



THE CALIFORNIA STATE UNIVERSITY
FOUNDATION

FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

CONTENTS

Independent Auditors' Report	1
Statements of Financial Position.....	2
Statements of Activities	3-4
Statements of Cash Flows	5
Notes to the Financial Statements	6-18



INDEPENDENT AUDITORS' REPORT

To the Board of Governors of
California State University Foundation

We have audited the accompanying statements of financial position of California State University Foundation (the Foundation) (a nonprofit organization) 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 California State University 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.

A handwritten signature in cursive script that reads "Windes & McClaughry". The ink is dark and the signature is fluid and legible.

Long Beach, California
September 29, 2009

CALIFORNIA STATE UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,892,823	\$ 2,770,198
Pledges receivable	<u>514,601</u>	<u>397,635</u>
	<u>2,407,424</u>	<u>3,167,833</u>
NONCURRENT ASSETS		
Investments	10,353,807	12,103,576
Pledges receivable, net of current portion	633,583	232,621
Charitable gift annuity assets	3,974,756	4,579,177
Other receivables	<u>100,685</u>	<u>128,900</u>
	<u>15,062,831</u>	<u>17,044,274</u>
TOTAL ASSETS	<u>\$ 17,470,255</u>	<u>\$ 20,212,107</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	<u>\$ 28,779</u>	<u>\$ 157,616</u>
NONCURRENT LIABILITIES		
Charitable gift annuity liability	3,974,756	4,579,177
Other payables	100,685	128,900
Alumni council liability	<u>81,476</u>	<u>—</u>
	<u>4,156,917</u>	<u>4,708,077</u>
Total Liabilities	<u>4,185,696</u>	<u>4,865,693</u>
NET ASSETS		
Unrestricted	2,294,523	2,698,625
Temporarily restricted	3,683,783	5,350,129
Permanently restricted	<u>7,306,253</u>	<u>7,297,660</u>
Total Net Assets	<u>13,284,559</u>	<u>15,346,414</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,470,255</u>	<u>\$ 20,212,107</u>

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

CALIFORNIA STATE UNIVERSITY 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>
SUPPORT AND REVENUE				
Contributions	\$ 352,907	\$ 2,448,392	\$ 8,593	\$ 2,809,892
Investment loss	(374,247)	(1,195,157)	—	(1,569,404)
Other	13,679	22,560	—	36,239
Net assets released from restrictions	<u>2,942,141</u>	<u>(2,942,141)</u>	<u>—</u>	<u>—</u>
Total Support and Revenue	<u>2,934,480</u>	<u>(1,666,346)</u>	<u>8,593</u>	<u>1,276,727</u>
EXPENSES				
Program services:				
Contracts and grants	1,793,587	—	—	1,793,587
Special programs	<u>1,223,554</u>	<u>—</u>	<u>—</u>	<u>1,223,554</u>
	<u>3,017,141</u>	<u>—</u>	<u>—</u>	<u>3,017,141</u>
Supporting Services:				
Administrative	<u>321,441</u>	<u>—</u>	<u>—</u>	<u>321,441</u>
Total Expenses	<u>3,338,582</u>	<u>—</u>	<u>—</u>	<u>3,338,582</u>
CHANGE IN NET ASSETS	(404,102)	(1,666,346)	8,593	(2,061,855)
NET ASSETS AT BEGINNING OF YEAR	<u>2,698,625</u>	<u>5,350,129</u>	<u>7,297,660</u>	<u>15,346,414</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,294,523</u>	<u>\$ 3,683,783</u>	<u>\$ 7,306,253</u>	<u>\$ 13,284,559</u>

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

CALIFORNIA STATE UNIVERSITY 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>
SUPPORT AND REVENUE				
Contributions	\$ 355,337	\$ 1,766,666	\$ 194,622	\$ 2,316,625
Investment income (loss)	31,894	(302,640)	—	(270,746)
Other	14,702	7,719	—	22,421
Net assets released from restrictions	<u>1,837,482</u>	<u>(1,837,482)</u>	<u>—</u>	<u>—</u>
Total Support and Revenue	<u>2,239,415</u>	<u>(365,737)</u>	<u>194,622</u>	<u>2,068,300</u>
EXPENSES				
Program services:				
Contracts and grants	491,000	—	—	491,000
Special programs	<u>1,427,136</u>	<u>—</u>	<u>—</u>	<u>1,427,136</u>
	<u>1,918,136</u>	<u>—</u>	<u>—</u>	<u>1,918,136</u>
Supporting Services:				
Administrative	<u>321,246</u>	<u>—</u>	<u>—</u>	<u>321,246</u>
Total Expenses	<u>2,239,382</u>	<u>—</u>	<u>—</u>	<u>2,239,382</u>
CHANGE IN NET ASSETS	33	(365,737)	194,622	(171,082)
NET ASSETS AT BEGINNING OF YEAR	<u>2,698,592</u>	<u>5,715,866</u>	<u>7,103,038</u>	<u>15,517,496</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,698,625</u>	<u>\$ 5,350,129</u>	<u>\$ 7,297,660</u>	<u>\$ 15,346,414</u>

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

CALIFORNIA STATE UNIVERSITY FOUNDATION

STATEMENTS OF CASH FLOWS

	For the Year Ended	
	June 30,	
	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	(\$ 2,061,855)	(\$ 171,082)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Realized and unrealized losses on investments	1,799,066	657,748
Contributions for long-term investments	(8,593)	(194,622)
Change in discounts to present value of pledges receivable	29,038	(20,909)
Net (increase) decrease in:		
Pledges receivable	(546,966)	322,865
CalPERS refund receivable	—	1,141,200
Net increase (decrease) in:		
Accounts payable	(128,837)	101,946
Alumni council liability	81,476	—
Net Cash Provided By (Used In) Operating Activities	<u>(836,671)</u>	<u>1,837,146</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	300,703	—
Purchases of investments	(350,000)	(1,037,936)
Net Cash Used In Investing Activities	<u>(49,297)</u>	<u>(1,037,936)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for long-term investments	8,593	194,622
Net Cash Provided By Financing Activities	<u>8,593</u>	<u>194,622</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(877,375)	993,832
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,770,198</u>	<u>1,776,366</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,892,823</u></u>	<u><u>\$ 2,770,198</u></u>

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

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

NOTE 1 – Nature of Activities and Significant Accounting Policies

Nature of Activities

California State University Foundation (the Foundation) is a nonprofit organization serving as an auxiliary to the Office of the Chancellor of the California State University. The Foundation administers various charitable remainder trusts and gift annuities and other funds in accordance with specific agreements.

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 and/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 financial statements as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted.
- **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.

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 restriction, the contributions are reclassified to unrestricted net assets.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

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

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all highly liquid, short-term investments purchased with an original maturity of three months or less to be cash equivalents.

As of June 30, 2009 and at times throughout the year, the Foundation has maintained cash balances at its financial institution in excess of federally insured limits. Given the current economic environment and risks in the banking industry, there is risk that these deposits may not be readily available or may not be covered by insurance.

Investments

Investments held by the Foundation include marketable securities, US government and agency notes, and fixed income securities.

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 change in net assets on the statements of activities.

Pledges Receivable

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. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount amounts. An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable at year-end. The Foundation did not deem an allowance necessary at June 30, 2009 and 2008.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

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

Charitable Gift Annuity Liability

The Foundation administers charitable gift annuities for various California State University campuses. The Foundation acts as an intermediary for the campuses for which they administer the charitable gift annuities for an agreed-upon percentage of the corpus plus maintenance fees.

Assets held for charitable gift annuities totaled \$3,974,756 and are reported at fair market value in the Foundation's statement of financial position as of June 30, 2009. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. Present value of amounts owed to annuitants and to various campuses in the California State University system at June 30, 2009 totaled \$2,759,048 and \$1,215,708, respectively. The present value of the estimated future payments is calculated using discount rates ranging from 5% to 12% and applicable mortality tables.

Other Receivables and Payables

The Foundation was named as an agent by the donors of two charitable remainder trusts which are recorded in other receivables and payables. Accordingly, the Foundation has recorded on its books an asset and a liability for the trusts at their fair market values.

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 8.) 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.

CALIFORNIA STATE UNIVERSITY 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.

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.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

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

Recent Accounting Pronouncements (Continued)

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. The 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.

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.

Reclassifications

Certain amounts in the 2008 financial statements have been reclassified to conform to the current year presentation. Approximately \$570,000 was reclassified from cash and cash equivalents to investments. Also, approximately \$92,000 was reclassified from permanently restricted to temporarily restricted. Reclassifications did not have any effect on the change in net assets.

CALIFORNIA STATE UNIVERSITY FOUNDATION

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

NOTE 2 – Investments

Investments consist of the following:

	<u>June 30, 2009</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Marketable securities (equities)	\$ 7,284,903	\$ 8,177,896	\$ 892,993
Fixed income securities	1,904,171	1,952,976	48,805
Venture capital and partnerships	230,482	193,087	(37,395)
Hedge funds	<u>29,848</u>	<u>29,848</u>	<u>—</u>
	<u>\$ 9,449,404</u>	<u>\$ 10,353,807</u>	<u>\$ 904,403</u>
	<u>June 30, 2008</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Marketable securities (equities)	\$ 7,333,699	\$ 7,623,494	\$ 289,795
Fixed income securities	3,073,462	2,932,671	(140,791)
Real estate	347,476	257,781	(89,695)
Venture capital and partnerships	190,681	195,689	5,008
Commodity funds	294,448	421,909	127,461
Hedge funds	<u>537,000</u>	<u>672,032</u>	<u>135,032</u>
	<u>\$ 11,776,766</u>	<u>\$ 12,103,576</u>	<u>\$ 326,810</u>

Investment return is summarized as follows:

	<u>For the Year Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Interest and dividend income, net of investment fees	\$ 229,662	\$ 387,002
Net unrealized gains (losses)	577,593	(725,155)
Net realized gains (losses)	<u>(2,376,659)</u>	<u>67,407</u>
	<u>(\$ 1,569,404)</u>	<u>(\$ 270,746)</u>

Investment fees totaled \$42,225 and \$59,026 for the years ended June 30, 2009 and 2008, respectively.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 3 – Pledges Receivable

Pledges receivable as of June 30, 2009 are scheduled to be collected as follows:

Receivable in less than one year	\$ 514,601
Receivable in one to five years	<u>680,500</u>
	1,195,101
Less 4.8% discount factor to present value	<u>(46,917)</u>
	<u>\$ 1,148,184</u>

NOTE 4 – Charitable Gift Annuity Assets

Charitable gift annuity assets consists of the following:

	<u>June 30, 2009</u>	
	<u>Cost</u>	<u>Fair Value</u>
Cash	\$ 87,350	\$ 87,350
Marketable securities	1,380,011	1,548,033
Fixed income securities	<u>2,261,300</u>	<u>2,339,373</u>
	<u>\$ 3,728,661</u>	<u>\$ 3,974,756</u>
	<u>June 30, 2008</u>	
	<u>Cost</u>	<u>Fair Value</u>
Cash	\$ 329,571	\$ 329,571
Marketable securities	1,773,256	1,851,648
Fixed income securities	<u>2,347,705</u>	<u>2,397,958</u>
	<u>\$ 4,450,532</u>	<u>\$ 4,579,177</u>

NOTE 5 – Donated Services

During fiscal 2009 and 2008, the Foundation received donated services from the California State University Office of the Chancellor for various administrative duties. The value of such donated services totaled approximately \$241,000 and \$247,000, respectively, and is presented on the accompanying statements of activities as unrestricted contributions and unrestricted administrative expenses.

CALIFORNIA STATE UNIVERSITY FOUNDATION

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

NOTE 6 – Temporarily Restricted Net Assets

Temporarily restricted net assets are as follows:

	June 30,	
	2009	2008
Scholarships	\$ 1,283,644	\$ 2,717,476
Campus programs	<u>2,400,139</u>	<u>2,632,653</u>
	<u>\$ 3,683,783</u>	<u>\$ 5,350,129</u>

NOTE 7 – Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investments in perpetuity as follows:

	June 30,	
	2009	2008
Odell Endowment	\$ 75,000	\$ 75,000
Hearst Endowment	314,792	314,792
Glenn & Dorothy Dumke Endowment	24,617	24,617
Ali Razi Endowment	175,000	175,000
Ruggie Endowment	34,346	34,346
Dale Schoettler Endowment	5,784,283	5,784,283
Gregson Bautzer Endowment	150,000	150,000
Dumont Endowment	500,000	500,000
Wilson C. Riles Endowment	100,000	100,000
Galinson Endowment	<u>148,215</u>	<u>139,622</u>
	<u>\$ 7,306,253</u>	<u>\$ 7,297,660</u>

Each of the Foundation’s endowments has been established to support a scholarship fund recorded in temporarily restricted net assets. Investment gains and losses from the endowment funds are recorded as increases or decreases to the scholarship funds in accordance with the endowment agreements. Included in temporarily restricted net assets, in accordance with the endowment agreements, are inflation reserves for each endowment. The inflation reserve funds are maintained to preserve the purchasing power of the endowment principal; however, they can be spent in support of the endowments purposes at the discretion of the Board of Governors. On an annual basis, the Foundation allocates amounts from the scholarship funds to the inflation reserve funds at a rate commensurate with the Consumer Price Index. Inflation reserves of \$94,208 and \$1,300,802 at June 30, 2009 and 2008, respectively, are included in temporarily restricted net assets, as scholarship funds.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 8 – 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.

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 in marketable and fixed income securities and charitable gift annuity assets: The fair value of the investments in marketable and fixed income securities and charitable gift annuity assets is measured using quoted prices used in active markets or significant other observable inputs.

Investments in venture capital, partnerships and hedge funds: The fair value of investments in venture capital, partnerships and hedge funds is based on the net asset value of underlying investments as determined by the asset custodians.

Pledges receivable from promises to give: The fair value of the pledges receivable from promises to give is estimated as the present value of the projected proceeds that will be received from the promise to give.

CALIFORNIA STATE UNIVERSITY FOUNDATION

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

NOTE 8 – Fair Value Measurements (Continued)

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

		<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices</u>		
		<u>in Active</u>	<u>Significant</u>	<u>Significant</u>
		<u>Markets for</u>	<u>Other</u>	<u>Unobservable</u>
		<u>Identical</u>	<u>Observable</u>	<u>Inputs</u>
	<u>Assets at</u>	<u>Assets</u>	<u>Inputs</u>	<u>Inputs</u>
	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Assets:				
Investments	\$ 10,353,807	\$ 10,130,872	\$ —	\$ 222,935
Charitable gift annuity assets	<u>3,974,756</u>	<u>3,974,756</u>	<u>—</u>	<u>—</u>
	<u>\$ 14,328,563</u>	<u>\$ 14,105,628</u>	<u>None</u>	<u>\$ 222,935</u>

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

		<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices</u>		
		<u>in Active</u>	<u>Significant</u>	<u>Significant</u>
		<u>Markets for</u>	<u>Other</u>	<u>Unobservable</u>
		<u>Identical</u>	<u>Observable</u>	<u>Inputs</u>
	<u>Assets at</u>	<u>Assets</u>	<u>Inputs</u>	<u>Inputs</u>
	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Assets:				
Pledges receivable	\$ 915,011	\$ —	\$ —	\$ 915,011
Total	<u>\$ 915,011</u>	<u>None</u>	<u>None</u>	<u>\$ 915,011</u>

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

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 8 – Fair Value Measurements (Continued)

SFAS 157 required 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:

	Investments in Venture Capital, Partnerships, and Hedge Funds
Balance at July 1, 2008	\$ 867,721
Realized and unrealized gains (losses), net	(124,546)
Purchases and sales, net	<u>(520,240)</u>
Balance at June 30, 2009	<u>\$ 222,935</u>

NOTE 9 – Endowments

The Foundation's endowments consist of several individual donor-designated funds established to support a scholarship fund recorded in temporarily restricted net assets. 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.

CALIFORNIA STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

NOTE 9 – 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 a manner consistent with the standard prudence prescribed by UPMIFA. 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 fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

The Investment Committee of the Board of Governors is charged with the responsibility of managing the investment of endowment assets for the Foundation. The overall goal in management of these funds is to generate a long-term total rate of return that provides sustainable distributions to support program expenditures within a reasonable level of risk. As a result, the endowment assets are invested in a manner that is intended to produce results that, over the long-term, allow them to grow at a rate exceeding expected inflation. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as, to provide additional real growth through new gifts and investment return.

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.

CALIFORNIA STATE UNIVERSITY FOUNDATION

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

NOTE 9 – Endowments (Continued)

Net changes in endowment funds and the related portion of temporarily restricted net assets for the year ended June 30, 2009 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	–	\$ 2,717,476	\$ 7,297,660	\$ 10,015,136
Investment return:				
Investment income	–	180,100	–	180,100
Net depreciation (realized and unrealized)	–	(1,367,752)	–	(1,367,752)
Total investment return	–	(1,187,652)	–	(1,187,652)
Contributions	–	78,837	8,593	87,430
Other income	–	–	–	–
Appropriated for expenditure	–	(325,017)	–	(325,017)
Endowment net assets, end of year	<u>–</u>	<u>\$ 1,283,644</u>	<u>\$ 7,306,253</u>	<u>\$ 8,589,897</u>

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. There were no such deficiencies as of June 30, 2009.

NOTE 10 – Supplemental Disclosure of Noncash Operating and Investing Information

The Foundation received marketable securities, principally for its various charitable gift annuity programs, with fair market values of approximately \$11,000 during the year ended June 30, 2008.