

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

**FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

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WINDES & McCLAUGHRY
ACCOUNTANCY CORPORATION
Certified Public Accountants & Consultants
EXCEEDING EXPECTATIONS SINCE 1926

Landmark Square
111 West Ocean Boulevard
Twenty-Second Floor
Long Beach, CA 90802

Mailing Address:
Post Office Box 87
Long Beach, CA 90801-0087

T: (562) 435-1191
F: (562) 495-1665

www.windes.com

Other Offices:
Irvine
Los Angeles
Torrance

INDEPENDENT AUDITORS' REPORT

To the Board of Governors 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, 2011 and 2010, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Long Beach, California
September 26, 2011

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2011	2010
ASSETS		
Cash and cash equivalents, including restricted cash	\$ 12,119,882	\$ 10,569,531
Investments	34,551,527	28,669,501
Contributions receivable, net of allowance for doubtful pledges	14,937,745	17,031,103
Accounts receivable	3,879	39,765
Prepaid expenses	15,000	3,716
Other receivables	205,372	207,207
Other assets	27,871	18,165
TOTAL ASSETS	\$ 61,861,276	\$ 56,538,988

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,381,211	\$ 457,738
Total Liabilities	1,381,211	457,738
NET ASSETS		
Unrestricted	982,099	(275,804)
Temporarily restricted	19,996,662	19,528,280
Permanently restricted	39,501,304	36,828,774
Total Net Assets	60,480,065	56,081,250
TOTAL LIABILITIES AND NET ASSETS	\$ 61,861,276	\$ 56,538,988

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, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Contributions and gifts	--	\$ 4,884,664	\$ 2,190,790	\$ 7,075,454
Campus programs	--	1,150,114	--	1,150,114
Alumni Association membership fees and programs	--	214,421	--	214,421
Investment income, net	\$ 1,527,473	3,233,764	--	4,761,237
Other income	585	31,500	101,176	133,261
Change in value of split interest agreements	--	9,516	380,564	390,080
Net assets released from restrictions	<u>9,055,597</u>	<u>(9,055,597)</u>	<u>--</u>	<u>--</u>
Total Revenues and Support	<u>10,583,655</u>	<u>468,382</u>	<u>2,672,530</u>	<u>13,724,567</u>
EXPENSES				
Program Expenses:				
Campus	7,274,719	--	--	7,274,719
Scholarships	1,547,650	--	--	1,547,650
Alumni association	<u>233,228</u>	<u>--</u>	<u>--</u>	<u>233,228</u>
Total Program Expenses	<u>9,055,597</u>	<u>--</u>	<u>--</u>	<u>9,055,597</u>
Supporting Services:				
General and administrative	<u>270,155</u>	<u>--</u>	<u>--</u>	<u>270,155</u>
Total Supporting Services	<u>270,155</u>	<u>--</u>	<u>--</u>	<u>270,155</u>
Total Expenses	<u>9,325,752</u>	<u>--</u>	<u>--</u>	<u>9,325,752</u>
CHANGES IN NET ASSETS	1,257,903	468,382	2,672,530	4,398,815
NET ASSETS AT BEGINNING OF YEAR	(<u>275,804</u>)	<u>19,528,280</u>	<u>36,828,774</u>	<u>56,081,250</u>
NET ASSETS AT END OF YEAR	<u>\$ 982,099</u>	<u>\$ 19,996,662</u>	<u>\$ 39,501,304</u>	<u>\$ 60,480,065</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, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>7,497,967</u>	<u>(7,497,967)</u>	<u>—</u>	<u>—</u>
Total Revenues and Support	<u>8,994,330</u>	<u>789,433</u>	<u>2,005,600</u>	<u>11,789,363</u>
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	<u>7,497,967</u>	<u>—</u>	<u>—</u>	<u>7,497,967</u>
Supporting Services:				
General and administrative	278,598	—	—	278,598
Total Supporting Services	<u>278,598</u>	<u>—</u>	<u>—</u>	<u>278,598</u>
Total Expenses	<u>7,776,565</u>	<u>—</u>	<u>—</u>	<u>7,776,565</u>
CHANGES IN NET ASSETS	1,217,765	789,433	2,005,600	4,012,798
NET ASSETS AT BEGINNING OF YEAR	<u>(1,493,569)</u>	<u>18,738,847</u>	<u>34,823,174</u>	<u>52,068,452</u>
NET ASSETS AT END OF YEAR	<u>(\$ 275,804)</u>	<u>\$ 19,528,280</u>	<u>\$ 36,828,774</u>	<u>\$ 56,081,250</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>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 4,398,815	\$ 4,012,798
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Contributions of investments	(283,845)	(288,860)
Reinvested investment income	(596,094)	(480,329)
Contributions restricted for long-term investments	(2,190,790)	(2,001,677)
Change in discount on contributions receivable	(545,961)	(544,141)
Change in allowance for doubtful pledges	(15,408)	7,588
Noncash change in split-interest agreements	(390,080)	(6,368)
Realized loss on sale of contributed investments	1,544	1,017
Unrealized gain on investments	(4,025,695)	(1,478,263)
Net (increase) decrease in:		
Contributions receivable	3,044,807	1,166,923
Accounts receivable	35,886	(13,213)
Prepaid expenses	(11,284)	(1,737)
Other assets and receivables	(7,871)	(15,894)
Net increase (decrease) in:		
Accounts payable and accrued liabilities	923,473	(476,132)
Net Cash Provided By (Used In) Operating Activities	<u>337,497</u>	<u>(118,288)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(5,698,748)	(3,734,093)
Proceeds from sale of investments	4,438,512	7,662,249
Proceeds from sale of contributed investments	282,300	287,843
Change in short-term investments	-	1,431,410
Proceeds from split-interest agreements	-	125,518
Net Cash Provided By (Used In) Investing Activities	<u>(977,936)</u>	<u>5,772,927</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investments	<u>2,190,790</u>	<u>2,001,677</u>
Net Cash Provided By Financing Activities	<u>2,190,790</u>	<u>2,001,677</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,550,351	7,656,316
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>10,569,531</u>	<u>2,913,215</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 12,119,882</u>	<u>\$ 10,569,531</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, 2011 AND 2010

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

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.

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. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

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, 2011 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, 2011 and 2010 is \$788,107 and \$1,532,369, 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.

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 \$858,000 and \$468,000 on June 30, 2011 and 2010, respectively, and are included in contributions receivable in the statements of financial position.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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

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 non-financial 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.

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.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

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

Subsequent Events

The Foundation's management has evaluated subsequent events through September 26, 2011, the date the financial statements were available to be issued for the year ended June 30, 2011, and determined that there were no other items to disclose.

NOTE 2 – Investments

Investments consists of the following:

	June 30,	
	2011	2010
Multi-strategy equity fund	\$ 20,108,838	\$ 11,723,780
Multi-strategy bond fund	7,918,203	7,384,310
Multi-strategy international equity fund	2,564,830	2,184,013
Certificates of deposit	3,000,000	7,115,015
Capital partners fund	461,300	262,383
Emerging markets fund	498,356	—
	<u>\$ 34,551,527</u>	<u>\$ 28,669,501</u>

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

	For the Year Ended June 30,	
	2011	2010
Endowment investment income	\$ 607,519	\$ 503,138
Less endowment investment expenses	(73,497)	(59,453)
Net endowment investment income	534,022	443,685
Realized loss on sale of contributed investments	(1,544)	(1,017)
Unrealized gain on endowments and other investments	4,025,695	1,478,263
	<u>4,558,173</u>	<u>1,920,931</u>
Short-term interest income	203,064	289,951
	<u>\$ 4,761,237</u>	<u>\$ 2,210,882</u>

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

NOTE 3 – Contributions Receivable

Contributions receivable includes pledges and trusts that have been discounted at rates ranging from 4.23% to 4.81%. The following is a summary of the Foundation’s contributions receivable classified by the expected date of collection:

	June 30,	
	2011	2010
Receivable in less than one year	\$ 3,560,246	\$ 3,867,872
Receivable in one to five years	8,654,832	10,211,013
Receivable in more than five years	<u>3,619,000</u>	<u>4,800,000</u>
	15,834,078	18,878,885
Less discount to reflect present value	(1,679,712)	(2,225,673)
Less allowance for doubtful pledges	(<u>74,212</u>)	(<u>89,620</u>)
Net pledges receivable	14,080,154	16,563,592
Net charitable remainder trusts receivable	<u>857,591</u>	<u>467,511</u>
	<u>\$ 14,937,745</u>	<u>\$ 17,031,103</u>

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,	
	2011	2010
Time and performance restriction – contributions receivable	\$ 3,190,750	\$ 4,143,704
Scholarships and campus programs	14,115,304	14,156,162
Quasi/term endowments	<u>2,690,608</u>	<u>1,228,414</u>
	<u>\$ 19,996,662</u>	<u>\$ 19,528,280</u>

Permanently Restricted Net Assets

Receivable – endowments	\$ 12,026,579	\$ 13,184,226
Scholarships	13,897,005	13,024,888
Other University support	<u>13,577,720</u>	<u>10,619,660</u>
	<u>\$ 39,501,304</u>	<u>\$ 36,828,774</u>

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

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, 2011 and 2010, these reimbursements were \$3,397,603 and \$850,405, respectively. At June 30, 2011 and 2010, the Foundation had \$553,670 and \$157,623, 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 \$187,542 and \$54,505, for the years ended June 30, 2011 and 2010, respectively. The Foundation purchases equipment for various campus program accounts and then transfers title to the University. For the years ended June 30, 2011 and 2010, these purchases were \$141,089 and \$181,130, respectively.

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 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.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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, 2011 and 2010:

<u>June 30, 2011:</u>	<u>Assets at Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments (see Note 2)	\$ 34,551,527	–	\$ 34,551,527	–
Contributions receivable from charitable remainder trusts	857,591	–	–	\$ 857,591
Cash and cash equivalents	<u>12,119,882</u>	<u>\$ 12,119,882</u>	<u>–</u>	<u>–</u>
	<u>\$ 47,529,000</u>	<u>\$ 12,119,882</u>	<u>\$ 34,551,527</u>	<u>\$ 857,591</u>

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

NOTE 6 – Fair Value Measurements (Continued)

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

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

<u>June 30, 2011:</u>	<u>Assets at Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Contributions receivable from promises to give	\$ 810,445	–	–	\$ 810,445
	<u>\$ 810,445</u>	<u>None</u>	<u>None</u>	<u>\$ 810,445</u>

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

NOTE 6 – Fair Value Measurements (Continued)

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

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

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:

	<u>Contributions Receivable From Charitable Remainder Trusts</u>
Balance at July 1, 2009	\$ 586,661
Trust Additions	25,349
Realization of Trust proceeds	(125,518)
Change in value	<u>(18,981)</u>
Balance at June 30, 2010	\$ 467,511
Trust Additions	327,875
Change in value	<u>62,205</u>
Balance at June 30, 2011	<u>\$ 857,591</u>

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

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.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

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, 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 approved an earnings distribution equal to 3.00% of the endowment funds' market value over a rolling five-year average. The total amount distributed during the year ended June 30, 2011 was \$683,736.

For the fiscal year ended June 30, 2011, 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 was made on June 30, 2011, and the total amount was \$785,884.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

NOTE 7 – Endowments (Continued)

Net changes in endowment funds for the year ended June 30, 2011 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	(\$ 1,186,107)	\$ 1,228,414	\$ 36,828,774	\$ 36,871,081
Investment return:				
Investment income	534,022	—	—	534,022
Net appreciation (realized and unrealized)	<u>1,969,954</u>	<u>1,749,233</u>	<u>—</u>	<u>3,719,187</u>
Total investment return	2,503,976	1,749,233	—	4,253,209
Contributions	—	2,019,107	2,190,790	4,209,897
Change in value of charitable remainder trusts receivable	—	—	380,564	380,564
Other income	—	19,905	101,176	121,081
Appropriated for expenditure	(<u>1,469,620</u>)	<u>—</u>	<u>—</u>	(<u>1,469,620</u>)
Endowment net assets, end of year	(<u>\$ 151,751</u>)	<u>\$ 5,016,659</u>	<u>\$ 39,501,304</u>	<u>\$ 44,366,212</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	(\$ 2,155,910)	\$ 673,245	\$ 34,823,174	\$ 33,340,509
Investment return:				
Investment income	443,685	—	—	443,685
Net appreciation (realized and unrealized)	<u>737,012</u>	<u>437,967</u>	<u>—</u>	<u>1,174,979</u>
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	(<u>210,894</u>)	<u>—</u>	<u>—</u>	(<u>210,894</u>)
Endowment net assets, end of year	(<u>\$ 1,186,107</u>)	<u>\$ 1,228,414</u>	<u>\$ 36,828,774</u>	<u>\$ 36,871,081</u>

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

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

NOTE 7 – Endowments (Continued)

Included in the Endowment net assets are contributions receivable restricted to the endowment of \$12,026,579 and \$13,184,226 as of June 30, 2011 and 2010, 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 \$151,751 and \$1,186,107 as of June 30, 2011 and 2010, 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, 2011, there were no Board-designated endowment funds.