

**Tower Foundation of
San José State University**
(A Component Unit of the California State
University)

Financial Statements
June 30, 2022

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Independent Auditor's Report

Board of Directors
Tower Foundation of San José State University

Report on Audit of the Financial Statements

Opinion

We have audited the financial statements of Tower Foundation of San José State University (Tower Foundation), a component unit of the California State University, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Tower Foundation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Tower Foundation as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Tower Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Tower Foundation's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Tower Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Tower Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 8. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board (GASB), which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consist of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tower Foundation's basic financial statements. The accompanying schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2022 on our consideration of Tower Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Tower Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tower Foundation's internal control over financial reporting and compliance.

RSM US LLP

San José, California
September 28, 2022

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

**Management's Discussion and Analysis
Years Ended June 30, 2022 and 2021**

Management's Discussion and Analysis

This section of the Tower Foundation of San José State University's (the Foundation) annual financial report includes management's discussion and analysis of the financial performance of the Foundation for the years ended June 30, 2022 and 2021. This discussion should be read in conjunction with the financial statements and notes to the financial statements.

Introduction to the Tower Foundation

The Foundation, formed in April 2004, provides a means, through membership on the board of directors, to engage prominent alumni and citizens in the life of San José State University (SJSU or the University). Board members play a critical role in shaping the philanthropic strategy and work closely with the University president to reach out to graduates and businesses to build commitment to the University.

The Foundation receives donations in the form of cash, stock, pledges and planned giving vehicles. These gifts support a vast array of student scholarships, as well as vibrant programs throughout the University. Many of these gifts are provided for investment in the Foundation's endowment, which is vital to the University's ability to sustain the highest quality of education and research.

The Foundation's board of directors is composed of up to 43 community members, most of whom are SJSU alumni. Members are appointed for three-year terms. Four ex-officio members, including the University president, serve on the board as well. The board advises the president and Foundation management on general campus issues, investments, audit compliance, campaign development, public relations and long-range planning. It is the responsibility of each board member to take a leading philanthropic role by making annual contributions to SJSU.

Introduction to the Financial Statements

The Foundation's financial statements include the statement of net position, the statements of revenues, expenses and changes in net position, and the statements of cash flows. These statements are supported by notes to the financial statements and management's discussion and analysis. All sections must be considered together to obtain a complete understanding of the financial picture of the Foundation.

Statements of net position: The statements of net position include all assets and liabilities. Assets and liabilities are reported on an accrual basis as of the statement date. The statements also identify major categories of restrictions on the net position of the Foundation.

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

Statements of cash flows: The statements of cash flows present the inflows and outflows of cash for the year and are summarized by operating, 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 years' activities.

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

**Management's Discussion and Analysis
Years Ended June 30, 2022 and 2021**

Analytical Overview

Summary

The following discussion highlights management's understanding of the key changes and financial aspects of the Foundation's financial activities for the years ended June 30, 2022, 2021 and 2020.

Condensed Summary of Net Position

The Foundation's condensed summary of net position as of June 30 is as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Assets:			
Current assets	\$ 53,010,100	\$ 46,331,118	\$ 25,563,829
Other noncurrent assets	227,284,645	217,590,613	178,844,771
Total assets	<u>\$ 280,294,745</u>	<u>\$ 263,921,731</u>	<u>\$ 204,408,600</u>
Liabilities:			
Current liabilities	\$ 2,363,697	\$ 2,453,856	\$ 895,909
Noncurrent liabilities	44,263,920	1,786,316	1,815,699
Total liabilities	<u>\$ 46,627,617</u>	<u>\$ 4,240,172</u>	<u>\$ 2,711,608</u>
Net position:			
Net investment in capital assets	\$ 110,009	\$ -	\$ -
Restricted:			
Nonexpendable endowments	131,816,900	128,273,842	\$ 119,777,031
Expendable:			
Endowments—income	11,155,107	13,448,696	10,620,973
Donor restrictions	82,094,385	111,530,264	66,914,001
Unrestricted:			
Board designated	2,230,240	2,230,240	2,178,524
Other	6,260,487	4,198,517	2,206,463
Total net position	<u>\$ 233,667,128</u>	<u>\$ 259,681,559</u>	<u>\$ 201,696,992</u>

Assets: Total assets increased by \$16.4 million from fiscal year 2021 to fiscal year 2022 primarily due to the Spartan Athletic Center project. This project caused an increase of \$20.4 million in capital assets and \$21.3 million in notes receivable. In addition, there was a \$4.9 million increase in accounts receivable. The increases in total assets from the Spartan Athletic Center Project was offset by a reduction of \$29.8 million in restricted investments due to unrealized losses. Total assets increased \$59.5 million from fiscal year 2020 to fiscal year 2021 due primarily to an increase of \$41.8 million in restricted investments, 11.1 million in investments and \$10 million in cash and cash equivalents, offset by a \$2.4 million decrease in restricted cash for investments.

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

**Management’s Discussion and Analysis
Years Ended June 30, 2022 and 2021**

Condensed Summary of Net Position (Continued)

Current assets increased by \$6.7 million from fiscal year 2021 to fiscal year 2022 due primarily to an increase of \$4.9 million in accounts receivable which are unspent loan proceeds at SJSU and the Chancellor’s Office at year-end related to the Spartan Athletic Center and \$3.4 million in cash and cash equivalents. Current assets increased \$20.8 million from fiscal year 2020 to fiscal year 2021 due primarily to increases of \$10 million in cash and cash equivalents and \$11.1 million in investments, offset by a decrease of \$0.4 million in pledges receivable.

Noncurrent assets increased by \$9.6 million from fiscal year 2021 to fiscal year 2022 due primarily to an increase of \$20.4 million in capital assets due to the construction of the Spartan Athletic Center and \$21.2 million in notes receivable, offset by a decrease of \$29.8 million in restricted investments. Noncurrent assets increased \$38.7 million from fiscal year 2020 to fiscal year 2021 due primarily to an increase of \$41.8 million in restricted investments, offset by a decrease in \$2.5 million in long-term pledges receivable.

Liabilities: Total liabilities increased by \$42.4 million from fiscal year 2021 to fiscal year 2022 due primarily to increase in notes payable related to the construction of the Spartan Athletic Center. Total liabilities increased \$1.5 million from fiscal year 2020 to fiscal year 2021 due to primarily to an increase in amounts due to affiliated auxiliary organizations.

Net position: Total net position decreased by \$26 million from fiscal year 2021 to fiscal year 2022 due to investment losses of \$24.5 million in the current year. Total net position increased \$58 million from FY 2020 to FY 2021 due primarily to an increase in restricted expendable other and restricted for nonexpendable endowments.

Net investment in capital assets: Net investment in capital assets presents the cost of the capital assets, net of related debt and accumulated depreciation.

Restricted resources: Restricted net position of the Foundation includes donor restricted endowments, unspent endowment income appropriated for spending and donor restricted gifts.

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Nonexpendable endowments	<u>\$ 131,816,900</u>	<u>\$ 128,273,842</u>	<u>\$ 119,777,031</u>
Expendable:			
Endowment income	\$ 11,155,107	\$ 13,448,696	\$ 10,620,973
Donor restricted gifts	<u>82,094,385</u>	<u>111,530,264</u>	<u>66,914,001</u>
	<u>\$ 93,249,492</u>	<u>\$ 124,978,960</u>	<u>\$ 77,534,974</u>

Overall net position decreased \$26 million primarily due to the \$24.5 million investment loss from market volatility from fiscal year 2021 to fiscal year 2022. Nonexpendable net position increased \$8.5 million in fiscal year 2020 primarily due to new gifts to the endowment.

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

**Management's Discussion and Analysis
Years Ended June 30, 2022 and 2021**

Condensed Summary of Revenues, Expenses and Changes in Net Position

The Foundation's condensed summary of revenues, expenses and changes in net position for the years ended June 30 is as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating revenues:			
Gifts, pledges and bequests	\$ 13,392,752	\$ 17,040,829	\$ 12,165,196
Nonmonetary gifts	1,401,833	1,047,778	2,223,021
Other	1,323,221	5,969,479	2,013,345
Total operating revenues	<u>16,117,806</u>	<u>24,058,086</u>	<u>16,401,562</u>
Operating expenses:			
Support activities of SJSU	19,843,189	17,279,852	19,494,796
General and administrative	2,704,481	2,211,411	2,534,069
Total operating expenses	<u>22,547,670</u>	<u>19,491,263</u>	<u>22,028,865</u>
Operating income (loss)	<u>(6,429,864)</u>	4,566,823	(5,627,303)
Nonoperating (expenses) revenues:			
Investment (loss) income, net	<u>(24,511,983)</u>	52,509,049	(1,696,670)
Total nonoperating (expenses) revenues	<u>(24,511,983)</u>	<u>52,509,049</u>	<u>(1,696,670)</u>
Other changes in net position, including transfers of assets from related organizations	4,927,416	908,695	754,477
Changes in net position	<u>(26,014,431)</u>	<u>57,984,567</u>	<u>(6,569,496)</u>
Net position:			
Beginning of year	<u>259,681,559</u>	<u>201,696,992</u>	<u>208,266,488</u>
End of year	<u>\$ 233,667,128</u>	<u>\$ 259,681,559</u>	<u>\$ 201,696,992</u>

Operating revenues: Gifts, pledges and bequests decreased by \$3.6 million from FY 2021 to FY 2022 and increased \$4.9 million from fiscal year 2020 to fiscal year 2021.

Nonmonetary gifts increased by \$0.4 million from fiscal year 2021 to fiscal year 2022 and decreased \$1.2 million from fiscal year 2020 to 2021.

Other operating revenues decreased by \$4.6 million from FY 2021 to FY 2022. Other operating revenues increased by \$4.0 million from fiscal year 2020 to fiscal year 2021.

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

**Management's Discussion and Analysis
Years Ended June 30, 2022 and 2021**

Condensed Summary of Revenues, Expenses and Changes in Net Position (Continued)

Operating expenses: Expenses for support activities of SJSU are principally the use of gift funds for programs, scholarships and other academic activities of the University. These expenses increased by \$2.5 million from fiscal year 2021 to fiscal year 2022 and decreased by \$2.1 million from fiscal year 2020 to 2021.

General and administrative expenses increased by \$0.5 million from fiscal year 2021 to fiscal year 2022 and decreased \$0.3 million from fiscal year 2020 to 2021. General and administrative expenses represent 16.8% of operating revenue in 2022 and 9.2% in 2021.

Nonoperating (expenses) revenues: Nonoperating (expenses) revenues come from sources that are not part of the Foundation's primary business functions. Included in this classification are interest expense, investment income, realized gains and losses on investment sales, and changes in the fair value of investments.

Investment earnings decreased by \$77.0 million from fiscal year 2021 to fiscal 2022 due to changes in the fair value of investments and volatility in the investment market. Investment earnings increased \$54.2 million from fiscal year 2020 to fiscal year 2021.

Transfers: From fiscal year 2021 to fiscal year 2022, the campus transferred funds to the Foundation for reimbursement of funds loaned to athletics during the year to pay expenses for \$3 million and \$1 million relating to a transfer of cash back from the campus to the Foundation related to gift income of \$4.0 million. For fiscal year 2021, transfers from the campus increased by \$2 million.

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

**Statements of Net Position
June 30, 2022 and 2021**

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 34,041,896	\$ 30,630,407
Pledges receivable, net	4,633,081	4,394,433
Accounts receivable	5,017,474	125,353
Investments	9,306,729	11,138,435
Prepaid expenses	10,920	42,490
Total current assets	53,010,100	46,331,118
Noncurrent assets:		
Pledges receivable, net	6,429,148	8,687,851
Bequests receivable	7,486,635	6,761,005
Charitable gift annuity receivable	1,180,258	1,236,047
Funds held in trust	2,995,519	3,620,259
Receivable due from University and Chancellor's Office	21,257,489	-
Capital assets	20,411,961	-
Restricted investments	167,381,342	197,133,502
Other assets	142,293	151,949
Total noncurrent assets	227,284,645	217,590,613
Total assets	280,294,745	263,921,731
Liabilities and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	591,478	536,088
Due to affiliated auxiliary organizations	1,619,244	1,764,793
Funds held in trust liability	152,975	152,975
Total current liabilities	2,363,697	2,453,856
Noncurrent liabilities:		
Notes payable	42,470,000	-
Funds held in trust liability, net of current	1,793,920	1,786,316
Total noncurrent liabilities	44,263,920	1,786,316
Total liabilities	46,627,617	4,240,172
Net position:		
Net investment in capital assets	110,009	-
Restricted for:		
Nonexpendable endowments	131,816,900	128,273,842
Expendable:		
Endowment income	11,155,107	13,448,696
Donor restricted gifts	82,094,385	111,530,264
Unrestricted:		
Board designated	2,230,240	2,230,240
Other	6,260,487	4,198,517
Total net position	\$ 233,667,128	\$ 259,681,559

See notes to financial statements.

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2022 and 2021**

	2022	2021
Operating revenues:		
Gifts, pledges and bequests	\$ 13,392,752	\$ 17,040,829
Nonmonetary gifts	1,401,833	1,047,778
Other	1,323,221	5,969,479
Total operating revenues	16,117,806	24,058,086
Operating expenses:		
Support activities of San José State University	19,843,189	17,279,852
General and administrative	2,704,481	2,211,411
Total operating expenses	22,547,670	19,491,263
Operating (loss) income	(6,429,864)	4,566,823
Nonoperating revenues:		
Investment (loss) income, net	(24,511,983)	52,509,049
(Decrease) increase in net position before transfers	(30,941,847)	57,075,872
Transfers from San José State University	4,927,416	908,695
Change in net position	(26,014,431)	57,984,567
Net position, beginning of year	259,681,559	201,696,992
Net position, end of year	\$ 233,667,128	\$ 259,681,559

See notes to financial statements.

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

**Statements of Cash Flows
Years Ended June 30, 2022 and 2021**

	2022	2021
Cash flows from operating activities:		
Gifts, pledges and bequests received	\$ 14,687,177	\$ 18,914,413
Other receipts	(4,653,737)	10,213,364
Payments for support activities of San José State University	(20,076,055)	(19,996,011)
Payments for general and administrative	(2,704,481)	(2,211,411)
Net cash (used in) provided by operating activities	(12,747,096)	6,920,355
Cash flows from noncapital financing activities:		
Transfer from San José State University	3,842,579	908,695
Cash flows from investing activities:		
Contributions for donor restricted endowments	2,829,051	7,719,246
Interest and dividends on investments	1,626,457	2,529,779
Withdrawals from other assets	(9,656)	(36,083)
Increase (decrease) in funds held in trust liability	7,604	(29,383)
Proceeds from sales and maturities of investments and funds held in trust	76,614,210	226,557,709
Purchases of investments	(68,751,660)	(234,571,058)
Net cash provided by investing activities	12,316,006	2,170,210
Net increase in cash and cash equivalents	3,411,489	9,999,260
Cash and cash equivalents, beginning of year	30,630,407	20,631,147
Cash and cash equivalents, end of year	\$ 34,041,896	\$ 30,630,407
Reconciliation of operating loss to net cash used in operating activities:		
Operating (loss) income	\$ (6,429,864)	\$ 4,566,823
Adjustment to reconcile operating (loss) income to net cash (used in) provided by operating activities:		
Noncash gifts	(1,401,833)	(1,047,778)
Changes in assets and liabilities:		
Pledges and bequests receivable	1,294,425	1,873,584
Accounts receivable	(5,976,958)	(122,612)
Prepaid expenses and other	31,570	92,391
Accounts payable and accrued liabilities	(118,887)	124,995
Due to affiliated auxiliary organizations	(145,549)	1,432,952
Net cash (used in) provided by operating activities	\$ (12,747,096)	\$ 6,920,355
Noncash financing activities:		
Transfer from San José State University	\$ 1,084,837	\$ -
Notes payable	42,644,277	-
Net noncash financing activities	\$ 43,729,114	\$ -
Noncash investing activities:		
Capital assets financed by notes payable	\$ 20,411,961	\$ -
Receivable due from the University and Chancellor's Office	21,325,546	-
Net noncash investing activities	\$ 41,737,507	\$ -

See notes to financial statements.

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Organization: The Tower Foundation of San José State University (the Foundation), a nonprofit organization incorporated under Internal Revenue Code (IRC) 501(c)(3), is an auxiliary organization of San José State University (the University) and the California State University System. The Foundation's mission is to advance the welfare of the University and assist in fulfilling its objectives, to supplement programs and activities of the University, and to promote and assist the educational services of the University. The Foundation receives funding from various sources and also manages the use of such funding for the benefit of the University. The Foundation utilizes endowment management and administrative fees to cover the cost of operations and administration of the Foundation's activities, including personnel and administration.

The Foundation was incorporated in the state of California in August 2004 and was granted its 501(c)(3) tax-exempt status in October 2005.

Affiliated organizations: The Foundation is related to the University and its other auxiliaries. The auxiliaries and the University provide various services for one another and collaborate on projects. The Foundation is a discretely presented component unit of California State University and included in its financial statements.

Summary of significant accounting policies is as follows:

Basis of presentation: The financial statements of the Foundation have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Foundation uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Classification of current and noncurrent assets and liabilities: The Foundation considers those assets to be current that can be reasonably expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statements of net position date. Liabilities that can be reasonably expected, as part of normal operations, to be liquidated within 12 months of the statements of net position date are considered current. All other assets and liabilities are considered to be noncurrent.

Cash and cash equivalents: The Foundation considers all highly liquid investments with original maturity dates of three months or less and certificates of deposit that are deemed readily convertible to cash to be cash equivalents.

Pledges receivable: Unconditional promises of private gifts to the Foundation are recorded as pledges receivable and revenue in the year promised, at the present value of expected cash flows. Conditional promises and intentions to give are recognized as receivables and revenue when the specific condition and/or eligibility and recognition requirements are met. There are no conditional promises to give at June 30, 2022.

Receivable due from the University and Chancellor's Office: Receivable due from the University and Chancellor's Office consist of loan proceeds held at the University and Chancellor's Office for construction of the Spartan Athletic Center.

**Tower Foundation of San José State University
(A Component Unit of California State University)**

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Capital assets: In fiscal year 2022, the Foundation began constructing the Spartan Athletic Center. This project was funded through a note payable with the campus. The balance in this account is construction work in process related to the construction of the Spartan Athletic Center.

Funds held in trust: The Foundation has been named the irrevocable beneficiary for several charitable remainder trusts and pooled income funds for which the Foundation is not the trustee. Upon the death of the donor, the remainder of the trust corpus will be transferred to the Foundation.

Nonmonetary gifts: Nonmonetary gifts consist of donations of securities and other nonmonetary items and are recorded at their fair value at the date of the gift. It is the policy of the Foundation to sell nonmonetary items as soon as practicable.

Investments: Investments are measured and recorded at fair value. The value of investments in equity and mutual funds were derived from quoted prices in active markets. Alternative investments include investments in private equity and real estate funds and are valued based on the net asset value of the underlying investments. Realized and unrealized gains and losses are included on the statements of revenues, expenses and changes in net position. Investment purchases and sales are recorded on a trade-date basis. Dividend and interest income are recorded when earned.

Endowments: Endowments are classified by donor restriction. Investment appreciation and depreciation are presented as restricted expendable net position unless donor restrictions require preservation of investment returns.

Compensated absences: The Foundation accrues vacation benefits for eligible employees at various rates depending upon length of service. Eligible full-time employees accrue sick leave at the rate of four hours per pay period. Employees are not paid for unused sick leave at the end of employment. At June 30, 2022, the Foundation had a balance of \$45,445 of compensated absences, which is recorded as a component of accounts payable and accrued liabilities. In 2022, \$22,785 of compensated absences was earned and \$60,136 was used. At June 30, 2021, the Foundation had a balance of \$82,796 of compensated absences. In 2021, \$39,664 of compensated absences was earned and \$46,094 was used.

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

Net investment in capital assets: Net investment in capital assets presents the cost of the capital assets, net of related debt and accumulated depreciation.

Restricted nonexpendable net position: All net position for which donor-imposed restrictions require that the donated assets be invested in perpetuity to provide a permanent source of income is reported as restricted nonexpendable net position. Net position in this category consists of donor restricted endowments held by the Foundation.

Restricted expendable net position: All net position received, subject to donor-imposed restrictions, which requires that the resources be used in a specified future period or for a specified purpose, or both, is reported as restricted expendable net position.

Unrestricted net position: All net position that is not subject to donor-imposed restrictions is reported as unrestricted net position. In addition, unrestricted net position may be designated by the board of directors of the Foundation.

**Tower Foundation of San José State University
(A Component Unit of California State University)**

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Revenue: Revenue from gifts is recorded as revenue when it is verifiable, measurable and all applicable requirements have been met. Gifts subject to donor restriction are reflected as restricted expendable or restricted nonexpendable revenue, depending upon the nature of the donor restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted expendable net position is reclassified to unrestricted net position.

Income, realized and unrealized gains and losses from investments, and all other revenue are recorded when earned.

Income taxes: The Foundation is exempt from federal income taxes under Section 501(c)(3) of the IRC as a nonprofit organization whereby only unrelated business income is subject to federal income tax. Accordingly, no provision for income taxes has been recorded. Form 990, filed by the Foundation, is subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2019.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Reclassifications: Certain reclassifications have been made to the 2021 financial data to conform to the 2022 presentation.

Accounting pronouncement adopted in the current year: The Foundation adopted GASB Statement No. 87, *Leases*, effective July 1, 2021. This statement requires the recognition of certain lease assets and liabilities that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principal that leases are financings of the right to use an underlying asset. Under this statement, the lessee is required to recognize a right-to-use lease assets and a lease liability and the lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Foundation concluded it had no leases that qualified as leases under GASB 87 for fiscal years ended June 30, 2022 or 2021.

Accounting pronouncement in future years: In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangement*, effective for the Foundation beginning on July 1, 2022. The objective of statement is to clarify the definitions and financial reporting requirement for Public-Private and Public-Public Partnerships (PPP) and Availability Payment (APA) arrangements. PPP is an arrangement in which a government (the transferor) contract with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use nonfinancial assets, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. The Foundation is evaluating the effect GASB 94 will have on its financial statements.

**Tower Foundation of San José State University
(A Component Unit of California State University)**

Notes to Financial Statements

Note 2. Pledges and Bequests Receivable

Pledges receivable at June 30 are as follows:

	2022	2021
Less than one year	\$ 4,633,081	\$ 4,530,343
One to five years	7,013,518	8,082,422
More than five years	239,000	1,721,429
	<u>11,885,599</u>	<u>14,334,194</u>
Less discount to present value	(466,802)	(821,884)
Less allowance for uncollectible pledges	(356,568)	(430,026)
	<u>\$ 11,062,229</u>	<u>\$ 13,082,284</u>

Pledges receivable are classified as following on the accompanying statements of net position at June 30:

	2022	2021
Current	\$ 4,633,081	\$ 4,394,433
Long-term	6,429,148	8,687,851
	<u>\$ 11,062,229</u>	<u>\$ 13,082,284</u>

Pledges due beyond one year have been discounted at an annual rate in a range between 0.14% and 4.50%. The Foundation has not experienced significant losses on pledges and therefore management has determined that the allowance for uncollectible pledges has been appropriately estimated at approximately 3% of pledges. The Foundation had the following donors that comprised over 10% of the Foundation's pledge balance for the years ended June 30, 2022 and 2021:

	2022	2021
Donor A	42%	39%
Donor B	13%	12%

Bequests receivable at June 30 are as follows:

	2022	2021
Total bequests	\$ 13,150,000	\$ 11,900,000
Less discount to present value	(5,663,365)	(5,138,995)
	<u>\$ 7,486,635</u>	<u>\$ 6,761,005</u>

Irrevocable planned gifts are recorded when received and are discounted to their present value based on the life expectancy of the donor. The planned gifts are generally distributed out of the estate of the donor upon his or her death. Bequests have been discounted at an annual rate ranging from 1.94% to 5.19%.

**Tower Foundation of San José State University
(A Component Unit of California State University)**

Notes to Financial Statements

Note 3. Restricted Cash and Investments

Restricted cash and investments as of June 30 consist of the following:

	2022	2021
Restricted cash equivalent	\$ 1,882,780	\$ 104,183
Restricted investments:		
Equity investments—value funds	25,951,349	29,503,023
Equity investments—growth funds	31,180,064	40,300,815
Equity investments—small cap	14,991,968	19,556,388
Equity investments—exchange traded funds	35,940,437	48,101,803
Alternative investments	21,752,752	15,254,977
Mutual funds:		
Real estate	5,792,727	6,792,561
Fixed income	2,311,463	2,597,865
Equity	32,431,955	40,484,498
All asset fund	4,452,576	5,575,824
Total restricted investments	174,805,291	208,167,754
Total restricted cash and investments	<u>\$ 176,688,071</u>	<u>\$ 208,271,937</u>

Investment policy: The Foundation's investment policy (the Policy) sets forth the guidelines for the investments of the Foundation. As a general rule, the Policy conforms to the Prudent Investor guidelines widely used in the investment management industry, the guidelines of Uniform Management of Association for CFA Institute (formerly AIMR), the professional standards established by the Uniform Prudent Management of Institutional Funds Act, and the general fiduciary standards described in the Uniform Prudent Investment Act.

The long-term investment objective of the Policy is to preserve the investment capital, protect the purchasing power of the funds and provide cash flows to assist in the funding of the Foundation's spending goals. With this in mind, the portfolio shall be invested to provide safety through diversification in a portfolio of equities, fixed income investments, cash equivalents and other type of investments, all of which may reflect varying rates of return. The return objective for the total fund will be to outperform a custom benchmark made up of 35% Russell 3000, 20% MSCI ACWI (excluding U.S.), 15% Bloomberg Barclays US Aggregate Bond Index, and a Custom Alternatives Index over a complete market cycle.

Interest rate risk: Interest rate risk is the risk that the changes in market interest rates will adversely affect the fair value of an investment. In accordance with the Policy, the Foundation manages the risk of market value fluctuations due to overall changes in general levels of interest rates by limiting its average maturity of investments within the portfolios.

**Tower Foundation of San José State University
(A Component Unit of California State University)**

Notes to Financial Statements

Note 3. Restricted Cash and Investments (Continued)

Credit risk: Fixed income securities are subject to credit risk, which is the risk that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. The circumstances may arise due to a variety of factors, such as financial weakness, bankruptcy, litigation and/or adverse political developments. A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond and, ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond rating agencies such as Moody's Investors Service or Standard & Poor's. The lower the rating, the greater the chance the bond issuer will default or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher the yield should be to compensate for the additional risk. The Foundation does not have any debt securities at June 30, 2022 or 2021 that would expose them to credit risk.

Concentration of credit risk: The Policy of the Foundation contains certain limitations on the amount that can be invested in any one issuer and is listed above. There were no investments in amounts over 5% in any one issuer in 2022 or 2021.

Custodial credit risk for investments is the risk that if the counterparty to an investment transaction were to fail, the Foundation would not be able to recover its investment. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to indirect investment in securities through the use of mutual funds and government investment pools. U.S. Treasury issues and Federally Sponsored Enterprise issues are held by Securities Investor Protection Corporation-insured brokers and are not registered with the issuer in the Foundation's name.

Custodial credit risk for deposits is the risk that the Foundation will not be able to recover its deposits in the event of a failure of a depository institution. In the ordinary course of the Foundation's operations, deposit balances in checking accounts can exceed the Federal Deposit Insurance Corporation insured limit of \$250,000. At June 30, 2022 and 2021, \$36,685,233 and \$30,660,101 of the Foundation's bank balances exceed the federally insured amount.

Note 4. Fair Value Measurement

GASB Statement No. 72, *Fair Value Measurement and Application*, requires assets and liabilities to be measured at fair value and disclosures to be made on the fair value measurements, the level of fair value hierarchy, and valuation techniques. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and disclosed in one of the following hierarchies:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices in active markets for identical assets or liabilities, either directly or indirectly.

Level 3: Inputs that are unobservable in situations where there is little or no market activity for the asset or liability and significant to the overall fair value measurement.

Investments held by the Foundation are measured and recorded at fair value. The Foundation's valuation techniques used to measure the fair value of equity investments, mutual funds and miscellaneous other assets were derived from quoted prices in active markets, and they are categorized in Level 1 of the fair value hierarchy. The value of the alternative investments is primarily based on the net asset value (NAV) of the underlying investments. The NAV is reported by the external investment managers in accordance with their policies as described in their respective financial statements and offering memoranda.

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

Notes to Financial Statements

Note 4. Fair Value Measurement (Continued)

The following tables summarize the Foundation's investments fair value hierarchy:

Description	June 30, 2022	Fair Value Measurement at Reporting Date Using			
		Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)
Restricted investments:					
Equity investments—value funds	\$ 25,951,349	\$ 20,965,154	\$ 4,986,195	\$ -	\$ -
Equity investments—growth funds	31,180,064	23,081,827	2,003,964	6,094,273	-
Equity investments—small cap	14,991,968	13,486,903	1,505,065	-	-
Equity investments—ETF	35,940,437	35,940,437	-	-	-
Alternative investments	21,752,752	-	-	3,665,297	18,087,455
Mutual funds:					
Real estate	5,792,727	5,792,727	-	-	-
Fixed income	2,311,463	2,311,463	-	-	-
Equity	32,431,955	32,431,955	-	-	-
All asset fund	4,452,576	4,452,576	-	-	-
	174,805,291	\$ 138,463,042	\$ 8,495,224	\$ 9,759,570	\$ 18,087,455
Restricted cash	1,882,780				
Total investments	<u>\$ 176,688,071</u>				

Description	June 30, 2021	Fair Value Measurement at Reporting Date Using			
		Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)
Restricted investments:					
Equity investments—value funds	\$ 29,503,023	\$ 29,503,023	\$ -	\$ -	\$ -
Equity investments—growth funds	40,300,815	31,727,488	8,573,327	-	-
Equity investments—small cap	19,556,388	19,556,388	-	-	-
Equity investments—ETF	48,101,803	48,101,803	-	-	-
Alternative investments	15,254,977	-	-	-	15,254,977
Mutual funds:					
Real estate	6,792,561	6,792,561	-	-	-
Fixed income	2,597,865	2,597,865	-	-	-
Equity	40,484,498	40,484,498	-	-	-
All asset fund	5,575,824	5,575,824	-	-	-
	208,167,754	\$ 184,339,450	\$ 8,573,327	\$ -	\$ 15,254,977
Restricted cash	104,183				
Total investments	<u>\$ 208,271,937</u>				

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

Notes to Financial Statements

Note 4. Fair Value Measurement (Continued)

The following are NAV disclosures for the year ended June 30, 2022:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Debt	\$ 1,344,193	\$ 2,470,991	6 to 10 years from final closing with two 1 year extensions	N/A
Private Equity	13,539,734	7,138,110	10 years from final closing with two 1 year extensions	N/A
Real Estate	3,203,528	3,659,121	Variable between 2 and 7 years depending on investment	N/A
Total	<u>\$ 18,087,455</u>	<u>13,268,222</u>		

The following are NAV disclosures for the year ended June 30, 2021:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Debt	\$ 139,929	\$ 4,860,071	6 to 10 years from final closing with two 1 year extensions	N/A
Private Equity	8,913,811	8,610,455	10 years from final closing with two 1 year extensions	N/A
Real Estate	6,201,237	1,192,795	Variable between 2 and 7 years depending on investment	N/A
Total	<u>\$ 15,254,977</u>	<u>\$ 14,663,321</u>		

Note 5. Capital Assets

The Foundation began construction on the Spartan Athletic Center during fiscal year 2022. This project was financed through a \$42,470,000 note payable with the Chancellor's Office. Proceeds from the loan were maintained at the campus who is managing the project and are recorded as a receivable due from the University at year-end. At the end of the construction period, the Foundation will retain ownership of the Spartan Athletic Center and a facilities lease will be executed to lease the Center to the University. The lease revenue received from the University will be used to pay debt service on the notes payable to the Chancellor's Office.

The Foundation has the following capital assets related to this project:

	June 30, 2021	Additions	Disposals	June 30, 2022
Construction in progress	\$ -	\$ 20,411,961	\$ -	\$ 20,411,961

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

Notes to Financial Statements

Note 6. Administration Fees

The Foundation charges an administrative fee of 5% to various colleges and departments within the University on all disbursements out of any expendable fund, with the exception of the scholarship fund where no fees are charged. The grant accounts have administrative fees between 0% and 10%. Administrative fees of \$770,898 and \$788,599 were charged by the Foundation for the years ended June 30, 2022 and 2021, respectively. These fees were intercompany charges and eliminated for financial reporting. Grant accounts represent philanthropic support from donors, primarily nonprofit foundations or corporate foundations, which require increased accountability in the form of technical or fiscal reporting.

The Foundation charges an annual 2% administration fee for endowments. The fees are calculated monthly based on the allocated market value of the total endowment portfolio. The Foundation charged the endowment funds and administrative fee of \$3,591,454 and \$3,455,286 for the years ended June 30, 2022 and 2021, respectively. These fees were intercompany charges and eliminated for financial reporting.

Note 7. Related-Party Transactions

The Foundation is an auxiliary organization of the University dedicated solely to philanthropy. Accordingly, related parties of the Foundation include the University and other auxiliaries of the University.

The Foundation had payables with related parties as of June 30 as follows:

	<u>2022</u>	<u>2021</u>
Accrued expense payable to the University	\$ (1,606,397)	\$ (1,764,793)
Payable to other affiliated organizations	(12,847)	-
	<u>\$ (1,619,244)</u>	<u>\$ (1,764,793)</u>

As mentioned in Note 5, the Foundation is constructing the Spartan Athletic Center during fiscal year 2022. This project was financed through a \$42,470,000 note payable with the Chancellor's Office, a related party. Proceeds from the loan were maintained at the University and the Chancellor's Office who is managing the project and are recorded as notes receivable in the amount of \$21,257,489 at year end. In addition to receivables related to the construction of the Spartan Athletic Center, there were receivables in the amount of \$4,790,817 and \$125,353 due from the University at June 30, 2022 and 2021, respectively,

Note 8. Transfer of Assets

San José State University-affiliated organizations transferred \$4,927,416 and \$908,695 to the Foundation in 2022 and 2021, respectively. These transfers represent replenishment of accounts that were overspent during the year by Spartan Athletic Center and a return of funds from the University to the Foundation for monies raised for the Spartan Athletic Center.

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

Notes to Financial Statements

Note 9. Note Payable

The Foundation entered into a loan agreement with the Trustees of the California State University on July 1, 2021. Under the agreement, the University will procure and provide services for the planning, development and construction of the Spartan Athletic Center, a new facility of approximately 54,800 gross square feet located on the campus of San José State University. The Trustees have authorized the issuance of a long-term Systemwide Revenue Bond financing to the Foundation. The terms of the repayment are for installment of principal and interest, due every six months over a period of 30 years, commencing May 1, 2024, until May 1, 2053. These installments total \$62,079,338, representing \$42,470,000 in principal and \$19,609,338 in interest.

Future principal and interest payments on notes payable are as follows:

	Principal	Interest	Total
Years ending June 30:			
2023	\$ -	\$ -	\$ -
2024	-	522,832	522,832
2025	1,080,000	1,042,624	2,122,624
2026	1,090,000	1,034,886	2,124,886
2027	1,100,000	1,023,907	2,123,907
2028-2032	5,740,000	4,869,692	10,609,692
2033-2037	6,330,000	4,280,671	10,610,671
2038-2042	7,180,000	3,438,863	10,618,863
2043-2047	8,280,000	2,337,680	10,617,680
2048-2052	9,580,000	1,027,474	10,607,474
Thereafter	2,090,000	30,709	2,120,709
	<u>\$ 42,470,000</u>	<u>\$ 19,609,338</u>	<u>\$ 62,079,338</u>

Note 10. Commitments and Contingencies

The Foundation has various commitments and is contingently liable in connection with claims and contracts arising in the normal course of its activities. Foundation management believes the outcome of such matters will not have a significant effect on the financial position or results of activities of the Foundation. Thus, no reserve has been reflected in the financial statements as of June 30, 2022 and 2021.

Note 11. Subsequent Events

In preparing the financial statements, the Foundation has evaluated events and transactions for subsequent event disclosure through September 28, 2022, the date of the auditor's report.

Tower Foundation of San José State University
Schedule of Net Position
June 30, 2022
(for inclusion in the California State University Financial Statements)

Assets:	
Current assets:	
Cash and cash equivalents	34,041,896
Short-term investments	9,306,729
Accounts receivable, net	5,017,474
Lease receivables, current portion	-
Notes receivable, current portion	-
Pledges receivable, net	4,633,081
Prepaid expenses and other current assets	10,920
Total current assets	53,010,100
Noncurrent assets:	
Restricted cash and cash equivalents	-
Accounts receivable, net	-
Lease receivables, net of current portion	-
Notes receivable, net of current portion	-
Student loans receivable, net	-
Pledges receivable, net	6,429,148
Endowment investments	167,381,342
Other long-term investments	-
Capital assets, net	20,411,961
Other assets	33,062,194
Total noncurrent assets	227,284,645
Total assets	280,294,745
Deferred outflows of resources:	
Unamortized loss on debt refunding	-
Net pension liability	-
Net OPEB liability	-
Leases	-
Others	-
Total deferred outflows of resources	-
Liabilities:	
Current liabilities:	
Accounts payable	335,523
Accrued salaries and benefits	210,510
Accrued compensated absences, current portion	45,445
Unearned revenues	-
Lease liabilities, current portion	-
Long-term debt obligations, current portion	-
Claims liability for losses and loss adjustment expenses, current portion	-
Depository accounts	-
Other liabilities	1,772,219
Total current liabilities	2,363,697
Noncurrent liabilities:	
Accrued compensated absences, net of current portion	-
Unearned revenues	-
Grants refundable	-
Lease liabilities, net of current portion	-
Long-term debt obligations, net of current portion	42,470,000
Claims liability for losses and loss adjustment expenses, net of current portion	-
Depository accounts	-
Net other postemployment benefits liability	-
Net pension liability	-
Other liabilities	1,793,920
Total noncurrent liabilities	44,263,920
Total liabilities	46,627,617
Deferred inflows of resources:	
Service concession arrangements	-
Net pension liability	-
Net OPEB liability	-
Unamortized gain on debt refunding	-
Nonexchange transactions	-
Lease	-
Others	-
Total deferred inflows of resources	-
Net position:	
Net investment in capital assets	110,009
Restricted for:	
Nonexpendable – endowments	131,816,900
Expendable:	
Scholarships and fellowships	-
Research	-
Loans	-
Capital projects	-
Debt service	-
Others	93,249,492
Unrestricted	8,490,727
Total net position	233,667,128

Tower Foundation of San José State University
Schedule of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2022
(for inclusion in the California State University Financial Statements)

Revenues:

Operating revenues:

Student tuition and fees, gross	-
Scholarship allowances (enter as negative)	-

Grants and contracts, noncapital:

Federal	-
State	-
Local	-
Nongovernmental	-
Sales and services of educational activities	-
Sales and services of auxiliary enterprises, gross	-
Scholarship allowances (enter as negative)	-
Other operating revenues	1,323,221

Total operating revenues 1,323,221

Expenses:

Operating expenses:

Instruction	871,527
Research	-
Public service	-
Academic support	6,947,077
Student services	6,924,536
Institutional support	1,028,181
Operation and maintenance of plant	-
Student grants and scholarships	4,071,868
Auxiliary enterprise expenses	2,704,481
Depreciation and amortization	-

Total operating expenses 22,547,670

Operating income (loss) (21,224,449)

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	14,794,585
Investment income (loss), net	(1,998,059)
Endowment income (loss), net	(22,513,924)
Interest expense	-
Other nonoperating revenues (expenses)	4,927,416

Net nonoperating revenues (expenses) (4,789,982)

Income (loss) before other revenues (expenses) (26,014,431)

State appropriations, capital	-
Grants and gifts, capital	-
Additions (reductions) to permanent endowments	-

Increase (decrease) in net position (26,014,431)

Net position:

Net position at beginning of year, as previously reported	259,681,559
Restatements	-

Net position at beginning of year, as restated 259,681,559

Net position at end of year 233,667,128

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

**Other Information (Continued)
June 30, 2022
(for inclusion in the California State University)**

2.2 Fair value hierarchy in investments:

Investment Type	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)
Money market funds	\$ -				
Repurchase agreements	-				
Certificates of deposit	-				
U.S. agency securities	-				
U.S. treasury securities	-				
Municipal bonds	-				
Corporate bonds	-				
Asset backed securities	-				
Mortgage backed securities	-				
Commercial paper	-				
Mutual funds	-				
Exchange traded funds	39,354,294	39,354,294			
Equity securities	113,698,244	99,108,747	8,495,224	6,094,273	
Alternative investments:					
Private equity (including limited partnerships)	21,752,752			3,665,297	18,087,455
Hedge funds	-				
Managed futures	-				
Real estate investments (including REITs)	-				
Commodities	-				
Derivatives	-				
Other alternative investment	-				
Other external investment pools	-				
CSU Consolidated Investment Pool (formerly SWIFT)	-				
State of California Local Agency Investment Fund (LAIF)	-				
State of California Surplus Money Investment Fund (SMIF)	-				
Other investments:	-				
	-				
	-				
	-				
	-				
	-				
Total Other investments	\$ -	-	-	-	-
Total investments	174,805,290	138,463,041	8,495,224	9,759,570	18,087,455

2.3 Investments held by the University under contractual agreements:

Instruction: Amounts should agree with University's investments held on behalf of Discretely Presented Component Units.

	Current	Noncurrent	Total
Investments held by the University under contractual agreements e.g - CSU Consolidated Investment Pool (formerly SWIFT):			\$ -

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

**Other Information (Continued)
June 30, 2022
(for inclusion in the California State University)**

3.1 Composition of capital assets:

	Balance June 30, 2021	Reclassifications	Prior Period Additions	Prior Period Retirements	Balance June 30, 2021 (Restated)	Additions	Retirements	Transfer of completed CWIP/PWIP	Balance June 30, 2022
Non-depreciable/Non-amortizable capital assets:									
Land and land improvements					\$ -				\$ -
Works of art and historical treasures					-				-
Construction work in progress (CWIP)					-	20,411,961			20,411,961
Intangible assets:									
Rights and easements					-				-
Patents, copyrights and trademarks					-				-
Intangible assets in progress (PWIP)					-				-
Licenses and permits					-				-
Other intangible assets:					-				-
					-				-
					-				-
					-				-
					-				-
					-				-
Total Other intangible assets					-				-
Total intangible assets									
Total non-depreciable/non-amortizable capital assets					\$ -	20,411,961			\$ 20,411,961
Depreciable/Amortizable capital assets:									
Buildings and building improvements					-				-
Improvements, other than buildings					-				-
Infrastructure					-				-
Leasehold improvements					-				-
Personal property:									
Equipment					-				-
Library books and materials					-				-
Intangible assets:									
Software and websites					-				-
Rights and easements					-				-
Patents, copyrights and trademarks					-				-
Licenses and permits					-				-
Other intangible assets:					-				-
					-				-
					-				-
					-				-
					-				-
					-				-
					-				-
Total Other intangible assets					-				-
Total intangible assets									
Total depreciable/amortizable capital assets									
Total capital assets					\$ -	20,411,961			\$ 20,411,961
Less accumulated depreciation/amortization: (enter as negative number, except for reductions enter as positive number)									
Buildings and building improvements					-				-
Improvements, other than buildings					-				-
Infrastructure					-				-
Leasehold improvements					-				-
Personal property:									
Equipment					-				-
Library books and materials					-				-
Intangible assets:									
Software and websites					-				-
Rights and easements					-				-
Patents, copyrights and trademarks					-				-
Licenses and permits					-				-
Other intangible assets:					-				-
					-				-
					-				-
					-				-
					-				-
					-				-
					-				-
Total Other intangible assets					-				-
Total intangible assets									
Total accumulated depreciation/amortization									
Total capital assets, net excluding lease assets					\$ -	20,411,961			\$ 20,411,961

Lease assets, net
Total capital assets, net

20,411,961

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

**Other Information (Continued)
June 30, 2022
(for inclusion in the California State University)**

Composition of lease assets:	Balance June 30, 2021	Additions	Remeasurements	Reductions	Balance June 30, 2022
Non-depreciable/Non-amortizable lease assets:					
Land and land improvements				\$	-
Total non-depreciable/non-amortizable lease assets	-	-	-	-	-
Depreciable/Amortizable lease assets:					
Buildings and building improvements					-
Improvements, other than buildings					-
Infrastructure					-
Personal property:					
Equipment					-
Total depreciable/amortizable lease assets	-	-	-	-	-
Less accumulated depreciation/amortization: (enter as negative number, except for reductions enter as positive number)					
Buildings and building improvements					-
Improvements, other than buildings					-
Infrastructure					-
Personal property:					
Equipment					-
Total accumulated depreciation/amortization	-	-	-	-	-
Total lease assets, net	\$ -	-	-	-	\$ -
3.2 Detail of depreciation and amortization expense:					
Depreciation and amortization expense related to capital assets	\$	-			
Amortization expense related to other assets					
Total depreciation and amortization	\$	-			

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

**Other Information (Continued)
June 30, 2022
(for inclusion in the California State University)**

4 Long-term liabilities:

	Balance June 30, 2021	Prior Period Adjustments/Reclassifications	Balance June 30, 2021 (Restated)	Additions	Reductions	Balance June 30, 2022	Current Portion	Noncurrent Portion
1. Accrued compensated absences	\$ 82,796		82,796	45,445	(82,796) \$	45,445 \$	45,445 \$	-
2. Claims liability for losses and loss adjustment expenses	-		-			-		-
3. Capital lease obligations:								
Gross balance	-		-			-		-
Unamortized net premium/(discount)	-		-			-		-
Total capital lease obligations	\$ -		-			-		-
4. Long-term debt obligations:								
4.1 Auxiliary revenue bonds (non-SRB related)	\$ -		-			-		-
4.2 Commercial paper	-		-			-		-
4.3 Notes payable (SRB related)	-		-	42,470,000		42,470,000		42,470,000
4.4 Others:	-		-			-		-
	-		-			-		-
	-		-			-		-
Total others	-		-			-		-
Sub-total long-term debt	\$ -		-	42,470,000	- \$	42,470,000		42,470,000
4.5 Unamortized net bond premium/(discount)	-		-			-		-
Total long-term debt obligations	-		-	42,470,000	-	42,470,000		42,470,000
5. Lease Liabilities						42,470,000		42,470,000
Total long-term liabilities						42,470,000		42,470,000
Lease liabilities	Balance	Additions	Remeasurements	Reductions	June 30, 2022	Current Portion	Noncurrent Portion	
Total	\$ -		-		-	- \$		-

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

**Other Information (Continued)
June 30, 2022
(for inclusion in the California State University)**

6 Long-term debt obligations schedule:

	Auxiliary revenue bonds (non-SRB related)			All other long-term debt obligations			Total long-term debt obligations		
	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest
Year ending June 30:									
2023	-	-	-	-	-	-	-	-	-
2024	-	-	-	1,080,000	1,045,664	2,125,664	1,080,000	1,045,664	2,125,664
2025	-	-	-	1,090,000	1,039,584	2,129,584	1,090,000	1,039,584	2,129,584
2026	-	-	-	1,100,000	1,030,188	2,130,188	1,100,000	1,030,188	2,130,188
2027	-	-	-	5,740,000	1,017,626	6,757,626	5,740,000	1,017,626	6,757,626
2028 - 2032	-	-	-	6,330,000	4,822,480	11,152,480	6,330,000	4,822,480	11,152,480
2033 - 2037	-	-	-	7,180,000	4,206,580	11,386,580	7,180,000	4,206,580	11,386,580
2038 - 2042	-	-	-	8,280,000	3,344,518	11,624,518	8,280,000	3,344,518	11,624,518
2043 - 2047	-	-	-	9,580,000	2,216,006	11,796,006	9,580,000	2,216,006	11,796,006
2048 - 2052	-	-	-	2,090,000	886,692	2,976,692	2,090,000	886,692	2,976,692
Thereafter	-	-	-	-	-	-	-	-	-
Total minimum payments	\$ -	-	-	42,470,000	19,609,338	62,079,338	42,470,000	19,609,338	62,079,338
Less: amounts representing interest									(19,609,338)
Present value of future minimum payments									42,470,000
Unamortized net premium/(discount)									-
Total long-term debt obligations									42,470,000
Less: current portion									-
Long-term debt obligations, net of current portion									42,470,000

7 Transactions with related entities:

Payments to University for salaries of University personnel working on contracts, grants, and other programs
 Payments to University for other than salaries of University personnel
 Payments received from University for services, space, and programs

Gifts-in-kind to the University from discretely presented component units

Gifts (cash or assets) to the University from discretely presented component units

Accounts (payable to) University (enter as negative number) (1,606,397)
 Other amounts (payable to) University (enter as negative number)
 Accounts receivable from University (enter as positive number) 3,705,980
 Other amounts receivable from University (enter as positive number) 21,257,489

8 Restatements

Provide a detailed breakdown of the journal entries (at the financial statement line items level) booked to record each restatement:

		Debit/(Credit)
Restatement #1	Enter transaction description	
		-
Restatement #2	Enter transaction description	
		-
		-

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

**Other Information (Continued)
June 30, 2022
(for inclusion in the California State University)**

9 Natural classifications of operating expenses:

	Salaries	Benefits - Other	Benefits - Pension	Benefits - OPEB	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	Total operating expenses
Instruction	809,940	61,587	-	-	-	-	-	871,527
Research	-	-	-	-	-	-	-	-
Public service	-	-	-	-	-	-	-	-
Academic support	2,348,802	708,267	-	-	-	3,890,008	-	6,947,077
Student services	3,285,036	455,490	-	-	-	3,184,010	-	6,924,536
Institutional support	457,356	166,916	-	-	-	403,909	-	1,028,181
Operation and maintenance of plant	-	-	-	-	-	-	-	-
Student grants and scholarships	-	-	-	-	4,071,868	-	-	4,071,868
Auxiliary enterprise expenses	1,174,168	536,672	-	-	-	993,641	-	2,704,481
Depreciation and amortization	-	-	-	-	-	-	-	-
Total operating expenses	\$ 8,075,302	1,928,932	-	-	4,071,868	8,471,568	-	22,547,670

10 Deferred outflows/inflows of resources:

1. Deferred Outflows of Resources

Deferred outflows - unamortized loss on refunding(s)
 Deferred outflows - net pension liability
 Deferred outflows - net OPEB liability
 Deferred outflows - leases
 Deferred outflows - others:
 Sales/intra-entity transfers of future revenues
 Gain/loss on sale leaseback
 Loan origination fees and costs
 Change in fair value of hedging derivative instrument
 Irrevocable split-interest agreements

Total deferred outflows - others -
Total deferred outflows of resources \$ -

2. Deferred Inflows of Resources

Deferred inflows - service concession arrangements
 Deferred inflows - net pension liability
 Deferred inflows - net OPEB liability
 Deferred inflows - unamortized gain on debt refunding(s)
 Deferred inflows - nonexchange transactions
 Deferred inflows - leases
 Deferred inflows - others:
 Sales/intra-entity transfers of future revenues
 Gain/loss on sale leaseback
 Loan origination fees and costs
 Change in fair value of hedging derivative instrument
 Irrevocable split-interest agreements

Total deferred inflows - others -
Total deferred inflows of resources \$ -

11 Other nonoperating revenues (expenses)

Other nonoperating revenues 4,927,416
 Other nonoperating (expenses) -
Total other nonoperating revenues (expenses) \$ 4,927,416



**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

RSM US LLP

Independent Auditor's Report

Board of Directors
Tower Foundation of San José State University

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Tower Foundation of San José State University (Tower Foundation) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Tower Foundation's basic financial statements, and have issued our report thereon dated September 28, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tower Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tower Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of Tower Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2022-001 that we consider to be significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tower Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Foundation's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Foundation's response to the finding identified in our audit and described in the accompanying *schedule of findings and responses*. The Foundation's response was not subjected to the other auditing procedures applied in the audit and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

San Jose, California
September 28, 2022

**Tower Foundation of San José State University
(A Component Unit of the California State University)**

**Schedule of Findings and Responses
Year Ended June 30, 2022**

Finding 2022-001- Lack of Consistent Communication Regarding Gifts In-kind between the Foundation and the University

Criteria: Generally Accepted Accounting Standards requires gifts in kind to be recorded at fair value on the date of donation.

Condition: In fiscal year 2019, the University accepted a donated airplane with a value of \$1.8 million for use in their aviation department on behalf of the Tower Foundation but did not properly communicate with Tower before acceptance of the property, so it could be properly recorded on the Foundation's books. In fiscal year 2022, the University determined they would no longer use the plane in their aviation department and thus have found a buyer for the plane. The Foundation obtained a current appraisal for the plane to determine if it was impaired and recorded the current value of \$200,000 on their books.

Cause: We noted that the University has a policy that all gifts (cash and in-kind) made to the university must be made to the Tower Foundation and not directly to the University. The cause of this deficiency was due to the University not following this policy and not communicating in a timely manner.

Effect: The effect was that the transaction was not recorded in the correct fiscal year on the Foundation's financial statements.

Recommendation: We recommend that the Foundation connect with the University as part of year end closing to verify if any gifts (cash or in-kind) have been received by the University on behalf of Tower. We also recommend that the University's policy of not receiving any gifts for the Tower Foundation be re-circulated to University personnel to reinforce the policy.

Views of Responsible Officials:

The Foundation agrees with this comment and will continue to stress the importance of two-way communication with campus partners to ensure gifts-in-kind are properly received, receipted and recorded in a proper timeframe.