



CALIFORNIA STATE UNIVERSITY

FULLERTON

Philanthropic Foundation

Financial Statements
June 30, 2009 and 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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 25, 2009

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents, including restricted cash	\$ 2,913,215	\$ 12,960,632
Investments	32,070,475	18,633,904
Contributions receivable, net of allowance for doubtful pledges	17,780,623	18,130,531
Accounts receivable	26,552	28,598
Prepaid expenses	1,979	8,785
Other receivables	<u>209,478</u>	<u>216,084</u>
TOTAL ASSETS	<u>\$ 53,002,322</u>	<u>\$ 49,978,534</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued liabilities	\$ 933,870	\$ 323,762
Total Liabilities	<u>933,870</u>	<u>323,762</u>
NET ASSETS		
Unrestricted	(1,493,569)	2,740,394
Temporarily restricted	18,738,847	17,307,546
Permanently restricted	<u>34,823,174</u>	<u>29,606,832</u>
Total Net Assets	<u>52,068,452</u>	<u>49,654,772</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 53,002,322</u>	<u>\$ 49,978,534</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, 2009**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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 restriction	<u>8,412,431</u>	<u>(8,412,431)</u>	<u>—</u>	<u>—</u>
Total Revenues and Support	<u>4,795,424</u>	<u>1,431,301</u>	<u>5,216,342</u>	<u>11,443,067</u>
EXPENSES				
Program Expenses:				
Campus	6,873,194	—	—	6,873,194
Scholarships	1,308,697	—	—	1,308,697
Alumni association	<u>230,540</u>	<u>—</u>	<u>—</u>	<u>230,540</u>
Total Program Expenses	<u>8,412,431</u>	<u>—</u>	<u>—</u>	<u>8,412,431</u>
Supporting Services:				
General and administrative	<u>616,956</u>	<u>—</u>	<u>—</u>	<u>616,956</u>
Total Supporting Services	<u>616,956</u>	<u>—</u>	<u>—</u>	<u>616,956</u>
Total Expenses	<u>9,029,387</u>	<u>—</u>	<u>—</u>	<u>9,029,387</u>
CHANGES IN NET ASSETS	(4,233,963)	1,431,301	5,216,342	2,413,680
NET ASSETS AT BEGINNING OF YEAR	<u>2,740,394</u>	<u>17,307,546</u>	<u>29,606,832</u>	<u>49,654,772</u>
NET ASSETS AT END OF YEAR	<u>(\$ 1,493,569)</u>	<u>\$ 18,738,847</u>	<u>\$ 34,823,174</u>	<u>\$ 52,068,452</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, 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Contributions and gifts	—	\$ 8,173,463	\$ 13,831,374	\$ 22,004,837
Campus programs	—	940,793	—	940,793
Alumni Association membership fees and programs	—	375,420	—	375,420
Investment income (loss), net	(\$ 693,320)	503,590	23,930	(165,800)
Other income	1,399	20,500	1,305	23,204
Change in value of split interest agreements	—	(772,046)	907,258	135,212
Net assets released from restriction	<u>12,234,966</u>	<u>(12,234,966)</u>	<u>—</u>	<u>—</u>
Total Revenues and Support	<u>11,543,045</u>	<u>(2,993,246)</u>	<u>14,763,867</u>	<u>23,313,666</u>
EXPENSES				
Program Expenses:				
Campus	10,987,304	—	—	10,987,304
Scholarships	1,035,118	—	—	1,035,118
Alumni association	<u>212,544</u>	<u>—</u>	<u>—</u>	<u>212,544</u>
Total Program Expenses	<u>12,234,966</u>	<u>—</u>	<u>—</u>	<u>12,234,966</u>
Supporting Services:				
General and administrative	<u>438,284</u>	<u>—</u>	<u>—</u>	<u>438,284</u>
Total Supporting Services	<u>438,284</u>	<u>—</u>	<u>—</u>	<u>438,284</u>
Total Expenses	<u>12,673,250</u>	<u>—</u>	<u>—</u>	<u>12,673,250</u>
CHANGES IN NET ASSETS	(1,130,205)	(2,993,246)	14,763,867	10,640,416
NET ASSETS AT BEGINNING OF YEAR	<u>3,870,599</u>	<u>20,300,792</u>	<u>14,842,965</u>	<u>39,014,356</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,740,394</u>	<u>\$ 17,307,546</u>	<u>\$ 29,606,832</u>	<u>\$ 49,654,772</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>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 2,413,680	\$ 10,640,416
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Contributions of investments	(235,963)	(319,237)
Contributions restricted for long-term investments	(5,248,094)	(13,831,374)
Change in discount on contributions receivable	505,732	1,732,427
Change in allowance for doubtful pledges	39,965	(19,933)
Noncash change in split interest agreements	53,077	(1,041,986)
Realized loss on sale of contributed investments	591	215
Unrealized loss on investments	3,630,770	1,086,115
Net (increase) decrease in:		
Contributions receivable	(248,866)	(11,406,041)
Accounts receivable	2,046	(9,505)
Prepaid expenses	6,806	(8,785)
Other receivables	6,606	(18,697)
Net increase (decrease) in:		
Accounts payable and accrued liabilities	610,108	200,086
Refundable advance	<u>-</u>	<u>(76,500)</u>
Net Cash Provided By (Used In) Operating Activities	<u>1,536,458</u>	<u>(13,072,799)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(15,635,931)	(3,184,458)
Proceeds from sale of contributed investments	235,372	319,022
Change in short-term investments	(1,431,410)	<u>-</u>
Net Cash Used In Investing Activities	<u>(16,831,969)</u>	<u>(2,865,436)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investments	<u>5,248,094</u>	<u>13,831,374</u>
Net Cash Provided By Financing Activities	<u>5,248,094</u>	<u>13,831,374</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,047,417)	(2,106,861)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>12,960,632</u>	<u>15,067,493</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,913,215</u>	<u>\$ 12,960,632</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, 2009 AND 2008**

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. Upon expiration of the restrictions, the contributions are reclassified to unrestricted net assets.

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.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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 purchased with an original maturity of three months or less to be cash equivalents. The cash and cash equivalents are predominantly invested in the Commonfund, an investment fund managed by a nonprofit group, and certificates of deposit.

As of June 30, 2009 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 may not be covered by insurance.

Included in cash and cash equivalents at June 30, 2009 is approximately \$250,000 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.

Investments include \$1,431,410 of short-term investments which were included in cash and cash equivalents in the prior year and are now included in investments due to lack of immediate accessibility.

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

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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 \$587,000 and \$640,000 on June 30, 2009 and 2008, 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 Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, (SFAS 157) 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. SFAS 157 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. SFAS 157 also establishes a framework for measuring fair value and expands disclosures about fair value measurements. (See Note 6.) FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157*, delays the effective date of SFAS 157 until fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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 will be required to apply the provisions of SFAS 157 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. The Foundation is in the process of evaluating the impact, if any, of applying these provisions on its financial position and results of operations.

In October 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, which was effective immediately. FSP FAS 157-3 clarifies the application of SFAS 157 in cases where the market for a financial instrument is not active and provides an example to illustrate key considerations in determining fair value in those circumstances. The Foundation has considered the guidance provided by FSP FAS 157-3 in its determination of estimated fair values.

Tax Status

The Foundation has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code, respectively. In addition, the Foundation has been determined by the Internal Revenue Service to be a public charity and not a “private foundation.”

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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

Recent Accounting Pronouncements

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. Upon adoption of FIN 48, the Foundation will be required to recognize the effect of income tax positions only if those positions are more likely than not of being sustained.

On December 30, 2008, FASB Staff Position FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, deferred the effective date of FIN 48 for certain nonpublic enterprises, including nonprofit entities, for annual financial statements for periods beginning on or after December 15, 2008. As a result, the Foundation has elected to defer the adoption of FIN 48. The Foundation currently recognizes the effect of income tax positions only if such positions are probable of being sustained. The Foundation is currently evaluating the effect, if any, of the adoption of FIN 48.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Among other things, SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009. This statement did not have a material effect on the Foundation's financial statements. In connection with the adoption of SFAS 165, the Foundation has evaluated subsequent events through the date financial statements were issued for the year ended June 30, 2009.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*, ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. SFAS 168 does not change GAAP and will not have a material impact on the Foundation's financial statements.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 2 – Investments

Investments consists of the following:

	June 30,	
	2009	2008
Government securities fund	\$ 2,366,349	–
Multi-strategy equity fund	9,358,807	\$ 10,640,932
Multi-strategy bond fund	5,335,417	5,854,608
Multi-strategy international equity fund	1,969,701	1,303,385
Certificates of deposit	11,122,226	–
Realty fund	341,207	740,116
Short-term common fund	1,431,410	–
Capital partners fund	144,357	93,862
Other	1,001	1,001
	<u>\$ 32,070,475</u>	<u>\$ 18,633,904</u>

Of the investments, \$18,410,586 are permanently restricted for endowment purposes as of June 30, 2009.

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

	For the Year Ended June 30,	
	2009	2008
Endowment investment income	\$ 514,177	\$ 473,059
Less endowment investment expenses	(49,623)	(59,905)
Net endowment investment income	464,554	413,154
Realized loss on sale of contributed investments	(591)	(215)
Unrealized loss on endowments and other investments	(3,630,770)	(1,086,115)
	(3,166,807)	(673,176)
Short-term interest income	154,640	507,376
	<u>(\$ 3,012,167)</u>	<u>(\$ 165,800)</u>

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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:

	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
Receivable in less than one year	\$ 3,469,822	\$ 6,390,397
Receivable in one to five years	9,895,986	7,406,045
Receivable in more than five years	<u>6,680,000</u>	<u>6,000,500</u>
	20,045,808	19,796,942
Less discount to reflect present value	(2,769,814)	(2,264,082)
Less allowance for doubtful pledges	(82,032)	(42,067)
Net pledges receivable	<u>17,193,962</u>	<u>17,490,793</u>
Net charitable remainder trusts receivable	<u>586,661</u>	<u>639,738</u>
	<u>\$ 17,780,623</u>	<u>\$ 18,130,531</u>

NOTE 4 – Net Assets

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

Temporarily Restricted Net Assets

	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
Time and performance restriction – contributions receivable	\$ 3,392,784	\$ 6,344,406
Scholarships and campus programs	<u>15,346,063</u>	<u>10,963,140</u>
	<u>\$ 18,738,847</u>	<u>\$ 17,307,546</u>

Permanently Restricted Net Assets

Receivable – endowments	\$ 14,679,349	\$ 12,044,276
Scholarships	11,734,266	10,553,805
Other University support	<u>8,409,559</u>	<u>7,008,751</u>
	<u>\$ 34,823,174</u>	<u>\$ 29,606,832</u>

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

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, 2009 and 2008, these reimbursements were \$676,610 and \$610,440, respectively. At June 30, 2009 and 2008, the Foundation had \$767,138 and \$158,711, respectively, payable to the University, which is included in accounts payable and accrued liabilities on the accompanying statements of financial position. At June 30, 2009 and 2008, the Foundation had \$556 and \$2,533, 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 which totaled \$275,172 and \$98,641, for the years ended June 30, 2009 and 2008, respectively. The Foundation purchases equipment for various campus program accounts and then transfers title to the University. For the years ended June 30, 2009 and 2008, these purchases were \$126,296 and \$38,514, respectively. The Foundation Board of Governors authorized a gift to the University from the Foundation in the amount of \$250,000 for support of the construction of the Mihaylo College of Business building during the year ended June 30, 2009.

NOTE 6 – Fair Value Measurements

The Foundation adopted SFAS 157 on July 1, 2008 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. SFAS 157 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.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 6 – Fair Value Measurements (Continued)

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 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, 2009:

	<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	\$ 32,070,475	–	\$ 32,070,475	–
Contributions receivable from charitable remainder trusts	<u>586,661</u>	<u>–</u>	<u>–</u>	<u>\$ 586,661</u>
	<u>\$ 32,657,136</u>	<u>None</u>	<u>\$ 32,070,475</u>	<u>\$ 586,661</u>

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 6 – Fair Value Measurements (Continued)

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

	<u>Assets at Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using Quoted Prices</u>		
		<u>in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Contributions receivable from promises to give	\$ <u>4,695,773</u>	<u>—</u>	<u>—</u>	\$ <u>4,695,773</u>
	\$ <u>4,695,773</u>	<u>None</u>	<u>None</u>	\$ <u>4,695,773</u>

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

SFAS 157 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:

	<u>Contributions Receivable From Charitable Remainder Trusts</u>
Balance at July 1, 2008	\$ 639,738
Change in value	(<u>53,077</u>)
Balance at June 30, 2009	\$ <u>586,661</u>

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

NOTE 7 – Endowments

The Foundation's endowments consist of several 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.

In August 2008, the FASB issued FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowments Funds* (FSP). Its guidance is effective for fiscal years ending after December 15, 2008. The FSP requires the Foundation to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The FSP also requires expanded disclosures for all endowment funds.

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

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 7 – Endowments (Continued)

The 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.

The Investment Committee of the Board of Governors adheres to modern portfolio theory, which has, as its basis, risk reduction through diversification. Diversification is obtained through the use of multiple asset classes, as well as multiple investments within these asset classes. Asset classes that may be used include (but are not limited to) domestic and international corporate stocks and bonds, 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 includes an endowment spending rate of three percent of the endowment funds’ market value over a rolling five-year average. This spending rate constitutes the Board of Governors’ annual appropriation for spending endowment earnings. 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.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>(\$ 2,155,910)</u>	<u>\$ 673,245</u>	<u>\$ 34,823,174</u>	<u>\$ 33,340,509</u>

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 7 – Endowments (Continued)

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 \$2,155,910 as of June 30, 2009 , 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.