CALIFORNIA STATE UNIVERSITY
FULLERTON

Philanthropic Foundation

Consolidated Financial Statements
June 30, 2018 and 2017

CONTENTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Cal State Fullerton Philanthropic Foundation (a nonprofit organization, the Foundation), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cal State Fullerton Philanthropic Foundation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Windes, Inc.

Irvine, California
September 11, 2018

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2018	June 30, 2017
ASSETS		
Cash and cash equivalents, including restricted cash	$ 25,708,369	$ 23,404,239
Investments	63,610,446	60,075,004
Contributions receivable, net of allowance for doubtful pledges	5,033,798	8,867,440
Accounts receivable	190,066	168,801
Prepaid expenses	109,109	161,737
Other receivables	187,096	179,789
Other assets	236,031	214,875
TOTAL ASSETS	$ 95,074,915	$ 93,071,885

LIABILITIES AND NET ASSETS

	2018	2017
LIABILITIES		
Accounts payable and accrued liabilities	$ 846,877	$ 418,402
Deposits held in custody for others	2,021,169	2,147,520
Total Liabilities	2,868,046	2,565,922
NET ASSETS		
Unrestricted	2,461,029	2,238,304
Temporarily restricted	31,809,902	29,857,417
Permanently restricted	57,935,938	58,410,242
Total Net Assets	92,206,869	90,505,963
TOTAL LIABILITIES AND NET ASSETS	$ 95,074,915	$ 93,071,885

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

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Contributions and gifts	$ 77,712	$ 7,446,460	$ 2,603,622	$ 10,127,794
Campus programs	-	1,548,145	-	1,548,145
Alumni Association membership fees and programs	-	556,992	-	556,992
Investment income, net	655,767	2,729,670	262,785	3,648,222
Other income (expense)	(99,884)	100,219	5,318	5,653
Change in value of split interest agreements	-	-	78,971	78,971
Provision on uncollectible contributions receivable	-	-	(3,425,000)	(3,425,000)
Net assets released from restrictions	10,429,001	(10,429,001)	-	-
Total Revenues and Support	11,062,596	1,952,485	(474,304)	12,540,777
EXPENSES				
Program Expenses:				
Campus	6,945,790	-	-	6,945,790
Scholarships	3,122,018	-	-	3,122,018
Alumni association	361,193	-	-	361,193
Total Program Expenses	10,429,001	-	-	10,429,001
Supporting Services:				
General and administrative	410,870	-	-	410,870
Total Supporting Services	410,870	-	-	410,870
Total Expenses	10,839,871	-	-	10,839,871
CHANGES IN NET ASSETS	222,725	1,952,485	(474,304)	1,700,906
NET ASSETS AT BEGINNING OF YEAR	2,238,304	29,857,417	58,410,242	90,505,963
NET ASSETS AT END OF YEAR	$ 2,461,029	$ 31,809,902	$ 57,935,938	$ 92,206,869

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

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Contributions and gifts	$ 6	$ 8,211,867	$ 5,793,218	$ 14,005,091
Campus programs	-	1,097,701	-	1,097,701
Alumni Association membership fees and programs	-	369,549	-	369,549
Investment income, net	786,426	4,176,961	151,954	5,115,341
Other income (expense)	(92,603)	161,565	(68,664)	298
Change in value of split interest agreements	-	-	10,382	10,382
Net assets released from restrictions	8,728,777	(8,728,777)	-	-
Total Revenues and Support	9,422,606	5,288,866	5,886,890	20,598,362
EXPENSES				
Program Expenses:				
Campus	5,999,684	-	-	5,999,684
Scholarships	2,484,760	-	-	2,484,760
Alumni association	244,333	-	-	244,333
Total Program Expenses	8,728,777	-	-	8,728,777
Supporting Services:				
General and administrative	344,984	-	-	344,984
Total Supporting Services	344,984	-	-	344,984
Total Expenses	9,073,761	-	-	9,073,761
CHANGES IN NET ASSETS	348,845	5,288,866	5,886,890	11,524,601
NET ASSETS AT BEGINNING OF YEAR	1,889,459	24,568,551	52,523,352	78,981,362
NET ASSETS AT END OF YEAR	$ 2,238,304	$ 29,857,417	$ 58,410,242	$ 90,505,963

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

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended June 30, 2018	For the Year Ended June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 1,700,906	$ 11,524,601
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Contributions of investments	(227,377)	(2,343,221)
Reinvested investment income	(86,006)	(93,472)
Contributions restricted for long-term investments	(2,603,622)	(5,793,218)
Change in discount on contributions receivable	(19,526)	(326,072)
Change in allowance for doubtful pledges	3,404,953	(31,482)
Noncash change in split-interest agreements	(78,972)	(10,382)
Realized loss on sale of contributed investments	5,440	2,227
Net realized and unrealized income on investments	(2,227,308)	(3,860,435)
Net (increase) decrease in:		
Contributions receivable	527,188	430,885
Accounts receivable	(21,265)	(78,510)
Prepaid expenses	52,628	(89,950)
Other assets and receivables	(28,463)	(75,353)
Net increase (decrease) in:		
Accounts payable and accrued liabilities	428,475	4,628
Deposits held in custody for others	(126,351)	145,122
Net Cash Provided By (Used In) Operating Activities	700,700	(594,632)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(12,368,856)	(14,109,957)
Proceeds from sale of investments	11,146,726	10,123,789
Proceeds from sale of contributed investments	221,938	2,340,994
Net Cash Used In Investing Activities	(1,000,192)	(1,645,174)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investments	2,603,622	5,793,218
Net Cash Provided By Financing Activities	2,603,622	5,793,218
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,304,130	3,553,412
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	23,404,239	19,850,827
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 25,708,369	$ 23,404,239
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 consolidated financial statements.

NOTE 1 – Nature of Activities and Significant Accounting Policies

Nature of Activities

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

The consolidated financial statements of the Foundation include the financial information of the Cal State Fullerton Alumni Association (the Alumni Association), which is a nonprofit organization within the University. The mission of the Alumni Association is to build lifelong alumni relationships by contributing to a positive image of the University, promoting accomplishments of the University and alumni, providing environments and opportunities for alumni engagement, encouraging educational, social and economic benefits for our student and alumni communities, and advocating on behalf of the University to promote student success.

All intercompany accounts and transactions have been eliminated in the consolidation.

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.

Revenues, gains, expenses, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- **Unrestricted net assets** – Unrestricted net assets represent net assets that are not subject to donor-imposed restrictions and that may be expendable for any purpose in performing the primary objectives of the Foundation.

- **Temporarily restricted net assets** – Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

- **Permanently restricted net assets** – Permanently restricted net assets include gifts and pledges which require, by donor restriction, that the corpus be invested in perpetuity and only the income be recorded as unrestricted or temporarily restricted net assets for program operations in accordance with donor restrictions.

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

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements presentation in order to correspond to the current year's format.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor's stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Permanently restricted contributions and net assets have restrictions stipulated by the donor that the corpus be invested in perpetuity and only income be made available for operations.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing consolidated 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 consolidated financial statements. Significant items subject to such estimates and assumptions include the valuation of contributions receivable.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Foundation considers all highly liquid, short-term investments with a maturity of 12 months or less when purchased to be cash equivalents.

As of June 30, 2018 and 2017 and at times throughout the years, the Foundation has maintained cash balances at its financial institutions in excess of federally insured limits.

Included in cash and cash equivalents at June 30, 2018 and 2017 is $2,817,155 and $3,148,700, respectively, restricted for endowment purposes.

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

Investments

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

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the consolidated statements of financial position. Unrealized gains and losses are included in the consolidated 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 5.) Distributions from the trusts are recorded as adjustments to the carrying value of the assets. The carrying value is also estimates of future amounts. Charitable remainder trusts amount to approximately $612,600 and $533,600 on June 30, 2018 and 2017, respectively, and are included in contributions receivable in the consolidated 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. Allowances for uncollectible amounts are calculated based on historical collection rates and specific identification of uncollectible accounts. Uncollectible pledges are charged to the allowance. An expense is recorded at the time the allowance is adjusted.

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

Deposits Held in Custody for Others

Funds held by the Foundation on behalf of University-affiliated ancillary organizations are recorded within the consolidated statements of financial position as deposits held in custody for others. The Foundation is acting as an agent for the transactions of these units, and the revenue and expense activity of the affiliate organization is not recorded. These funds are recorded in cash and cash equivalents and investments in the consolidated statements of financial position, and totaled \$355,780 and \$1,665,389, respectively, at June 30, 2018 and \$540,311 and \$1,607,209, respectively, at June 30, 2017.

Functional Allocation of Expenses

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

Fair Value Measurements

The Foundation recognizes or discloses financial assets, financial liabilities and nonfinancial items at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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 four years.

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

Recently Adopted Accounting Pronouncements

The Foundation adopted ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, in the current period which requires retrospective application.

Recently Issued Accounting Pronouncements

In August 2016, the FASB released ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The update amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes relate to: (a) presentation of classes of net assets (b) the presentation of underwater endowment funds and related disclosures, (c) recognition of the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) statement of functional expense, (e) disclosure of quantitative and qualitative information regarding liquidity and availability of resources; and a few smaller items. The ASU is effective for fiscal years beginning after December 15, 2017. The Foundation is currently evaluating the impact of the adoption of the new standard on the financial statements.

Subsequent Events

The Foundation's management has evaluated subsequent events through September 11, 2018, the date the consolidated financial statements were available to be issued for the year ended June 30, 2018, and determined that there were no other items to disclose.

NOTE 2 – Investments

Investments consists of the following:

	June 30,	
	2018	**2017**
Precious metal index funds	$ 1,407,930	$ 1,396,273
Domestic equity index funds	29,874,456	25,659,227
Fixed income index funds	15,680,133	14,007,459
International equity index funds	10,298,260	8,568,373
Capital partners fund	526,674	570,714
Certificates of deposit	-	675,000
Emerging markets fund	876,494	848,039
Hedge funds	1,895,623	3,301,269
Private equity/alternative investments	3,050,876	2,027,715
Mutual funds	-	3,020,935
	$ 63,610,446	$ 60,075,004

NOTE 2 – Investments (Continued)

Investment income, net, is summarized as follows:

	For the Year Ended June 30,	
	2018	2017
Reinvested interest and dividend income, net of investment fees	$ 1,312,851	$ 1,163,135
Unrealized gains	1,591,510	3,366,305
Realized gains	635,798	494,130
Realized losses on sale of contributed investments	(5,440)	(2,227)
Short-term interest income	113,503	93,998
	$ 3,648,222	$ 5,115,341

NOTE 3 – Contributions Receivable

Contributions receivable includes pledges and trusts that have been discounted at rates ranging from 2.95% to 4.81%. The following is a summary of the Foundation's contributions receivable classified by the expected date of collection:

	June 30,	
	2018	2017
Receivable in less than one year	$ 2,192,819	$ 2,420,723
Receivable in one to five years	6,502,247	6,801,528
Receivable in more than five years	-	-
	8,695,066	9,222,251
Less discount to reflect present value	(765,425)	(784,950)
Less allowance for doubtful contributions	(3,508,438)	(103,485)
Net contributions receivable	4,421,203	8,333,816
Net charitable remainder trusts receivable	612,595	533,624
	$ 5,033,798	$ 8,867,440

NOTE 4 – 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, 2018 and 2017, these reimbursements were $2,370,187 and $1,731,029, respectively. At June 30, 2018 and 2017, the Foundation had $796,788 and $217,953, respectively, payable to the University, which is included in accounts payable and accrued liabilities on the accompanying consolidated statements of financial position.

The Foundation receives payments from the University for various advancement activities that totaled $270,616 and $52,842 for the years ended June 30, 2018 and 2017, respectively. The Foundation purchases equipment for various campus program accounts and then transfers title to the University. For the years ended June 30, 2018 and 2017, these purchases were $164,968 and $497,172, respectively.

The Foundation receives contributed services from the University for various administrative duties. The value of such contributed services totaled approximately $429,000 and $400,000, for the years ended June 30, 2018 and 2017, respectively. These amounts are not included in the accompanying consolidated statements of activities; however, if recorded, amounts would be recorded as unrestricted contributions and unrestricted administrative expenses.

NOTE 5 – Fair Value Measurements

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Also included in level 2 are investments measured using a net asset value ("NAV") per share, or its equivalent, that may be redeemed at that NAV at the date of the statement of financial position or in the near term, which is generally considered to be within 95 days.

- Level 3 inputs are unobservable inputs for the asset or liability. This valuation is accomplished using management's best estimate of fair value, with inputs into the determination of fair value that require significant management judgment or estimation. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at the NAV.

NOTE 5 – 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.

Investments in limited partnerships: Since the investments in limited partnerships are valued utilizing unobservable inputs, and do not permit redemption at the measurement date, such investments are classified within Level 3. The limited partnership investments are presented at fair value, as determined by the General Partner. The General Partner's determination of fair value is based upon the best available information provided by the limited partnerships and may incorporate management assumptions. These investments are included in the Private equity/alternative investments line item on Note 2.

Investments in hedge funds: The Foundation follows the authoritative guidance under US GAAP for estimating the fair value of investments in investment companies that have calculated net asset value (NAV) in accordance with the specialized accounting guidance for investment companies. According to this guidance, a reporting entity is permitted, as a practical expedient, to estimate the fair value of an investment in an investment company using the NAV of the investment without further adjustment, if the NAV of the investment is determined in accordance with the specialized accounting guidance for investment companies as of the reporting entity's measurement date. The guidance also requires certain additional disclosures.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. The Foundation generally uses the NAV reported by the investment fund as the primary input to its valuation. However, adjustments to the reported NAV may be made based on various factors including, but not limited to, the basis of accounting used in determining the NAV, the reporting date of the NAV, and probable sales of any individual investment funds as of the measurement date.

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

NOTE 5 – Fair Value Measurements (Continued)

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

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2018 and 2017:

		Fair Value Measurements at Reporting Date Using		
June 30, 2018:	**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)	$ 63,610,446	$ 58,137,273	$ 1,895,623	$ 3,577,550
Contributions receivable from charitable remainder trusts	612,595	-	-	612,595
Other receivables from charitable gift annuities	187,096	-	-	187,096
	$ 64,410,137	$ 58,137,273	$ 1,895,623	$ 4,377,241

NOTE 5 – Fair Value Measurements (Continued)

		Fair Value Measurements at Reporting Date Using		
June 30, 2017:	**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)	$ 60,075,004	$ 53,500,306	$ 3,976,269	$ 2,598,429
Contributions receivable from charitable remainder trusts	533,624	-	-	533,624
Other receivables from charitable gift annuities	179,789	-	-	179,789
	$ 60,788,417	$ 53,500,306	$ 3,976,269	$ 3,311,842

As of June 30, 2018 and 2017, 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:

	Contributions Receivable From Charitable Remainder Trusts	**Contributions Receivable From Charitable Gift Annuities**	**Investments**
Balance at June 30, 2016	$ 523,243	$ 162,491	$ 2,162,680
Additions	-	5,000	875,283
Redemption	-	-	(657,887)
Change in value	10,381	12,298	218,353
Balance at June 30, 2017	533,624	179,789	2,598,429
Additions	-	-	1,386,065
Redemption	-	-	(692,664)
Change in value	78,971	7,307	285,720
Balance at June 30, 2018	$ 612,595	$ 187,096	$ 3,577,550

NOTE 5 – Fair Value Measurements (Continued)

Alternative Investments Reported at Net Asset Value

The following table summarized the Foundation's alternative investments in funds valued using the fair value practical expedient of net asset value as of June 30, 2018:

	Fair Value June 30, 2018	Redemption Frequency	Redemption Notice Period (Days)	Unfunded Commitment
Level 2:				
Hedge fund (a)	$ 548,436	Quarterly	91	N/A
Hedge fund (b)	1,347,187	Quarterly	91	N/A
Level 3:				
Private equity LP fund (c)	526,674	N/A	N/A	63,750

(a) Event Driven Managers plc seeks capital appreciation over time by investing in the event driven sector through investment vehicles managed by trading advisors. The investees strategies generally fall into one of the following categories: high yield/distressed securities, special situations and multi-strategy.

(b) Hedge Fund Opportunities Ltd seeks long-term risk-adjusted absolute returns by investing primarily through a portfolio of investments vehicles managed by trading advisors.

(c) Commonfund Capital Partners IV is a partnership that manages a broadly diversified multistrategy program that provides access to US private equity and global private equity with the objective of obtaining long-term capital growth. This is an illiquid investment and redemptions are not permitted. Quarterly distributions will be made by the partnership as individual investments reach maturity. The partnership is scheduled to terminate July 2019.

NOTE 6 – Net Assets

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

Temporarily Restricted Net Assets

	June 30,	
	2018	**2017**
Time and performance restriction – contributions receivable	$ 1,689,700	$ 2,093,510
Scholarships and campus programs	26,921,894	24,542,290
Endowments	3,198,308	3,221,617
	$ 31,809,902	$ 29,857,417

Permanently Restricted Net Assets

Scholarships	$ 24,772,407	$ 23,256,288
Other University support	33,163,531	35,153,954
	$ 57,935,938	$ 58,410,242

Included in Temporarily Restricted Net Assets as of June 30, 2018 and 2017 are $10,788,891 and $9,702,394 in accumulated endowment earnings, respectively.

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.

NOTE 7 – Endowments (Continued)

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 years ended June 30, 2018 and 2017, the Foundation's Board of Governors approved earnings distribution equal to 3.0% for both years of the endowment funds' market value over a rolling five-year average. Distributions of $1,621,404 and $1,479,243 were made during the years ended 2018 and 2017, respectively.

Net changes in endowment funds for the year ended June 30, 2018 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets (deficit), beginning of year	$ (967)	$ 9,702,394	$ 58,410,242	$ 68,111,669
Investment return:				
Investment income	-	1,168,673	262,785	1,431,458
Net appreciation/depreciation (realized and unrealized)	(21,574)	1,465,621	-	1,444,047
Total investment return	(21,574)	2,634,294	262,785	2,875,505
Contributions	-	-	2,603,622	2,603,622
Provision on uncollectible contributions receivable	-	-	(3,425,000)	(3,425,000)
Change in value of charitable remainder trusts receivable	-	-	78,971	78,971
Other income	-	73,607	5,318	78,925
Appropriated for expenditure	-	(1,621,404)	-	(1,621,404)
Endowment net assets (deficit), end of year	$ (22,541)	$ 10,788,891	$ 57,935,938	$ 68,702,288

NOTE 7 – Endowments (Continued)

Net changes in endowment funds for the year ended June 30, 2017 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets (deficit), beginning of year	$ (154,083)	$ 6,863,298	$ 52,523,352	$ 59,232,567
Investment return:				
Investment income	-	1,028,093	151,954	1,180,047
Net appreciation (realized and unrealized)	153,116	3,173,663	-	3,326,779
Total investment return	153,116	4,201,756	151,954	4,506,826
Contributions	-	-	5,793,218	5,793,218
Change in value of charitable remainder trusts receivable	-	-	10,382	10,382
Other income (loss)	-	116,583	(68,664)	47,919
Appropriated for expenditure	-	(1,479,243)	-	(1,479,243)
Endowment net assets (deficit), end of year	$ (967)	$ 9,702,394	$ 58,410,242	$ 68,111,669

Included in the endowment net assets are contributions receivable, net of reserve, restricted to the endowment of $3,661,786 and $7,089,919 as of June 30, 2018 and 2017, respectively.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature, which were reported in unrestricted net assets, was $22,541 and $967 as of June 30, 2018 and 2017, 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.