

Tower Foundation of San José State University

**(A Component Unit of the California State
University)**

Financial Statements
June 30, 2024

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Independent Auditor's Report

Board of Directors
Tower Foundation of San José State University

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Tower Foundation of San José State University (the Foundation), a component unit of the California State University, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the 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 the Foundation, as of June 30, 2024 and 2023, and the changes in financial position and its cash flows 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 (*Government Auditing Standards*). 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 the 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 the 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 the 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 the 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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Foundation's basic financial statements. The supplementary schedules for inclusion in the California State University financial statements which include: (1) schedule of net position, (2) schedule of revenues, expenses and changes in net position and (3) other 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary 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 December 9, 2024, on our consideration of the 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 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 the Foundation's internal control over financial reporting and compliance.

RSM US LLP

San Antonio, Texas
December 9, 2024

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

**Management's Discussion and Analysis
Years Ended June 30, 2024 and 2023**

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, 2024 and 2023. This discussion should be read in conjunction with the financial statements and notes to the financial statements.

Introduction to the 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 statements 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, 2024 and 2023**

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, 2024, 2023 and 2022.

Condensed Summary of Net Position

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

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Assets:			
Current assets	\$ 58,818,352	\$ 54,696,217	\$ 53,010,100
Capitalized leases	48,146	42,040,489	20,411,961
Other noncurrent assets	271,872,497	203,330,871	206,872,684
Total assets	<u>\$ 330,738,995</u>	<u>\$ 300,067,577</u>	<u>\$ 280,294,745</u>
Liabilities:			
Current liabilities	\$ 11,068,807	\$ 4,989,957	\$ 2,363,697
Noncurrent liabilities	43,139,327	44,284,561	44,263,920
Total liabilities	<u>\$ 54,208,134</u>	<u>\$ 49,274,518</u>	<u>\$ 46,627,617</u>
Net position:			
Net investment in capital assets	\$ 15,416	\$ -	\$ 110,009
Restricted:			
Nonexpendable endowments	141,720,323	136,119,464	131,816,900
Expendable:			
Endowments—income	12,970,101	11,945,365	11,155,107
Donor restrictions	110,580,234	93,289,546	82,094,385
Unrestricted:			
Board designated	2,230,240	2,230,240	2,230,240
Other	9,014,547	7,208,444	6,260,487
Total net position	<u>\$ 276,530,861</u>	<u>\$ 250,793,059</u>	<u>\$ 233,667,128</u>

Assets: Total assets increased by \$30.7 million from fiscal year 2023 to fiscal year 2024 due to an increase in the fair market value of the Foundation's endowment investments. Capital assets decreased by \$42 million and represents the sale of the Spartan Athletics Center to San Jose State University. Capital assets increased by \$26.6 million from 2022 to 2023 related to the construction of the Spartan Athletic Center. Other noncurrent assets increased by \$68.5 million from 2023 to 2024 mostly related to increase to note receivable and increases in investment balances.

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

**Management's Discussion and Analysis
Years Ended June 30, 2024 and 2023**

Condensed Summary of Net Position (Continued)

Liabilities: Total liabilities increased by approximately \$4.9 million from fiscal year 2023 to fiscal year 2024, and 2.6 million from fiscal year 2022 to fiscal year 2023.

Net position: Total net position increased by \$25.7 million from fiscal year 2023 to fiscal year 2024 primarily due to investment earnings of \$28.8 million in the current year. Total net position increased from FY 2023 to FY 2024 due primarily to an increase in restricted nonexpendable endowments and restricted expendable donor gifts.

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>2024</u>	<u>2023</u>	<u>2022</u>
Nonexpendable endowments	<u>\$ 141,720,323</u>	\$ 136,119,464	\$ 131,816,900
Expendable:			
Endowment income	\$ 12,970,101	\$ 11,945,365	\$ 11,155,107
Donor restricted gifts	<u>110,580,234</u>	93,289,546	82,094,385
	<u>\$ 123,550,335</u>	\$ 105,234,911	\$ 93,249,492

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

**Management's Discussion and Analysis
Years Ended June 30, 2024 and 2023**

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>2024</u>	<u>2023</u>	<u>2022</u>
Operating revenues:			
Gifts, pledges and bequests	\$ 20,852,349	\$ 16,374,635	\$ 13,392,752
Nonmonetary gifts	643,450	271,741	1,401,833
Other	2,517,986	1,183,574	1,323,221
Total operating revenues	<u>24,013,785</u>	<u>17,829,950</u>	<u>16,117,806</u>
Operating expenses:			
Support activities of SJSU	22,479,548	22,044,826	19,843,189
General and administrative	3,718,464	4,066,638	2,704,481
Total operating expenses	<u>26,198,012</u>	<u>26,111,464</u>	<u>22,547,670</u>
Operating loss	<u>(2,184,227)</u>	<u>(8,281,514)</u>	<u>(6,429,864)</u>
Nonoperating revenues (expenses):			
Investment income (loss), net	28,295,765	20,880,171	(24,511,983)
Interest income	522,832	-	-
Interest expense	(522,832)	-	-
Loss on sale of capital asset	(4,940,374)	-	-
Total nonoperating revenues (expenses)	<u>23,355,391</u>	<u>20,880,171</u>	<u>(24,511,983)</u>
Other changes in net position, including transfers of assets from related organizations	4,566,638	4,527,274	4,927,416
Changes in net position	<u>25,737,802</u>	<u>17,125,931</u>	<u>(26,014,431)</u>
Net position:			
Beginning of year	<u>250,793,059</u>	<u>233,667,128</u>	<u>259,681,559</u>
End of year	<u>\$ 276,530,861</u>	<u>\$ 250,793,059</u>	<u>\$ 233,667,128</u>

Operating revenues: Gifts, pledges and bequests increased by \$4.5 million from FY 2023 to FY 2024 following an increase of \$2.96 million from fiscal year 2022 (FY 2022) to FY 2023.

Nonmonetary gifts increased by \$0.4 million from FY 2023 to FY 2024, and decreased \$1.1 million from FY 2022 to FY 2023.

Other operating revenues increased by \$1.3 million from FY 2023 to FY 2024. Other operating revenues were roughly unchanged from FY 2022 to FY 2023.

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

**Management's Discussion and Analysis
Years Ended June 30, 2024 and 2023**

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 \$0.4 million between fiscal year 2023 and 2024, and increased by \$2.2 million from fiscal year 2022 to 2023.

General and administrative expenses represent 15% of operating revenue in 2024 and 23% in 2023. General and administrative expenses increased by 1.4 million from fiscal year 2022 to fiscal year 2023 and decreased by \$348K from fiscal year 2023 to 2024. The increase from fiscal year 2022 to 2023 was driven primarily by an increase in support for University Advancement salaries and benefits provided by Tower Foundation.

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. The Spartan Athletics Center, valued in the books at \$47 million, was sold for \$42 million to San Jose State University, resulting in a loss on sale of capital assets of nearly \$5 million.

Investment earnings increased by \$7.4 million from fiscal year 2023 to fiscal year 2024. Investment earnings increased by \$45.3 million from fiscal year 2022 to fiscal 2023 due to changes in the fair value of investments and volatility in the investment market.

Transfers: In fiscal years 2023 and 2024, the campus transferred funds to the Foundation for reimbursement of funds loaned to athletics.

Capital Assets: Capital assets decreased by approximately \$42 million related to the sale of the Spartan Athletic Center. In 2023 capital assets increased by and \$21.6 million related to construction costs of the Spartan Athletic Center.

Notes Payable: The Foundation has a loan with the Trustees of the California State University. Under the agreement, the University will procure and provide services for the planning, development and construction of the Spartan Athletics 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 \$61,556,506, representing \$42,470,000 in principal and \$19,086,506 in interest.

Request for Information

This financial report is designed to provide a general overview of the Foundation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Operating Officer at towerfoundation@sjsu.edu.

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

**Statements of Net Position
June 30, 2024 and 2023**

	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,976,677	\$ 35,780,212
Pledges receivable, current portion, net of allowance for uncollectible pledges (Note 2)	1,059,635	3,840,088
Notes receivable, current portion	1,080,000	-
Accounts receivable	199,999	199,999
Due from affiliated auxiliary organizations	4,838,657	5,288,449
Investments—short-term	44,393,175	10,436,507
Prepaid expenses	270,209	424,527
Total current assets	58,818,352	55,969,782
Noncurrent assets:		
Pledges receivable, less current portion, net of allowance (Note 2)	7,998,500	6,461,368
Bequests receivable (Note 2)	10,232,681	7,369,876
Charitable gift annuity receivable	866,875	866,875
Funds held in trust	3,435,152	3,413,294
Notes receivable (Note 7)	41,390,000	1,005,913
Capital assets (Note 5)	-	42,040,489
Capitalized lease, less accumulated amortization (Note 10 & 11)	63,562	114,412
Restricted investments (Notes 3 and 4)	207,716,910	182,635,743
Other assets	216,963	189,825
Total noncurrent assets	271,920,643	244,097,795
Total assets	\$ 330,738,995	\$ 300,067,577
Liabilities and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 356,299	\$ 575,006
Notes payable - current portion (Note 9)	1,080,000	-
SBITA liabilities - current portion	48,146	46,465
Due to affiliated auxiliary organizations (Note 7)	9,451,161	4,214,070
Funds held in trust liability	132,054	152,975
Other current liability	1,147	1,441
Total current liabilities	11,068,807	4,989,957
Noncurrent liabilities:		
Notes payable (Note 9)	41,390,000	42,470,000
Funds held in trust liability, net of current	1,749,327	1,814,561
Total noncurrent liabilities	43,139,327	44,284,561
Total liabilities	54,208,134	49,274,518
Net position:		
Net investment in capital assets	15,416	-
Restricted for:		
Nonexpendable endowments	141,720,323	136,119,464
Expendable:		
Endowments	12,970,101	11,945,365
Donor restricted gifts	110,580,234	93,289,546
Unrestricted:		
Board designated	2,230,240	2,230,240
Other	9,014,547	7,208,444
Total net position	\$ 276,530,861	\$ 250,793,059

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, 2024 and 2023**

	2024	2023
Operating revenues:		
Gifts, pledges and bequests	\$ 20,852,349	\$ 16,374,635
Nonmonetary gifts	643,450	271,741
Other	2,517,986	1,183,574
Total operating revenues	24,013,785	17,829,950
Operating expenses:		
Support activities of San José State University	22,479,548	22,044,826
General and administrative	3,718,464	4,066,638
Total operating expenses	26,198,012	26,111,464
Operating loss	(2,184,227)	(8,281,514)
Nonoperating revenues:		
Investment income, net	28,295,765	20,880,171
Interest income	522,832	-
Interest expense	(522,832)	-
Loss on sale of capital assets	(4,940,374)	-
Increase in net position before transfers	21,171,164	12,598,657
Transfers from San José State University affiliated organizations (Note 8)	4,566,638	4,527,274
Change in net position	25,737,802	17,125,931
Net position, beginning of year	250,793,059	233,667,128
Net position, end of year	\$ 276,530,861	\$ 250,793,059

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, 2024 and 2023**

	2024	2023
Cash flows from operating activities:		
Gifts, pledges and bequests received	\$ 12,485,292	\$ 17,252,167
Other receipts	2,967,779	901,328
Payments for support activities of San José State University	(22,479,548)	(22,092,226)
Payments for general and administrative	(3,343,880)	(4,028,500)
Net cash used in operating activities	(10,370,357)	(7,967,231)
Cash flows from noncapital financing activities:		
Transfer from San José State University affiliated organizations	4,566,638	4,527,274
Cash flows from capital and related financing activities:		
Payments on SBITA	47,904	-
Net cash used in capital and related financing activities	47,904	-
Cash flows from investing activities:		
Contributions from restricted endowments	6,747,573	1,974,403
Interest and dividends on investments	3,001,434	3,164,674
Increase (decrease) in funds held in trust liability, and other assets	(59,017)	68,173
Proceeds from sales and maturities of investments and funds held in trust	226,680,497	46,671,197
Purchases of investments	(259,418,207)	(46,700,174)
Net cash (used in) provided by investing activities	(23,047,720)	5,178,273
Net (decrease) increase in cash and cash equivalents	(28,803,535)	1,738,316
Cash and cash equivalents, beginning of year	35,780,212	34,041,896
Cash and cash equivalents, end of year	\$ 6,976,677	\$ 35,780,212
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (2,184,227)	\$ (8,281,515)
Adjustment to reconcile operating loss to net cash used in operating activities:		
Noncash gifts	(643,450)	(271,741)
Amortization	50,850	38,138
Contributions from restricted endowments	(6,747,573)	-
Changes in assets and liabilities:		
Pledges and bequests receivable	(1,619,483)	877,532
Accounts receivable	449,792	(282,246)
Prepaid expenses and other	154,318	(413,607)
Accounts payable and accrued liabilities	169,416	31,435
Due to affiliated auxiliary organizations	-	334,773
Net cash used in operating activities	\$ (10,370,357)	\$ (7,967,231)
Noncash financing activities:		
Transfer from San José State University affiliated organizations	\$ -	\$ (1,084,837)
Purchase of capital assets included in due to affiliate	4,940,374	-
Accounts payable from San José State University	296,717	2,260,053
Noncash investing activities:		
Capital assets financed by notes payable	\$ 429,511	\$ 21,628,528
Acquisition of Subscription Based Information Technology	-	152,550
Receivable due from the University and Chancellor's Office	1,005,913	18,978,011

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 the California State University and included in its financial statements.

A summary of the Foundation's 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. 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.

The Foundation's policy for defining operating activities as reported on the statement of revenue, expenses, and changes in net position are those that generally result from transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the Foundation's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenue as defined by GASB, including investment income.

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 statement of net position date. Liabilities that can be reasonably expected, as part of normal operations, to be liquidated within 12 months of the statement 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, 2024 and 2023.

**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 (Continued)

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 Athletics Center.

Capital assets: Capital assets, which includes buildings and equipment are reported at their historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation. The Foundation has a policy to capitalize costs with an estimated useful life of greater than one year and an individual cost in excess of \$5,000. The Foundation provides for depreciation on assets using the straight-line method in order to amortize the costs of assets over their useful lives as follow:

Buildings – 30 years
Equipment – 5 years

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, 2024, the Foundation had a balance of \$50,524 of compensated absences, which is recorded as a component of accounts payable and accrued liabilities. In 2024, \$24,461 of compensated absences was incurred and \$41,553 was used. At June 30, 2023, the Foundation had a balance of \$67,616 of compensated absences, which is recorded as a component of accounts payable and accrued liabilities. In 2023, \$54,019 of compensated absences was incurred and \$31,848 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.

**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 (Continued)

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.

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 2021.

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 2023 financial data to conform to the 2024 presentation.

Note 2. Pledges and Bequests Receivable

Pledges receivable at June 30, are as follows:

	2024	2023
Less than one year	\$ 1,059,635	\$ 3,840,088
One to five years	8,708,289	7,111,901
More than five years	481,000	436,000
	<u>10,248,924</u>	<u>11,387,989</u>
Less discount to present value	(678,343)	(517,134)
Less allowance for uncollectible pledges	(512,446)	(569,399)
	<u>\$ 9,058,135</u>	<u>\$ 10,301,456</u>

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

Notes to Financial Statements

Note 2. Pledges and Bequests Receivable (Continued)

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 5% of pledges. The Foundation had the following donors that comprised over 10% of the Foundation's pledge balance for the years ended June 30, 2024 and 2023:

	2024	2023
Donor A	29%	35%
Donor B	10%	11%

Bequests receivable at June 30, are as follows:

	2024	2023
Total bequests	\$ 19,106,333	\$ 13,150,000
Less discount to present value	(8,873,652)	(5,780,124)
	\$ 10,232,681	\$ 7,369,876

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 the 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:

	2024	2023
Cash equivalent	\$ 33,912	\$ 114,093
Equity investments—value funds	35,073,046	26,319,076
Equity investments—growth funds	6,825,450	34,191,031
Equity investments—small cap	8,525,025	15,486,051
Equity investments—exchange traded funds	77,534,808	37,356,749
Alternative investments	35,363,842	29,034,351
U.S. Treasuries	27,990,197	-
U.S. Government National Mortgage Association	671,565	-
Federal National Mortgage Association	2,044,044	-
Federal Home Loan Mortgage Corporation	2,048,088	-
Mutual funds:		
Real estate	6,038,403	5,689,524
Fixed income	2,384,833	2,299,805
Equity	47,576,672	37,410,715
All asset fund	200	5,170,855
Total investments	252,076,173	192,958,157
Total cash and investments	\$ 252,110,085	\$ 193,072,250

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 (UPMIFA), 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.

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. As of June 30, 2024, 30 deficiencies of this nature existed in donor-restricted endowments, with an original gift value of \$5,549,458, a current fair value of \$4,641,984, and a deficiency of \$907,474. As of June 30, 2023, 104 deficiencies of this nature existed in donor-restricted endowments, with an original gift value of \$18,641,520, a current fair value of \$16,903,945, and a deficiency of \$1,737,575.

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

Notes to Financial Statements

Note 3. Restricted Cash and Investments (Continued)

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.

At June 30, 2024 the Foundation had the following investments with the following maturities:

Investment Type	Total Fair Value	Less than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years
U.S. Treasuries	\$ 27,990,197	\$ 1,725,889	\$ 19,338,541	\$ 6,925,767	\$ -
U.S. Government National Mortgage Association	671,565	-	-	-	671,565
Federal National Mortgage Association	2,044,044	-	-	75,349	1,968,695
Federal Home Loan Mortgage Corporation	2,048,088	-	48,393	178,412	1,821,283
Fixed income mutual fund	2,384,833	-	-	2,384,833	-
Total	<u>\$ 35,138,727</u>	<u>\$ 1,725,889</u>	<u>\$ 19,386,934</u>	<u>\$ 9,564,361</u>	<u>\$ 4,461,543</u>

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. U.S Treasuries and U.S Government Nation Mortgage Association debt securities are expressly guaranteed by the U.S. Government and are not subject to credit risk. Federal Nation Mortgage Association and Federal Home Loan Mortgage Corporation are rated AAA by Moody's. The Foundation's fixed income mutual fund is not rated.

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 2024 or 2023.

Custodial credit risk: 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, 2024 and 2023, \$6,261,584 and \$35,591,054, respectively, of the Foundation's bank balances exceed the federally insured amount.

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

Notes to Financial Statements

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.

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

Description	June 30, 2024	Fair Value Measurement at Reporting Date Using				Net Asset Value (NAV)
		Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Equity investments—value funds	\$ 35,073,046	\$ 35,073,046	\$ -	\$ -	\$ -	
Equity investments—growth funds	6,825,450	7,668	6,817,782	-	-	
Equity investments—small cap	8,525,025	8,525,025	-	-	-	
Equity investments—exchange traded funds	77,534,808	77,534,808	-	-	-	
Alternative investments	35,363,842	-	-	-	35,363,842	
U.S. Treasuries	27,990,197	-	27,990,197	-	-	
U.S. Government National Mortgage Association	671,565	-	671,565	-	-	
Federal National Mortgage Association	2,044,044	-	2,044,044	-	-	
Federal Home Loan Mortgage Corporation	2,048,088	-	2,048,088	-	-	
Mutual funds:						
Real estate	6,038,403	6,038,403	-	-	-	
Fixed income	2,384,833	2,384,833	-	-	-	
Equity	47,576,672	47,576,672	-	-	-	
All asset fund	200	200	-	-	-	
	252,076,173	\$ 177,140,655	\$ 39,571,676	\$ -	\$ 35,363,842	
Restricted cash	33,912					
Total investments	<u>\$ 252,110,085</u>					

**Tower Foundation of San José State University
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Notes to Financial Statements

Note 4. Fair Value Measurement (Continued)

Description	June 30, 2023	Fair Value Measurement at Reporting Date Using			Net Asset Value (NAV)
		Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Equity investments—value funds	\$ 26,319,076	\$ 26,319,076	\$ -	\$ -	\$ -
Equity investments—growth funds	34,191,031	28,082,064	6,108,967	-	-
Equity investments—small cap	15,486,051	15,486,051	-	-	-
Equity investments—exchange traded funds	37,356,749	37,356,749	-	-	-
Alternative investments	29,034,351	-	-	-	29,034,351
Mutual funds:					
Real estate	5,689,524	5,689,524	-	-	-
Fixed income	2,299,805	2,299,805	-	-	-
Equity	37,410,715	37,410,715	-	-	-
All asset fund	5,170,855	5,170,855	-	-	-
	192,958,157	\$ 157,814,839	\$ 6,108,967	\$ -	\$ 29,034,351
Restricted cash	114,093				
Total investments	<u>\$ 193,072,250</u>				

The following are NAV disclosures for the years ended June 30, 2024 and 2023:

2024				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private debt	\$ 9,302,652	\$ 3,678,496	Six to 10 years from final closing with two one year extensions	N/A
Private equity	14,716,336	9,183,967	10 years from final closing with two one year extensions	N/A
Real estate	11,344,854	1,399,297	Variable between two and seven years, depending on investment	N/A
	<u>\$ 35,363,842</u>	<u>\$ 14,261,760</u>		
2023				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private debt	\$ 5,163,332	\$ 3,592,608	Six to 10 years from final closing with two one year extensions	N/A
Private equity	15,410,699	11,313,007	10 years from final closing with two one year extensions	N/A
Real estate	8,460,320	2,793,620	Variable between two and seven years, depending on investment	N/A
	<u>\$ 29,034,351</u>	<u>\$ 17,699,235</u>		

**Tower Foundation of San José State University
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Notes to Financial Statements

Note 5. Capital Assets

Changes in the Foundation's capital assets for the years ended June 30, 2024 and 2023 is as follows:

	July 1, 2023	Additions	Transfers	Disposals	June 30, 2024
Construction in progress	\$ 42,040,489	\$ -	\$ (42,040,489)	\$ -	\$ -
Capital assets not subject to depreciation	42,040,489	-	(42,040,489)	-	-
Building	-	4,450,553	42,040,489	46,491,042	-
Equipment	-	919,333	-	919,333	-
Total depreciable assets	-	5,369,886	42,040,489	47,410,375	-
Net capital assets	\$ -	\$ 5,369,886	\$ 42,040,489	\$ 47,410,375	\$ -
	July 1, 2022	Additions	Transfers	Disposals	June 30, 2023
Construction in progress	\$ 20,411,961	\$ 21,628,528	\$ -	\$ -	\$ 42,040,489

A loss of \$4.9 million was recorded when the assets were transferred to San Jose State University for a value of \$42.4 million.

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 \$957,817 and \$928,349 were charged by the Foundation for the years ended June 30, 2024 and 2023, 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 \$3,701,420 and \$3,371,577 for the years ended June 30, 2024 and 2023, 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 receivables with related parties as of June 30, as follows:

	2024	2023
Receivable from the University	\$ 4,838,657	\$ 4,014,884
Other amounts receivable from the University	-	1,273,565
	\$ 4,838,657	\$ 5,288,449

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

Notes to Financial Statements

Note 7. Related-Party Transactions (Continued)

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

	2024	2023
Accrued expense payable to the University	\$ 9,290,018	\$ 4,169,449
Accounts payable	161,143	-
Payable to other affiliated organizations	-	44,621
	<u>\$ 9,451,161</u>	<u>\$ 4,214,070</u>

As mentioned in Note 5, the Foundation constructed the Spartan Athletics Center during fiscal year 2023. 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 and recorded as notes receivable.

The Spartan Athletics Center, valued in the books at \$47,410,375, was sold for \$42,843,737 to San Jose State University, resulting in a loss on sale of capital assets of \$4,566,638.

Note 8. Transfer of Assets

San José State University-affiliated organizations transferred \$4,566,638 and \$4,527,274 to the Foundation in 2024 and 2023, respectively. The majority of these transfers represent replenishment of accounts that were used during the year by the athletic department for payroll-related costs and a return of funds from the University to the Foundation for monies raised for the Spartan Athletics Center.

Note 9. Note Payable

The Foundation entered into a loan agreement with the Trustees of the California State University on July 1, 2022. Under the agreement, the University will procure and provide services for the planning, development and construction of the Spartan Athletics 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 \$61,556,506, representing \$42,470,000 in principal and \$19,086,506 in interest.

Changes in the Foundation's note payable for the years ended June 30, 2024 and 2023 is as follows:

	July 1, 2023	Additions	Deductions	June 30, 2024	Due Within One Year
Note Payable	<u>\$ 42,470,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,470,000</u>	<u>\$ 1,080,000</u>
	July 1, 2022	Additions	Disposals	June 30, 2023	Due Within One Year
Note Payable	<u>\$ 42,470,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,470,000</u>	<u>\$ -</u>

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

Notes to Financial Statements

Note 9. Note Payable (Continued)

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

	Principal	Interest	Total
Years ending June 30:			
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	1,110,000	1,010,072	2,120,072
2029	1,130,000	993,925	2,123,925
2030 - 2034	5,945,000	4,662,666	10,607,666
2035 - 2039	6,640,000	3,975,814	10,615,814
2040 - 2044	7,590,000	3,027,049	10,617,049
2045 - 2049	8,780,000	1,836,434	10,616,434
2050 - 2054	8,005,000	479,130	8,484,130
	<u>\$ 42,470,000</u>	<u>\$ 19,086,507</u>	<u>\$ 61,556,507</u>

Note 10. Subscription-Based Information Technology Arrangements

As discussed in Note 1, the Foundation has a noncancelable subscription arrangement (similar to a lease) for the right-to-use various information technology software (subscription IT arrangements).

A summary of subscription IT arrangement activity during the years ended June 30, is as follows:

	Balance June 30, 2023	Additions	Deductions	Balance June 30, 2024
Subscription IT assets	\$ 152,550	\$ -	\$ -	\$ 152,550
Less accumulated amortization	(38,138)	(50,850)	-	(88,988)
Subscription IT assets, net	<u>\$ 114,412</u>	<u>\$ (50,850)</u>	<u>\$ -</u>	<u>\$ 63,562</u>

	Balance June 30, 2022	Additions	Deductions	Balance June 30, 2023
Subscription IT assets	\$ -	\$ 152,550	\$ -	\$ 152,550
Less accumulated amortization	-	(38,138)	-	(38,138)
Subscription IT assets, net	<u>\$ -</u>	<u>\$ 114,412</u>	<u>\$ -</u>	<u>\$ 114,412</u>

**Tower Foundation of San José State University
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Notes to Financial Statements

Note 11. Notes Receivable

The Foundation and the University entered into a notes receivable for the sale of the Spartan Athletics Center in fiscal year 2024, with a duration of 30 years and an interest rate of 2.3%. Future principal and interest payments from the University is as follows:

	Principal	Interest	Total
Years ending June 30:			
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	1,110,000	1,010,072	2,120,072
2029	1,130,000	993,925	2,123,925
2030 - 2034	5,945,000	4,662,666	10,607,666
2035 - 2039	6,640,000	3,975,814	10,615,814
2040 - 2044	7,590,000	3,027,049	10,617,049
2045 - 2049	8,780,000	1,836,434	10,616,434
2050 - 2054	8,005,000	479,130	8,484,130
	<u>\$ 42,470,000</u>	<u>\$ 19,086,507</u>	<u>\$ 61,556,507</u>

Note 12. 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, 2024 and 2023.

Note 13. Subsequent Events

In preparing the financial statements, the Foundation has evaluated events and transactions for subsequent event disclosure through December 9, 2024, the date of the auditor's report.

Supplementary Information

Tower Foundation of San José State University
Schedule of Net Position
June 30, 2024
(for inclusion in the California State University Financial Statements)

Assets:		
Current assets:		
Cash and cash equivalents	\$	6,976,677
Short-term investments		44,393,175
Accounts receivable, net		5,038,656
Lease receivable, current portion		-
P3 receivable, current portion		-
Notes receivable, current portion		1,080,000
Pledges receivable, net		1,059,635
Prepaid expenses and other current assets		270,209
Total current assets		58,818,352
Noncurrent assets:		
Restricted cash and cash equivalents		-
Accounts receivable, net		-
Lease receivable, net of current portion		-
P3 receivable, net of current portion		-
Notes receivable, net of current portion		41,390,000
Student loans receivable, net		-
Pledges receivable, net		7,998,500
Endowment investments		207,716,910
Other long-term investments		-
Capital assets, net		63,562
Other assets		14,751,671
Total noncurrent assets		271,920,643
Total assets		330,738,995
Deferred outflows of resources:		
Unamortized loss on debt refunding		-
Net pension liability		-
Net OPEB liability		-
Leases		-
P3		-
Others		-
Total deferred outflows of resources		-
Liabilities:		
Current liabilities:		
Accounts payable		305,775
Accrued salaries and benefits		-
Accrued compensated absences, current portion		50,524
Unearned revenues		-
Lease liabilities, current portion		-
SBITA liabilities - current portion		-
P3 liabilities - current portion		-
Long-term debt obligations, current portion		1,080,000
Claims liability for losses and loss adjustment expenses, current portion		-
Depository accounts		-
Other liabilities		9,584,362
Total current liabilities		11,020,661
Noncurrent liabilities:		
Accrued compensated absences, net of current portion		-
Unearned revenues		-
Grants refundable		-
Lease liabilities, net of current portion		-
SBITA liabilities, net of current portion		-
P3 liabilities, net of current portion		-
Long-term debt obligations, net of current portion		41,390,000
Claims liability for losses and loss adjustment expenses, net of current portion		-
Depository accounts		-
Net other postemployment benefits liability		-
Net pension liability		-
Other liabilities		1,749,327
Total noncurrent liabilities		43,139,327
Total liabilities		54,159,988
Deferred inflows of resources:		
P3 service concession arrangements		-
Net pension liability		-
Net OPEB liability		-
Unamortized gain on debt refunding		-
Nonexchange transactions		-
Lease		-
P3		-
Others		-
Total deferred inflows of resources		-
Net position:		
Net investment in capital assets		15,416
Restricted for:		
Nonexpendable – endowments		141,720,323
Expendable:		
Scholarships and fellowships		-
Research		-
Loans		-
Capital projects		-
Debt service		-
Others		123,550,335
Unrestricted		11,244,787
Total net position	\$	276,530,861

Tower Foundation of San José State University
Schedule of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2024
(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		2,517,986
Total operating revenues		2,517,986

Expenses:

Operating expenses:

Instruction		1,384,161
Research		-
Public service		-
Academic support		8,776,387
Student services		7,618,548
Institutional support		516,712
Operation and maintenance of plant		-
Student grants and scholarships		4,183,740
Auxiliary enterprise expenses		3,667,614
Depreciation and amortization		50,850
Total operating expenses		26,198,012
Operating income (loss)		(23,680,026)

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		21,495,799
Investment income (loss), net		2,903,459
Endowment income (loss), net		25,915,138
Interest expense		(522,832)
Other nonoperating revenues (expenses)		(373,736)
Net nonoperating revenues (expenses)		49,417,828
Income (loss) before other revenues (expenses)		25,737,802

State appropriations, capital		-
Grants and gifts, capital		-
Additions (reductions) to permanent endowments		-
Increase (decrease) in net position		25,737,802

Net position:

Net position at beginning of year, as previously reported		250,793,059
Restatements		-
Net position at beginning of year, as restated		250,793,059
Net position at end of year		\$ 276,530,861

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

**Other Information
June 30, 2024
(for inclusion in the California State University)**

1 Cash and cash equivalents:

Portion of restricted cash and cash equivalents related to endowments	\$	-
All other restricted cash and cash equivalents		-
Noncurrent restricted cash and cash equivalents		-
Current cash and cash equivalents		6,976,677
Total	\$	6,976,677

2.1 Composition of investments:

Investment Type	Current	Noncurrent	Total
Money market funds	\$ -	\$ 33,912	\$ 33,912
Mutual funds	42,868,502	45,885,501	88,754,003
Exchange-traded funds		77,534,808	77,534,808
Equity securities	1,005,802	49,417,718	50,423,520
Alternative investments:			
Private equity (including limited partnerships)	518,871	34,844,971	35,363,842
Hedge funds	-	-	-
Managed futures	-	-	-
Real estate investments (including REITs)	-	-	-
Total other investments	-	-	-
Total investments	44,393,175	207,716,910	252,110,085
Less endowment investments (enter as negative number)	-	(207,716,910)	(207,716,910)
Total investments, net of endowments	\$ 44,393,175	\$ -	\$ 44,393,175

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

**Other Information (Continued)
June 30, 2024
(for inclusion in the California State University)**

3.1 Capital Assets, excluding ROU assets:									
Composition of capital assets, excluding ROU assets:									
	Balance June 30, 2023	Reclassifications	Prior Period Additions	Prior Period Retirements	Balance June 30, 2023 (Restated)	Additions	Retirements	Transfer of completed CWIP/PWIP	Balance June 30, 2024
Non-depreciable/Non-amortizable capital assets:									
Land and land improvements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Works of art and historical treasures	-	-	-	-	-	-	-	-	-
Construction work in progress (CWIP)	42,040,489	-	-	-	42,040,489	5,369,885	-	(47,410,374)	-
Total other intangible assets	-	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-	-
Total non-depreciable/non-amortizable capital assets	\$ 42,040,489	\$ -	\$ -	\$ -	\$ 42,040,489	\$ 5,369,885	\$ -	\$ (47,410,374)	\$ -
Composition of capital assets - SBITA right-of-use (ROU), net									
	Balance June 30, 2023	Reclassifications	Prior Period Additions	Prior Period Reductions	Balance June 30, 2023 (Restated)	Additions	Remeasurements	Transfer of completed CWIP/PWIP	Balance June 30, 2024
Depreciable/Amortizable SBITA assets:									
Buildings and building improvements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(46,491,041)	\$ 46,491,041	\$ -
Personal property:									
Equipment	-	-	-	-	-	-	(919,333)	919,333	-
Total depreciable/amortizable SBITA assets	-	-	-	-	-	-	(47,410,374)	47,410,374	-
Less accumulated depreciation/amortization:									
Buildings and building improvements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Personal property:									
Equipment	-	-	-	-	-	-	-	-	-
Total accumulated depreciation/amortization	-	-	-	-	-	-	-	-	-
Total capital assets - SBITA ROU, net	-	-	-	-	-	-	(47,410,374)	47,410,374	-
Total capital assets, net including ROU assets									\$ -
Composition of capital assets - SBITA ROU, net									
	Balance June 30, 2023	Reclassifications	Prior Period Additions	Prior Period Reductions	Balance June 30, 2023 (Restated)	Additions	Remeasurements	Reductions	Balance June 30, 2024
Depreciable/Amortizable SBITA assets:									
Software	152,550	-	-	-	152,550	-	-	-	152,550
Total depreciable/amortizable SBITA assets	152,550	-	-	-	152,550	-	-	-	152,550
Less accumulated depreciation/amortization:									
Software	(38,138)	-	-	-	(38,138)	(50,850)	-	-	(88,988)
depreciation/amortization	(38,138)	-	-	-	(38,138)	(50,850)	-	-	(88,988)
Total capital assets - SBITA ROU, net	114,412	-	-	-	114,412	(50,850)	-	-	63,562
3.2 Detail of depreciation and amortization expense:									
Depreciation and amortization expense related to capital assets	\$ -								
Amortization expense - Leases ROU	-								
Amortization expense - SBITA ROU	50,850								
Amortization expense - P3 ROU	-								
Depreciation and amortization expense - Others	-								
Total depreciation and amortization	\$ 50,850								

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

**Other Information (Continued)
June 30, 2024
(for inclusion in the California State University)**

4 Long-term liabilities:

	Balance June 30, 2023	Prior Period Adjustments/Reclassifi- cations	Balance June 30, 2023 (Restated)	Additions	Reductions	Balance June 30, 2024	Current Portion	Noncurrent Portion
1. Accrued compensated absences	\$ 67,616	\$ -	\$ 67,616	\$ 24,461	\$ (41,553)	\$ 50,524	\$ 50,524	\$ -
2. Claims liability for losses and loss adjustment expenses	-	-	-	-	-	-	-	-
3. Capital lease obligations (pre-ASC 842):								
Gross balance	-	-	-	-	-	-	-	-
Unamortized net premium/(discount)	-	-	-	-	-	-	-	-
Total capital lease obligations (pre ASC 842)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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	1,080,000	41,390,000
4.4 Finance purchase of capital assets	-	-	-	-	-	-	-	-
4.5 Others:	-	-	-	-	-	-	-	-
Total others	-	-	-	-	-	-	-	-
Sub-total long-term debt	42,470,000	-	42,470,000	-	-	42,470,000	1,080,000	41,390,000
4.6 Unamortized net bond premium/(discount)	-	-	-	-	-	-	-	-
Total long-term debt obligations	\$ 42,470,000	\$ -	\$ 42,470,000	\$ -	\$ -	\$ 42,470,000	\$ 1,080,000	\$ 41,390,000
5. Lease, SBITA, P3 liabilities:								
	Balance June 30, 2023	Prior Period Adjustments/Reclassifi- cations	Additions	Remeasurements	Reductions	Balance June 30, 2024	Current Portion	Noncurrent Portion
Lease liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SBITA liabilities	94,611	-	-	-	(46,465)	48,146	48,146	-
P3 liabilities - SCA	-	-	-	-	-	-	-	-
P3 liabilities - non-SCA	-	-	-	-	-	-	-	-
Sub-total P3 liabilities	-	-	-	-	-	-	-	-
Total Lease, SBITA, P3 liabilities	\$ 94,611	\$ -	\$ -	\$ -	\$ (46,465)	\$ 48,146	\$ 48,146	\$ -
Total long-term liabilities						\$ 42,568,670	\$ 1,178,670	\$ 41,390,000

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

**Other Information (Continued)
June 30, 2024
(for inclusion in the California State University)**

5 Future minimum payments schedule - leases, SBITA, P3:

	Lease Liabilities			SBITA liabilities			Public-Private or Public-Public Partnerships (P3)			Total Leases, SBITA, P3 liabilities		
	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest	Principal Only	Interest Only	Principal and Interest
Years ending June 30:												
2025	\$ -	\$ -	\$ -	\$ 48,146	\$ 1,145	\$ 49,291	\$ -	\$ -	\$ -	\$ 48,146	\$ 1,145	\$ 49,291
2026	-	-	-	-	-	-	-	-	-	-	-	-
2027	-	-	-	-	-	-	-	-	-	-	-	-
2028	-	-	-	-	-	-	-	-	-	-	-	-
2029 - 2033	-	-	-	-	-	-	-	-	-	-	-	-
2034 - 2038	-	-	-	-	-	-	-	-	-	-	-	-
2039 - 2043	-	-	-	-	-	-	-	-	-	-	-	-
2044 - 2048	-	-	-	-	-	-	-	-	-	-	-	-
2049 - 2053	-	-	-	-	-	-	-	-	-	-	-	-
Thereafter	-	-	-	-	-	-	-	-	-	-	-	-
Total minimum payments	\$ -	\$ -	\$ -	\$ 48,146	\$ 1,145	\$ 49,291	\$ -	\$ -	\$ -	\$ 48,146	\$ 1,145	\$ 49,291
Less: amounts representing interest												(1,145)
Present value of future minimum payments												48,146
Total Leases, SBITA, P3 liabilities												48,146
Less: current portion												(48,146)
Leases, SBITA, P3 liabilities, net of current portion												\$ -

6 Future minimum payments schedule - Long-term debt obligations:

	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
Years ending June 30:									
2025			\$ -	\$ 1,080,000	\$ 1,042,624	\$ 2,122,624	\$ 1,080,000	\$ 1,042,624	\$ 2,122,624
2026			-	1,090,000	1,034,886	2,124,886	1,090,000	1,034,886	2,124,886
2027			-	1,100,000	1,023,907	2,123,907	1,100,000	1,023,907	2,123,907
2028			-	1,110,000	1,010,072	2,120,072	1,110,000	1,010,072	2,120,072
2029			-	1,130,000	993,925	2,123,925	1,130,000	993,925	2,123,925
2030 - 2034			-	5,945,000	4,662,666	10,607,666	5,945,000	4,662,666	10,607,666
2035 - 2039			-	6,640,000	3,975,814	10,615,814	6,640,000	3,975,814	10,615,814
2040 - 2044			-	7,590,000	3,027,049	10,617,049	7,590,000	3,027,049	10,617,049
2045 - 2049			-	8,780,000	1,836,434	10,616,434	8,780,000	1,836,434	10,616,434
2050 - 2054			-	8,005,000	479,130	8,484,130	8,005,000	479,130	8,484,130
Thereafter			-	-	-	-	-	-	-
Total minimum payments	\$ -	\$ -	\$ -	\$ 42,470,000	\$ 19,086,507	\$ 61,556,507	\$ 42,470,000	\$ 19,086,507	\$ 61,556,507
Less: amounts representing interest									(19,086,507)
Present value of future minimum payments									42,470,000
Unamortized net premium/(discount)									-
Total long-term debt obligations									42,470,000
Less: current portion									(1,080,000)
Long-term debt obligations, net of current portion									\$ 41,390,000

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

**Other Information (Continued)
June 30, 2024
(for inclusion in the California State University)**

7 Transactions with related entities:

Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$ 2,524,135
Payments to University for other than salaries of University personnel	2,561,575
Payments received from University for services, space, and programs	4,043,995
Gifts-in-kind to the University from discretely presented component units	-
Gifts (cash or assets) to the University from discretely presented component units	4,280,603
Accounts payable to University	(8,928,329)
Other amounts payable to University	(522,832)
Accounts receivable from University	4,838,657
Other amounts receivable from University	-

8 Restatements

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	\$ 999,090	\$ 385,071	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,384,161
Research	-	-	-	-	-	-	-	-
Public service	-	-	-	-	-	-	-	-
Academic support	3,014,989	384,443	-	-	-	5,376,955	-	8,776,387
Student services	4,225,885	573,148	-	-	-	2,819,515	-	7,618,548
Institutional support	174,519	86,087	-	-	-	256,106	-	516,712
Operation and maintenance of plant	-	-	-	-	-	-	-	-
Student grants and scholarships	-	-	-	-	4,183,740	-	-	4,183,740
Auxiliary enterprise expenses	1,808,039	519,215	56,475	-	-	1,283,885	-	3,667,614
Depreciation and amortization	-	-	-	-	-	-	50,850	50,850
Total operating expenses	\$ 10,222,522	\$ 1,947,964	\$ 56,475	\$ -	\$ 4,183,740	\$ 9,736,461	\$ 50,850	\$ 26,198,012

Select type of pension plan >>

Defined Contribution Plan

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 - P3	-
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 - P3 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 - P3	-
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	\$ 4,566,638
Other nonoperating (expenses)	(4,940,374)
Total other nonoperating revenues (expenses)	\$ (373,736)

**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***

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 (the Foundation), a component unit of the California State University, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated December 9, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2024-001, 2024-002, and 2024-003 that we consider to be material weaknesses.



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Foundation's response to the findings 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 of the financial statements 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 Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

San Antonio, Texas
December 9, 2024

Schedule of Findings and Responses

2024-001 – Financial statement close process

Type of Finding: Material Weakness

Criteria: An organization's internal control structure should be designed to ensure that account balances are properly reconciled and updated for activity that has occurred, especially at the end of the fiscal year. These controls are integral to ensure the financial statements are fairly stated.

Condition: During the current year audit, we noted that several significant account balances were not properly reconciled at the end of the fiscal year and some account balances were the same balances as the prior year's balances. This was not identified by management during their year-end closing procedures or during the financial statement preparation process. The following corrections were needed to correct the financial statements:

- Pledges receivable was only updated for current year activity related to new pledges. Payments received on previous pledges were inappropriately recorded as revenue in the current year. The net adjustment to pledges receivable and revenue was approximately \$2.4 million.
- Accounts receivable was increased by approximately \$600 thousand.
- The bequest receivable was the same balance as the previous year and was increased by approximately \$2.9 million to correct the balance.
- Funds held in trust (both the assets and the related liabilities) had the same balance as the previous year, minor adjustments were required to update the balances.
- Notes receivable had a negative balance and required an adjustment of approximately \$1.7 million.
- Other assets had the same balance as the previous year, a minor adjustment was required to update the balance.

Cause: The Foundation did not review certain account balances to ensure they were properly updated. This was partially caused by a turnover in personal, however the Foundation did not have a thorough financial statement close process that would have identified these errors.

Effect or potential effect: The Foundation did not detect and correct these errors which could have led to errors on the financial statements.

Recommendation: We recommend the Foundation develop a formalized month-end and year-end general ledger closing checklist to ensure all accounts are properly updated and reconciled.

Views of responsible officials: Management concurs with the recommendation. See corrective action plan.

2024-002 – Lease accounting

Type of Finding: Material Weakness

Criteria: The Foundation completed the construction of the Spartan Athletic Center in the current year and entered into a lease agreement with the University. The provisions of GASB Statement No. 87, *Leases* are applicable to this transaction.

Condition: The Foundation relied on the University to evaluate and prepare the accounting entries related to this transaction. The initial draft of the financial statements did not include this lease on the statement of net position or the related footnote disclosures. The University later identified an adjustment to the receivable that increased the receivable by approximately \$11.6 million. Auditing procedures determined the lease agreement contained a provision that transferred ownership of the Spartan Athletic Center to the University at the end of the lease and therefore this transaction should have been reported as sale by the Foundation. Correcting entries were required to remove the lease accounting and to remove the capital assets in the amount of \$47.4 million, increase notes receivable in the amount of 42.5 million, and record a loss on sale of asset in the amount of \$4.9 million.

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

Schedule of Findings and Responses

Cause: The Foundation relied on the University to prepare this entry and did not analyze the calculation prior to recording this transaction.

Effect or potential effect: The financial statements could have been materially misstated if this correction was not made.

Recommendation: We recommend that the Foundation review information provided by the University or others to ensure amounts recorded on the financial statements of the Foundations are correct.

Views of responsible officials: Management concurs with the recommendation. See corrective action plan.

2024-003 – Unrecorded liabilities

Type of Finding: Material Weakness

Criteria: All liabilities should be recorded as of the end of the year to ensure expenses are recorded in the proper period.

Condition: After the initial financial statements were drafted, a draft was provided to the University. During the review by the University, the University identified approximately \$2.1 million of unrecorded liabilities that was due to the University, however these amounts were initially not recorded in the financial statements of the Foundation.

Cause: The Foundation did not have adequate cutoff procedures to identify all liabilities due to the University. This is due in part to turnover in personnel at the Foundation.

Effect or potential effect: The Foundation initially understated expenses and liabilities by approximately \$2.1 million.

Recommendation: We recommend that management strengthen their controls over identifying liabilities at the end of the fiscal year to ensure expenses are recorded in the proper period.

Views of responsible officials: Management concurs with the recommendation. See corrective action plan.

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

Corrective Action Plan

2024-001 – Financial statement close process

RSM RECOMMENDATION: We recommend the Foundation develop a formalized month-end and year-end general ledger closing checklist to ensure all accounts are properly updated and reconciled.

MANAGEMENT'S RESPONSE: Management concurs with the recommendation.

ACTION PLAN: The Tower Foundation will create and implement a formal procedure with a checklist for month-end and year-end reconciliations including (but not limited to) bank accounts, investments, revenue, accounts receivable, payroll, accounts payable, and debt. Each reconciliation will be documented, reviewed, and signed by independent personnel by a set deadline each month and at year end (*deadline: December 2024*).

2024-002 – Lease accounting

RSM RECOMMENDATION: We recommend that the Foundation review information provided by the University or others to ensure amounts recorded on the financial statements of the Foundations are correct.

MANAGEMENT'S RESPONSE: Management concurs with the recommendation.

ACTION PLAN: Management will engage with the CSU Chancellor's Office and the University to confirm and document the process and timeline for lease accounting transactions (*deadline: January 2025*). Prior to each year-end close, the Tower Foundation will engage with the CSU Chancellor's Office and the University as part of a review enabling the Tower Foundation to confirm that the amounts recorded on the financial statements are accurate (*deadline: May 2025*).

2024-003 – Unrecorded liabilities

RSM RECOMMENDATION: We recommend that management strengthen their controls over identifying liabilities at the end of the fiscal year to ensure expenses are recorded in the proper period.

MANAGEMENT'S RESPONSE: Management concurs with the recommendation.

ACTION PLAN: Management will work with the University to create and implement a formal procedure with a timeline for a year-end reconciliation of all liabilities including outstanding payments pending to the University (*deadline: March 2024*).