

SAN FRANCISCO STATE
UNIVERSITY FOUNDATION
(A COMPONENT UNIT OF SAN FRANCISCO
STATE UNIVERSITY)

JUNE 30, 2010

INDEPENDENT AUDITORS' REPORTS,

FINANCIAL STATEMENTS

AND

SUPPLEMENTAL INFORMATION

San Francisco State University Foundation

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Independent Auditors' Report

THE BOARD OF DIRECTORS
SAN FRANCISCO STATE UNIVERSITY FOUNDATION
San Francisco, California

We have audited the accompanying statement of net assets of the **SAN FRANCISCO STATE University Foundation (the Foundation)** from the period of beginning operations, September 30, 2009 through June 30, 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the period then ended. These financial statements are the responsibility of the Foundation's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Francisco State University Foundation at June 30, 2010 and the changes in its net assets and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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September 24, 2010

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San Francisco State University Foundation

Management Discussion and Analysis (Unaudited)

The San Francisco State University Foundation (the Foundation) presents its financial statements in a single year format from the period of beginning operations, September 30, 2009 through June 30, 2010. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Following discussion and analysis is intended to help readers of the Foundation's financial statements to better understand its financial position and operating activities from the period of beginning operations, September 30, 2009 through June 30, 2010. It should be read in conjunction with, and is qualified in its entirety by, the related financial statements and footnotes. The financial statements, footnotes and this discussion and analysis were prepared by the Foundation and are the responsibility of its management. The analysis will look at the activity of the Foundation after the transfer of assets from the University Corporation, SF State (the Corporation) as of September 30, 2009.

The Foundation

The Foundation is a non-profit auxiliary organization of San Francisco State University (University) with a 501(c) (3) designation with the Internal Revenue Service. The Foundation's purpose is to provide private financial support to assist the University in meeting its educational mission.

The Foundation's June 30, 2010 financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, 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.

Management's Discussion and Analysis

This section of the Foundation's annual financial report includes management's discussion and analysis of the financial performance of the Foundation for the period from September 30, 2009 through June 30, 2010.

Highlights of Financial Operations

- **Transfer of endowment balances from the University Corporation, San Francisco State (the Corporation)**

The Foundation was transferred all endowment balances and associated investment accounts with the exception of one endowment from the Corporation. The amount transferred was approximately \$42,900,000 from the Corporation.

- **Operating and nonoperating revenue and expenses**

During the year the Foundation had other revenue of \$553,765 based on administrative fees earned from managing the endowments. The operating expenses for the year were \$309,109 which represents primarily administrative cost for accounting and auditing services.

San Francisco State University Foundation

Management Discussion and Analysis (Unaudited)

Total non-operating revenue was \$2,882,363 primarily attributable to contributions and investment performance. During 2010, the Foundation received approximately \$1,650,000 for scholarships. The Foundation's investment income showed a gain of approximately \$1,127,700. The gain represents the investment of endowed funds. The Foundation held the endowments starting the second quarter of the current fiscal year with the transfer from the Corporation.

- **Other additions and transfers**

Total other additions and transfers were \$129,893. The net balance was attributable to transfers to the University and affiliate of approximately \$1,307,000 and the receipt of capital and permanent endowment contributions of approximately \$1,437,000

Financial Position

The statement of net assets presents the financial position of the Foundation at the end of fiscal year 2010. The purpose of the statement of net assets is to present to the readers of the financial statements a fiscal snapshot of the Foundation. From the data presented, the readers of the statement of the net assets are able to determine the assets available to continue the operations of the Foundation. They are also able to determine how much the Foundation owes its vendors as well as assessing other liabilities. Finally, the statement of net assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditures.

Net assets are divided into two major categories. The first category is Restricted Net Assets, which is divided into two categories, Nonexpendable and Expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the Foundation, but must be spent for purposes as determined by the donors and /or external entities that have placed time, purpose or legal restrictions on the use of the assets. The final category is Unrestricted Net Assets that are available to the Foundation for any lawful purpose of the Foundation.

San Francisco State University Foundation

Management Discussion and Analysis (Unaudited)

Detailed statement of net assets as of June 30, 2010 is included in the financial statements. A condensed version is shown below:

	2010	September 30, 2009	Change	%Change
ASSETS				
Current Assets	\$ 7,977,842	\$ -	\$ 7,977,842	100%
Noncurrent Assets	39,349,436	-	39,349,436	100%
	47,327,278	-	47,327,278	100%
LIABILITIES				
Current Liabilities	1,148,816	-	1,148,816	100%
	1,148,816	-	1,148,816	100%
NET ASSETS				
Restricted Net Assets:				
Nonexpendable - endowments	29,062,849	-	29,062,849	100%
Expendable - Scholarships, Fellowships & Capital Projects	16,870,958	-	16,870,958	100%
Unrestricted Net Assets	244,655	-	244,655	100%
	\$ 46,178,462	\$ -	\$ 46,178,462	100%

Assets

As of June 30, 2010, current assets were \$7,977,842; this balance is comprised of approximately \$1,545,000 receivable from the Corporation, approximately \$6,152,000 of short term investments, and a cash balance of approximately \$281,000. The accounts receivable is mainly attributed to transactions between the Corporation and the Foundation for transfer of contributions and assets due to the Foundation. Noncurrent Assets of \$39,349,436 consist of investments. In the aggregate investments had an increase over the amount transferred from the Corporation.

Liabilities

As of June 30, 2010, current liabilities were \$1,148,816; the balance is primarily comprised of a payable to the University of \$1,120,855 for architectural costs related to the creative arts building. The balance is related to spendable accounts associated with the endowments.

San Francisco State University Foundation

Management Discussion and Analysis (Unaudited)

Net Assets

The Foundation's net assets for fiscal year 2010 increased to \$46,178,462. Due to improved economic markets, the Foundation recognized a gain from its investment holdings, which positively affected the net assets related to the endowments. The interest, dividends, realized and unrealized gains from investments were approximately \$1,127,700.

Results of Operations

The Statement of Revenues, Expenses and Changes in Net Assets presents the Foundation's operating results, as well as the nonoperating revenues and expenses. Operating revenues includes other revenue from earned administrative fees. Gifts and investment income is classified as prescribed by GASB. Net nonoperating revenues or expenses are an integral component in determining the increase or decrease in net assets.

Detailed statement of Revenue, Expenses, and Changes in Net Assets from the period of beginning operations, September 30, 2009 through June 30, 2010 is included in the financial statements. A condensed version is shown below:

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>% Change</u>
<u>Operating Revenues (Expenses):</u>				
Revenues	\$ 553,765	\$ -	\$ 553,765	100%
Expenses	309,110	-	309,110	100%
Operating income	244,655	-	244,655	
<u>Nonoperating Revenues (Expenses):</u>				
Contributions	1,754,655	-	1,754,655	100%
Investment Return	1,127,707	-	1,127,707	100%
Capital contributions	565,151	-	565,151	100%
Additions to permanent endowments	872,210	-	872,210	100%
Transfer to the University Corporation	(186,613)	-	(186,613)	100%
Transfers to the University	(1,120,855)	-	(1,120,855)	100%
Total other Nonoperating Revenues(Expenses)	3,012,255	-	3,012,255	100%
Change in Net Assets	3,256,910	-	3,256,910	100%
Transfer from the Corporation	\$42,921,552	\$ -	\$ -	

San Francisco State University Foundation

Management Discussion and Analysis (Unaudited)

REVENUES

Other Revenue

Other Revenue was \$553,765 for the Foundation as a result of the administrative fee earned for the management of the endowments. The annual 2% administrative fee charged to endowments is calculated on the average daily balance per the Foundation's investment policy. In 2010, the Foundation earned this fee for the three quarters of the fiscal year.

OPERATING EXPENSES

Operating Expenses

Operating expenses are tied to the use of unrestricted funds for costs related to accounting services provided by the University through its unit, Auxiliary Business Service, auditing and consultant services. The expenses related to accounting services were approximately \$287,000

NON-OPERATING REVENUES AND EXPENSES

Contributions

Contributions are recognized as revenue when they are verifiable, measurable, probable of collection, and the Foundation has met all time and eligibility requirements. Contributions were approximately \$1,755,000 from the period of beginning operations, September 30, 2009 through June 30, 2010. Contributions were from various fund raising, scholarships and capital campaigns. The balance is primarily due to the receipt of the Fleischmann Trust bequest of approximately \$1,650,000.

Investment Return

In 2010, investments began to show modest signs of recovery throughout the year. Interest and Gains from investments were approximately \$1,127,700, net of investment fees and administrative fees of approximately \$119,000 and \$143,000, respectively. Though the financial markets continue to be volatile the overall outlook has improved from last fiscal year. The Foundation's portfolio continues to outperform policy benchmarks. The board continues to monitor investments throughout the year along with the investment managers and adjust targets as well as allocation mix where necessary.

Additions to Permanent Endowments and Capital Contributions

Total other additions and transfers was \$129,893. The net balance was attributable to transfers to the University and affiliate of approximately \$1,307,000 and the receipt of capital and permanent endowment contributions of approximately \$1,437,000. Capital contributions represent contributions to the endowment for the Creative Arts Center of approximately \$574,000.

San Francisco State University Foundation

Management Discussion and Analysis (Unaudited)

SIGNIFICANT ITEMS

During fiscal year 2009 – 2010 the Foundation received a transfer from the Corporation of approximately \$42.9 million and ownership to all related investment accounts. The philanthropic Foundation is a new auxiliary established at San Francisco State University which took over the management of the endowments as of September 30, 2009. Though the economic financial market for the invested endowed funds did experience growth in fiscal year 2010 the Foundation still had permanent endowments which were underwater. The underwater endowment investments were reviewed by management and discussed with the board during the year. At the finance and investment committee meeting February 1, 2010, the committee reviewed the December 30, 2009 permanent endowment balances and determined that any underwater endowments should not receive a payout for fiscal year 2010 – 2011 as was the practice for fiscal year 2009 – 2010. Payout would be allowed if permission to invade the corpus was given by the donor or where possible the Deans would use other resources to cover endowment commitments. Other non permanent endowment accounts would be reviewed on a case by case basis. The current underwater endowments have not impaired liquidity or impacted operating needs of the Foundation.

In Fiscal Year 2009-2010 the Board of Directors with the direction of the finance and investment committee decided to shift to new money managers. The assets will be transferred during fiscal year 2010-2011. The finance committee will be taking an even more active role in the management of the investments. Several money managers were interviewed and four selected that fit the overall investment strategy of the Foundation.

We believe all other significant items have already been disclosed and either they do not have a significant effect on future operations, or these effects have already been included in the current financial statements.

San Francisco State University Foundation

Statement of Net Assets

June 30, 2010

Assets

Current Assets:

Cash and cash equivalents	\$	280,656
Investments, restricted		6,151,499
Receivable from related parties		1,545,687
Total current assets		7,977,842

Noncurrent Assets:

Investments, restricted		39,349,436
Total noncurrent assets		39,349,436
Total assets		\$ 47,327,278

Liabilities and Net Assets

Current Liabilities:

Accounts payable	\$	27,961
Payable to the University		1,120,855
Total current liabilities		1,148,816

Net Assets:

Restricted for:		
Nonexpendable - endowments		29,062,849
Expendable - scholarships, fellowships, capital projects		16,870,958
Unrestricted		244,655
Total net assets		46,178,462
Total liabilities and net assets		\$ 47,327,278

San Francisco State University Foundation

Statement of Revenues, Expenses and Changes in Net Assets

Period from beginning operations, September 30, 2009, through June 30, 2010

Revenues:	
Other revenues	\$ 553,765
Total revenues	553,765
Expenses:	
Management and general	309,110
Total expenses	309,110
Operating income	244,655
Nonoperating Revenues (Expenses):	
Contributions	1,754,655
Investment return	1,127,707
Net nonoperating revenues (expenses)	2,882,362
Gain before other additions	3,127,017
Other Additions and Transfers:	
Capital contributions	565,151
Additions to permanent endowments	872,210
Transfers to the University Corporation, SF State	(186,613)
Transfers to the University	(1,120,855)
Total other additions and transfers	129,893
Change in Net Assets	3,256,910
Transfer from the University Corporation, SF State	42,921,552
Net Assets, beginning of the year	-
Net Assets, end of the year	\$ 46,178,462

San Francisco State University Foundation

Statement of Cash Flows

Period from beginning operations, September 30, 2009, through June 30, 2010

Cash Flows from Operating Activities:

Receipts from endowment fees	\$ 553,765
Payments to suppliers	(281,149)

Net cash provided by operating activities	272,616
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Cash Flows from Noncapital Financing Activities:

Donations received	2,202,033
Transfers to the Corporation	(186,613)
Transfer to SFSU	(1,120,855)

Net cash provided by noncapital financing activities	894,565
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Cash Flows from Capital and Related Financing Activities:

Donations received restricted for capital	565,151
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Net cash provided by capital and related financing activities	565,151
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Cash Flows from Investing Activities:

Proceeds from sales and maturities of investments	14,506,500
Purchase of investments	(15,683,775)
Investment income	(274,400)

Net cash used by investing activities	(1,451,676)
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Net Change in Cash And Cash Equivalents	280,656
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Cash and Cash Equivalents, beginning of year	-
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Cash and Cash Equivalents, end of year	\$ 280,656
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San Francisco State University Foundation

Statement of Cash Flows (continued)

Period from beginning operations, September 30, 2009, through June 30, 2010

Reconciliation of Operating Loss to Net Cash

Flows Used by Operating Activities:

Operating Income	\$ 244,655
<hr/>	
Adjustments to reconcile operating income to net cash flows used by operating activities:	
Changes in assets and liabilities:	
Accounts payable	27,961
<hr/>	
Total adjustments	27,961
<hr/>	
Net cash provided by operating activities	\$ 272,616

Supplemental Disclosures of Cash Flow Activity:

Non-cash activity:

Donations of stock received	\$ 573,633
Transfer of assets from the University Corporation	\$ 42,921,552

San Francisco State University Foundation

Notes to Financial Statements

Note 1 - Organization:

The San Francisco State University Foundation (the Foundation), is a non-profit, tax-exempt California corporation. The Foundation serves as an auxiliary organization of San Francisco State University (the University). The Foundation was incorporated in 2007 as a non profit public benefit corporation and began operations as of September 30, 2009 for the purpose of philanthropy. The Foundation encourages the solicitation and acceptance of private gifts, trusts, and bequests that will help the Foundation in the furtherance of its mission to foster private financial support for San Francisco State University. The Foundation is a Component Unit of San Francisco State University (the University).

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Presentation

The basic financial statements required by the Governmental Accounting Standards Board (GASB) Statements number 34 and 35 includes a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets and a Statement of Cash Flows. As a component unit of a public institution, the Foundation has chosen to present its basic financial statements using the reporting model for special purpose governments engaged only in business-type activities. This model allows all financial information for the Foundation to be reported in a single column in each of the basic financial statements. In accordance with the business-type activities reporting model, the Foundation prepares its Statement of Cash Flows using the direct method.

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Generally, grants, contributions, and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The Foundation uses all applicable GASB and FASB pronouncements and interpretations issued on or before November 30, 1989, unless these FASB pronouncements conflict with or contradict GASB. The Corporation has elected not to follow FASB pronouncements issued after 1989.

The Foundation considers assets to be current when they can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within twelve months of the date of the Statement of Net Assets. Liabilities that reasonably can be expected, as part of the Foundation's normal business operations, to be liquidated within twelve months of the date of the Statement of Net Assets are considered to be current. All other assets and liabilities are considered to be non-current.

San Francisco State University Foundation

Notes to Financial Statements

The Foundation's net assets are classified into the following categories:

- *Restricted, non-expendable*: Net assets subject to externally imposed conditions that the Foundation retains in perpetuity. Net assets in this category consist of endowments.
- *Restricted, expendable*: Net assets subject to externally imposed conditions that can be fulfilled by the actions of the Foundation or by the passage of time. Net assets in this category also include endowments for capital projects which can be fulfilled by the actions of the University.
- *Unrestricted*: This represents all unrestricted net assets. Unrestricted net assets may be designated for use by management or the Board of Directors.

b. Cash and Cash Equivalents

Cash and cash equivalents consist of unrestricted cash, checking accounts, savings accounts and money market funds held outside of investment brokerage accounts with an original maturity date of three months or less.

Custodial credit risk - In the case of bank deposits, this is the risk that in the event of a bank failure, the Foundation's deposits may not be returned. The Foundation does not have a formal policy addressing custodial credit risk for its bank deposits. During 2010, the Foundation maintained deposits in excess of federally insured limits. Though the Foundation is not a government agency, the financial institutions used have collateralized the deposits in accordance with section 53601 et. Seq. of the California Government Code. Wells Fargo is a financial institution whereby Federal Deposit Insurance Foundation (FDIC) insures deposits. Deposits of more than the \$250,000 insured amount will be collateralized by the bank by pledging identifiable collateral according to statute.

c. Related Party Receivable and Payables

Related Party receivables and Payables include amounts due from the University Corporation, San Francisco State (the Corporation). Account receivables are presented net of an allowance for uncollectible accounts. There is no allowance for uncollectible accounts at June 30, 2010.

d. Investments

Investments are stated at fair value. The Foundation pools available resources into savings, management and investment accounts. Interest and dividends earned are allocated to the respective funds, net of fees, based on the ratio of a fund's invested resources to the total amount invested.

San Francisco State University Foundation

Notes to Financial Statements

Investments in alternative investments are based upon fair values of the underlying assets as reported by the entities in their financial statements or as determined by the fund manager. In some cases the underlying assets are marketable securities with quoted market prices. In other situations, the underlying assets are not marketable and valuations are determined by the fund managers. Due to the inherent uncertainty of valuation of non-marketable and restricted investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed and the differences could be material. Additionally, these investments may have liquidity constraints, including lock up periods of a quarter or longer.

e. Restricted Investments

Investments made from donor restricted endowments are pooled with the Foundation's other investments. Any appreciation of such investments is tracked separately and recorded in unrestricted net assets as long as the donor has not restricted those earnings. The Uniform Prudent Management of Institutional Funds Act (UPMIFA) passed in July 2006 and adopted by California in 2008 which authorizes an institution to spend the amount it deems prudent after considering the donor's intent, the purposes of the fund, and relevant economic factors. According to Foundation policy, up to 4% of the earnings may be distributed each year. Earnings available for distribution are identified as interest, dividends and realized gains and losses and are calculated quarterly based on the average daily balance of the portfolio.

The Foundation invests these funds to produce current income to meet spending needs, and to preserve the real value of the endowment principal. The Payout Policy Objective is interlinked with the Investment Objectives for the Total Fund and has been formulated in the context of the overarching goal for prudent management of endowments: to optimize the balance between preserving the real (after inflation) long-term purchasing power of the endowment principal with the need to make annual distributions to campus beneficiaries.

f. Real Estate Held by Endowments

For the fiscal year ended June 30, 2010, the Foundation adopted GASB 52 Land and other Real Estate held as Investments by Endowments, and it has been determined to have no material impact to the Foundation.

g. Deferred Revenue

Deferred revenue represents a conditional gift received from donors in advance of complying with the eligibility requirements. Deferred revenue would include related investment activity. There is no deferred revenue recorded as of June 30, 2010.

San Francisco State University Foundation

Notes to Financial Statements

h. Revenue and Expenses

The Foundation currently has one category classified as operating revenues which is other revenue. Other Revenue is indirect costs earned associated with administering endowments.

Non-operating revenue and expenses category includes revenue from restricted and unrestricted contributions where the restrictions have been met, transfers, and expense related to endowment administrative fees. This category also includes investment returns which are net of administrative fees charged per the investment policy (such as, interest, dividends, and net realized and unrealized gains and losses).

Other Additions and Transfers category includes contributions related to capital projects and permanent endowments and transfers related to funds given to the University as a gift.

i. 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 reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

j. Income Taxes

The Foundation is a not-for-profit Foundation and is exempt from federal and state income taxes under provisions of section 501(c) (3) of the Internal Revenue Code and the California Tax Code. Continuance of such exemption is subject to compliance with laws and regulations of the taxing authorities. Certain activities considered unrelated to the tax exempt purposes of the Foundation may generate income that is taxable. No provision has been recorded for income taxes, as the net income, if any, from unrelated business in the opinion of management is not material to the basic financial statements taken as a whole.

k. New Accounting Pronouncements

In March 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, effective for the Foundation's fiscal year beginning after June 15, 2010. Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and also clarifies the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Foundation has yet to determine the impact this pronouncement will have on its financial statements.

San Francisco State University Foundation

Notes to Financial Statements

Note 3 - Investments:

Investments consist of the following as of June 30, 2010:

	<u>Fair value</u>	Investment Maturities (Years)				<u>Other</u>
		<u><1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>10+</u>	
Local Agency Investment Fund	\$ 700,726	\$ 700,726				
Broker money market funds	2,382,035	2,382,035				
Mutual funds	2,382,339	2,382,339				
US Treasuries	7,019,421		\$ 3,214,591	\$ 3,804,830		
Federal National/ Home Loan mortgages	4,238,052		2,922,586		\$ 1,315,466	
Corporate debt securities	12,278,864	686,399	6,248,786	5,343,679		
Equity securities	13,404,450					\$ 13,404,450
Alternative investments	3,095,048					3,095,048
	<u>\$45,500,935</u>	<u>\$6,151,499</u>	<u>\$12,385,963</u>	<u>\$ 9,148,509</u>	<u>\$ 1,315,466</u>	<u>\$ 16,499,498</u>

The Foundation ended the year with a net investment gain of approximately \$1.1 million.

Interest rate risk - The Foundation mitigates its interest rate risk through the use of professional money managers that use their judgment on the selection of debt securities. The Foundation does not currently have a formal policy on future maturity limitations.

Credit risk - The Foundation's investment policy provides that all investments must be rated at least investment grade by one nationally recognized ratings agency. In the event that an investment falls below investment grade, the manager must notify the Foundation of the downgrade and provide a recommended course of action. Securities rated BBB are limited to 10% of the managers' bond portfolio and the maximum exposure to an issuer rated BBB is limited to 3% of the Foundation's fixed income holdings.

Concentration of credit risk - Securities held in any one issuer are limited to 10% of a particular money manager's bond portfolio, and 3% of the Foundation's total fixed income holdings. Individual equities are also mandated to be no more than 5% of the stock portfolio. As a result, no one issuer exceeds 5% of the Foundation's total investments.

San Francisco State University Foundation

Notes to Financial Statements

Custodial credit risk - Custodial credit risk represents the risk that, in the event of the failure of counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Morgan Stanley account is insured with a combination of Security Investor Protection Corporation (SIPC) and other commercial insurance. SIPC coverage protects customers of a U.S. registered broker-dealer in the event the broker-dealer becomes financially insolvent and cannot return the full value of a customer's securities and cash in the broker-dealer's possession or control. SIPC covers each customer's account up to \$500,000, of which up to \$100,000 may be cash. Excess coverage follows the terms of SIPC coverage but covers each account up to its full net equity value, including all cash balances. CAPCO, an insurer who provides securities account protection for amounts in excess of SIPC, is rated A+ by Standard & Poor's. The Foundation does not have a formal policy covering custodial credit risk for its investments.

LAIF

Under Federal Law, the State of California cannot declare bankruptcy, thereby allowing the Government Code Section 16429.3 to stand. This section states that "moneys placed with the Treasurer for deposit in the Local Agency Investment Fund (LAIF) by cities, counties, special districts, nonprofit Foundations, or qualified quasi-governmental agencies shall not be subject to either of the following: (a) transfer or loan pursuant to Sections 16310, 16312, or 16313, or (b) impoundment or seizure by any state official or state agency."

During the 2002 legislative session, California Government Code Section 16429.4 was added to the LAIF's enabling legislation. The section states that "the right of a city, county, city and county, special district, nonprofit Foundation, or qualified quasi-governmental agency to withdraw its deposited moneys from the LAIF, upon demand, may not be altered, impaired, or denied in any way, by any state official or state agency based upon the state's failure to adopt a State Budget by July 1 of each new fiscal year."

Note 4 - Endowments:

Endowments held and administered by the Foundation at June 30, 2010 are as follows:

	<u>Restricted Net Assets</u>		Total
	Nonexpendable	Expendable	
Endowments	\$ 29,062,849	\$16,870,958	\$ 45,933,807

As of September 30, 2009, all endowment balances and associated investment accounts with the exception of one endowment have been transferred from the University Corporation, San Francisco State. The amount transferred was approximately \$42,900,000 from the Corporation.

San Francisco State University Foundation

Notes to Financial Statements

The Foundation's investment policy during fiscal year 2009-2010 allowed a 4% annual payout based on quarterly average daily balance of the fund. The 4% annual payout was not changed during the year and disbursements were allowed if the particular endowment was underwater. The Foundation's endowment funds had approximately \$1.7 million of underwater endowments at June 30, 2010.

Note 5 - Related Parties:

During the year ended June 30, 2010, the Foundation paid \$510,299 to the University and its affiliate for accounting services, reimbursements and funding for scholarships and other endowment funded spendable accounts. During the year ended June 30, 2010, the Foundation received \$42,921,552 from the Corporation related to the transfer of endowment assets.

At June 30, 2010, the Foundation's recorded receivables from the Corporation totaling \$1,545,687 and payables to the University totaling \$1,120,855.

Note 6 - Risk Financing Activities:

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 for which the Foundation carries commercial insurance. The Foundation has not had any significant reduction in insurance coverage, and there have been no claims in excess of coverage.

Note 7 - Administrative Fee:

The Foundation charges an administrative fee of 2% percent annually which is calculated on the quarterly average daily balance of all endowments managed by the Foundation per the endowment policy. Administrative fees of \$553,765 were earned by the Foundation during the period ended June 30, 2010.

San Francisco State University Foundation
Schedule of Net Assets
June 30, 2010
(for inclusion in the California State University)

Assets:	
Current assets:	
Cash and cash equivalents	\$ 280,656
Short-term investments	6,151,499
Accounts receivable, net	1,545,687
Leases receivable, current portion	—
Notes receivable, current portion	—
Pledges receivable, net	—
Prepaid expenses and other assets	—
Total current assets	<u>7,977,842</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	—
Endowment investments	29,062,848
Other long-term investments	10,286,588
Capital assets, net	—
Other assets	—
Total noncurrent assets	<u>39,349,436</u>
Total assets	<u>47,327,278</u>
Liabilities:	
Current liabilities:	
Accounts payable	27,960
Accrued salaries and benefits payable	—
Accrued compensated absences— current portion	—
Deferred revenue	—
Capitalized lease obligations – current portion	—
Long-term debt obligations – current portion	—
Self-insurance claims liability - current portion	—
Depository accounts	—
Other liabilities	1,120,858
Total current liabilities	<u>1,148,818</u>
Noncurrent liabilities:	
Accrued compensated absences, net of current portion	—
Deferred revenue	—
Grants refundable	—
Capitalized lease obligations, net of current portion	—
Long-term debt obligations, net of current portion	—
Self-insurance claims liabilities, net of current portion	—
Depository accounts	—
Other postemployment benefits obligation	—
Other liabilities	—
Total noncurrent liabilities	<u>—</u>
Total liabilities	<u>1,148,818</u>
Net assets:	
Invested in capital assets, net of related debt	
Restricted for:	
Nonexpendable – endowments	29,062,849
Expendable:	
Scholarships and fellowships	8,929,344
Research	—
Loans	—
Capital projects	7,941,614
Debt service	—
Other	—
Unrestricted	244,655
Total net assets	<u>\$ 46,178,462</u>

See independent auditors' report.

San Francisco State University Foundation
Schedule of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2010
(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	553,765
Total operating revenues	<u>553,765</u>
Expenses:	
Operating expenses:	
Instruction	—
Research	—
Public service	—
Academic support	—
Student services	—
Institutional support	—
Operation and maintenance of plant	—
Student grants and scholarships	—
Auxiliary enterprise expenses	309,110
Depreciation and amortization	—
Total operating expenses	<u>309,110</u>
Operating income (loss)	<u>244,655</u>
Nonoperating revenues (expenses):	
State appropriations, noncapital	—
Federal financial aid grants, noncapital	—
State financial aid grants, noncapital	—
Local financial aid grants, noncapital	—
Nongovernmental and other financial aid grants, noncapital	—
Other federal nonoperating grants, noncapital	—
Gifts, noncapital	1,637,936
Investment income (loss), net	1,127,707
Endowment income (loss), net	—
Interest Expenses	—
Other nonoperating revenues (expenses)	42,921,552
Net nonoperating revenues (expenses)	<u>45,687,195</u>
Income (loss) before other additions	45,931,850
State appropriations, capital	—
Grants and gifts, capital	(555,705)
Additions (reductions) to permanent endowments	802,317
Increase (decrease) in net assets	<u>46,178,462</u>
Net assets:	
Net assets at beginning of year, as previously reported	—
Restatements	—
Net assets at beginning of year, as restated	<u>—</u>
Net assets at end of year	<u>\$ 46,178,461</u>

See independent auditors' report.

San Francisco State University Foundation
Other Information
June 30, 2010
(for inclusion in the California State University)

1	Restricted cash and cash equivalents at June 30, 2010:	
	Portion of restricted cash and cash equivalents related to endowments	\$ -
	All other restricted cash and cash equivalent	-
	Total restricted cash and cash equivalents	<u>\$ -</u>

2.1 Composition of investments at June 30, 2010:

	<u>Current Unrestricted</u>	<u>Current Restricted</u>	<u>Total Current</u>	<u>Noncurrent Unrestricted</u>	<u>Noncurrent Restricted</u>	<u>Total Noncurrent</u>	<u>Total</u>
State of California Surplus Money Investment Fund (SMIF)	\$ -	-	-	-	-	-	-
State of California Local Agency Investment Fund (LAIF)	-	700,727	700,727	-	-	-	700,727
Wachovia Short Term Fund	-	-	-	-	-	-	-
Wachovia Medium Term Fund	-	-	-	-	-	-	-
Wachovia Equity Fund	-	-	-	-	-	-	-
US Bank SWIFT pool	-	-	-	-	-	-	-
Common Fund - Short Term Fund	-	-	-	-	-	-	-
Common Fund - Others	-	-	-	-	-	-	-
Debt securities	-	686,399	686,399	-	11,592,465	11,592,465	12,278,864
Equity securities	-	-	-	-	13,404,450	13,404,450	13,404,450
Fixed income securities (Treasury notes, GNMA's)	-	-	-	-	11,257,473	11,257,473	11,257,473
Land and other real estate	-	-	-	-	-	-	-
Certificates of deposit	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	-
Mutual funds	-	2,382,338	2,382,338	-	-	-	2,382,338
Money Market funds	-	2,382,035	2,382,035	-	-	-	2,382,035
Collateralized mortgage obligations:							
Inverse floaters	-	-	-	-	-	-	-
Interest-only strips	-	-	-	-	-	-	-
Agency pass-through	-	-	-	-	-	-	-
Private pass-through	-	-	-	-	-	-	-
Other major investments:							
Alternative Investments - HFOF	-	-	-	-	3,095,048	3,095,048	3,095,048
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Total investments	<u>-</u>	<u>6,151,499</u>	<u>6,151,499</u>	<u>-</u>	<u>39,349,436</u>	<u>39,349,436</u>	<u>45,500,935</u>
Less endowment investments (enter as negative number)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(29,062,848)</u>	<u>(29,062,848)</u>	<u>(29,062,848)</u>
Total investments	<u><u>-</u></u>	<u><u>6,151,499</u></u>	<u><u>6,151,499</u></u>	<u><u>-</u></u>	<u><u>10,286,588</u></u>	<u><u>10,286,588</u></u>	<u><u>16,438,087</u></u>

2.2 Investments held by the University under contractual agreements at June 30, 2010:

Portion of investments in note 2.1 held by the University under contractual agreements at June 30, 2010 :	-	-	-	-	-	-	-
---	---	---	---	---	---	---	---

2.3 Restricted current investments at June 30, 2010 related to:

	<u>Amount</u>
Restricted for Expendable scholarships, fellowships, capital project	\$ 6,151,499
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Total restricted current investments at June 30, 2010	<u>\$ 6,151,499</u>

2.4 Restricted noncurrent investments at June 30, 2010 related to:

	<u>Amount</u>
Endowment investment	\$ 29,062,848
Restricted for Expendable scholarships, fellowships, capital project	10,286,589
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Total restricted noncurrent investments at June 30, 2010	<u>\$ 39,349,437</u>

San Francisco State University Foundation
Other Information
June 30, 2010
(for inclusion in the California State University)

3.1 Composition of capital assets at June 30, 2010:

	Balance June 30, 2009	Prior period Adjustments	Reclassifications	Balance June 30, 2009 (restated)	Additions	Reductions	Transfers of Completed CWIP	Balance June 30, 2010
Nondepreciable capital assets:								
Land and land improvement:	\$ -	-	-	-	-	-	-	-
Works of art and historical treasure:	-	-	-	-	-	-	-	-
Construction work in progress (CWIP):	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-
Total nondepreciable capital assets	-	-	-	-	-	-	-	-
Depreciable capital assets:								
Buildings and building improvement	-	-	-	-	-	-	-	-
Improvements, other than building:	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-
Leasehold improvements	-	-	-	-	-	-	-	-
Personal property:								
Equipment	-	-	-	-	-	-	-	-
Library books and materials	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-
Total depreciable capital assets	-	-	-	-	-	-	-	-
Total capital assets	-	-	-	-	-	-	-	-
Less accumulated depreciation:								
Buildings and building improvement	-	-	-	-	-	-	-	-
Improvements, other than building:	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-
Leasehold improvements	-	-	-	-	-	-	-	-
Personal property:								
Equipment	-	-	-	-	-	-	-	-
Library books and materials	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-
Total accumulated depreciation	-	-	-	-	-	-	-	-
Total capital assets, net	\$ -	-	-	-	-	-	-	-

3.2 Detail of depreciation and amortization expense for the year ended June 30, 2010:

Depreciation and amortization expense related to capital assets	\$ —
Amortization expense related to other asset:	—
Total depreciation and amortization	\$ —

3.3 Detail of intangible assets as of June 30, 2010:

	Nonamortizable	Amortizable	Accumulated Amortization
Easements	-	-	-
Rights	-	-	-
Websites	-	-	-
Computer software	-	-	-
Licenses and permits	-	-	-
Patents	-	-	-
Copyrights	-	-	-
Trademarks	-	-	-
Others (please list):			
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
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 Intangible Assets	\$ -	\$ -	\$ -

San Francisco State University Foundation
Other Information
June 30, 2010
(for inclusion in the California State University)

4 Long-term liabilities activity schedule:

	Balance June 30, 2009	Prior period adjustments	Reclassifications	Balance June 30, 2009 (restated)	Additions	Reductions	Balance June 30, 2010	Current portion	Long-term portion
Accrued compensated absences	\$ —	—	—	—	-	-	—	—	—
Capitalized lease obligations									
Gross balance	—	—	—	—	-	-	—	—	—
Unamortized premium / (discount) on capitalized lease obligation	—	—	—	—	-	-	—	—	—
Total capitalized lease obligations	—	—	—	—	-	-	—	—	—
Long-term debt obligations:									
Revenue Bonds	—	—	—	—	-	-	—	—	—
Other bonds (non-Revenue Bonds)	—	—	—	—	-	-	—	—	—
Commercial Paper	—	—	—	—	-	-	—	—	—
Other:									
Add description	—	—	—	—	-	-	—	—	—
Add description	—	—	—	—	-	-	—	—	—
Add description	—	—	—	—	-	-	—	—	—
Add description	—	—	—	—	-	-	—	—	—
Add description	—	—	—	—	-	-	—	—	—
Add description	—	—	—	—	-	-	—	—	—
Total long-term debt obligations	—	—	—	—	-	-	—	—	—
Unamortized bond premium / (discount)	—	—	—	—	-	-	—	—	—
Unamortized loss on refunding	—	—	—	—	-	-	—	—	—
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:			
2011	-	-	—
2012	-	-	—
2013	-	-	—
2014	-	-	—
2015	-	-	—
2016 - 2020	-	-	—
2021 - 2025	-	-	—
2026 - 2030	-	-	—
2031 - 2035	-	-	—
2036 - 2040	-	-	—
2041 - 2045	-	-	—
2046 - 2050	-	-	—
2051 - 2055	-	-	—
2056 - 2060	-	-	—
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			\$ —

San Francisco State University Foundation
Other Information
June 30, 2010
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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:								
2011	\$ -	-	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	-	-	-
2016 - 2020	-	-	-	-	-	-	-	-	-
2021 - 2025	-	-	-	-	-	-	-	-	-
2026 - 2030	-	-	-	-	-	-	-	-	-
2031 - 2035	-	-	-	-	-	-	-	-	-
2036 - 2040	-	-	-	-	-	-	-	-	-
2041 - 2045	-	-	-	-	-	-	-	-	-
2046 - 2050	-	-	-	-	-	-	-	-	-
2051 - 2055	-	-	-	-	-	-	-	-	-
2056 - 2060	-	-	-	-	-	-	-	-	-
Total	\$ -	-	-	-	-	-	-	-	-

7 Calculation of net assets

	Auxiliary Organizations		Total
	GASB	FASB	Auxiliaries
7.1 Calculation of net assets - Invested in capital assets, net of related debt			
Capital assets, net of accumulated depreciation	\$ —	—	—
Capitalized lease obligations - current portio	—	—	—
Capitalized lease obligations, net of current portio	—	—	—
Long-term debt obligations - current portio	—	—	—
Long-term debt obligations, net of current portio	—	—	—
Portion of outstanding debt that is unspent at year-en	—	—	—
Other adjustments: (please list)			
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Net assets - invested in capital assets, net of related debt	\$ —	—	—
7.2 Calculation of net assets - Restricted for nonexpendable - endowments			
Portion of restricted cash and cash equivalents related to endowments	\$ —	—	—
Endowment investments	29,062,848	—	29,062,848
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 assets - Restricted for nonexpendable - endowments per SNA	\$ 29,062,848	—	29,062,848

San Francisco State University Foundation
 Other Information
 June 30, 2010
 (for inclusion in the California State University)

8 Transactions with Related Entities

	Amount
Payments to University for salaries of University personnel working on contracts, grants, and other program	\$ —
Payments to University for other than salaries of University person	291,441
Payments received from University for services, space, and program	—
Gifts-in-kind to the University from Auxiliary Organization	—
Gifts (cash or assets) to the University from recognized Auxiliary Organization	—
Accounts (payable to) University (enter as negative number)	(1,120,855)
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	—
Add description	—
	—
Total pollution remediation liabilities	\$ —
Less: current portion	—
Pollution remediation liabilities, net of current portion	—

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

	Net Asset Class	Amount Dr. (Cr.)
Net assets as of June 30, 2009, as previously reported	\$	—
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 assets as of June 30, 2009, as restated	\$	—

San Francisco State University Foundation
 Other Information
 June 30, 2010
 (for inclusion in the California State University)

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

	<u>Debit</u>	<u>Credit</u>
Net asset class: _____ 1 (breakdown of adjusting journal entry	\$ —	—
Net asset class: _____ 2 (breakdown of adjusting journal entry	—	—
Net asset class: _____ 3 (breakdown of adjusting journal entry	—	—
Net asset class: _____ 4 (breakdown of adjusting journal entry	—	—
Net asset class: _____ 5 (breakdown of adjusting journal entry	—	—
Net asset class: _____ 6 (breakdown of adjusting journal entry	—	—
Net asset class: _____ 7 (breakdown of adjusting journal entry	—	—
Net asset class: _____ 8 (breakdown of adjusting journal entry	—	—
Net asset class: _____ 9 (breakdown of adjusting journal entry	—	—
Net asset class: _____ 10 (breakdown of adjusting journal entry	—	—