CALIFORNIA STATE UNIVERSITY
FULLERTON

Philanthropic Foundation

Financial Statements
June 30, 2012 and 2011

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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, 2012 and 2011, 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, 2012 and 2011, 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 21, 2012

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2012	June 30, 2011
ASSETS		
Cash and cash equivalents, including restricted cash	$ 14,527,818	$ 12,119,882
Investments	34,291,395	34,551,527
Contributions receivable, net of allowance for doubtful pledges	12,852,548	14,937,745
Accounts receivable	105,903	3,879
Prepaid expenses	68,000	15,000
Other receivables	224,594	205,372
Other assets	52,999	27,871
TOTAL ASSETS	$ 62,123,257	$ 61,861,276

LIABILITIES AND NET ASSETS

	2012	2011
LIABILITIES		
Accounts payable and accrued liabilities	$ 1,019,545	$ 1,381,211
Total Liabilities	1,019,545	1,381,211
NET ASSETS		
Unrestricted	896,551	982,099
Temporarily restricted	18,777,904	19,996,662
Permanently restricted	41,429,257	39,501,304
Total Net Assets	61,103,712	60,480,065
TOTAL LIABILITIES AND NET ASSETS	$ 62,123,257	$ 61,861,276

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, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Contributions and gifts	–	$ 4,531,123	$ 2,185,382	$ 6,716,505
Campus programs	–	1,831,761	–	1,831,761
Alumni Association membership fees and programs	–	313,230	–	313,230
Investment income, net	$ 210,263	220,108	(280,376)	149,995
Other income	872	28,808	25	29,705
Change in value of split interest agreements	–	(2,399)	22,922	20,523
Net assets released from restrictions	8,141,389	(8,141,389)	–	–
Total Revenues and Support	8,352,524	(1,218,758)	1,927,953	9,061,719
EXPENSES				
Program Expenses:				
Campus	5,956,768	–	–	5,956,768
Scholarships	1,935,786	–	–	1,935,786
Alumni association	248,835	–	–	248,835
Total Program Expenses	8,141,389	–	–	8,141,389
Supporting Services:				
General and administrative	296,683	–	–	296,683
Total Supporting Services	296,683	–	–	296,683
Total Expenses	8,438,072	–	–	8,438,072
CHANGES IN NET ASSETS	(85,548)	(1,218,758)	1,927,953	623,647
NET ASSETS AT BEGINNING OF YEAR	982,099	19,996,662	39,501,304	60,480,065
NET ASSETS AT END OF YEAR	$ 896,551	$ 18,777,904	$ 41,429,257	$ 61,103,712

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	9,055,597	(9,055,597)	–	–
Total Revenues and Support	10,583,655	468,382	2,672,530	13,724,567
EXPENSES				
Program Expenses:				
Campus	7,274,719	–	–	7,274,719
Scholarships	1,547,650	–	–	1,547,650
Alumni association	233,228	–	–	233,228
Total Program Expenses	9,055,597	–	–	9,055,597
Supporting Services:				
General and administrative	270,155	–	–	270,155
Total Supporting Services	270,155	–	–	270,155
Total Expenses	9,325,752	–	–	9,325,752
CHANGES IN NET ASSETS	1,257,903	468,382	2,672,530	4,398,815
NET ASSETS AT BEGINNING OF YEAR	(275,804)	19,528,280	36,828,774	56,081,250
NET ASSETS AT END OF YEAR	$ 982,099	$ 19,996,662	$ 39,501,304	$ 60,480,065

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, 2012	For the Year Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 623,647	$ 4,398,815
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Contributions of investments	(472,340)	(283,845)
Reinvested investment income	(447,483)	(596,094)
Contributions restricted for long-term investments	(2,185,382)	(2,190,790)
Change in discount on contributions receivable	(539,234)	(545,961)
Change in allowance for doubtful pledges	(19,728)	(15,408)
Noncash change in split-interest agreements	(20,523)	(390,080)
Realized (gain) loss on sale of contributed investments	(4,786)	1,544
Net realized and unrealized (gain) loss on investments	461,577	(4,025,695)
Net (increase) decrease in:		
Contributions receivable	2,664,682	3,044,807
Accounts receivable	(102,024)	35,886
Prepaid expenses	(53,000)	(11,284)
Other assets and receivables	(44,350)	(7,871)
Net increase (decrease) in:		
Accounts payable and accrued liabilities	(361,666)	923,473
Net Cash Provided By (Used In) Operating Activities	(500,610)	337,497
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(29,684,485)	(5,698,748)
Proceeds from sale of investments	30,009,444	4,438,512
Proceeds from sale of contributed investments	398,205	282,300
Net Cash Provided By (Used In) Investing Activities	723,164	(977,936)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investments	2,185,382	2,190,790
Net Cash Provided By Financing Activities	2,185,382	2,190,790
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,407,936	1,550,351
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,119,882	10,569,531
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,527,818	$ 12,119,882
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

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.

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, 2012 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, 2012 and 2011 is $3,164,212 and $788,107, 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. Until May 31, 2012, substantially all investments were directed toward funds managed by the Commonfund. Effective June 1, 2012, the Foundation commenced an arrangement by which Goldman Sachs Institutional Wealth Management provides investment advisory services to the Foundation. The Foundation maintains a position 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. 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 $878,000 and $858,000 on June 30, 2012 and 2011, 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 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.

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 21, 2012, the date the financial statements were available to be issued for the year ended June 30, 2012, and determined that there were no other items to disclose.

Reclassifications

Certain amounts have been reclassified in the prior year financial statements to conform to the current year presentation.

NOTE 2 – Investments

Investments consists of the following:

	June 30,	
	2012	**2011**
Multi-strategy equity fund	–	$ 20,108,838
Multi-strategy bond fund	–	7,918,203
Multi-strategy international equity fund	–	2,564,830
Equity index funds	$ 16,231,764	–
Fixed income index funds	12,626,855	–
International equity index funds	1,782,073	–
Certificates of deposit	3,000,000	3,000,000
Capital partners fund	612,830	461,300
Commonfund realty fund	37,873	–
Emerging markets fund	–	498,356
	$ 34,291,395	$ 34,551,527

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, 2012	For the Year Ended June 30, 2011
Endowment investment income	$ 500,914	$ 607,519
Less endowment investment expenses	(72,567)	(73,497)
Net endowment investment income	428,347	534,022
Realized gain (loss) on sale of contributed investments	4,786	(1,544)
Net realized and unrealized gain (loss) on endowments and other investments	(461,577)	4,025,695
	(28,444)	4,558,173
Short-term interest income	178,439	203,064
	$ 149,995	$ 4,761,237

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, 2012	June 30, 2011
Receivable in less than one year	$ 4,389,975	$ 3,560,246
Receivable in one to five years	6,365,921	8,654,832
Receivable in more than five years	2,413,500	3,619,000
	13,169,396	15,834,078
Less discount to reflect present value	(1,140,478)	(1,679,712)
Less allowance for doubtful pledges	(54,484)	(74,212)
Net pledges receivable	11,974,434	14,080,154
Net charitable remainder trusts receivable	878,114	857,591
	$ 12,852,548	$ 14,937,745

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,	
	2012	**2011**
Time and performance restriction – contributions receivable	$ 2,174,222	$ 3,190,750
Scholarships and campus programs	13,826,686	14,115,304
Quasi/term endowments	2,776,996	2,690,608
	$ 18,777,904	$ 19,996,662

Permanently Restricted Net Assets

Scholarships	$ 14,952,475	$ 14,640,028
Other University support	26,476,782	24,861,276
	$ 41,429,257	$ 39,501,304

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, 2012 and 2011, these reimbursements were $2,659,938 and $3,397,603, respectively. At June 30, 2012 and 2011, the Foundation had $424,568 and $553,670, 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 $507,956 and $187,542, for the years ended June 30, 2012 and 2011, respectively. The Foundation purchases equipment for various campus program accounts and then transfers title to the University. For the years ended June 30, 2012 and 2011, these purchases were $400,177 and $141,089, respectively.

The Foundation receives contributed services from California State University, Fullerton for various administrative duties. The value of such contributed services totaled approximately $268,000 and $254,000, respectively, for the years ended June 30, 2012 and 2011. 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.

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.

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.

NOTE 6 – Fair Value Measurements (Continued)

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2012 and 2011:

		Fair Value Measurements at Reporting Date Using		
June 30, 2012:	**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)	$ 34,291,395	$ 33,640,692	–	$ 650,703
Contributions receivable from charitable remainder trusts	878,114	–	–	878,114
Other receivables from charitable gift annuities	224,594	–	–	224,594
Cash and cash equivalents	14,527,818	14,527,818	–	–
	$ 49,921,921	$ 48,168,510	None	$ 1,753,411

		Fair Value Measurements at Reporting Date Using		
June 30, 2011:	**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)	$ 34,551,527	–	$ 34,090,227	$ 461,300
Contributions receivable from charitable remainder trusts	857,591	–	–	857,591
Other receivables from charitable gift annuities	205,372	–	–	205,372
Cash and cash equivalents	12,119,882	$ 12,119,882	–	–
	$ 47,734,372	$ 12,119,882	$ 34,090,227	$ 1,524,263

NOTE 6 – Fair Value Measurements (Continued)

The following table presents assets that are measured at fair value on a nonrecurring basis at June 30, 2012 and 2011:

		Fair Value Measurements at Reporting Date Using		
June 30, 2012:	**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)**
Contributions receivable from promises to give	$ 184,677	–	–	$ 184,677
	$ 184,677	None	None	$ 184,677

		Fair Value Measurements at Reporting Date Using		
June 30, 2011:	**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)**
Contributions receivable from promises to give	$ 810,445	–	–	$ 810,445
	$ 810,445	None	None	$ 810,445

As of June 30, 2012 and 2011, the Foundation has no liabilities measured at fair value.

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, 2010	$ 467,511	$ 207,207	$ 262,383
Additions	327,875	–	148,750
Change in value	62,205	(1,835)	50,167
Balance at June 30, 2011	857,591	205,372	461,300
Additions	54,570	100,000	102,000
Change in value	(34,047)	(80,778)	87,403
Balance at June 30, 2012	$ 878,114	$ 224,594	$ 650,703

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.

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.

NOTE 7 – Endowments (Continued)

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, 2010 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.

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 was made on June 30, 2012, and the total amount was $961,747.

Net changes in endowment funds for the year ended June 30, 2012 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	($ 151,751)	$ 5,016,659	$ 39,501,304	$ 44,366,212
Investment return:				
Investment income	428,347	–	(280,376)	147,971
Net appreciation (realized and unrealized)	210,773	(667,047)	–	(456,274)
Total investment return	639,120	(667,047)	(280,376)	(308,303)
Contributions	–	3,550	2,185,382	2,188,932
Change in value of charitable remainder trusts receivable	–	–	22,922	22,922
Other income	–	26,043	25	26,068
Appropriated for expenditure	(961,747)	–	–	(961,747)
Endowment net assets, end of year	($ 474,378)	$ 4,379,205	$ 41,429,257	$ 45,334,084

NOTE 7 – Endowments (Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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)	1,969,954	1,749,233	–	3,719,187
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	(1,469,620)	–	–	(1,469,620)
Endowment net assets, end of year	($ 151,751)	$ 5,016,659	$ 39,501,304	$ 44,366,212

Included in the Endowment net assets are contributions receivable restricted to the endowment of $10,957,405 and $12,026,579 as of June 30, 2012 and 2011, 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 $474,378 and $151,751 as of June 30, 2012 and 2011, 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, 2012, there were no Board-designated endowment funds.