – | – | $ 586,661 |
| Cash and cash equivalents | 2,913,215 | $ 2,150,000 | 763,215 | – |
| | $ 35,570,351 | $ 2,150,000 | $ 32,833,690 | $ 586,661 |

The following table presents assets that are measured at fair value on a nonrecurring basis at June 30, 2010 and 2009:

| June 30, 2010: | Assets at Fair Value | Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Contributions receivable from promises to give | $ 1,797,176 | – | – | $ 1,797,176 |
| | $ 1,797,176 | None | None | $ 1,797,176 |

**NOTE 6 – Fair Value Measurements (Continued)**

| June 30, 2009: | Assets at Fair Value | Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Contributions receivable from promises to give | $ 4,695,773 | – | – | $ 4,695,773 |
| | $ 4,695,773 | None | None | $ 4,695,773 |

As of June 30, 2010 and 2009, the Foundation has no liabilities measured at fair value.

ASC Topic 820 requires 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 |
|---|---|
| Balance at July 1, 2008 | $ 639,738 |
| Change in value | ( 53,077) |
| Balance at June 30, 2009 | 586,661 |
| Realization of Trust proceeds | ( 125,518) |
| Change in value | 6,368 |
| Balance at June 30, 2010 | $ 467,511 |

**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.

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 Lehman Intermediate Bond Index plus 0.5% for the aggregate fixed income investments.

**NOTE 7 – Endowments (Continued)**

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.

For the fiscal year ended June 30, 2008, the Foundation's Board of Governors approved an earnings distribution equal to 1.50% of the endowment funds' market value over a rolling three-year average. The total amount was distributed during the year ended June 30, 2009 in the amount of $279,783.

For the fiscal year ended June 30, 2009, the Foundation's Board of Governors approved an earnings distribution equal to 1.29% of the endowment funds' market value over a rolling three-year average. The total amount distributed during the year ended June 30, 2010 was $210,894.

For the fiscal year ended June 30, 2010, the Foundation's Board of Governors has approved an earnings distribution equal to 3.00% of the endowment funds' market value over a rolling five-year average. The total amount to be distributed subsequent to June 30, 2010 was $686,085.

**NOTE 7 – Endowments (Continued)**

Net changes in endowment funds for the year ended June 30, 2010 were as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | ($ 2,155,910) | $ 673,245 | $ 34,823,174 | $ 33,340,509 |
| Investment return: | | | | |
| Investment income | 443,685 | – | – | 443,685 |
| Net appreciation (realized and unrealized) | 737,012 | 437,967 | – | 1,174,979 |
| Total investment return | 1,180,697 | 437,967 | – | 1,618,664 |
| Contributions | – | 101,833 | 2,001,677 | 2,103,510 |
| Change in value of charitable remainder trusts receivable | – | – | 1,788 | 1,788 |
| Other income | – | 15,369 | 2,135 | 17,504 |
| Appropriated for expenditure | ( 210,894) | – | – | ( 210,894) |
| Endowment net assets, end of year | ($ 1,186,107) | $ 1,228,414 | $ 36,828,774 | $ 36,871,081 |

Net changes in endowment funds for the year ended June 30, 2009 were as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ 1,670,238 | $ 492,371 | $ 29,606,832 | $ 31,769,441 |
| Investment return: | | | | |
| Investment income | 459,854 | – | 4,700 | 464,554 |
| Net depreciation (realized and unrealized) | ( 4,006,219) | 138,852 | – | ( 3,867,367) |
| Total investment return | ( 3,546,365) | 138,852 | 4,700 | ( 3,402,813) |
| Contributions | – | 27,120 | 5,248,904 | 5,276,024 |
| Change in value of charitable remainder trusts receivable | – | – | ( 38,391) | ( 38,391) |
| Other income | – | 14,902 | 1,129 | 16,031 |
| Appropriated for expenditure | ( 279,783) | – | – | ( 279,783) |
| Endowment net assets, end of year | ($ 2,155,910) | $ 673,245 | $ 34,823,174 | $ 33,340,509 |

**NOTE 7 – Endowments (Continued)**

Included in the Endowment net assets are contributions receivable restricted to the endowment of $13,184,226 and $14,679,349 as of June 30, 2010 and 2009, 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, were $1,186,107 and $2,155,910 as of June 30, 2010 and 2009, respectively , which resulted in a deficit in unrestricted net assets. 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, 2010 and 2009, there are no Board-designated endowment funds.