

**CAL STATE EAST BAY
EDUCATIONAL FOUNDATION, INC.**
(a Component Unit of California State University, East Bay)

Financial Statements
and Supplementary Information

Year Ended June 30, 2016

(With Independent Auditor's Report Thereon)



Certified
Public
Accountants

CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.

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Certified
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Independent Auditor's Report

The Board of Directors
Cal State East Bay Educational Foundation, Inc.
Hayward, California

We have audited the accompanying financial statements of Cal State East Bay Educational Foundation, Inc. (the Educational Foundation) a component unit of California State University, East Bay, as of and for the year ended June 30, 2016, as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Cal State East Bay Educational Foundation, Inc. as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying supplementary information on pages 16-25 is presented for purposes of additional analysis in accordance with an Administrative Directive dated June 24, 2003, *Financial Reporting Requirements for Auxiliary Organizations*, and are not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2016, on our consideration of the Educational Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Foundation's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Newport Beach, California
September 19, 2016

CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.
Management Discussion and Analysis
Year Ended June 30, 2016
(Unaudited)

This section of Cal State East Bay Educational Foundation, Inc.'s (Educational Foundation) annual financial report includes some of management's insights and analyses of the Educational Foundation's financial performance for the year ended June 30, 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

Financial Highlights

- Current assets decreased by \$0.2 million due to a decrease in gift pledges coupled with a decrease in investments due to a decline in financial performance during the year.
- Operating revenues decreased by \$1.6 million as a result of a decrease in gift pledges coupled with the withdrawal of an endowment fund during the year.
- Non-operating revenues (expenses) decreased by \$0.5 million due to the decline in the value of invested funds during the year.

Overview of the Basic Financial Statements

The annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities. This standard is applicable to the Educational Foundation because it is a component unit of California State University, East Bay (University). Consistent with the University, the Educational Foundation has adopted the Business-Type Activity (BTA) reporting model to represent its activities.

The financial statements include: the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows. These statements are supported in the annual report by the notes to the financial statements and this section. All sections should be considered together to obtain a complete understanding of the financial picture of the Educational Foundation.

Statement of Net Position: The statement of net position includes all assets and liabilities of the Educational Foundation. It is prepared under the accrual basis of accounting, whereby revenues and receivables are recognized when the service is provided and expenses and liabilities are recognized when incurred, regardless of when cash is exchanged. It also identifies major categories of restrictions on the net position of the Educational Foundation.

Statement of Revenues, Expenses, and Changes in Net Position: The statement of revenues, expenses, and changes in net position presents the revenues earned and expenses incurred during the year on an accrual basis.

Statement of Cash Flows: The statement of cash flows presents the inflows and outflows of cash, summarized by operating, noncapital financing, capital and related financing, and investing activities. The statement is prepared using the direct method of cash flows, and therefore, presents gross rather than net amounts for the year's operating activities.

Notes to Financial Statements: The notes to financial statements provide additional information that are essential to a full understanding of the data provided in the Educational Foundation's financial statements. The notes are included immediately following the basic financial statements within this report.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.
Management Discussion and Analysis (Continued)
Year Ended June 30, 2016
(Unaudited)

A summary of key financial statement information is presented below:

Statements of Net Position

	2016	2015
Assets:		
Current assets	\$ 8,194,674	\$ 8,362,002
Noncurrent assets	11,482,702	11,398,328
Total Assets	19,677,376	19,760,330
Liabilities:		
Current liabilities	654,518	710,792
Net Position:		
Restricted:		
Nonexpendable	10,225,472	10,690,777
Expendable	8,413,206	7,954,600
Unrestricted	384,180	404,161
Total net position	\$ 19,022,858	\$ 19,049,538

Current assets slightly decreased by 2% to \$8.2 million due to a 10% decrease in investments and 52% decrease in pledges for new gifts. Investments decreased to \$5.8 million as a result of a decline in financial performance experienced in the current year as compared to the previous year while gifts from pledges decreased to \$0.8 million. These decreases were partially offset by an increase in the cash balance to \$1.4 million mainly from the pledge payments received for the fund raising campaign for the capital financing of the construction of the Center for Interdisciplinary Research and Collaborative Learnings (CIRCLE).

Noncurrent assets slightly increased by 0.74% to \$11.5 million in fiscal year 2016. A 78% increase in non-current pledge receivables was offset by a 4% decrease in non-current investments due to the withdrawal of the Sabharwal Chair in Sikh Endowment Fund which was transferred to the Sikh Education Fund, Inc.

Current liabilities decreased by 8% to \$0.65 million. This decrease was related to the 6% decrease in agency liabilities.

Net position decreased slightly by 0.14% in fiscal year 2016. Decreases of 4% to \$10.2 million in nonexpendable net position, 19% to \$2 million in restricted for scholarships net position, 8% to \$3.9 million in restricted for other programs and 0.14% to \$0.4 in unrestricted net position were offset by a 103% increase to \$2.5 million in restricted for capital projects net position.

The decreases in the net position were mainly due to the annual payout distribution during the year and the decline in investment activities resulting from a decline in financial performance. The restricted for other programs net position is comprised of the investment activities that fund non-scholarship programs which make up approximately \$1.7 million of the balance. The remaining balance consists of gift pledges

CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.
Management Discussion and Analysis (Continued)
Year Ended June 30, 2016
(Unaudited)

of \$2.2 million net of allowances for discounts and doubtful accounts and \$.006 million of deferred gift annuity agreement. The increase in capital net position was due to proceeds from gifts and pledges from the fund raising campaign launched in fiscal year 2015 for the construction of the CIRCLE building.

**Statements of Revenues, Expenses and
Changes in Net Position**

	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 1,959,032	\$ 3,604,632
Operating expenses	<u>1,454,333</u>	<u>1,528,639</u>
Operating income (loss)	504,699	2,075,993
Nonoperating revenues (expenses)	<u>(531,379)</u>	<u>(73,588)</u>
(Decrease) increase in net position	(26,680)	2,002,405
Net position, beginning of year	<u>19,049,538</u>	<u>17,047,133</u>
Net position, end of year	<u>\$ 19,022,858</u>	<u>\$ 19,049,538</u>

Operating revenues decreased by 46% to \$2 million in fiscal year 2016 mainly due to a decrease in gifts pledged in the current year as compared to the previous year coupled by a withdrawal of an endowment fund. Last year's gifts, non-capital was higher by \$1.3 million from new pledges received from fund raising campaigns initiated for the capital financing of the construction of the CIRCLE building. Additions (reductions) to permanent endowments decreased by 107% due to the withdrawal of the Sabharwal Chair in the Sikh Endowment Fund, partially offset by gifts received in the current year designated for endowment funds. In-kind contributions during the current year decreased 44%.

Operating expenses slightly decreased by 5% to \$1.5 million mainly due to a \$.061 million decrease in contributions made to the University coupled by a \$.014 million decrease in accounting and administrative expenses incurred during the year due to the reduced transaction count utilized for the calculation of allocated costs.

Nonoperating revenues (expenses) ended the year as a net expense of \$0.531 million. The increase against fiscal year 2015 was the result of investment losses sustained from a decline in financial performance in fiscal year 2016.

Request for Information

The financial report is designed to provide a general overview of the Educational Foundation's finances. For questions concerning any information in this report or for additional financial information, contact Sherry Pickering, Director Fiscal Services, California State University East Bay, 25800 Carlos Bee Boulevard, Hayward, California 94542 or call (510) 885-7363.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.

Statement of Net Position

June 30, 2016

ASSETS:

Current assets

Cash	\$ 1,452,589
Investments	5,776,131
Accounts receivable	184,983
Pledge receivable, net	780,971
Total current assets	<u>8,194,674</u>

Noncurrent assets:

Investments	10,225,472
Pledge receivable , net	1,257,230
Total noncurrent assets	<u>11,482,702</u>

Total assets

19,677,376

LIABILITIES:

Current liabilities

Accounts payable	1,629
Agency liabilities	652,889
Total liabilities	<u>654,518</u>

NET POSITION:

Restricted for:

Nonexpendable-endowments 10,225,472

Expendable:

Scholarships and fellowships 1,997,966

Capital projects 2,508,148

Other Programs 3,907,092

Unrestricted

384,180

Total net position

\$ 19,022,858

See accompanying notes to financial statements.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016

Revenues:

Operating revenues	
Gifts, capital	\$ 1,251,500
Gifts, non-capital	552,822
In-kind contributions	13,476
Additions (reductions) to permanent endowments	(25,919)
Other operating revenues	167,153
Total operating revenues	<u>1,959,032</u>

Expenses:

Operating expenses:	
Contributions to support activities of the University	1,277,003
Accounting and administrative cost	177,330
Total operating expenses	<u>1,454,333</u>
Operating income	<u>504,699</u>

Nonoperating revenues (expenses):

Investment losses, net	(605,504)
Investment income, net	74,125
Total nonoperating revenues (expenses)	<u>(531,379)</u>
Decrease in net position	(26,680)

Net position, beginning of year	<u>19,049,538</u>
Net position, end of year	<u>\$ 19,022,858</u>

See accompanying notes to financial statements.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.

Statement of Cash Flows
Year Ended June 30, 2016

Cash flows from operating activities:	
Receipts from contributors	\$ 2,116,697
Payments for contributions to the University	(1,277,003)
Payments for accounting and administrative costs	(177,330)
Other operating cash flows	91,575
Net cash provided by operating activities	<u>753,939</u>
Cash flows from investing activities:	
Purchases of investments	(7,033,772)
Sales of investments	7,974,832
Investment loss, net	(314,688)
Net cash provided by investing activities	<u>626,372</u>
Net increase in cash	1,380,311
Cash, beginning of year	<u>72,278</u>
Cash, end of year	<u><u>\$ 1,452,589</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 504,699
Adjustments to reconcile operating income to Net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Accounts receivable	6,615
Pledges receivable, net	298,899
Accounts payable	(13,767)
Agency liabilities	(42,507)
Net cash provided by operating activities	<u><u>\$ 753,939</u></u>

See accompanying notes to financial statements.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.

Notes to Financial Statements

Year Ended June 30, 2016

(1) Organization and Summary of Significant Accounting Policies

(a) Nature of Activities

Cal State East Bay Educational Foundation, Inc. (Educational Foundation) is a California tax-exempt, nonprofit corporation organized in 1963 as the Cal State-Affiliates to support California State University, East Bay (University). The Educational Foundation promotes private sector support for educational activities to supplement state support. Contributions to the Educational Foundation support scholarships and other University programs.

(b) Financial Reporting Entity

The basic financial statements include the accounts of the Educational Foundation. The Educational Foundation is a government organization under accounting principles generally accepted in the United States of America (U.S. GAAP) and is also a component unit of the University, a public university under the California State University system. The Educational Foundation has chosen to use the reporting model for special-purpose governments engaged only in business-type activities.

(c) Basis of Presentation

The basic financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. GAAP as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Voluntary nonexchange transactions are recognized as revenue as soon as all eligibility requirements have been met.

(d) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

(e) Cash

The Educational Foundation considers highly liquid investments with a maturity of three months or less to be cash and cash equivalents.

(f) Pledges Receivable

Pledges that are expected to be collected within one year are reflected as current and are recorded at their net realizable value. Pledges that are due in subsequent years are reflected as noncurrent and are discounted to their present value using risk adjusted rates. The discount rate for the year ended June 30, 2016 was 1.96%. Allowance for uncollectible pledges is provided based on management's judgment, considering such factors as prior collection history, type of contribution, relationship with the donor, and other relevant factors.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.

Notes to Financial Statements (Continued)

Year Ended June 30, 2016

(g) Investments

Investments are reflected at fair value using quoted market prices. Earnings, gains, and losses are included in the statements of revenues, expenses, and changes in net position as investment gains (losses), net or investment income, net. Earnings, gains, or losses on donor restricted endowments are available or deducted from donor-designated purposes, primarily scholarships, and are presented separately under nonoperating revenues (expenses) in the accompanying statement of revenues, expenses, and changes in net position.

(h) Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Expenses for maintenance and repairs are charged against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets of three years. The Educational Foundation's property and equipment are fully depreciated and therefore, do not appear in this report.

(i) Agency Liabilities

The Educational Foundation administers monies and investments for the California State University East Bay Alumni Association and other University programs. Such funds are reported as agency liabilities in the accompanying statement of net position.

(j) In-kind Contributions

In-kind contributions are composed of miscellaneous tangible items and reported at fair value. All items greater than \$5,000 require a professional appraisal and the remainder are valued by the donor.

(k) Net Position

The Educational Foundation's net position is classified into the following categories:

- *Restricted - Expendable:* Net position subject to externally imposed conditions that can be fulfilled by the actions of the Educational Foundation or by the passage of time.
- *Restricted - Nonexpendable:* Net position subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity for the purpose of generating investment income to fund the agreed-upon purpose of the donor's gift.
- *Unrestricted:* All other categories of net position, including those net position designated by the Board of Director or management.

(l) Classification of Revenues and Expenses

The Educational Foundation considers operating revenues and expenses in the statements of revenues, expenses, and changes in net position to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly with the Educational Foundation's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services. Certain other transactions are reported as nonoperating revenues and expenses in

CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.

Notes to Financial Statements (Continued)

Year Ended June 30, 2016

accordance with GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities-an amendment of GASB Statement No. 34*. These nonoperating activities include the Educational Foundation's net investment income and interest expense

(m) Services and Facilities

Certain administrative personnel and office facilities provided to the Educational Foundation by the University were subject to reimbursement through the University cost recovery process. As these services and facilities have been priced via an objective valuation process, the related expenses have been reflected in the financial statements of the Educational Foundation as reimbursements to the University.

(n) Income Taxes

The Educational Foundation is exempt from Federal and State corporate income taxes under Internal Revenue Service Code Section 501(c)(3) and California Revenue and Taxation Service Code 23701d. In addition, the Educational Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1). However, the Educational Foundation remains subject to taxes on any net income which is derived from a trade or business, regularly carried on, and unrelated to its exempt purpose.

The Educational Foundation recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There are no amounts accrued in the financial statements related to uncertain tax positions.

The Educational Foundation files informational and income tax returns in the United States and various state and local jurisdictions. The Educational Foundation's Federal income tax and informational returns are subject to examination by the Internal Revenue Service and state taxing authorities generally for 3 and 4 years, respectively, after the returns were filed.

(2) Investments

With respect to its investment decision making, the Educational Foundation considers factors such as general economic conditions, possible effects of inflation or deflation, expected total return, availability of other resources, the needs of the University, and preservation of capital. Investment decisions are made in the context of the entire portfolio viewed as a whole.

The desired target for distributions from endowment funds for each year will be amounts that, over time, will result in the retention of earnings in the endowments equal to the rate of inflation plus 0% to 5%, after payment of investment, administration fees and distributions. In order to provide stability in distribution amounts over time, the Educational Foundation's approved overall distribution percentage will be no more than 4% times the average of the quarter-end balances of endowment and quasi-endowment values over the preceding twelve quarters.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.
Notes to Financial Statements (Continued)
Year Ended June 30, 2016

Investments consist of the following as of June 30, 2016

Equity securities	\$ 10,942,768
U.S. treasury securities	2,241,112
Mutual funds	517,201
Corporate bonds	2,014,287
Money market funds	286,235
	<u>\$ 16,001,603</u>

Nonoperating revenues (expenses), net, consists of the following for the year ended June 30, 2016:

Realized and unrealized gains (losses)	\$ (605,504)
Interest and dividends, net of fees	74,125
	<u>\$ (531,379)</u>

Credit Risk

This is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This is measured by the assignment of ratings by nationally recognized statistical rating organizations. The Educational Foundation's investment policy generally prohibits investments in the following vehicles: private placements, venture capital investments, real estate properties, futures contracts, options, short sales, or margin sales. Investments in cash equivalents, fixed income securities, equity securities and mutual funds are done in a diversified manner that is risk averse with an objective of minimize risk while obtaining a reasonable return. The Educational Foundation's investment policy dictates a diverse asset allocation as follows: equities (10-80%), fixed income (20-50%), cash (0-10%), and alternative investments (10-35%). The investment consultant is provided a maximum and minimum portfolio target for each asset class to ensure proper diversification and to avoid unnecessary risk.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that the Educational Foundation will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and Education Code do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the provision that a financial institution must secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The risk is mitigated in that the Educational Foundation's deposits are maintained at financial institutions that are fully insured or collateralized as required by state law.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.
Notes to Financial Statements (Continued)
Year Ended June 30, 2016

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. Under the Educational Foundation's Investment Policy, no more than five percent (5%) of the total assets of the investments held by Educational Foundation may be invested in the securities of any one issuer. In order to maximize the rate of return in Educational Foundation's long-term investment portfolio while preserving capital and limiting concentration of credit risks, the Educational Foundation's investment policy dictates a diverse asset allocation as follows: equities (10-80%), fixed income (20-50%), cash (0-10%), and alternative investments (10-35%).

Interest Rate Risk

This is the risk of loss due to the fair value of an investment falling due to interest rates rising. As a means of limiting this exposure, short-term investments are limited to relatively liquid instruments such as certificates of deposit, savings accounts, federally guaranteed notes and bills, money market mutual funds.

The following indicates the credit and interest rate risk of investments as of June 30, 2016. The credit ratings listed are for Moody's Investor Services.

	Moody's Credit Rating	Maturity			Total
		Less than 3 months (90 days)	3 to 12 months (90-360 days)	Over 1 year (360+ days)	
Corporate bonds	A1-Baa2	\$ 40,170	\$ 240,806	\$ 1,733,311	\$ 2,014,287
US. treasury securities	Aaa	35,345	81,006	157,196	273,547

Fair Value Measurement and Application

GASB Statement No. 72, *Fair Value Measurement and Application*, sets forth the framework for measuring fair value. That framework provides 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 unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Educational Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.
Notes to Financial Statements (Continued)
Year Ended June 30, 2016

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The valuation technique utilized to measure the Educational Foundation investments is the market approach using prices and other relevant information generated by market transactions involving identical or comparable assets.

The following shows the investments by fair value level as of June 30, 2016:

	<u>Fair Value Measurements Using</u>		
	<u>6/30/2016</u>	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs
			<u>(Level 1)</u>
Corporate bonds	\$ 2,014,287	\$ -	\$ 2,014,287
Equity securities	10,942,768	10,942,768	-
U.S. treasury securities	2,241,112	2,241,112	-
Money market funds	286,235	286,235	-
Mutual funds	517,201	517,201	-
Total investments by fair value level	<u>\$ 16,001,603</u>	<u>\$ 13,987,316</u>	<u>\$ 2,014,287</u>

(3) Pledges Receivable

Pledges receivable consist of the following at June 30, 2016:

Receivable in less than one year	\$ 806,096
Receivable in one to five years	1,349,112
Less allowance for doubtful accounts	(25,125)
Less discount factor to present value	(91,882)
	<u>\$ 2,038,201</u>

At June 30, 2016, the Educational Foundation had pledges receivable from members and officers of the Board of Directors in the amounts of \$1,420,726, net of allowances for doubtful accounts and discounts. These pledges receivable are due at various dates through 2021.

(4) Related Parties Transactions

The Educational Foundation may enter into transactions with the other California State University, East Bay Auxiliaries (Associated Students, Inc. of California State University, East Bay and the California State University, East Bay Foundation, Inc. (collectively known as the "Auxiliaries")) as well as transactions with the University itself.

The Educational Foundation reimburses the University for certain services to Educational Foundation. The fees for these services for the year ended June 30, 2016 was \$167,446.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.
Notes to Financial Statements (Continued)
Year Ended June 30, 2016

During the year ended June 30, 2016, the Educational Foundation contributed cash and in-kind gifts of \$1,324,786, respectively to the University. Fees of \$42,962 for services rendered in relation to these gifts were deducted from the contributions. These amounts are included as contributions to support activities of the University in the accompanying statement of revenues, expenses, and changes in net position.

Accounts receivables (payables) at June 30, 2016:

California State University, East Bay - receivable	\$ 25
California State University, East Bay - payable	(700)
	<u>\$ (675)</u>

(5) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of revenues, expenses, and changes in net position. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(6) Contingencies

The Educational Foundation has grants and contracts with government agencies which are subject to audit. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. Management believes that any liability which may result from these audits is not material.

Cal State East Bay Educational Foundation, Inc
Schedule of Net Position
June 30, 2016
(for inclusion in the California State University)

Assets:	
Current assets:	
Cash and cash equivalents	\$ 1,452,589
Short-term investments	5,776,131
Accounts receivable, net	184,983
Leases receivable, current portion	-
Notes receivable, current portion	-
Pledges receivable, net	780,971
Prepaid expenses and other assets	-
Total current assets	8,194,674
Noncurrent assets:	
Restricted cash and cash equivalents	-
Accounts receivable, net	-
Leases receivable, net of current portion	-
Notes receivable, net of current portion	-
Student loans receivable, net	-
Pledges receivable, net	1,257,230
Endowment investments	10,225,472
Other long-term investments	-
Capital assets, net	-
Other assets	-
Total noncurrent assets	11,482,702
Total assets	19,677,376
Deferred outflows of resources:	
Unamortized loss on debt refunding	-
Net pension obligation	-
Others	-
Total deferred outflows of resources	-
Liabilities:	
Current liabilities:	
Accounts payable	1,629
Accrued salaries and benefits payable	-
Accrued compensated absences— current portion	-
Unearned revenue	-
Capitalized lease obligations – current portion	-
Long-term debt obligations – current portion	-
Claims Liability for losses and LAE - current portion	-
Depository accounts	652,889
Other liabilities	-
Total current liabilities	\$ 654,518
Noncurrent liabilities:	
Accrued compensated absences, net of current portion	-
Unearned revenue	-
Grants refundable	-
Capitalized lease obligations, net of current portion	-
Long-term debt obligations, net of current portion	-
Claims Liability for losses and LAE, net of current portion	-
Depository accounts	-
Other postemployment benefits obligation	-
Pension obligation	-
Other liabilities	-
Total noncurrent liabilities	-
Total liabilities	654,518
Deferred inflows of resources:	
Unamortized gain on debt refunding	-
Non-exchange transactions	-
Service concession arrangements	-
Net pension obligation	-
Others	-
Total deferred inflows of resources	-
Net Position:	
Net investment in capital assets	-
Restricted for:	
Nonexpendable – endowments	10,225,472
Expendable:	
Scholarships and fellowships	1,997,966
Research	-
Loans	-
Capital projects	2,508,148
Debt service	-
Other	3,907,092
Unrestricted	384,180
Total net position	\$ 19,022,858

See accompanying note to supplementary information.

Cal State East Bay Educational Foundation, Inc
Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2016
(for inclusion in the California State University)

Revenues:	
Operating revenues:	
Student tuition and fees (net of scholarship allowances of \$ _____)	\$ -
Grants and contracts, noncapital:	
Federal	-
State	-
Local	-
Nongovernmental	-
Sales and services of educational activities	-
Sales and services of auxiliary enterprises (net of scholarship allowances of \$ _____)	-
Other operating revenues	-
Total operating revenues	<u>-</u>
Expenses:	
Operating expenses:	
Instruction	-
Research	-
Public service	-
Academic support	-
Student services	-
Institutional support	-
Operation and maintenance of plant	-
Student grants and scholarships	-
Auxiliary enterprise expenses	1,454,333
Depreciation and amortization	-
Total operating expenses	<u>1,454,333</u>
Operating income (loss)	<u>(1,454,333)</u>
Nonoperating revenues (expenses):	
State appropriations, noncapital	-
Federal financial aid grants, noncapital	-
State financial aid grants, noncapital	-
Local financial aid grants, noncapital	-
Nongovernmental and other financial aid grants, noncapital	-
Other federal nonoperating grants, noncapital	-
Gifts, noncapital	566,298
Investment income (loss), net	(605,504)
Endowment income (loss), net	74,125
Interest Expenses	-
Other nonoperating revenues (expenses)	167,153
Net nonoperating revenues (expenses)	<u>202,072</u>
Income (loss) before other additions	<u>(1,252,261)</u>
State appropriations, capital	-
Grants and gifts, capital	1,251,500
Additions (reductions) to permanent endowments	(25,919)
Increase (decrease) in net position	<u>(26,680)</u>
Net position:	
Net position at beginning of year, as previously reported	19,049,538
Restatements	-
Net position at beginning of year, as restated	<u>19,049,538</u>
Net position at end of year	<u>\$ 19,022,858</u>

See accompanying note to supplementary information.

Cal State East Bay Educational Foundation, Inc.
 Other Information
 June 30, 2016
 (for inclusion in the California State University)

6. Long-term debt schedules

Year ended June 30:	Auxiliary revenue bonds		All other long-term debt		Total long-term debt	
	Principal Only	Interest Only	Principal Only	Interest Only	Principal Only	Interest Only
2017 - \$	-	-	-	-	-	-
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
2022 - 2026	-	-	-	-	-	-
2027 - 2031	-	-	-	-	-	-
2032 - 2036	-	-	-	-	-	-
2037 - 2041	-	-	-	-	-	-
2042 - 2046	-	-	-	-	-	-
2047 - 2051	-	-	-	-	-	-
2052 - 2056	-	-	-	-	-	-
2057 - 2061	-	-	-	-	-	-
2062 - 2066	-	-	-	-	-	-
	\$	\$	\$	\$	\$	\$

Total minimum debt payments
 Less: amounts representing interest
 Present value of future minimum payments
 Unamortized net bond premium / (discount)
 Total long-term debt
 Less: current portion
 Long-term debt, net of current portion

7. Calculation of net position per Statement of Net Position (SNP)

7.1 Net investment in capital assets	\$
Capital assets, net of accumulated depreciation	-
Capital lease obligations, current portion	-
Capital lease obligations, net of current portion	-
Long-term debt, current portion	-
Long-term debt, net of current portion	-
Portion of 0/s debt that is unspent of year-end (i.e. unspent bond proceeds) (enter as positive number)	-
Unamortized loss (gain) on debt refunding	-
Other adjustments: (please list)	-
	\$
Net position - net investment in capital assets, per SNP	\$
7.2 Restricted for nonexpendable - endowments	\$
Portion of restricted cash and cash equivalents related to endowments	10,225,472
Endowment investments	-
Other adjustments: (please list)	-
	\$
Net position - Restricted for nonexpendable - endowments per SNP	\$ 10,225,472

See accompanying note to supplementary information.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.
Note to Supplementary Information
Year Ended June 30, 2016

a) Basis of Presentation

The schedules are prepared in accordance with the instructions listed in an Administrative Directive, dated June 24, 2003, *Financial Reporting Requirements for Auxiliary Organizations*, from the California State University Office of the Chancellor, and revision dated August 15, 2016. As a result, these schedules do not represent financial statements prepared in accordance with accounting principles generally accepted in the United States of America.