

# The University Foundation, California State University, Chico

Financial Statements and Supplemental Information  
Years Ended June 30, 2017 and 2016



# The University Foundation, California State University, Chico

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June 30, 2017 and 2016

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## INDEPENDENT AUDITORS' REPORT

To the Board of Governors of  
The University Foundation, California State University, Chico

We have audited the accompanying financial statements of The University Foundation, California State University, Chico (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The University Foundation, California State University, Chico as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**INDEPENDENT AUDITORS' REPORT,  
CONTINUED**

**Report on Supplemental Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information included on pages 23 - 27 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Aldrich CPAs + Advisors LLP*

San Diego, California  
September 18, 2017

## **FINANCIAL SECTION**

# The University Foundation, California State University, Chico

## STATEMENTS OF FINANCIAL POSITION

June 30	<b>Totals</b>	
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,624,846	\$ 2,981,117
Receivables and other current assets	232,099	149,603
Investments	77,488,396	69,459,160
Contributions receivable, net	5,471,696	3,283,499
Notes receivable	-	700,000
Student loans administered through CSU, Chico	504,192	555,750
Buildings and equipment, net of accumulated depreciation	379,025	202,281
<b>Total Assets</b>	<b>85,700,254</b>	<b>77,331,410</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	469,252	882,734
Liabilities under deferred gift agreements	3,130,228	3,147,715
<b>Total Liabilities</b>	<b>3,599,480</b>	<b>4,030,449</b>
<b>Net Assets</b>		
Unrestricted	6,740,643	6,383,786
Temporarily restricted	21,842,270	17,906,695
Permanently restricted	53,517,861	49,010,480
<b>Total Net Assets</b>	<b>82,100,774</b>	<b>73,300,961</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 85,700,254</b>	<b>\$ 77,331,410</b>

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

# The University Foundation, California State University, Chico

## STATEMENTS OF ACTIVITIES

Years Ended June 30	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Other Support</b>								
Donations and contributions	\$ 348,240	\$ 5,442,011	\$ 3,651,088	\$ 9,441,339	\$ 352,988	\$ 3,874,743	\$ 1,152,648	\$ 5,380,379
University programs' receipts	60,966	1,032,019	-	1,092,985	26,533	2,092,322	-	2,118,855
Interest and dividend income	328,306	1,097,826	-	1,426,132	214,552	1,238,230	-	1,452,782
Realized and unrealized gains	564,113	4,507,041	352,099	5,423,253	119,207	(1,996,603)	(812,753)	(2,690,149)
Net assets released from restrictions	7,639,128	(8,143,322)	504,194	-	7,701,964	(7,453,614)	(248,350)	-
<b>Total Revenue and other support</b>	<b>8,940,753</b>	<b>3,935,575</b>	<b>4,507,381</b>	<b>17,383,709</b>	<b>8,415,244</b>	<b>(2,244,922)</b>	<b>91,545</b>	<b>6,261,867</b>
<b>EXPENSES</b>								
Campus programs	5,151,251	-	-	5,151,251	4,505,411	-	-	4,505,411
Student scholarships	1,773,092	-	-	1,773,092	1,584,699	-	-	1,584,699
Fundraising	644,087	-	-	644,087	802,734	-	-	802,734
General administration	1,015,466	-	-	1,015,466	943,913	-	-	943,913
<b>Total Expenses</b>	<b>8,583,896</b>	<b>-</b>	<b>-</b>	<b>8,583,896</b>	<b>7,836,757</b>	<b>-</b>	<b>-</b>	<b>7,836,757</b>
<b>Increase (Decrease) in Net Assets</b>	<b>356,857</b>	<b>3,935,575</b>	<b>4,507,381</b>	<b>8,799,813</b>	<b>578,487</b>	<b>(2,244,922)</b>	<b>91,545</b>	<b>(1,574,890)</b>
<b>Net Assets - Beginning of Year</b>	<b>6,383,786</b>	<b>17,906,695</b>	<b>49,010,480</b>	<b>73,300,961</b>	<b>5,805,299</b>	<b>20,151,617</b>	<b>48,918,935</b>	<b>74,875,851</b>
<b>Net Assets - End of Year</b>	<b>\$ 6,740,643</b>	<b>\$ 21,842,270</b>	<b>\$ 53,517,861</b>	<b>\$ 82,100,774</b>	<b>\$ 6,383,786</b>	<b>\$ 17,906,695</b>	<b>\$ 49,010,480</b>	<b>\$ 73,300,961</b>

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

# The University Foundation, California State University, Chico

## STATEMENTS OF CASH FLOWS

Years Ended June 30	2017	2016
<b>Cash and Cash Equivalents - Beginning of Year</b>	\$ 2,981,117	\$ 1,802,652
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (Decrease) in net assets	8,799,813	(1,574,890)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	86,200	85,358
Net unrealized (gain) loss on investments	(3,987,749)	3,134,572
Net unrealized (gain) loss on split interest agreements	(556,283)	486,944
Reclassification of split interest agreements	-	325,809
Loss on disposal of buildings and equipment	-	10,605
Student loans administered through CSU, Chico	51,558	(7,492)
Increase (Decrease) due to noncash assets:		
Receivables and other assets	(82,496)	134,425
Contributions receivable, net	(2,188,197)	1,881,416
Reclassification of split interest agreement	-	(1,985,271)
Increase (Decrease) due to noncash liabilities:		
Accounts payable	(413,482)	(260,730)
Liabilities under deferred gift agreements	(17,487)	(68,010)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,691,877</b>	<b>2,162,736</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(11,212,442)	(7,278,526)
Sale of investments	7,727,238	6,302,561
Collection of notes receivable	700,000	118,955
Buildings and equipment purchased	(262,944)	(97,261)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(3,048,148)</b>	<b>(954,271)</b>
<b>CASH FLOWS USED BY FINANCING PAYMENTS</b>		
Payments on notes payable	-	(30,000)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(1,356,271)</b>	<b>1,178,465</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 1,624,846</b>	<b>\$ 2,981,117</b>

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



# The University Foundation, California State University, Chico

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Activities** The University Foundation, California State University, Chico (the Foundation), is a not-for-profit auxiliary organization of California State University, Chico (the University), organized and operated in accordance with the Education Code of the State of California and the California Code of Regulations. The Foundation was organized and incorporated in 1940, with a mission to support and enhance campus projects and programs. In 1997, its function became solely philanthropic.

**Affiliated Organizations** The Foundation is related to other auxiliaries of the University, including The CSU, Chico Research Foundation (Research Foundation) and the Associated Students, CSU, Chico (Associated Students). These auxiliaries and the University periodically provide various services for one another.

A Summary of the Foundation's significant accounting policies is as follows:

#### ***Basis of Accounting and Reporting***

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

The Foundation's financial statements present net assets and contributions classified as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

#### ***Unrestricted net assets***

Unrestricted net assets consist of net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets also include funds other than contributions that have been designated for specific purposes by the Board of Governors (the "Board") or CSU, Chico.

#### ***Temporarily restricted net assets***

Temporarily restricted net assets consist of unspent contributions that are subject to specific donor restrictions that can be fulfilled by actions of the Foundation or by the passage of time. These include unspent purpose-restricted expendable gifts, certain pledges payable in future periods, and unspent time-restricted gifts.

#### ***Permanently restricted net assets***

Permanently restricted net assets consist of contributions made with donor-imposed stipulations that the funds be held in perpetuity. Generally, the income earned on such contributions is available for use by the Foundation for the benefit of the University. Also included in permanently restricted net assets are charitable remainder trusts ("CRT"), in which the income earned is included in permanently restricted net assets.

Contributions, including unconditional promises to give (pledges), are recognized in the year the promise is made. Contributions with donor-imposed restrictions are reported as temporarily or permanently restricted contributions. Temporarily restricted net assets are reclassified to unrestricted net assets at such time the Foundation has fulfilled the donor-imposed restriction.

# The University Foundation, California State University, Chico

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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Pledges that are expected to be collected within one year from the date of the gift are recorded at their net realizable value. Pledges that are expected to be collected in future years are discounted to their estimated net present value (see Note 3).

### ***Cash and Cash Equivalents***

The Foundation considers cash and cash equivalents to include cash on hand and in commercial checking accounts. The cash balances held in financial institutions at times may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. The Foundation has a concentration of cash invested in Tri Counties Bank. The Foundation has secured a contract for deposit of monies with Tri Counties Bank whereby deposits up to \$2.5 million will be subject to the security provided to local public agencies.

### ***Receivables***

The Foundation administers campus programs related to the philanthropic activity of the University. Receivables represent amounts due at June 30 from various campus program activities.

### ***Investments***

Investments are reported at fair value, with gains and losses included in the statements of activities.

Investments include charitable remainder trust assets which consist primarily of mutual funds invested in equities and fixed income instruments.

### ***Fair Value Measurements***

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value and establishes a framework for measuring fair value under generally accepted accounting principles.

The Foundation classifies its fair value assets and liabilities into a hierarchy of three levels based on the markets in which they are traded and the reliability of the assumptions used to determine fair value. The asset or liability measurement level within the hierarchy is based on the lowest level of any assumption that is significant to the measurement.

Valuations within the hierarchy levels are based upon the following:

- Level 1:* Quoted market prices for identical instruments traded in active exchange markets.
- Level 2:* Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.
- Level 3:* Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Foundation's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation, which may be significant.

# The University Foundation, California State University, Chico

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the years ended June 30, 2017 and 2016.

*Money Market Funds:* Amounts are interest-bearing deposit accounts, which at times may be in excess of the Federal Deposit Insurance Corporation insurance limit. The Foundation does not consider these amounts for use in general operations; therefore, they are not classified as cash and cash equivalents.

*Mutual Funds and Equity Securities:* Each investor in a mutual fund will typically receive units of participation or shares in the mutual fund. These shares are valued daily, based on the underlying securities owned by the mutual fund, and are usually publicly traded equity securities. Equity securities are instruments that signify an ownership position in a corporation and represents a claim on its proportional share in the corporation's assets and profits. Ownership is determined by the number of shares an investor owns divided by the total number of shares outstanding. Equity securities are valued daily based on the closing market price in the active exchange markets.

*Debt and Fixed Income Securities:* Corporate and municipal bonds and other debt and fixed income securities are generally valued by a computerized pricing service or, for less actively traded issues, by utilizing a yield-based matrix system to arrive at an estimated market value. Each bond series has a unique set of variables including coupon payment, number of payments, interest rate, and the maturity value. These factors are used to determine the estimated market value and can be determined daily.

*Pooled Investments:* The Foundation holds short-term deposits in the Local Agency Investment Fund (LAIF), which is a State of California, Treasurer's Office, investment pool. The fair value of the LAIF pool at June 30, 2017 and 2016, was 100.10%, of the carrying value and is deemed to not represent a material difference. The value of each participating LAIF dollar equals the fair value divided by the amortized cost.

*Unit Investment Trusts (UIT):* UIT typically issue redeemable securities or units, similar to a mutual fund, and will buy back an investor's units, at the investor's request, at their approximate net asset value. A UIT does not actively trade its investment portfolio; instead, it buys a relatively fixed portfolio of specific stocks or bonds and holds them with little or no change for the life of the UIT. A UIT will have a termination date, which is established when the UIT is created. In the case of a UIT investing in bonds, for example, the termination date may be determined by the maturity date of the bond investments. When a UIT terminates, any remaining investment portfolio securities are sold and the proceeds are paid to the investors. Distributions to investors are calculated by annualizing the distribution paid and dividing by the market price. The distribution rate may include realized short-term capital gains as well as return of capital.

*Partnership Interests:* The fair value of the partnership interests have been estimated based on information provided by the fund managers or the general partners.

# The University Foundation, California State University, Chico

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

### ***Artwork and Collections***

The Foundation maintains collections of art. Collection items acquired either through purchase or donation are not capitalized or recognized as revenues or gains provided that such donations are added to collections and are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted net assets if purchased with donor-restricted assets. Proceeds from deaccessions or insurance recoveries are reflected in the statements of activities based on the absence or existence and nature of donor-imposed restrictions. All Artwork and collections were deaccessioned during the year ended June 30, 2016.

### ***Student Loans Administered through CSU, Chico***

Gifts made to the Foundation for the purpose of providing student loans are annually assessed by the University for collectability. These funds are provided to students through the University's Financial Aid office.

### ***Buildings and Equipment***

Buildings and equipment are stated at cost, or if acquired by gift, are recorded at estimated market value at the date of acquisition. Fixed assets are not capitalized by the Foundation if the title remains with or reverts to the grantor. Expenditures for new construction, major renewals and replacements, and equipment over \$5,000 are capitalized.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method.

### ***Liabilities under Deferred Gift Agreements***

The Foundation serves as trustee and administrator for various types of trust agreements, including split-interest agreements, whereby the beneficial interest is shared with one or more parties. The arrangements generally require payment of annual trust income to the beneficiary or beneficiaries over the term of the trust, with the remainderman portion of the assets reverting to the Foundation. The liability under deferred gift agreements on the statements of financial position represents the present value of the estimated future payments to be distributed to these beneficiaries over the life expectancies of the beneficiaries, as derived using actuarial tables. The present value calculation included a discount rate of 4%. The California Insurance Code provides limitations on investment vehicles utilized for charitable gift annuity agreements.

# The University Foundation, California State University, Chico

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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### ***Income Taxes***

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Foundation has been classified as an organization that is not a private foundation under Section 509(a)(2). The Foundation has not entered into any activities that would jeopardize its tax-exempt status. Income from certain investments with activity not related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income (UBI).

The Foundation files exempt organization returns in the U.S. federal and California jurisdictions. The federal returns for tax years 2012 and beyond, and the California returns for tax years 2011 and beyond, remain subject to examination by the taxing authorities.

The Foundation accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in the Foundation's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC 740, *Income Taxes*, also provides guidance on derecognition and measurement of a tax position taken or expected to be taken in a tax return. Based on this analysis, a liability is recorded if uncertain tax benefits have been received. The Foundation's practice is to recognize interest and penalties, if any, related to uncertain tax positions in the tax expense.

### ***Use of Estimates***

The preparation of the financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Significant estimates include the discount rates on pledges receivable, unitrust liabilities, the life expectancy of annuitants of unitrusts, the collectability of pledges receivables and the fair value of alternative investments. Actual results could differ from those estimates.

### ***Subsequent Events***

The Organization has evaluated subsequent events through September 18, 2017, which is the date the financial statements were available to be issued.

# The University Foundation, California State University, Chico

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

### 2. INVESTMENTS

The following is a schedule of the assets at fair value, by level within the fair value hierarchy.

June 30, 2017	Level 1	Level 2	Level 3	Total
<b>INVESTMENTS</b>				
Money market funds	\$ 4,048,502	\$ -	\$ -	\$ 4,048,502
Mutual funds, by investment objective:				
Growth funds	2,906,217	-	-	2,906,217
Blend funds	14,447,633	-	-	14,447,633
Value funds	5,972,938	-	-	5,972,938
International funds	9,900,075	-	-	9,900,075
Bond and fixed income funds	17,521,633	-	-	17,521,633
Equity securities, by industry type:				
Technology	340,065	-	-	340,065
Healthcare	115,490	-	-	115,490
Energy	52,435	-	-	52,435
Services	140,037	-	-	140,037
Financial	62,919	-	-	62,919
Other	552,556	-	-	552,556
Debt and fixed income securities:				
U.S. Treasury	-	35,670	-	35,670
States and municipalities	-	10,458	-	10,458
Corporate	-	20,094	-	20,094
Other	-	1,041,047	-	1,041,047
Pooled investments:				
Local Agency Investment Fund	-	754,224	-	754,224
Unit investment trusts	-	357,441	-	357,441
Real estate	-	-	222,095	222,095
Partnership interests, by investment objective:				
Hedge funds and commodity pools	-	-	5,122,836	5,122,836
International	-	-	305,779	305,779
Growth and special opportunity	-	-	8,614,817	8,614,817
Private equity	-	-	2,964,818	2,964,818
Real estate	-	-	1,978,617	1,978,617
<b>Total Assets at Fair Value</b>	<b>\$ 56,060,500</b>	<b>\$ 2,218,934</b>	<b>\$ 19,208,962</b>	<b>\$ 77,488,396</b>

# The University Foundation, California State University, Chico

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

June 30, 2016	Level 1	Level 2	Level 3	Total
<b>INVESTMENTS</b>				
Money market funds	\$ 1,243,117	\$ -	\$ -	\$ 1,243,117
Mutual funds, by investment objective:				
Growth funds	3,337,001	-	-	3,337,001
Blend funds	11,134,952	-	-	11,134,952
Value funds	3,665,817	-	-	3,665,817
International funds	5,885,142	-	-	5,885,142
Bond and fixed income funds	20,347,479	-	-	20,347,479
Equity securities, by industry type:				
Technology	182,478	-	-	182,478
Healthcare	104,755	-	-	104,755
Energy	124,329	-	-	124,329
Services	73,446	-	-	73,446
Financial	73,215	-	-	73,215
Other	491,987	-	-	491,987
Debt and fixed income securities:				
U.S. Treasury	-	38,544	-	38,544
States and municipalities	-	530,335	-	530,335
Corporate	-	20,816	-	20,816
Other	-	216,325	-	216,325
Pooled investments:				
Local Agency Investment Fund	-	1,757,840	-	1,757,840
Unit investment trusts	-	296,427	-	296,427
Real estate	-	-	222,095	222,095
Partnership interests, by investment objective:				
Hedge funds and commodity pools	-	-	4,440,013	4,440,013
International	-	-	1,741,404	1,741,404
Growth and special opportunity	-	-	8,229,958	8,229,958
Private equity	-	-	3,283,392	3,283,392
Real estate	-	-	2,018,293	2,018,293
<b>Total Assets at Fair Value</b>	<b>\$ 46,663,718</b>	<b>\$ 2,860,287</b>	<b>\$ 19,935,155</b>	<b>\$ 69,459,160</b>

# The University Foundation, California State University, Chico

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

The following are schedules which summarize the changes in the fair value of the Foundation's Level 3 assets. The gains and losses included in the following schedules are reported as revenue and other support in the statement of functional activities within the temporarily restricted net asset classification.

	<u>Partnership Interests</u>							<b>Total Level 3</b>
	<b>Real Estate</b>	<b>Hedge Funds and Commodity Pools</b>	<b>International</b>	<b>Growth and Special Opportunity</b>	<b>Private Equity</b>	<b>Real Estate</b>		
<b>Balance - June 30, 2016</b>	\$ 222,095	\$ 4,440,013	\$ 1,741,404	\$ 8,229,958	\$ 3,283,392	\$ 2,018,293	\$ 19,935,155	
Interest/dividends/net rental income	-	-	-	-	31,901	277,476	309,377	
Realized gains (losses)	-	-	61,209	-	409,759	-	470,968	
Unrealized gains (losses) relating to assets held at year end	-	202,905	5,203	878,459	(363,129)	(176,262)	547,176	
Purchases, sales, issuances, and settlements - net	-	479,918	(1,502,037)	(493,600)	(397,105)	(140,890)	(2,053,714)	
<b>Balance - June 30, 2017</b>	\$ 222,095	\$ 5,122,836	\$ 305,779	\$ 8,614,817	\$ 2,964,818	\$ 1,978,617	\$ 19,208,962	

	<u>Partnership Interests</u>							<b>Total Level 3</b>	
	<b>Artwork and Collection s</b>	<b>Real Estate</b>	<b>Hedge Funds and Commodity Pools</b>	<b>Internation al</b>	<b>Growth and Special Opportunity</b>	<b>Private Equity</b>	<b>Real Estate</b>		
<b>Balance - June 30, 2015</b>	\$ 171,432	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 171,432	
Interest/dividends/net rental income	-	-	-	-	-	145,071	71,213	216,284	
Realized gains (losses)	(171,432)	(100,833)	-	-	-	328,542	181,638	237,915	
Unrealized gains (losses) relating to assets held at year end	-	-	(100,871)	(195,337)	42,139	(158,826)	(55,142)	(468,037)	
Purchases, sales, issuances, and settlements - net	-	(149,167)	(971,040)	-	1,550,000	(473,787)	154,574	110,580	
<b>Balance - June 30, 2016</b>	\$ -	\$(250,000)	\$(1,071,911)	\$(195,337)	\$ 1,592,139	\$(159,000)	\$ 352,283	\$ 268,174	



# The University Foundation, California State University, Chico

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

### 3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consists of unconditional promises to give, including pledges receivable and beneficial interest in trusts. The Foundation is the beneficiary of trusts managed by others; beneficial interest in trusts represents the estimated value of the Foundation's future payment upon the termination of those trusts.

June 30		2017	2016
Major pledges	\$	3,476,791	\$ 1,380,400
Less: Unamortized discount (5%)		(250,188)	(156,098)
<b>Total Pledges Receivable</b>		<b>3,226,603</b>	<b>1,224,302</b>
Beneficial interest in trusts		2,721,115	2,588,582
Less: Unamortized discount (4%)		(476,022)	(529,385)
<b>Total Beneficial interest in trusts</b>		<b>2,245,093</b>	<b>2,059,197</b>
<b>Contributions Receivable, Net</b>	\$	<b>5,471,696</b>	<b>\$ 3,283,499</b>

The contributions receivable are estimated to be collected as follows:

June 30	2017
Amounts due in:	
Less than one year	\$ 1,544,431
One to five years	3,313,600
More than five years	613,665
<b>Total</b>	<b>\$ 5,471,696</b>

# The University Foundation, California State University, Chico

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

### 4. NOTES RECEIVABLE

Notes receivable consisted of the following:

June 30	2017	2016
Note due from RI-Chico, secured by property in Butte County. Interest-only payments were due monthly until January 28, 2018, at which time the interest and principal were due. Interest accrued at 4.00% per annum. Paid in full on June 13, 2017.	-	700,000
Total Notes Receivable		700,000
Less: Current portion	-	-
<b>Notes Receivable - Net</b>	-	\$ 700,000

### 5. BUILDINGS AND EQUIPMENT

Buildings and equipment consisted of the following:

June 30	2017	2016
Building improvements	\$ 28,615	\$ 28,615
Equipment and furnishings	1,702,629	1,439,685
<b>Subtotal</b>	1,731,244	1,468,300
Less: Accumulated depreciation	1,352,219	1,266,019
<b>Buildings and Equipment - Net</b>	\$ 379,025	\$ 202,281

Depreciation expense charged to operations amounted to \$86,200 and \$85,358 for the years ended June 30, 2017 and 2016, respectively.

# The University Foundation, California State University, Chico

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

### 6. NET ASSETS

#### Unrestricted Net Assets and Net Asset Reserves

The Board of Governors of the Foundation, under guidelines established by the Chancellor's Office, developed policies that reserve the unrestricted net assets of the Foundation. Future increases in net assets will also be reserved by these policies. Reservations of net assets are as follows:

June 30	2017	2016
Investment in plant and equipment	\$ 379,025	\$ 202,281
Reserve for working capital	423,614	407,881
Reserve for planned future operations	320,169	320,169
<b>Total Net Asset Reserves</b>	<b>1,122,808</b>	<b>930,331</b>
Available for general purposes	2,674,974	2,672,344
Unrestricted endowment net assets	2,942,861	2,781,111
<b>Unrestricted Net Assets</b>	<b>\$ 6,740,643</b>	<b>\$ 6,383,786</b>

#### Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

June 30	2017	2016
Scholarships and fellowships	\$ 9,129,119	\$ 7,553,508
Campus programs	10,684,956	9,066,718
Scholarship loans	552,550	551,384
Capital projects	1,475,645	735,085
<b>Temporarily Restricted Net Assets</b>	<b>\$ 21,842,270</b>	<b>\$ 17,906,695</b>

# The University Foundation, California State University, Chico

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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### Permanently Restricted Net Assets

Permanently restricted net assets are restricted for investment in perpetuity. The income earned from these investments is reflected as temporarily restricted investment income. Annually, a portion of the earnings are expended to support the donor-designated purpose and are included in the schedule of temporarily restricted net assets released from restriction.

Permanently restricted net assets are available for the following purposes:

June 30	2017	2016
Donor restricted endowment fund	47,125,949	43,786,765
Charitable remainder trust assets	6,391,912	5,223,715
<b>Permanently Restricted Net Assets</b>	<b>\$53,517,861</b>	<b>\$49,010,480</b>

## 7. DONOR-RESTRICTED ENDOWMENT FUNDS

The pooled endowment portfolio of the Foundation consists of over 570 individual donor-restricted funds established for a variety of purposes. As required by US GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and its own governing documents in order to account for its donor-restricted endowment funds.

### General Board Policy on Administration of Endowment Funds

The Foundation's Board has interpreted UPMIFA as requiring the Board's goal, using prudent investment techniques, to be the preservation of the value of the original endowed gifts, absent explicit donor stipulations to the contrary.

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 various funds; (2) the purposes of the donor-restricted endowment funds; (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 Foundation; and (7) the Foundation's investment policies.

The Foundation classifies as permanently restricted net assets the value of gifts donated to permanent endowment funds. The remaining portion of donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until such time as appropriate for expenditure. The unrestricted endowment net assets represent quasi-endowments, which are established at the discretion of the Board or CSU, Chico.

# The University Foundation, California State University, Chico

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

### Investment Objectives, Strategies, and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a stable, predictable level of spending for the endowed purposes, and that provides for a rate of growth in the endowment that meets or exceeds the rate of inflation. Outside parties are contracted by the Foundation for purposes of providing investment management and consulting.

Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under the investment policy as approved by the Board, the endowment assets are invested in a manner that is intended to produce results comparable to or above the yield results of various market indicators such as the Standard & Poor's 500 Index, Barclays Capital Aggregate Bond Index, and the Consumer Price Index as indicators of inflation.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places an emphasis on equity-based investments, debt and fixed income securities, real estate, and partnership interests while maintaining prudent risk constraints.

### Spending Policy and How the Investment Objectives Relate to Spending Policy

Endowment distributions are made in accordance with the Foundation's Endowment Policy. For the fiscal years ended June 30, 2017 and 2016, the Board's adopted distribution rate was 4 percent of the endowment principal market value using a three-year moving average.

Amounts distributed from endowments per the Board's policy are classified as temporarily restricted for a specific purpose on the statement of financial position. Purpose restrictions generally include student aid and faculty and program excellence.

Changes in endowment net assets for the year ended June 30, 2017 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets, July 1, 2016</b>	\$ 2,781,111	\$ 7,370,345	\$ 43,786,765	\$ 53,938,221
<b>Investment return</b>				
Interest and dividend income	54,298	1,090,571	-	1,144,869
Realized and unrealized gains	248,204	4,502,852	-	4,751,056
Total investment return	302,502	5,593,423	-	5,895,925
Contributions and other additions	39,581	-	4,703,301	4,742,882
Appropriations for expenditures	(180,333)	(2,037,177)	(1,364,117)	(3,581,627)
<b>Increase in Net Assets</b>	161,750	3,556,246	3,339,184	7,057,180
<b>Endowment net assets, June 30, 2017</b>	\$ 2,942,861	\$ 10,926,591	\$ 47,125,949	\$ 60,995,401

# The University Foundation, California State University, Chico

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Changes in endowment net assets for the year ended June 30, 2016 were as follows.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets, July 1, 2015</b>	2,006,582	10,130,055	42,707,993	54,844,630
<b>Investment return</b>				
Interest and dividend income	43,760	1,541,666	-	1,585,426
Realized and unrealized gains	(67,925)	(1,750,590)	-	(1,818,515)
Total investment return	(24,165)	(208,924)	-	(233,089)
Contributions and other additions	900,000	-	1,152,648	2,052,648
Appropriations for expenditures	(101,306)	(2,550,786)	(73,876)	(2,725,968)
<b>Increase (Decrease) in Net Assets</b>	774,529	(2,759,710)	1,078,772	(906,409)
<b>Endowment net assets, June 30, 2016</b>	\$ 2,781,111	\$ 7,370,345	\$ 43,786,765	\$ 53,938,221

## 8. RELATED-PARTY TRANSACTIONS

### Operating Leases and Facility Use Agreements

The Foundation operates as an auxiliary organization to CSU, Chico, under an operating agreement negotiated every five years. The current operating and lease agreements expire on June 30, 2020. The Foundation uses certain campus and other facilities under lease agreements requiring rental payments or space trade. All leases are cancelable with 30 days' notice to the lessor.

### Business and Financial Services

The Research Foundation provides administrative and financial services to the Foundation.

### Receivables/Payables With CSU, Chico

Receivables with CSU, Chico result from student loans and miscellaneous campus programs' transactions. The student loans' receivable balance amounted to \$504,192 and \$555,750 at June 30, 2017 and 2016, respectively, and are reflected net of allowances for uncollectible accounts of \$89,162 respectively. The allowance for uncollectible accounts is estimated by CSU, Chico. The payables result from miscellaneous supplies and services provided.

### Personnel

The Foundation contracts with the Research Foundation for personnel services. The Research Foundation charges the Foundation for the cost of these services. As such, the personnel hired are employees of the Research Foundation who participate in the benefit plans offered. The Foundation indemnifies the Research Foundation for the acts of its employees under the Foundation's supervision.

# The University Foundation, California State University, Chico

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

The following is a schedule of transactions with related parties:

June 30	2017	2016
<b>Transactions With CSU, Chico</b>		
Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$ 25,314	\$ 93,390
Payments to University for other than salaries to University personnel	\$ 1,928,605	\$ 2,234,112
Payments received from University for services, space, and programs	\$ 39,632	\$ 227,859
Gifts (cash or assets) to the University from recognized auxiliary organizations	\$ 537,889	\$ 390,726
Amounts payable to University	\$ 11,466	\$ (56,035)
Student loan receivables from University	\$ 504,192	\$ 555,750
<b>Transactions With Research Foundation</b>		
Administrative and financial service expenses	\$ 569,788	\$ 596,364
Amounts payable for personnel service expenses	\$ (238,119)	\$ (594,179)

### 9. SELF-INSURANCE

The Foundation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Foundation participates with other auxiliaries and universities in the California State University Risk Management Authority (CSURMA), a public entity risk pool currently operating as a common risk management and insurance program. The Foundation pays an annual premium to CSURMA for its general liability and property insurance coverage.

CSURMA is economically dependent on its members for funding and has secured a commitment from members to provide sufficient cash flow to meet its operating needs and to fund losses over a period of time. CSURMA has reinsurance policies through a joint powers authority as well as commercial companies.

### 10. COMMITMENTS AND CONTINGENCIES

The Foundation failed to file Forms 926, Return by a U.S. Transferor of Property to a foreign Corporation, with the Internal Revenue Service ("IRS") and the California Franchise Tax Board ("FTB") for the 2007-2011 and 2013 tax years and Forms 8865, Return of U.S. Persons with Respect to Certain Foreign Partnerships for the 2010-2012 tax years with the IRS (collectively "International Information Returns"). For the same fiscal years, it appears the Foundation failed to report unrelated business taxable income ("UBTI") to the IRS and the FTB. Based upon the information currently available, (a) there are twenty-two (22) delinquent International Information Returns and (b) after taking into account net operating losses for some years, there is an immaterial amount of tax due on the UBTI for the 2007 through 2013 tax years.

## **The University Foundation, California State University, Chico**

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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There are potential penalties for the failure to file international information returns. The total maximum IRS penalties for the Foundation approximate \$670,000. The total maximum FTB penalties approximate \$635,000. No amount will be due if the Foundation can establish reasonable cause existed for the failures to file. The Foundation intends to assert the reasonable cause defense and vigorously contest the assertion of any penalties. It is too early in the fact gathering process to estimate the possible likelihood of penalties which may be incurred.



## **SUPPLEMENTAL INFORMATION SECTION**

# The University Foundation, California State University, Chico

## SCHEDULES OF NET POSITION

(FOR INCLUSION IN THE CALIFORNIA STATE UNIVERSITY)

June 30	2017	2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 503,974	\$ 1,239,657
Short-term investments	754,224	1,665,896
Accounts receivable	134,346	37,741
Prepaid expenses and other assets	97,754	111,862
<b>Total Current Assets</b>	<b>1,490,298</b>	<b>3,055,156</b>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	1,120,871	1,741,460
Notes receivable - net of current portion	-	700,000
Student loans administered through CSU, Chico, net	504,192	555,750
Contribution receivable, net	5,471,696	3,283,499
Endowment investments	55,652,210	49,137,985
Other long-term investments	21,081,962	18,655,279
Capital assets, net	379,025	202,281
<b>Total Noncurrent Assets</b>	<b>84,209,956</b>	<b>74,276,254</b>
<b>TOTAL ASSETS</b>	<b>85,700,254</b>	<b>77,331,410</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	388,556	872,440
Other liabilities	80,696	10,294
<b>Total Current Liabilities</b>	<b>469,252</b>	<b>882,734</b>
<b>Noncurrent Liabilities</b>		
Unearned revenue	3,130,228	3,147,715
<b>TOTAL LIABILITIES</b>	<b>3,599,480</b>	<b>4,030,449</b>
<b>NET POSITION</b>		
Net investment in capital assets	379,025	202,281
Restricted for:		
Nonexpendable - endowments	58,052,540	51,157,110
Expendable:		
Scholarships and fellowships	1,710,965	2,046,838
Loans	562,216	555,750
Capital projects	1,475,645	735,085
Other	14,111,399	12,422,392
Unrestricted	5,808,984	6,181,505
<b>TOTAL NET POSITION</b>	<b>\$ 82,100,774</b>	<b>\$ 73,300,961</b>

**The University Foundation, California State University, Chico**  
**SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**(FOR INCLUSION IN THE CALIFORNIA STATE UNIVERSITY)**

Years Ended June 30	2017	2016
<b>REVENUES</b>		
Sales and services of educational activities	\$ 384,636	\$ 394,350
Sales and services of auxiliary enterprises	383,928	470,489
Other operating revenues	269,884	339,464
<b>TOTAL OPERATING REVENUES</b>	<b>1,038,448</b>	<b>1,204,303</b>
<b>EXPENSES</b>		
<b>Operating Expenses</b>		
Instruction	40,247	17,689
Research	13,204	16,722
Public service	751,890	638,981
Academic support	2,133,369	3,364,924
Student services	700,957	658,572
Institutional support	2,315,278	2,074,674
Operation and maintenance of plant	412,638	207,891
Student grants and scholarships	1,773,093	1,584,699
Depreciation and amortization	86,200	85,358
<b>Total Operating Expenses</b>	<b>8,226,876</b>	<b>8,649,510</b>
<b>Operating Loss</b>	<b>(7,188,428)</b>	<b>(7,445,207)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gifts - noncapital	5,221,731	4,140,970
Investment income - net	596,438	343,712
Endowment income	5,408,104	(593,841)
Other nonoperating revenues	19,086	(159,933)
<b>NET NONOPERATING REVENUES</b>	<b>11,245,359</b>	<b>3,730,908</b>
<b>Revenue Before Other Additions</b>	<b>4,056,931</b>	<b>(3,714,299)</b>
Grants and gifts - capital	-	86,761
Additions to permanent endowments	4,742,882	2,052,648
<b>Increase in Net Position</b>	<b>8,799,813</b>	<b>(1,574,890)</b>
<b>Net Position - Beginning of Year</b>	<b>73,300,961</b>	<b>74,875,851</b>
<b>Net Position - End of Year</b>	<b>\$ 82,100,774</b>	<b>\$ 73,300,961</b>

**The University Foundation, California State University, Chico**  
OTHER INFORMATION (FOR INCLUSION IN THE CALIFORNIA STATE UNIVERSITY)

June 30, 2017

**Restricted Cash and Cash Equivalents**

Amount of restricted cash and cash equivalents related to endowments	\$ 216,665
All other restricted cash and cash equivalents	904,206
<b>Total Restricted Cash and Cash Equivalents</b>	<b>\$ 1,120,871</b>

June 30, 2017	Current Unrestricted	Current Restricted	Total Current	Noncurrent Unrestricted	Noncurrent Restricted	Total Noncurrent	Total
<b>Composition of Investments</b>							
Local Agency Investment Fund (LAIF)	\$ 259,735	\$ 494,489	\$ 754,224		\$ -	\$ -	\$ 754,224
Money market funds	-	-	-	1,924,194	2,124,308	4,048,502	4,048,502
Mutual funds	-	-	-	10,082,384	40,666,112	50,748,496	50,748,496
Equity securities	-	-	-	-	1,263,502	1,263,502	1,263,502
Debt and fixed income securities (treasury notes, GNMA's)	-	-	-	-	1,107,269	1,107,269	1,107,269
Other major investments:							
Unit investment trusts	-	-	-	-	357,441	357,441	357,441
Partnership interests	-	-	-	-	19,208,962	19,208,962	19,208,962
<b>Total Investments</b>	<b>259,735</b>	<b>494,489</b>	<b>754,224</b>	<b>12,006,578</b>	<b>64,727,594</b>	<b>76,734,172</b>	<b>77,488,396</b>
Less: Endowment investments	-	-	-	-	(55,652,210)	(55,652,210)	(55,652,210)
<b>Total Other Investments</b>	<b>\$ 259,735</b>	<b>\$ 494,489</b>	<b>\$ 754,224</b>	<b>\$ 12,006,578</b>	<b>\$ 9,075,384</b>	<b>\$ 21,081,962</b>	<b>\$ 21,836,186</b>

June 30, 2017	Current Unrestricted	Noncurrent Unrestricted	Total
<b>Investments Held by the University Under Contractual Agreement</b>			
Portion of investments held by the University under contractual agreements	\$ -	\$ -	\$ -

**The University Foundation, California State University, Chico**  
 OTHER INFORMATION (FOR INCLUSION IN THE CALIFORNIA STATE UNIVERSITY)

June 30, 2017

**Restricted Current Investments Related To:**

Restricted by donor stipulation \$ 494,489

June 30, 2017

**Restricted Noncurrent Investments Related To:**

Endowment investments \$ 55,652,210

Restricted by donor stipulation 9,075,384

**Total Restricted Noncurrent Investments** \$ 64,727,594

June 30, 2017	Balance 2016	Additions	Reductions	Transfers	Balance 2017
<b>COMPOSITION OF CAPITAL ASSETS AT JUNE 30, 2016</b>					
<b>Nondepreciable Capital Assets</b>					
Construction in progress	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Depreciable Capital Assets</b>					
Buildings and building improvements	28,615	-	-	-	28,615
Equipment	1,439,685	262,944	-	-	1,702,629
<b>Total Depreciable Capital Assets</b>	<b>1,468,300</b>	<b>262,944</b>	<b>-</b>	<b>-</b>	<b>1,731,244</b>
<b>Total Cost</b>	<b>1,468,300</b>	<b>262,944</b>	<b>-</b>	<b>-</b>	<b>1,731,244</b>
<b>Less: Accumulated Depreciation</b>					
Buildings and building improvements	(28,615)	-	-	-	(28,615)
Equipment	(1,237,404)	(86,200)	-	-	(1,323,604)
<b>Total Accumulated Depreciation</b>	<b>(1,266,019)</b>	<b>(86,200)</b>	<b>-</b>	<b>-</b>	<b>(1,352,219)</b>
<b>NET CAPITAL ASSETS</b>	<b>\$ 202,281</b>	<b>\$ 176,744</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 379,025</b>

June 30, 2017

Depreciation and amortization expense related to capital assets \$ 86,200

**The University Foundation, California State University, Chico**  
 OTHER INFORMATION (FOR INCLUSION IN THE CALIFORNIA STATE UNIVERSITY)

June 30, 2017	<b>Auxiliary Organizations FASB</b>
<b>Net Position - Investment in Capital Assets</b>	
Capital assets - net of accumulated depreciation	\$ 379,025
Long-term debt obligations	-
<b>Net Position - Investment in Capital Assets</b>	<b>\$ 379,025</b>

June 30, 2017	<b>Auxiliary Organizations FASB</b>
<b>Net Position - Restricted for Nonexpendable Endowments</b>	
Portion of restricted cash and cash equivalents related to endowments	\$ 216,665
Receivables related to endowments	2,183,665
Endowment investments	55,652,210
<b>Net Position - Restricted for Nonexpendable Endowments</b>	<b>\$ 58,052,540</b>