

**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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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

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

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

2013

- x 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.
- x Operating expenses increased by \$2.5 million or 20% with a corresponding decrease in current assets due to the movement of the current use

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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. 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 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 presented 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

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

2014

Current assets increased 66% to \$6.4 million led by increases in investments with the improvement of the financial environment. Current investments increased 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.

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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 unrestricted 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 allowances 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 are 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 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 fund balances and streamlines operations for the Educational Foundation as all incoming gifts designated for 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 related to endowment holdings as well as an 8% increase in pledge receivables. Increases in endowment investments are primarily the result of a move of University held endowments to the E

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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

CAL STATE EAST BAY EDUCATIONAL FOUNDATION, INC.

Management's Discussion and Analysis

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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 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 recorded 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.

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 reported using the straight-line method over the estimated useful lives of the related assets of five 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:

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

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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 independent 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

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:

	2014	2013
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:

	2014	2013
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, 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 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

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Notes to Financial Statements

June 30, 2014 and 2013

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(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)

SUPPLEMENTARY INFORMATION

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