

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

Financial Statements  
and Supplementary Information

June 30, 2014 and 2013

(With Independent Auditor's Report Thereon)

**CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.**

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## Independent Auditor's Report

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

### Report on the Financial Statements

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, 2014 and June 30 2013, 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 respective financial position of the Cal State East Bay Educational Foundation, Inc., as of June 30, 2014 and June 30 2013, and the respective changes in financial position and cash flows for the years 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 page 3 to 7 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 that collectively comprise the Educational Foundation's basic financial statements. The information for the California State University Chancellor's Office is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate 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 18, 2014, 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.



Sacramento, California  
September 18, 2014

# CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.

## Management's Discussion and Analysis

June 30, 2014 and 2013

(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 years ended June 30, 2014 and June 30, 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

### Financial Highlights

#### 2014

- Current assets increased by \$2.5 million led by gains in investments resulting from the improvement in the U.S. economy in fiscal year 2014.
- Operating expenses decreased by \$2.1 million due to the business process changes noted in the 2013 analysis below.
- Non-operating revenue increase by \$0.8 million resulting from improved investment activity in fiscal year 2014.

#### 2013

- Non-current assets increased by \$4.4 million or 58% and operating revenues by \$0.8 million or 35% resulting from the return of contributions to the Educational Foundation from several University funds into the Presidential Pioneer Scholarship Fund.
- Operating expenses increased by \$2.5 million or 209% with a corresponding decrease in current assets due to the movement of the current use funds to the University in fiscal year 2013.
- Non-operating revenue increased by \$1.5 million resulting from improved investment activity in fiscal year 2013.

### 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 statements of net position, the statements of revenues, expenses, and changes in net position, and the statements 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.

*Statements of Net Position:* The statements of net position include 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.

(Continued)

# CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.

## Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

*Statements of Revenues, Expenses, and Changes in Net Position:* The statements of revenues, expenses, and changes in net position present the revenues earned and expenses incurred during the year on an accrual basis.

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

*Notes to Financial Statements:* The notes to financial statements provide additional information that is 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.

A summary of key financial statement information is presented below:

### Condensed Statements of Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current assets	\$ 6,363,998	\$ 3,825,233	\$ 7,597,804
Non-current assets	<u>11,405,850</u>	<u>11,874,754</u>	<u>7,510,744</u>
Total Assets	<u>17,769,848</u>	<u>15,699,987</u>	<u>15,108,548</u>
Liabilities:			
Current liabilities	<u>722,715</u>	<u>660,258</u>	<u>815,236</u>
Net Position:			
Restricted:			
Nonexpendable	10,812,559	10,654,335	6,379,342
Expendable	5,806,763	3,895,077	7,538,051
Unrestricted	<u>427,811</u>	<u>490,317</u>	<u>375,919</u>
Total net position	<u>\$ 17,047,133</u>	<u>\$ 15,039,729</u>	<u>\$ 14,293,312</u>

### 2014

Current assets increased 66% to \$6.4 million led by increases in investments with the improvement of the financial environment. Current investments climbed 61% to \$5.1 million in fiscal year 2014.

Total non-current assets decreased 4% to \$11.4 million in fiscal year 2014. The decrease was primarily due to a 51% decrease in non-current pledge receivables as several moved from non-current to current in 2014.

(Continued)

# CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.

## Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Total current liabilities increased 9% to \$0.7 million. This increase was connected to a 9% increase in agency liabilities.

Net position increased 13% to \$17.0 million in fiscal year 2014. A 13% decrease in unrestricted net position was offset by increases of 160% to \$2.5 million in restricted for scholarship net position, a 13% increase to \$3.2 million in restricted for other programs net position, and a 1% increase to \$10.8 million in nonexpendable endowment net position. The restricted for other programs net position is comprised of \$1.3 million of gift pledges, net of allowance for discounts and doubtful accounts, \$0.006 million of deferred gift annuity, and approximately \$2.0 million of accumulated net investment activity in connection to endowments that fund non-scholarship programs. These increases in the restricted net position designations for scholarships and other programs were the result of the investment gains in fiscal year 2014 as the financial environment improved.

### 2013

Current assets decreased 50% to \$3.8 million as the current use funds previously held by the Educational Foundation were closed and moved to the University in fiscal year 2013. This business process change affords University users better visibility of the fund balances and streamlines operations for the Educational Foundation as all incoming gifts designated as current use are passed along to the University upon receipt.

Total non-current assets increased 58% to \$11.9 million in fiscal year 2013. The increase is primarily due to a 67% increase in non-current investments that are related to endowment holdings as well as an 8% increase in pledge receivables. Increases to the endowment investments are primarily the result of a move of University held endowments to the Educational Foundation in fiscal year 2013 as well as contributions from several University funds that were returned to the Educational Foundation that in turn formed the corpus of the Presidential Pioneer endowment.

Total current liabilities decreased 19% or \$0.2 million. A near 100% decrease in accounts payable was partially offset by a 19% increase in agency liabilities. The decrease in accounts payable is the result of business process changes discussed above, in that with the movement of all current use activities to the University, accounts payable for the Educational Foundation generally only result from board meeting activities.

Net position increased 5% to \$15.0 million in fiscal year 2013. Nonexpendable endowment increases of 67% were partially offset by decreases in restricted for scholarships and fellowships as well as a 45% decrease in restricted for other programs. These decreases in the restricted net position designations for scholarships and other programs were the result of the move of current use trust funds to the University in fiscal year 2013.

(Continued)

**CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.**

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 1,400,865	\$ 3,104,322	\$ 2,299,249
Operating expenses	<u>1,509,788</u>	<u>3,611,187</u>	<u>1,116,282</u>
Operating (loss) income	(108,923)	(506,865)	1,182,967
Nonoperating revenues (expenses)	<u>2,116,327</u>	<u>1,253,282</u>	<u>(233,463)</u>
Increase in net position	2,007,404	746,417	949,504
Net position, beginning of year	<u>15,039,729</u>	<u>14,293,312</u>	<u>13,343,808</u>
Net position, end of year	<u>\$ 17,047,133</u>	<u>\$ 15,039,729</u>	<u>\$ 14,293,312</u>

**2014**

Operating revenues decreased by 55% to \$1.4 million in fiscal year 2014. The decrease was primarily due to decreases seen in all categories of gifts received in 2014. Gifts, non-capital decreased 37% to \$0.6 million, in-kind contributions decreased 81%, and additions to permanent endowments decreased 69% to \$0.6 million in fiscal year 2014. In the previous year the Educational Foundation gifts were bolstered by contributions from the University related to several business process changes. Along with the effect of those one-time contributions, the Educational Foundation experienced decreases in gifts in fiscal year 2014 as a result of a challenging fund raising environment. Educational Foundation management predicts that fund raising efforts in the coming year will yield better results.

Operating expenses decreased by 58% to \$1.5 million primarily as a result of the business process changes completed in fiscal year 2013 that temporarily increased the contributions to support activities of the University expenditures. In alignment with the approved budget, there was a 65% increase to \$0.2 million in the accounting and administrative cost in fiscal year 2014. Prior to fiscal year 2014, support services were provided in a decentralized strategy that used providers of either the University or the California State University, East Bay Foundation, Inc. With the process changes completed in fiscal year 2013, these services transitioned completely to University providers which has resulted in a more consistent and cohesive delivery of services. To allocate costs for some providers the University uses past year transaction counts. Therefore it is expected that the cost of these services will decline in subsequent years as there were numerous transactions related to the process changes completed in fiscal year 2013.

Non-operating revenues/expenses ended the year as a net revenue of \$2.1 million. This 69% increase is primarily due to gains in investment income this year as the financial environment improved.

(Continued)



**CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.**

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

**2013**

Operating revenues increased by 35% to \$3.1 million and fiscal year 2013. The increase is primarily due to a 75% increase in additions to permanent endowment. The additions to permanent endowments resulted from the return of contributions to the Educational Foundation from several University funds that along with several individual gifts formed the corpus of the Presidential Pioneer endowment. Decreases in gifts non-capital, in fiscal year 2013, was the result of a challenging fund raising environment, however the Educational Foundation management is confident that efforts in the coming year will yield better results.

Operating expenses increased by 223% to \$3.6 million primarily as a result of the movement of current use funds to the University in fiscal year 2013. However, with the move of the current use funds to the University, it is anticipated that the expenses will largely consist of the operating costs of the Educational Foundation itself.

Non-operating revenues/expenses ended the year with net revenue of \$1.3 million. This increase is primarily due to gains in investment and endowment income realized this year as the financial environment improved.

**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.

(Continued)

**CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.**

Statements of Net Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets:		
Current assets:		
Cash	\$ 387,047	\$ 143,633
Investments	5,054,674	3,149,050
Accounts receivable	173,086	152,338
Pledges receivable, net	749,191	380,212
Total current assets	<u>6,363,998</u>	<u>3,825,233</u>
Noncurrent assets:		
Endowment investments	10,812,559	10,654,335
Pledges receivable, net	593,291	1,220,419
Total noncurrent assets	<u>11,405,850</u>	<u>11,874,754</u>
Total assets	<u>17,769,848</u>	<u>15,699,987</u>
Liabilities:		
Current liabilities:		
Accounts payable	1,239	1,142
Agency liabilities	721,476	659,116
Total liabilities	<u>722,715</u>	<u>660,258</u>
Net position:		
Restricted for:		
Nonexpendable - endowments	10,812,559	10,654,335
Expendable:		
Scholarships and fellowships	2,511,693	965,473
Loans	-	951
Other programs	3,295,070	2,928,653
Unrestricted	427,811	490,317
Total net position	<u>\$ 17,047,133</u>	<u>\$ 15,039,729</u>

See accompanying notes to financial statements.

**CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues:		
Operating revenues:		
Gifts, noncapital	\$ 629,678	\$ 1,005,544
In-kind contributions	12,960	67,145
Additions to permanent endowments	607,598	1,949,951
Other operating revenues	150,629	81,682
Total operating revenues	<u>1,400,865</u>	<u>3,104,322</u>
Expenses:		
Operating expenses:		
Contributions to support activities of University	1,283,404	3,355,541
Scholarship disbursements	-	118,056
Accounting and administrative costs	226,384	137,590
Total operating expenses	<u>1,509,788</u>	<u>3,611,187</u>
Operating loss	(108,923)	(506,865)
Non-operating revenues (expenses):		
Investment gains, net	1,985,196	1,103,938
Investment income, net	131,131	149,344
Total non-operating revenues	<u>2,116,327</u>	<u>1,253,282</u>
Increase in net position	2,007,404	746,417
Net position, beginning of year	<u>15,039,729</u>	<u>14,293,312</u>
Net position, end of year	<u>\$ 17,047,133</u>	<u>\$ 15,039,729</u>

See accompanying notes to financial statements.

**CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.**

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Receipts from contributors	\$ 1,622,711	\$ 2,660,603
Payments for student grants and scholarships	-	(118,056)
Payments for contributions to the University	(1,269,493)	(3,288,396)
Payments for accounting and administrative costs	(227,238)	(243,610)
Other operating cash flows	<u>62,360</u>	<u>93,673</u>
Net cash provided by (used in) operating activities	188,340	(895,786)
Cash flows from investing activities:		
Purchases of investments	(5,577,055)	(5,544,692)
Sales of investments	5,908,180	4,896,024
Investment income, net	<u>(276,051)</u>	<u>1,253,282</u>
Net cash provided by investing activities	55,074	604,614
Net increase (decrease) in cash	243,414	(291,172)
Cash, beginning	<u>143,633</u>	<u>434,805</u>
Cash, ending	<u>\$ 387,047</u>	<u>\$ 143,633</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (108,923)	\$ (506,865)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	(23,343)	(18,560)
Pledges receivable, net	258,149	(215,383)
Accounts payable	97	(248,650)
Agency liabilities	<u>62,360</u>	<u>93,672</u>
Net cash provided by (used in) operating activities	<u>\$ 188,340</u>	<u>\$ (895,786)</u>

See accompanying notes to financial statements.

# CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

### **(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 (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 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **(e) 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 for low dollar amounts are not reflected in the totals presented in this report. Pledges that are due in subsequent years are reflected as noncurrent and are discounted using rates commensurate with the risks involved. The discount rates for the years ended June 30, 2014 and June 30, 2013 were 3.13% and 3.17%, respectively. An allowance for doubtful pledges is provided based on management's evaluation of potential uncollectible pledges receivable at year-end.

#### **(f) 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 gain or 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 non-operating revenues (expenses) in the statements of revenues, expenses, and changes in net position.

(Continued)

# CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

### (g) Property and Equipment

Property and equipment are stated at cost. Expenses for maintenance and repairs are charged against operations. Depreciation and/or amortization 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.

### (h) Agency Liabilities

The Educational Foundation administers monies and investments for the CSUEB Alumni Association and other University programs. Such funds are reported as agency liabilities in the statements of net position.

### (i) In-kind Contributions

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

### (j) 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 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.

### (k) Net Position

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

- *Unrestricted*: All other categories of net position, including those net position designated by the Board or management.
- *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.
- *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.

(Continued)

# CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

### **(l) 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.

### **(m) 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 generally for 3 years after the returns were filed. State and local jurisdictions have statutes of limitation that generally range from 3 to 5 years.

### **(2) Cash**

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

### **(3) 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.

(Continued)

**CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.**

Notes to Financial Statements

June 30, 2014 and 2013

Investments consist of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Equity securities	\$ 12,547,066	\$ 9,802,234
US Government securities	1,057,483	1,259,764
Mutual funds	1,067,479	1,132,052
Corporate bonds	523,679	658,489
Mortgage securities	145,138	610,183
Money market funds	508,794	309,668
Commodities	17,594	30,995
	<u>\$ 15,867,233</u>	<u>\$ 13,803,385</u>

Investment income, net, consists of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Interest and dividends, net of fees	\$ 131,131	\$ 149,344
Realized and unrealized gains (losses)	1,985,196	1,103,938
	<u>\$ 2,116,327</u>	<u>\$ 1,253,282</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 following indicates the credit and interest rate risk of investments as of June 30, 2014. 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	\$ -	\$ 144,184	\$ 379,495	\$ 523,679
Government securities	Aaa	-	184,054	873,429	1,057,483
Mortgage securities	Not Rated	-	-	145,138	145,138

(Continued)



**CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.**

Notes to Financial Statements

June 30, 2014 and 2013

The following indicates the credit and interest rate risk of investments as of June 30, 2013. 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	Aa2-Baa2	\$ 35,053	\$ 158,714	\$ 464,723	\$ 658,490
Government securities	Aaa	25,043	-	1,234,721	1,259,764
Mortgage securities	Not Rated	-	-	610,183	610,183

**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.

**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. Interest rate risk is mitigated by ensuring sufficient liquidity to meet cash flow needs and only then investing in longer-term securities. There is no interest rate risk for money market mutual funds as they are available on demand.

**Concentration of Credit Risk**

This is the risk of loss attributed to the magnitude of an entity's investment in a single 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 risk, the Educational Foundation's investment policy dictates a diverse asset allocation as follows: equities (40-75%), fixed income (20-55%), cash (0-10%), and alternative investments (0-20%). U.S. Treasury and Agency securities are not subject to this limitation. The investment consultant is provided a maximum and minimum portfolio target for each asset class to ensure proper diversification and to avoid unnecessary risk. As of June 30, 2014 and June 30, 2014, Educational Foundation had no investments with any one issuer in excess of 5%.

(Continued)

**CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.**

Notes to Financial Statements

June 30, 2014 and 2013

**(4) Pledges Receivable**

Pledges receivable consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Receivable in less than one year	\$ 871,295	506,116
Receivable in one to five years	593,291	1,220,419
Less allowance for doubtful accounts	(72,050)	(47,592)
Less discount factor to present value	<u>(50,054)</u>	<u>(78,312)</u>
	<u>\$ 1,342,482</u>	<u>1,600,631</u>

At June 30, 2014 Educational Foundation had pledges receivable from members and officers of the Board of Trustees in the amounts of \$731,835, net of allowance for doubtful accounts and discount. These pledges receivable are due at various dates through 2019.

At June 30, 2013, Educational Foundation had pledges receivable from members and officers of the Board of Trustees in the amounts of \$745,460, net of allowance for doubtful accounts and discount. These pledges receivable are due at various dates through 2017.

**(5) 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. (Foundation) (collectively known as the "Auxiliaries")) as well as transactions with the University itself.

Educational Foundation reimburses the University and Associated Students for certain services provided to Educational Foundation. Educational Foundation reimbursed the University for these services in the amount of \$208,852 and \$348,437 for the years ended June 30, 2014 and June 30, 2013, respectively. Educational Foundation reimbursed Associated Students for these services in the amount of \$0 and \$90 for the years ended June 30, 2014 and June 30, 2013, respectively.

During the years ended June 30, 2014 and June 30, 2013, Educational Foundation contributed cash and in-kind gifts of \$1,232,054 and \$1,784,893, respectively to the University. These amounts are included as contributions to support activities of the University in the statements of revenues, expenses, and net position.

(Continued)

**CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.**

Notes to Financial Statements

June 30, 2014 and 2013

Educational Foundation also received reimbursements for services and gifts provided to the University, Associated Students, and the Foundation. During the years ended June 30, 2014 and June 30, 2013, the Educational Foundation received \$0 and \$21,781, respectively. This amount is included as gifts and other operating revenues in the statements of revenues, expenses, and changes in net position.

Amounts receivable (payable) at June 30:

	<u>2014</u>	<u>2013</u>
California State University, East Bay - receivable	\$ -	\$ 3,625
California State University, East Bay - payable	(950)	-
	<u>\$ (950)</u>	<u>\$ 3,625</u>

**(6) Functional Allocation of Expenses**

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

**(7) 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.

**(8) Subsequent Events**

The Educational Foundation has evaluated subsequent events and transactions for potential recognition or disclosure through September 18, 2014, the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

**Cal State East Bay Educational Foundation, Inc.**

Schedule of Net Position

June 30, 2014

(for inclusion in the California State University)

Assets:	
Current assets:	
Cash and cash equivalents	\$ 387,047
Short-term investments	5,054,674
Accounts receivable, net	173,086
Leases receivable, current portion	-
Notes receivable, current portion	-
Pledges receivable, net	749,191
Prepaid expenses and other assets	-
Total current assets	<u>6,363,998</u>
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	593,291
Endowment investments	10,812,559
Other long-term investments	-
Capital assets, net	-
Other assets	-
Total noncurrent assets	<u>11,405,850</u>
Total assets	<u>17,769,848</u>
Deferred outflows of resources:	
Unamortized loss on refunding(s)	-
Total deferred outflows of resources	<u>-</u>
Liabilities:	
Current liabilities:	
Accounts payable	1,239
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	721,476
Other liabilities	-
Total current liabilities	<u>722,715</u>
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	-
Other liabilities	-
Total noncurrent liabilities	<u>-</u>
Total liabilities	<u>722,715</u>
Deferred inflows of resources:	
Deferred inflows from SCAs, grants, and others	-
Total deferred inflows of resources	<u>-</u>
Net Position:	
Net investment in capital assets	-
Restricted for:	
Nonexpendable - endowments	10,812,559
Expendable:	
Scholarships and fellowships	2,511,693
Research	-
Loans	-
Capital projects	-
Debt service	-
Other	3,295,070
Unrestricted	427,811
Total net position	<u>\$ 17,047,133</u>

See accompanying independent auditor's report.

**Cal State East Bay Educational Foundation, Inc.**  
Schedule of Revenues, Expenses, and Changes in Net Position  
Year Ended June 30, 2014  
(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		-

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		1,509,788
Depreciation and amortization		-
Total operating expenses		1,509,788
Operating income (loss)		(1,509,788)

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		642,638
Investment income (loss), net		1,985,196
Endowment income (loss), net		131,131
Interest Expenses		-
Other nonoperating revenues (expenses)		150,629
Net nonoperating revenues (expenses)		2,909,594
Income (loss) before other additions		1,399,806

State appropriations, capital

Grants and gifts, capital

Additions (reductions) to permanent endowments		607,598
Increase (decrease) in net position		2,007,404

Net position:

Net position at beginning of year, as previously reported		15,039,729
Restatements		-
Net position at beginning of year, as restated		15,039,729
Net position at end of year	\$	17,047,133

See accompanying independent auditor's report.

Cal State East Bay Educational Foundation, Inc.  
Other Information  
June 30, 2014  
(for inclusion in the California State University)

**1 Restricted cash and cash equivalents at June 30, 2014:**

Portion of restricted cash and cash equivalents related to endowments	\$	-
All other restricted cash and cash equivalents	-	-
<b>Total restricted cash and cash equivalents</b>	<b>\$</b>	<b>-</b>

**2.1 Composition of investments at June 30, 2014:**

	Current Unrestricted	Current Restricted	Total Current	Noncurrent Unrestricted	Noncurrent Restricted	Total Noncurrent	Total
State of California Surplus Money Investment Fund (SMIF)	-	-	-	-	-	-	-
State of California Local Agency Investment Fund (LAIF)	-	-	-	-	-	-	-
Wachovia Short Term Fund	-	-	-	-	-	-	-
Wachovia Medium Term Fund	-	-	-	-	-	-	-
Wachovia Equity Fund	-	-	-	-	-	-	-
CSU Consolidated Investment Pool (includes SWIFT and 0948 SMIF)	-	-	-	-	-	-	-
Common Fund - Short Term Fund	-	-	-	-	-	-	-
Common Fund - Others	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-
Equity securities	3,997,000	-	3,997,000	-	8,550,066	8,550,066	12,547,066
Fixed income securities (Treasury notes, GNMA's)	46,235	-	46,235	-	98,903	98,903	145,138
Land and other real estate	-	-	-	-	-	-	-
Certificates of deposit	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	-
Mutual funds	340,057	-	340,057	-	727,423	727,423	1,067,480
Money Market funds	162,082	-	162,082	-	346,712	346,712	508,794
Collateralized mortgage obligations:	-	-	-	-	-	-	-
Inverse floaters	-	-	-	-	-	-	-
Interest-only strips	-	-	-	-	-	-	-
Agency pass-through	-	-	-	-	-	-	-
Partnership interests (includes private pass-through)	-	-	-	-	-	-	-
Alternative investments	-	-	-	-	-	-	-
Hedge funds	-	-	-	-	-	-	-
Other major investments:	-	-	-	-	-	-	-
Corporate Bonds	166,823	-	166,823	-	356,855	356,855	523,678
Government Securities	336,872	-	336,872	-	720,611	720,611	1,057,483
Commodities	5,605	-	5,605	-	11,989	11,989	17,594
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
<b>Total investments</b>	<b>5,054,674</b>	<b>-</b>	<b>5,054,674</b>	<b>-</b>	<b>10,812,559</b>	<b>10,812,559</b>	<b>15,867,233</b>
Less endowment investments (enter as negative number)	-	-	-	-	(10,812,559)	(10,812,559)	(10,812,559)
<b>Total investments</b>	<b>5,054,674</b>	<b>-</b>	<b>5,054,674</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,054,674</b>

**2.2 Investments held by the University under contractual agreements at June 30, 2014:**

Portion of investments in note 2.1 held by the University under contractual agreements at June 30, 2014 :	-	-	-	-	-	-	-
---	---	---	---	---	---	---	---

**2.3 Restricted current investments at June 30, 2014 related to:**

<b>Amount</b>	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
<b>Total restricted current investments at June 30, 2014</b>	<b>\$ -</b>

**2.4 Restricted noncurrent investments at June 30, 2014 related to:**

<b>Amount</b>	-
Endowment investment	10,812,559
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
<b>Total restricted noncurrent investments at June 30, 2014</b>	<b>\$ 10,812,559</b>

See accompanying independent auditor's report.





Cal State East Bay Educational Foundation, Inc.  
Other Information  
June 30, 2014  
(for inclusion in the California State University)

3.2 Detail of depreciation and amortization expense for the year ended June 30, 2014:

Depreciation and amortization expense related to capital assets	\$ -
Amortization expense related to other assets	-
Total depreciation and amortization	\$ -

4 Long-term liabilities activity schedule:

	Balance June 30, 2013	Prior period adjustments	Reclassifications	Balance June 30, 2013 (restated)	Additions	Reductions	Balance June 30, 2014	Current portion	Long-term portion
Accrued compensated absences	\$ -	-	-	-	-	-	-	-	-
Capitalized lease obligations:									
Gross balance	-	-	-	-	-	-	-	-	-
Unamortized premium / (discount) on capitalized lease obligations	-	-	-	-	-	-	-	-	-
Total capitalized lease obligations	-	-	-	-	-	-	-	-	-
Long-term debt obligations:									
Revenue Bonds	-	-	-	-	-	-	-	-	-
Other bonds (non-Revenue Bonds)	-	-	-	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-	-	-	-
Note Payable related to SRB	-	-	-	-	-	-	-	-	-
Other:									
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Total long-term debt obligations	-	-	-	-	-	-	-	-	-
Unamortized bond premium / (discount)	-	-	-	-	-	-	-	-	-
Total long-term debt obligations, net	-	-	-	-	-	-	-	-	-
Total long-term liabilities	\$ -	-	-	-	-	-	-	-	-

5 Future minimum lease payments - capital lease obligations:

	Principal	Interest	Principal and Interest
Year ending June 30:			
2015	-	-	-
2016	-	-	-
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020 - 2024	-	-	-
2025 - 2029	-	-	-
2030 - 2034	-	-	-
2035 - 2039	-	-	-
2040 - 2044	-	-	-
2045 - 2049	-	-	-
2050 - 2054	-	-	-
2055 - 2059	-	-	-
2060 - 2064	-	-	-
Total minimum lease payments	-	-	-
Less amounts representing interest			-
Present value of future minimum lease payments			-
Less: current portion			-
Capitalized lease obligation, net of current portion		\$ -	-

See accompanying independent auditor's report.

Cal State East Bay Educational Foundation, Inc.  
Other Information  
June 30, 2014  
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6 Long-term debt obligation schedule

	Revenue Bonds			All other long-term debt obligations			Total		
	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest
Year ending June 30:									
2015	\$ -	-	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-	-
2020 - 2024	-	-	-	-	-	-	-	-	-
2025 - 2029	-	-	-	-	-	-	-	-	-
2030 - 2034	-	-	-	-	-	-	-	-	-
2035 - 2039	-	-	-	-	-	-	-	-	-
2040 - 2044	-	-	-	-	-	-	-	-	-
2045 - 2049	-	-	-	-	-	-	-	-	-
2050 - 2054	-	-	-	-	-	-	-	-	-
2055 - 2059	-	-	-	-	-	-	-	-	-
2060 - 2064	-	-	-	-	-	-	-	-	-
Total	\$ -	-	-	-	-	-	-	-	-

7 Calculation of net position

	Auxiliary Organizations		Total
	GASB	FASB	Auxiliaries
<b>7.1 Calculation of net position - Net investment in capital assets</b>			
Capital assets, net of accumulated depreciation	\$ -	-	-
Capitalized lease obligations - current portion	-	-	-
Capitalized lease obligations, net of current portion	-	-	-
Long-term debt obligations - current portion	-	-	-
Long-term debt obligations, net of current portion	-	-	-
Portion of outstanding debt that is unspent at year-end	-	-	-
Other adjustments: (please list)			
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Net position - net investment in capital asset	\$ -	-	-
<b>7.2 Calculation of net position - Restricted for nonexpendable - endowments</b>			
Portion of restricted cash and cash equivalents related to endowments	\$ -	-	-
Endowment investments	10,812,559	-	10,812,559
Other adjustments: (please list)			
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Net position - Restricted for nonexpendable - endowments per SNP	\$ 10,812,559	-	10,812,559

See accompanying independent auditor's report.

Cal State East Bay Educational Foundation, Inc.  
 Other Information  
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**8 Transactions with Related Entities**

	Amount
Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$ -
Payments to University for other than salaries of University personnel	208,852
Payments received from University for services, space, and programs	-
Gifts-in-kind to the University from discretely presented component units	12,960
Gifts (cash or assets) to the University from discretely presented component units	1,219,094
Accounts (payable to) University (enter as negative number)	(950)
Other amounts (payable to) University (enter as negative number)	-
Accounts receivable from University	-
Other amounts receivable from University	-

**9 Other Postemployment Benefits Obligation (OPEB)**

Annual required contribution (ARC)	\$ -
Contributions during the year	-
Increase (decrease) in net OPEB obligation (NOO)	-
NOO - beginning of year	-
NOO - end of year	\$ -

**10 Pollution remediation liabilities under GASB Statement No. 49:**

Description	Amount
Add description	\$ -
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Total pollution remediation liabilities	\$ -
Less: current portion	-
Pollution remediation liabilities, net of current portion	-

Cal State East Bay Educational Foundation, Inc.  
 Other Information  
 June 30, 2014  
 (for inclusion in the California State University)

11 The nature and amount of the prior period adjustment(s) recorded to beginning net position

	Net Position Class	Amount Dr. (Cr.)
Net position as of June 30, 2013, as previously reported	\$	15,039,729
Prior period adjustments:		
1 (list description of each adjustment)		-
2 (list description of each adjustment)		-
3 (list description of each adjustment)		-
4 (list description of each adjustment)		-
5 (list description of each adjustment)		-
6 (list description of each adjustment)		-
7 (list description of each adjustment)		-
8 (list description of each adjustment)		-
9 (list description of each adjustment)		-
10 (list description of each adjustment)		-
Net position as of June 30, 2013, as restated	\$	15,039,729

Provide a detailed breakdown of the journal entries (at the financial statement line item level) booked to record each prior period adjustment:

	Debit	Credit
Net position class: _____ 1 (breakdown of adjusting journal entry)	\$ -	-
Net position class: _____ 2 (breakdown of adjusting journal entry)	-	-
Net position class: _____ 3 (breakdown of adjusting journal entry)	-	-
Net position class: _____ 4 (breakdown of adjusting journal entry)	-	-
Net position class: _____ 5 (breakdown of adjusting journal entry)	-	-
Net position class: _____ 6 (breakdown of adjusting journal entry)	-	-
Net position class: _____ 7 (breakdown of adjusting journal entry)	-	-
Net position class: _____ 8 (breakdown of adjusting journal entry)	-	-
Net position class: _____ 9 (breakdown of adjusting journal entry)	-	-
Net position class: _____ 10 (breakdown of adjusting journal entry)	-	-

See accompanying independent auditor's report.