



**THE UNIVERSITY FOUNDATION,
CALIFORNIA STATE UNIVERISTY,
CHICO**

Financial Statements and Supplemental Information

Year Ended June 30, 2016



The University Foundation, California State University, Chico

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June 30, 2016

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INDEPENDENT AUDITORS' REPORT

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

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University Foundation, California State University, Chico as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 11 to the financial statements, certain reclassifications resulting in overstatement of amounts previously reported as temporarily restricted net assets and an understatement of permanently restricted net asset as of and for the year ended June 30, 2015, as well as previous years, were discovered during the current year. Accordingly, amounts reported for both temporarily and permanently restricted net assets have been restated in the 2016 financial statements to correct the error. Our opinion is not modified with respect to that matter.

**INDEPENDENT AUDITORS' REPORT,
CONTINUED**

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included on pages 22 - 27 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

AKT LLP

San Diego, California
September 23, 2016

FINANCIAL SECTION

The University Foundation, California State University, Chico

STATEMENT OF FINANCIAL POSITION

June 30	2016
ASSETS	
Cash and cash equivalents	\$ 2,981,117
Receivables and other current assets	149,603
Investments	69,459,160
Contributions receivable, net	3,283,499
Notes receivable	700,000
Student loans administered through CSU, Chico	555,750
Buildings and equipment, net of accumulated depreciation	202,281
Total Assets	77,331,410
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts and notes payable	882,734
Liabilities under deferred gift agreements	3,147,715
Total Liabilities	4,030,449
Net Assets	
Unrestricted	6,383,786
Temporarily restricted	17,906,695
Permanently restricted	49,010,480
Total Net Assets	73,300,961
TOTAL LIABILITIES AND NET ASSETS	\$ 77,331,410

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

The University Foundation, California State University, Chico
STATEMENT OF ACTIVITIES

Year Ended June 30	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue and Other Support				
Donations and contributions	\$ 352,988	\$ 3,874,743	\$ 1,152,648	\$ 5,380,379
University programs' receipts	26,533	2,092,322	-	2,118,855
Interest and dividend income	214,552	1,238,230	-	1,452,782
Realized and unrealized gains	119,207	(1,996,603)	(812,753)	(2,690,149)
Net assets released from restrictions	7,701,964	(7,453,614)	(248,350)	-
Total Revenue and other support	8,415,244	(2,244,922)	91,545	6,261,867
EXPENSES				
Program Services:				
Campus programs	4,505,411	-	-	4,505,411
Student scholarships	1,584,699	-	-	1,584,699
Supporting Services:				
Fundraising	802,734	-	-	802,734
General administration	943,913	-	-	943,913
Total Expenses	7,836,757	-	-	7,836,757
Increase (Decrease) in Net Assets	578,487	(2,244,922)	91,545	(1,574,890)
Net Assets - Beginning of Year, As Previously Stated	6,587,972	31,321,557	36,966,322	74,875,851
Prior period adjustment, endowment net asset reclassification	(782,673)	(11,169,940)	11,952,613	-
Net Assets - Beginning of Year, As Restated	5,805,299	20,151,617	48,918,935	74,875,851
Net Assets - End of Year	\$ 6,383,786	\$ 17,906,695	\$ 49,010,480	\$ 73,300,961

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

The University Foundation, California State University, Chico

STATEMENT OF CASH FLOWS

Year Ended June 30	2016
Cash and Cash Equivalents - Beginning of Year	\$ 1,802,652
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase (Decrease) in net assets	(1,574,890)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Depreciation	85,358
Net unrealized loss on investments	3,134,572
Net unrealized loss on split interest agreements	486,944
Reclassification of split interest agreements	325,809
Loss on disposal of buildings and equipment	10,605
Student loans administered through CSU, Chico	(7,492)
Increase (Decrease) due to noncash assets:	
Receivables and other current assets, net	134,425
Contributions receivable, net	1,881,416
Split interest agreement	(1,985,271)
Increase (Decrease) due to noncash liabilities:	
Accounts payable	(260,730)
Liabilities under deferred gift agreements	(68,010)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,162,736
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(7,278,526)
Sale of investments	6,302,561
Collection (Acquisition) of notes receivable	118,955
Equipment purchased	(97,261)
NET CASH USED BY INVESTING ACTIVITIES	(954,271)
CASH FLOWS USED BY FINANCING PAYMENTS	
Payments on notes payable	(30,000)
Increase in Cash and Cash Equivalents	1,178,465
Cash and Cash Equivalents - End of Year	\$ 2,981,117

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

The University Foundation, California State University, Chico

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Basis of Accounting and Reporting

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

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

Unrestricted net assets

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

Temporarily restricted net assets

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

Permanently restricted net assets

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

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

The University Foundation, California State University, Chico

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

Cash and Cash Equivalents

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

Receivables

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

Investments

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

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

Fair Value Measurements

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

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

Valuations within the hierarchy levels are based upon the following:

Level 1: Quoted market prices for identical instruments traded in active exchange markets.

Level 2: Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3: Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Foundation's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation, which may be significant.

The University Foundation, California State University, Chico

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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

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

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

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

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

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

The University Foundation, California State University, Chico

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

Collections

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

Student Loans Administered through CSU, Chico

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

Buildings and Equipment

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

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

Liabilities under Deferred Gift Agreements

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

The University Foundation, California State University, Chico

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Income Taxes

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

The Foundation files exempt organization returns in the U.S. federal and California jurisdictions. The federal returns for tax years 2011 and beyond, and the California returns for tax years 2010 and beyond, remain subject to examination by the taxing authorities.

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

Use of Estimates

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

Subsequent Events

The Foundation has evaluated subsequent events through September 23, 2016, which is the date the financial statements were available to be issued.

The University Foundation, California State University, Chico

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. INVESTMENTS

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

June 30, 2016	Level 1	Level 2	Level 3	Total
INVESTMENTS				
Money market funds	\$ 1,243,117	\$ -	\$ -	\$ 1,243,117
Mutual funds, by investment objective:				
Growth funds	3,337,001	-	-	3,337,001
Blend funds	11,134,952	-	-	11,134,952
Value funds	3,665,817	-	-	3,665,817
International funds	5,885,142	-	-	5,885,142
Bond and fixed income funds	20,347,479	-	-	20,347,479
Equity securities, by industry type:				
Technology	182,478	-	-	182,478
Healthcare	104,755	-	-	104,755
Energy	124,329	-	-	124,329
Services	73,446	-	-	73,446
Financial	73,215	-	-	73,215
Other	491,987	-	-	491,987
Debt and fixed income securities:				
U.S. Treasury	-	38,544	-	38,544
States and municipalities	-	530,335	-	530,335
Corporate	-	20,816	-	20,816
Other	-	216,325	-	216,325
Pooled investments:				
Local Agency Investment Fund	-	1,757,840	-	1,757,840
Unit investment trusts	-	296,427	-	296,427
Partnership interests, by investment objective:				
Hedge funds and commodity pools	-	-	4,440,013	4,440,013
International	-	-	1,741,404	1,741,404
Growth and special opportunity	-	-	8,229,958	8,229,958
Private equity	-	-	3,283,392	3,283,392
Real estate	-	-	2,240,388	2,240,388
Total Assets at Fair Value	\$ 46,663,718	\$ 2,860,287	\$ 19,935,155	\$ 69,459,160

The University Foundation, California State University, Chico

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

The following schedule summarizes the change in the fair value of the Foundation's Level 3 assets. The gains and losses included in the following schedule is reported as revenue and other support in the statement of activities within the temporarily restricted net asset classification.

	Partnership Interests							Total Level 3
	Real Estate	Artwork and Collections	Hedge Funds and Commodity Pools	International	Growth and Special Opportunity	Private Equity	Real Estate	
Balance - June 30, 2015	\$ 472,095	\$ 171,432	\$ 5,511,924	\$ 1,936,741	\$ 6,637,819	\$ 3,442,392	\$ 1,666,010	\$ 19,838,413
Interest/dividends/net rental income	-	-	-	-	-	145,071	71,213	216,284
Realized gains (losses)	(100,833)	(171,432)	-	-	-	328,542	181,638	237,915
Unrealized gains (losses) relating to assets held at year end	-	-	(100,871)	(195,337)	42,139	(158,826)	(55,142)	(468,037)
Purchases, sales, issuances, and settlements - net	(149,167)	-	(971,040)	-	1,550,000	(473,787)	154,574	110,580
Balance - June 30, 2016	\$ 222,095	\$ -	\$ 4,440,013	\$ 1,741,404	\$ 8,229,958	\$ 3,283,392	\$ 2,018,293	\$ 19,935,155

The Foundation Finance and Investment Committee approved a portion of the endowment funds to be placed in partnership interests and has future capital commitments to certain partnerships. The remaining capital call commitment as of June 30, 2016, was approximately \$360,000.

The University Foundation, California State University, Chico

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. CONTRIBUTIONS RECEIVABLE

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

June 30	2016
Major pledges	\$ 1,380,400
Less: Unamortized discount (5%)	(156,098)
Total Pledges Receivable	1,224,302
Beneficial interest in trusts	2,588,582
Less: Unamortized discount (4%)	(529,385)
Total Beneficial interest in trusts	2,059,197
Contributions Receivable, Net	\$ 3,283,499

The contributions receivable are estimated to be collected as follows:

June 30	2016
Amounts due in:	
Less than one year	\$ 290,400
One to five years	2,406,435
More than five years	586,664
Total	\$ 3,283,499

The University Foundation, California State University, Chico

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. NOTES RECEIVABLE

Notes receivable consisted of the following:

June 30	2016
Note due from RI-Chico, secured by property in Butte County. Interest-only payments are due monthly until January 28, 2018, at which time the interest and principal are due. Interest accrues at 4.00% per annum.	700,000
Less: Current portion	-
Notes Receivable - Net	\$ 700,000

5. BUILDINGS AND EQUIPMENT

Buildings and equipment consisted of the following:

June 30	2016
Building improvements	\$ 28,615
Equipment and furnishings	1,439,685
Subtotal	1,468,300
Less: Accumulated depreciation	1,266,019
Buildings and Equipment - Net	\$ 202,281

Depreciation expense charged to operations amounted to \$85,358 for the year ended June 30, 2016.

6. DONOR-RESTRICTED ENDOWMENT FUNDS

The pooled endowment portfolio of the Foundation consists of over 550 individual donor-restricted funds established for a variety of purposes. As required by US GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

General Board Policy on Administration of Endowment Funds

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

The University Foundation, California State University, Chico

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) the duration and preservation of the various funds; (2) the purposes of the donor-restricted endowment funds; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Foundation; and (7) the Foundation's investment policies.

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

Investment Objectives, Strategies, and Risk Parameters

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

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

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

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

The University Foundation, California State University, Chico

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Changes in endowment net assets for the year ended June 30, 2016 were as follows. See Note 11 for a description of the prior period adjustment.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year, as previously stated	\$ 2,789,255	\$ 21,299,995	\$ 30,755,380	\$ 54,844,630
Prior period adjustment	(782,673)	(11,169,940)	11,952,613	-
Endowment net assets, beginning of year, as restated	2,006,582	10,130,055	42,707,993	54,844,630
Investment return				
Interest and dividend income	43,760	1,541,666	-	1,585,426
Realized and unrealized gains	(67,925)	(1,750,590)	-	(1,818,515)
Total investment return	(24,165)	(208,924)	-	(233,089)
Contributions and other additions	900,000	-	1,152,648	2,052,648
Appropriations for expenditures	(101,306)	(2,550,786)	(73,876)	(2,725,968)
Increase (Decrease) in Net Assets	774,529	(2,759,710)	1,078,772	(906,409)
Endowment net assets, end of year	\$ 2,781,111	\$ 7,370,345	\$ 43,786,765	\$ 53,938,221

7. NET ASSETS

Unrestricted Net Assets and Net Asset Reserves

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

June 30	2016
Investment in plant and equipment	\$ 202,281
Reserve for working capital	407,881
Reserve for planned future operations	320,169
Total Net Asset Reserves	930,331
Available for general purposes	2,672,344
Unrestricted endowment net assets	2,781,111
Unrestricted Net Assets	\$ 6,383,786

The University Foundation, California State University, Chico

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

June 30	2016
Scholarships and fellowships	\$ 7,553,508
Campus programs	9,066,718
Scholarship loans	551,384
Capital projects	735,085
Temporarily Restricted Net Assets	\$ 17,906,695

Permanently Restricted Net Assets

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

Permanently restricted net assets are available for the following purposes:

June 30	2016
Donor restricted endowment fund	\$ 43,786,765
Charitable remainders trust assets	5,223,715
Net Assets Released From Restriction	\$ 49,010,480

8. RELATED-PARTY TRANSACTIONS

Operating Leases and Facility Use Agreements

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

Business and Financial Services

The CSU, Chico Research Foundation (the Research Foundation) provides administrative and financial services to the Foundation.

The University Foundation, California State University, Chico

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Receivables/Payables With CSU, Chico

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

Personnel

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

The following is a schedule of transactions with related parties:

June 30	2016
Transactions With CSU, Chico	
Payments to University for salaries of University personnel working on contracts, grants, and other	\$ 93,390
Payments to University for other than salaries to University personnel	\$ 2,234,112
Payments received from University for services, space, and programs	\$ 227,859
Gifts (cash or assets) to the University from recognized auxiliary organizations	\$ 390,726
Amounts payable to University	\$ (56,035)
Student loan receivables from University	\$ 555,750
Transactions With Research Foundation	
Administrative and financial service expenses	\$ 596,364
Amounts payable for personnel service expenses	\$ (594,179)

9. SELF-INSURANCE

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

The University Foundation, California State University, Chico

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

10. COMMITMENTS AND CONTINGENCIES

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

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

11. PRIOR PERIOD ADJUSTMENT

During fiscal year 2016, the Foundation performed an extensive review of all endowments and as a result, endowment net asset restrictions were adjusted for the following:

Prior to July 1, 2015, permanently restricted endowment net assets included changes to endowment balances, including earnings and distributions. During 2016, earnings and distributions on permanently restricted endowment net assets were reclassified as temporarily restricted endowment net assets, to remove from permanent restriction amounts other than gifts.

Prior to July 1, 2015, some gifts had been recorded as temporarily restricted endowment net assets. During 2016, these gifts were reclassified as permanently restricted endowment net assets.

The University Foundation, California State University, Chico

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Prior to July 1, 2015, unrestricted endowment net assets included certain endowments which should have been classified as either permanently or temporarily restricted endowment net assets; during 2016, these amounts were reclassified appropriately. As a result, at June 30, 2016, unrestricted endowment net assets include only quasi-endowments.

As a result of this review, the June 30, 2015 balances of Net Assets were restated as follows:

Unrestricted	\$	(782,673)
Temporarily Restricted		(11,169,940)
Permanently Restricted		11,952,613
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Net Change	\$	-
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SUPPLEMENTARY INFORMATION SECTION

The University Foundation, California State University, Chico

SCHEDULE OF NET POSITION

(FOR INCLUSION IN THE CALIFORNIA STATE UNIVERSITY)

June 30	2016
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 1,239,657
Short-term investments	1,665,896
Accounts receivable	37,741
Prepaid expenses and other assets	111,862
Total Current Assets	3,055,156
Noncurrent Assets	
Restricted cash and cash equivalents	1,741,460
Notes receivable - net of current portion	700,000
Student loans receivable, net	555,750
Contribution receivable, net	3,283,499
Endowment investments	49,137,985
Other long-term investments	18,655,279
Capital assets, net	202,281
Total Noncurrent Assets	74,276,254
TOTAL ASSETS	77,331,410
LIABILITIES	
Current Liabilities	
Accounts payable	872,440
Other liabilities	10,294
Total Current Liabilities	882,734
Noncurrent Liabilities	
Liabilities under deferred gift agreements	3,147,715
TOTAL LIABILITIES	4,030,449
NET POSITION	
Net investment in capital assets	202,281
Restricted for:	
Nonexpendable - endowments	51,157,110
Expendable:	
Scholarships and fellowships	2,046,838
Loans	555,750
Capital projects	735,085
Other	12,422,392
Unrestricted	6,181,505
TOTAL NET POSITION	\$ 73,300,961

The University Foundation, California State University, Chico

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (FOR INCLUSION IN THE CALIFORNIA STATE UNIVERSITY)

Year Ended June 30	2016
REVENUES	
Sales and services of educational activities	\$ 394,350
Sales and services of auxiliary enterprises	470,489
Other operating revenues	339,464
TOTAL OPERATING REVENUES	1,204,303
EXPENSES	
Operating Expenses	
Instruction	17,689
Research	16,722
Public service	638,981
Academic support	3,364,924
Student services	658,572
Institutional support	2,074,674
Operation and maintenance of plant	207,891
Student grants and scholarships	1,584,699
Depreciation and amortization	85,358
Total Operating Expenses	8,649,510
Operating Loss	(7,445,207)
NONOPERATING REVENUES (EXPENSES)	
Gifts - noncapital	4,140,970
Investment income - net	343,712
Endowment income	(593,841)
Other nonoperating revenues	(159,933)
NET NONOPERATING REVENUES	3,730,908
Revenue Before Other Additions	(3,714,299)
Grants and gifts - capital	86,761
Additions to permanent endowments	2,052,648
Increase in Net Position	(1,574,890)
Net Position - Beginning of Year	74,875,851
Net Position - End of Year	\$ 73,300,961

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

June 30, 2016

Restricted Cash and Cash Equivalents

Amount of restricted cash and cash equivalents related to endowments	\$	204,297
All other restricted cash and cash equivalents		1,537,163
Total Restricted Cash and Cash Equivalents	\$	1,741,460

June 30, 2016	Current Unrestricted	Current Restricted	Total Current	Noncurrent Unrestricted	Noncurrent Restricted	Total Noncurrent	Total
Composition of Investments							
Local Agency Investment Fund (LAIF)	\$ 376,491	\$ 1,289,405	\$ 1,665,896	\$ -	\$ 91,944	\$ 91,944	\$ 1,757,840
Money market funds	-	-	-	3,033	1,240,084	1,243,117	1,243,117
Mutual funds	-	-	-	9,104,912	35,265,479	44,370,391	44,370,391
Equity securities	-	-	-	-	1,050,210	1,050,210	1,050,210
Debt and fixed income securities (treasury notes, GNMA's)	-	-	-	-	806,020	806,020	806,020
Real estate	-	-	-	-	-	-	-
Collateralized mortgage obligations: Alternative investments							
Other major investments: Unit investment trusts	-	-	-	-	296,427	296,427	296,427
Index funds	-	-	-	-	-	-	-
Partnership interests	-	-	-	-	19,935,155	19,935,155	19,935,155
Total Investments	376,491	1,289,405	1,665,896	9,107,945	58,685,319	67,793,264	69,459,160
Less: Endowment investments	-	-	-	-	(49,137,985)	(49,137,985)	(49,137,985)
Total Other Investments	\$ 376,491	\$ 1,289,405	\$ 1,665,896	\$ 9,107,945	\$ 9,547,334	\$ 18,655,279	\$ 20,321,175

June 30, 2016	Current Unrestricted	Noncurrent Unrestricted	Total
Investments Held by the University Under Contractual Agreement			
Portion of investments held by the University under contractual agreements	\$ -	\$ -	\$ -

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

June 30, 2016

Restricted Current Investments Related To:

Restricted by donor stipulation  \$ 1,289,405

June 30, 2016

Restricted Noncurrent Investments Related To:

Endowment investments \$ 49,137,985

Restricted by donor stipulation 9,547,334

Total Restricted Noncurrent Investments \$ 58,685,319

June 30, 2016	Balance 2015	Additions	Reductions	Transfers	Balance 2016
COMPOSITION OF CAPITAL ASSETS AT JUNE 30, 2016					
Nondepreciable Capital Assets					
Construction in progress	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciable Capital Assets					
Buildings and building improvements	28,615	-	-	-	28,615
Equipment	1,358,477	97,261	(16,053)	-	1,439,685
Total Depreciable Capital Assets	1,387,092	97,261	(16,053)	-	1,468,300
Total Cost	1,387,092	97,261	(16,053)	-	1,468,300
Less: Accumulated Depreciation					
Buildings and building improvements	(28,615)	-	-	-	(28,615)
Equipment	(1,157,494)	(85,358)	5,448	-	(1,237,404)
Total Accumulated Depreciation	(1,186,109)	(85,358)	5,448	-	(1,266,019)
NET CAPITAL ASSETS	\$ 200,983	\$ 11,903	\$ (10,605)	\$ -	\$ 202,281

June 30, 2016

Depreciation and amortization expense related to capital assets \$ 85,358

The University Foundation, California State University, Chico

OTHER INFORMATION (FOR INCLUSION IN THE CALIFORNIA STATE UNIVERSITY)

June 30, 2016	Auxiliary Organizations FASB
Net Position - Investment in Capital Assets	
Capital assets - net of accumulated depreciation	\$ 202,281
Long-term debt obligations	-
Net Position - Investment in Capital Assets	\$ 202,281

June 30, 2016	Balance 2015	Additions	Reductions	Balance 2016	Current Portion	Long-Term Portion
Long-Term Debt Activity Schedule						
Notes payable	\$ 30,000	\$ -	\$ (30,000)	\$ -	\$ -	\$ -
Total Long-Term Debt Activity	\$ 30,000	\$ -	\$ (30,000)	\$ -	\$ -	\$ -

Year Ending June 30, 2016	All Other Long-Term Debt Obligations		
	Principal	Interest	Principal and Interest
Long-Term Debt Obligation Schedule			
2017	\$ -	\$ -	\$ -
Total Long-Term Debt Obligations	\$ -	\$ -	\$ -

June 30, 2016	Auxiliary Organizations FASB
Net Position - Restricted for Nonexpendable Endowments	
Portion of restricted cash and cash equivalents related to endowments	\$ 204,297
Receivables related to endowments	1,814,828
Endowment investments	49,137,985
Net Position - Restricted for Nonexpendable Endowments	\$ 51,157,110

The University Foundation, California State University, Chico

OTHER INFORMATION (FOR INCLUSION IN THE CALIFORNIA STATE UNIVERSITY)

NATURE AND AMOUNT OF THE PRIOR PERIOD ADJUSTMENT RECORDED TO BEGINNING NET

POSITION	Net Position Class	Amount
Net Position as of June 2015, as previously reported		\$ 74,875,851
Prior period adjustment:		
Endowment reclassification of net position	Unrestricted	\$ (782,673)
Endowment reclassification of net position	Temporarily Restricted	\$ (11,169,940)
Endowment reclassification of net position	Permanently Restricted	11,952,613
Net position as of June 30, 2015 as restated		\$ 74,875,851

PRIOR PERIOD ADJUSTMENT JOURNAL ENTRY DETAIL

Net position class: Unrestricted, Temporarily Restricted, Permanently Restricted

Unrestricted net position	\$	782,673	
Temporarily restricted net position	\$	11,169,940	
Permanently Restricted net position			\$ 11,952,613