

California Polytechnic State University Foundation

***Financial Statements and Supplementary Schedules
for Inclusion in the Financial Statements
of the California State University***

June 30, 2016 and 2015

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Independent Auditors' Report

To the Board of Directors
California Polytechnic State University Foundation
San Luis Obispo, California

We have audited the accompanying statement of net position of California Polytechnic State University Foundation (the Foundation), a non-profit organization, as of June 30, 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



Independent Auditors' Report - Continued

Opinion

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

Prior Period Financial Statement

The financial statements of California Polytechnic State University Foundation as of June 30, 2015, were audited by other auditors whose report dated September 4, 2016, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a basic part of the financial statements, is required by the Government 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 auditing standards generally accepted in the United States of America, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the California Polytechnic State University Foundation's basic financial statements. The accompanying supplementary information for inclusion in the financial statements of the California State University on pages 32 through 44 is presented for purposes of additional analysis as required by the California State University and is not a required part of the basic financial statements.



Independent Auditors' Report - Continued

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2016, on our consideration of California Polytechnic State University 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 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 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 California Polytechnic State University Foundation's internal control over financial reporting and compliance.

Caliber Audit & Attest, LLP

San Luis Obispo, California
September 8, 2016

California Polytechnic State University Foundation

Management's Discussion and Analysis

Management's Discussion and Analysis

This section of the California Polytechnic State University Foundation (Foundation) annual financial report presents a discussion and analysis of the financial performance of the Foundation during the fiscal year ended June 30, 2016 ("2016"), with comparative information for the fiscal year ending June 30, 2015 ("2015"). This discussion has been prepared by management and should be read in conjunction with and is qualified in its entirety by the accompanying audited financial statements and notes.

Introduction to the Financial Statements

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statements No. 34, *Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, No. 35, *Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, No. 37, *Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*. For reporting purposes, the Foundation is considered a special-purpose government engaged in business-type activities which best represents the activities of the Foundation as an auxiliary organization of the California Polytechnic State University, San Luis Obispo (University).

The financial statements include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These statements are supported by the notes to the financial statements and this section. All sections must be considered together to obtain a complete understanding of the financial picture of the Foundation.

Statement of Net Position:

The Statement of Net Position includes all assets, deferred inflows and outflows of resources and liabilities. Assets and liabilities are reported on an accrual basis as of the financial statement date. It also identifies major categories of restrictions on the net position of the Foundation.

Statement of Revenues, Expenses, and Changes in Net Position:

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year on an accrual basis.

Statement of Cash Flows:

The Statement of Cash Flows presents the inflows and outflows of cash for the year and is summarized by operating, noncapital financing, capital and related financing, and investing activities. The statement is prepared using the direct method of cash flows, and therefore, presents gross rather than net amounts for the year's activities.

California Polytechnic State University Foundation

Management's Discussion and Analysis

Analytical Overview

Summary

The following discussion highlights the key financial aspects of the Foundation's financial activities for 2016 and 2015. Included is a comparative analysis of the current year and prior year activities and balances, a discussion of restrictions on Foundation net position, and factors impacting future reporting periods. The comparative analysis also includes the year ending June 30, 2014 ("2014").

Condensed Summary of Net Position

	<i>June 30,</i>		
	<i>2016</i>	<i>2015</i>	<i>2014</i>
Assets:			
Current assets	\$ 43,652,847	\$ 37,694,377	\$ 34,187,794
Noncurrent assets	255,919,500	243,716,355	232,925,166
Total assets	<u>299,572,347</u>	<u>281,410,732</u>	<u>267,112,960</u>
Liabilities:			
Current liabilities	5,982,003	4,801,232	1,891,793
Noncurrent liabilities	7,182,238	7,701,462	8,490,477
Total liabilities	<u>13,164,241</u>	<u>12,502,694</u>	<u>10,382,270</u>
Net position:			
Restricted, non-expendable	117,513,178	111,069,290	109,067,646
Restricted, expendable	167,639,218	157,131,114	146,207,151
Unrestricted	1,255,710	707,634	1,455,893
Total net position	<u>\$ 286,408,106</u>	<u>\$ 268,908,038</u>	<u>\$ 256,730,690</u>

Net Position

The Foundation's total net position in 2016 increased by \$17.5 million or 7% from the prior year as compared to an increase of \$12.2 million or 5% in 2015. In 2016, total assets increased to \$299.6 million, an \$18.2 million or 6% increase from the prior year and was offset by total liabilities of \$13.2 million. Total liabilities at June 30, 2016 increased \$0.7 million from the prior year.

The increase in total net position in 2016 was primarily due to gifts of \$47.4 million offset by distributions for grants awarded and investment market value losses on the Foundation's endowment and short-term investments. The increase in total net position in 2015 was primarily due to cash gifts of \$40.0 million offset by distributions for grants awarded and investment market value losses on the Foundation's endowment and short-term investments.

The Foundation's endowment achieved trailing one year returns net of fees of -0.8% in 2016, -1.0% in 2015, and 15.5% in 2014.

California Polytechnic State University Foundation

Management's Discussion and Analysis

In 2016, current assets increased \$6.0 million or 16% primarily due to a \$5.2 million increase in current pledge receivables, a \$0.3 million increase in short-term investments, a \$0.2 million increase in cash and a \$0.2 million increase in other assets. In 2016, noncurrent assets increased \$12.2 million or 5% primarily due to a \$9.6 million increase in long-term pledge receivables and a \$4.4 million increase in other long-term investments related to gifts for facilities.

In 2015, current assets increased \$3.5 million or 10% primarily due to a \$6.5 million increase in short-term investments offset by a \$2.3 million decrease in cash and a \$0.8 million decrease in current pledge receivables. In 2015, noncurrent assets increased \$10.8 million or 5% primarily due to a \$20.8 million increase in other long-term investments related to gifts for facilities offset by an \$8.1 million decrease in the endowment (market value losses in the endowment were \$6.5 million) and a \$1.9 million decrease in long-term pledge receivables.

Restricted Net Position

A significant portion of the Foundation's net position is restricted by donors or by laws. The following table summarizes at each year-end which funds are restricted, the type of restriction, and the amount:

Restricted Net Position

	<i>June 30,</i>		
	<i>2016</i>	<i>2015</i>	<i>2014</i>
Non-expendable:			
Endowments	\$ 113,909,498	\$ 107,281,866	\$ 105,042,041
Split interest trusts	3,603,680	3,787,424	4,025,605
Total non-expendable	<u>\$ 117,513,178</u>	<u>\$ 111,069,290</u>	<u>\$ 109,067,646</u>
Expendable:			
Scholarships and fellowships	\$ 18,102,788	\$ 18,416,486	\$ 21,680,969
Research	7,300,249	4,801,403	9,406,072
Capital projects	49,815,710	31,215,310	10,688,575
Instruction	26,671,522	41,670,990	29,917,215
Academic support	57,881,815	51,217,752	55,038,189
Operation & maintenance of plant	6,504,804	4,605,140	7,882,345
Institutional support, other	1,362,330	5,204,033	11,593,786
Total expendable	<u>\$ 167,639,218</u>	<u>\$ 157,131,114</u>	<u>\$ 146,207,151</u>

The principal reasons the value of each type of restricted net position changed from the prior year are: (i) the level of contributions received, (ii) expenditures in the current year (primarily in support of the University), and (iii) investment returns. The \$18.6 million increase in 2016 and the \$20.5 million increase in capital projects in 2015 was principally due to pledges for buildings and funds received for various agricultural facilities. Investment gains and losses for capital projects are minimal because these funds are held in short-term investments with low yields and virtually no principal gain or loss.

California Polytechnic State University Foundation

Management's Discussion and Analysis

Unrestricted Net Position

Unrestricted net position increased by \$0.6 million or 77% in 2016 to \$1.3 million due to general fund net reserves generated of \$0.2 million and transfers of \$0.4 million. Unrestricted net position decreased by \$0.8 million in 2015 to \$0.7 million, a 51% decrease from June 30, 2014, primarily due to market value losses on mutual funds.

Condensed Summary of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30,		
	2016	2015	2014
Operating revenues	\$ 37,402,985	\$ 37,221,431	\$ 13,580,949
Operating expenses	(30,554,783)	(27,585,931)	(23,687,664)
Operating income (loss)	6,848,202	9,635,500	(10,106,715)
Nonoperating revenues (expenses)	661,769	(265,094)	29,912,307
Additions to permanent endowments and split interest trusts	9,990,097	2,806,942	3,371,300
Increase in net position	17,500,068	12,177,348	23,176,892
Beginning net position	268,908,038	256,730,690	233,553,798
Ending net position	\$ 286,408,106	\$ 268,908,038	\$ 256,730,690

Operating revenues, consisting generally of currently expendable contributions to the Foundation for the benefit of the University, were \$37.4 million in 2016, a \$0.2 million increase from the prior year. This is compared to operating revenues of \$37.2 million in 2015, an increase of \$23.6 million from 2014, due to funds received for various agricultural facilities. Operating expenses were \$30.6 million in 2016, a \$3.0 million or 11% increase from the prior year. This increase resulted from higher gift revenue, which led to increased distributions for campus program expenditures. Operating expenses of \$27.6 million in 2015 increased \$3.9 million or 16% from 2014 due to increased payouts from the endowment, which lead to increased program expenditures.

Non-operating revenues consist primarily of investment returns (unrealized and realized gains and losses on marketable securities, interest, and dividends), net of fees. Net investment returns produced a loss of \$0.4 million 2016, compared to a loss of \$0.9 million in 2015, and a gain \$29.2 million in 2014 million in 2014.

Additions to the endowment were \$10.0 million in 2016, compared to \$2.8 million in 2015 and \$3.4 million in 2014.

California Polytechnic State University Foundation

Management's Discussion and Analysis

Capital Assets and Long-Term Debt Obligations

At June 30, 2016, the Foundation has no capital assets or long-term debt obligations.

Currently Known Facts Impacting Future Periods

Management is not aware of any external factors other than systematic market risk affecting its investments, and general economic conditions affecting donor giving, that would have a significant impact on future periods.

The significant volatility in the worldwide equity markets is the most significant factor affecting the change in net position and endowment net investment return, which ultimately affects the funds available for operating expenses that benefit the University. The Foundation's payout policy for endowments with total value exceeding donor contributions applies a 4.0% spending rate against the average value of the endowment over the twelve quarters ending as of December 31 of the preceding fiscal year.

Using a twelve trailing quarter average base value and two-tiered payout rate means that the reduction in operating expenditures from market declines will be delayed, as will the increase in expenditures when markets rebound. The payout policy for endowments with total value below donor contributions applies a 2% spending rate against the same twelve trailing quarter investment base. There were 109 endowments that the total value was below its donor contributions at June 30, 2016, and the total deficiency for these endowments was \$162,523 as of June 30, 2016.

The fall in short-term interest rates in 2009 to historic low levels resulted in significantly lower net investment income than prior years. Short-term interest rates continued at low levels through 2016. As a result, in 2015 the Foundation's investment committee moved \$22.0 million of fixed income investments into a diversified portfolio of 50% equities and 50% bond mutual funds to achieve a higher return on investment. The Foundation employs the unrestricted portion of these funds to pay its administrative expenses and applies any surplus to support campus fundraising activities. No changes were made to the allocation of fixed income and equities in the Foundation's endowment or life income investment portfolios.

The Foundation holds within restricted expendable assets \$49.8 million, with \$29.6 million in cash or investments, for capital projects planned by the University. The Foundation transferred \$1.2 million to the University in 2016 for various capital projects. As funds are transferred for other planned capital projects there will be a corresponding decrease in assets associated with these projects, which will lower interest income.

California Polytechnic State University Foundation

Statements of Net Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,213,433	\$ 7,010,396
Short-term investments	26,356,842	26,095,898
Accounts receivable, net	345,476	293,613
Pledges receivable, net	9,085,613	3,842,168
Prepaid expenses	48,762	49,581
Other assets	602,721	402,721
Total current assets	<u>43,652,847</u>	<u>37,694,377</u>
Noncurrent assets:		
Restricted cash and cash equivalents	301,058	467,139
Pledges receivable, net	21,861,200	12,238,712
Endowment investments	188,432,286	189,993,354
Other long-term investments	45,241,609	40,797,361
Other assets	83,347	219,789
Total noncurrent assets	<u>255,919,500</u>	<u>243,716,355</u>
Total assets	<u><u>\$ 299,572,347</u></u>	<u><u>\$ 281,410,732</u></u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>
LIABILITIES AND NET POSITION		
Liabilities		
Current liabilities:		
Accounts payable	\$ 5,463,403	\$ 4,298,732
Unearned revenue	518,600	502,500
Total current liabilities	<u>5,982,003</u>	<u>4,801,232</u>
Noncurrent liabilities:		
Split interest trust liabilities to individual beneficiaries	6,484,542	6,830,860
Split interest trust liabilities to external charitable residuary beneficiaries	697,696	870,602
Total noncurrent liabilities	<u>7,182,238</u>	<u>7,701,462</u>
Total liabilities	<u>13,164,241</u>	<u>12,502,694</u>
Deferred Inflows of Resources	<u>-</u>	<u>-</u>

See Notes to Financial Statements.

California Polytechnic State University Foundation

Statements of Net Position - continued

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<i>Net Position</i>		
Restricted for:		
Non-expendable:		
Endowments	\$ 113,909,498	\$ 107,281,866
Split interest trusts for establishment of endowments	3,603,680	3,787,424
Expendable:		
Scholarships and fellowships	18,102,788	18,416,486
Research	7,300,249	4,801,403
Capital projects	49,815,710	31,215,310
Instruction	26,671,522	41,670,990
Academic support	57,881,815	51,217,752
Operation & maintenance of plant	6,504,804	4,605,140
Institutional support and student and public service	1,362,330	5,204,033
Unrestricted	1,255,710	707,634
Total net position	<u>286,408,106</u>	<u>268,908,038</u>
Total liabilities and net position	<u>\$ 299,572,347</u>	<u>\$ 281,410,732</u>

See Notes to Financial Statements.

California Polytechnic State University Foundation

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Contributions - University programs	\$ 17,779,217	\$ 17,849,867
Contributions - University capital	19,623,768	19,371,564
Total operating revenues	<u>37,402,985</u>	<u>37,221,431</u>
Operating expenses:		
Instruction	1,615,964	3,719,956
Academic support	8,303,395	9,586,779
Student services	-	438,266
Institutional support	18,714,933	11,717,379
Student grants and scholarships	1,920,491	2,123,551
Total operating expenses	<u>30,554,783</u>	<u>27,585,931</u>
Operating income	<u>6,848,202</u>	<u>9,635,500</u>
Nonoperating revenues (expenses):		
Investment income (loss), net of fees of \$58,000 and \$33,000, respectively	815,301	(39,608)
Endowment investment loss, including fees of \$547,000 and \$577,000, respectively	(1,191,400)	(830,698)
Change in value of split interest trusts	110,582	127,693
Other nonoperating expenses	927,286	477,519
Total nonoperating revenues (expenses)	<u>661,769</u>	<u>(265,094)</u>
Income before other additions	7,509,971	9,370,406
Additions to permanent endowments and split interest trusts	<u>9,990,097</u>	<u>2,806,942</u>
Increase in net position	17,500,068	12,177,348
Net position - beginning of year	268,908,038	256,730,690
Net position - end of year	<u><u>\$ 286,408,106</u></u>	<u><u>\$ 268,908,038</u></u>

See Notes to Financial Statements.

California Polytechnic State University Foundation

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<i>Cash flows from operating activities:</i>		
Cash contributions received	\$ 21,153,333	\$ 39,087,212
Cash payments for operating expenses	(29,589,290)	(26,577,642)
Other receipts	<u>16,100</u>	<u>(130,000)</u>
Net cash provided by (used in) operating activities	<u>(8,419,857)</u>	<u>12,379,570</u>
<i>Cash flows from noncapital financing activities:</i>		
Cash contributions received for permanent endowments and split interest trusts	9,990,097	2,806,942
Distributions to split interest trust beneficiaries	(821,416)	(860,256)
Fees and expenses of split interest trusts	(134,355)	(134,635)
Other noncapital financing activities	<u>927,286</u>	<u>477,519</u>
Net cash provided by noncapital financing activities	<u>9,961,612</u>	<u>2,289,570</u>
<i>Cash flows from investing activities:</i>		
Proceeds from sales and maturities of investments	44,572,467	61,066,974
Purchases of investments	(53,556,396)	(87,617,589)
Investment income proceeds	<u>7,479,130</u>	<u>9,348,439</u>
Net cash provided by (used in) investing activities	<u>(1,504,799)</u>	<u>(17,202,176)</u>
Net increase (decrease) in cash and cash equivalents	36,956	(2,533,036)
<i>Cash and cash equivalents - beginning of year</i>	<u>7,477,535</u>	<u>10,010,571</u>
<i>Cash and cash equivalents - end of year</i>	<u><u>\$ 7,514,491</u></u>	<u><u>\$ 7,477,535</u></u>
<i>Summary of cash and cash equivalents - end of year:</i>		
Cash and cash equivalents	\$ 7,213,433	\$ 7,010,396
Restricted cash and cash equivalents	<u>301,058</u>	<u>467,139</u>
Total cash and cash equivalents - end of year	<u><u>\$ 7,514,491</u></u>	<u><u>\$ 7,477,535</u></u>

See Notes to Financial Statements.

California Polytechnic State University Foundation

Statements of Cash Flows - continued
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<i>Reconciliation of operating income to net cash used in operating activities:</i>		
Operating income	\$ 6,848,202	\$ 7,466,952
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Non-cash operating contributions	(1,331,856)	(526,658)
Change in assets and liabilities:		
Accounts receivable, net	(51,863)	(243,999)
Pledges receivable, net	(14,865,933)	2,636,438
Prepaid expenses	819	137,395
Other assets	(200,000)	-
Accounts payable	1,164,674	3,039,442
Unearned revenue	16,100	(130,000)
Net cash provided by (used in) operating activities	<u>\$ (8,419,857)</u>	<u>\$ 12,379,570</u>
<i>Supplemental disclosures of cash flow information:</i>		
Contributions of investments	<u>\$ 1,331,856</u>	<u>\$ 526,658</u>
Decrease in fair value of investments	<u>\$ (7,171,658)</u>	<u>\$ (7,871,032)</u>

See Notes to Financial Statements.

California Polytechnic State University Foundation

Notes to Financial Statements

Note 1. Organization

California Polytechnic State University Foundation (Foundation), a California Nonprofit Public Benefit Corporation, is an auxiliary organization of California Polytechnic State University, San Luis Obispo (University) and the California State University system (CSU). The Foundation is organized and operated in accordance with the Education Code of the State of California and the California Code of Regulations to provide and augment programs that are an integral part of the educational mission of the University. The Foundation was organized in March 2006, to assist the University primarily in the acquisition, investment, and administration of gifts and endowments for the benefit of the University. The Foundation began its operations in January 2007 when, at the request of the University, the Cal Poly Corporation (CPC) transferred net assets, consisting of gifts and endowments, which CPC had held for the benefit of the University, to the Foundation.

Note 2. Summary of Significant Accounting Policies

Financial reporting entity:

The accompanying financial statements present the accounts of the Foundation, including the endowment and campus program accounts held for the benefit of the University. The Foundation is a governmental organization under generally accepted accounting principles in the United States of America (GAAP) and is also a component unit of the University, a public university under the CSU. The Foundation has chosen to use the Governmental Accounting Standards Board (GASB) reporting model for special purpose governments engaged only in business-type activities consistent with guidance of the CSU.

Basis of presentation:

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with GAAP as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Voluntary non-exchange transactions (contributions) are recognized as revenue as soon as all eligibility requirements have been met.

Classification of current and noncurrent assets and liabilities:

The Foundation considers assets and liabilities that can reasonably be expected, as part of its normal business operations, to be converted to cash or liquidated within 12 months of the statement of net position date to be current. All other assets and liabilities are considered noncurrent.

Cash and cash equivalents, and restricted cash:

The Foundation considers demand deposit and negotiable order of withdrawal (NOW) accounts with financial institutions, money market funds, certificates of deposit and other highly liquid investments with an original maturity date of three months or less to be cash equivalents for the statement of cash flows.

California Polytechnic State University Foundation

Notes to Financial Statements

Amounts restricted by the donors for long-term purposes including endowments and split interest trusts are shown as restricted cash and cash equivalents.

Investments:

Investment securities are reported at fair value. Marketable securities' fair values are based on quoted market prices from independent sources. Investments in alternative investments, including limited partnerships, private equity funds, and absolute return funds, are reported at estimated fair value by the general partners and fund managers after considering factors such as the nature of the underlying portfolios, liquidity, and market conditions. Because they are not readily marketable, the fair values may differ from the values that would have been used had a ready market for these investments existed. Investments in real estate are initially recorded at fair value established by independent appraisals. Notes receivable are recorded at face value less principal payments received which approximates fair value.

Short-term investments consist of equity securities, open-ended mutual funds, certificates of deposit with an original maturity date of more than three months, and U.S. government and municipal obligations with a maturity date of one year or less. However, all endowment and split interest trust investments are classified as noncurrent regardless of maturity due to restrictions limiting the Foundation's ability to use these investments.

Investment income and endowment income consist of realized and unrealized gains and losses on investments, interest and dividends. The amounts are presented net of investment management and custodian fees.

Accounts receivable:

Accounts receivable are shown net of an allowance for uncollectible accounts of approximately \$105,000 at June 30, 2016 and 2015. The allowance for uncollectible accounts is based upon prior experience and management's assessment of the collectability of specific existing accounts.

Pledges receivable:

Pledges receivable are unconditional promises to make future payments to the Foundation. Endowment pledges are recognized as additions to endowments at the time pledge payments are received (i.e. cash basis). All other pledges receivable are recognized as contributions revenue in accordance with donor-imposed restrictions, if any, in the period pledged. Pledge payments promised to be made in future years are recorded at the present value of the future cash flows, net of an allowance for doubtful accounts of \$3.5 million and \$1.4 million at June 30, 2016 and 2015, respectively. Pledge discounts are computed using the five-year Treasury note rate applicable in the year pledged. In subsequent years, this discount is accreted and recorded as additional contributions revenue.

Conditional pledges, which depend on the occurrence of a specified future or uncertain event, are recognized as contributions revenue when the conditions are substantially met.

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Endowments:

The Foundation holds 846 individual endowments that are managed in a unitized investment pool. Investment earnings and related expenses are allocated based upon each individual endowment's unit market value.

The Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Unless stated otherwise in the endowment agreement, the Foundation considers the following factors in making a determination to appropriate for expenditure donor-restricted endowment funds:

- 1) General economic conditions
- 2) The duration and preservation of the fund
- 3) The purposes of the Foundation and the donor-restricted endowment fund
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and appreciation of investments
- 6) Other resources of the Foundation
- 7) The investment policies of the Foundation

Annual expenditure appropriations under UPMIFA (payouts) are taken first from endowment reserve (net appreciation in excess of donor contributions) and then from original principal. Endowment net reserves available for expenditure as of June 30, 2016 and 2015, were \$70.5 million and \$58.6 million, respectively, and were included in restricted expendable net position.

The Foundation's payout policy for endowments with reserves applies a 4.0% spending rate against the average value of an endowment over the twelve quarters ending as of December 31 of the preceding fiscal year. The payout policy for endowments with total value below donor contributions applies a 2% spending rate against the same twelve trailing quarter investment base.

Split interest trusts:

Split interest gifts to the Foundation include charitable remainder trusts in which a designated beneficiary other than the Foundation retains an interest in the gift as specified in the trust agreements. When the Foundation is trustee of the trust assets, liabilities to individual beneficiaries are established representing the present value of estimated future beneficiary payments over the expected lifetime of the beneficiaries. These liabilities are calculated using Internal Revenue Service life expectancy tables and discounted using payout yields of trusts that distribute net income or using the Treasury note rate in effect for a comparable period of time at the date of the gift for all other trusts. An adjustment factor is applied to reflect quarterly payments to beneficiaries. If the donor specifies external charitable residuary beneficiaries, liabilities are recorded for the estimated remainder value. The remaining amount of the gift is recognized as revenue in the period in which the Foundation receives the gift.

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The Foundation records trust funds held by external trustees of split interest trusts that are restricted for campus program purposes when the Foundation is notified that it has an interest in the funds. The receivable is calculated as the discounted present value of the future distribution expected to be received. Funds held by external trustees of split interest trusts designated for endowments are recognized when received.

Change in value of split interest trusts is recorded for the amortization of discount and any changes in actuarial assumptions in future periods.

Net position:

The Foundation's net position is classified into the following categories based on the existence or absence of donor-imposed restrictions:

Restricted – nonexpendable:

Net position in this category includes permanent endowments. These funds are subject to donor restrictions and, in accordance with UPMIFA, are invested in perpetuity in order to generate investment income and appreciation to be expended for the benefit of the University. Split interest trusts that are restricted by the donor for establishing endowments upon maturity are also classified as restricted and nonexpendable.

Restricted – expendable:

Net position in this category relates to contributions restricted by the donors to be expended for specific purposes in support of the University. They also include quasi-endowments which are expendable for the purposes restricted by the donor but which the Foundation has currently chosen to treat like endowments. Accumulated investment income and appreciation on endowment investments in excess of donor contributions (reserves) are classified as restricted and expendable. Split interest trusts that are restricted by the donor for use in various campus programs are also classified as restricted and expendable.

Unrestricted:

Net position in this category is not subject to donor-imposed restrictions. The Foundation first expends restricted funds for donor purposes prior to utilizing unrestricted funds.

Classification of revenues and expenses:

Contributions and pledges for purposes other than endowments are recognized as operating revenues in the period received or pledged. Additions to nonexpendable endowments or split interest trusts restricted for endowments are recognized when cash or other assets are received. Disbursements in support of the University and certain administrative expenses incurred in conducting the business of the Foundation are presented in the financial statements as operating expenses.

The institutional support expenses total includes general fund expenses of \$3.5 million and \$4.3 million, which provide support for University staff, administer the gifts and

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endowments, and to operate the Foundation for the years ended June 30, 2016 and 2015, respectively.

Non-operating revenues and expenses include investment income, net realized and unrealized appreciation or depreciation in the fair value of investments and change in value of split interest trusts. Contributions for permanent endowments and split interest trusts restricted to establish endowments are classified as other additions to net position.

The Foundation has elected to report operating expenses by functional classification in the statement of revenues, expenses, and changes in net position in the categories required by the CSU.

Donated property and equipment:

Donations of property, materials and equipment in excess of \$5,000 are recorded at cost, if purchased, or at estimated fair value, if donated. Title to all capital assets is transferred to the University upon receipt. All marketable securities are recorded at their estimated fair values at the date of donation.

Income tax status:

The Foundation is exempt from federal and state corporate income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). In addition, the Foundation has been determined to be a public charity under IRC Section 170(b)(1)(A) that is eligible to receive deductible charitable contributions. However, the Foundation remains subject to taxes on any net income that is derived from a trade or business, regularly carried on, and unrelated to its exempt purpose. No income taxes have been recorded in the accompanying financial statements since management believes the Foundation has no taxable unrelated business income.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Recent pronouncements:

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

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In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

In August 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

In August 2015, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016.

Recently issued GASB Statements No. 73, 74, 75, 78 and 82 have no impact on the Foundation as it does not have any employees. Recently issued GASB Statement No. 77 has no impact on the Foundation as it does not have any tax abatement agreements. Recently issued GASB Statement No. 80 has no impact on the Foundation as it does not have any component units. Management implemented GASB Statements No. 72 and 76 for the Foundation's June 30, 2016 financial statements; implementation of these statements did not have a material impact to the Foundation's financial statements, other than additional disclosures related to fair value under GASB Statement No. 72. Management has not determined the impact of GASB Statements No. 79 and 81 on the Foundation's financial statements.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current financial statement presentation. Specifically, endowment investment income was adjusted by \$2,168,548 to reflect the actual endowment investment loss for the year ended December 31, 2014, which was previously netted against the institutional support operating expense. Endowment investment income (loss) changed from \$1,337,850 to (\$830,698), and institutional support expense changed from \$13,885,927 to \$11,717,379. There was no impact to the increase in net position or ending net position balance for the year ended June 30, 2015.

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Note 3. Cash and Cash Equivalents and Restricted Cash

The Foundation maintains cash for operating needs in checking, deposit, money market and negotiable order of withdrawal (NOW) accounts, with Federal Deposit Insurance Corporation (FDIC) insured financial institutions.

At June 30, 2016, the Foundation's checking and related deposit accounts were insured by the FDIC up to \$250,000 per account title. The Foundation also participates in the Certificate of Deposit Account Registry Service (CDARS) program, which is a deposit-placement service, designed to allow FDIC-insured financial institutions to accept deposits of more than \$250,000 and obtain full coverage for the depositor by spreading the funds among as many separate FDIC insured institutions as necessary so that no institution holds more than \$250,000 (principal plus interest) for each depositor. At June 30, 2016, the Foundation had approximately \$4.8 million in uninsured cash deposits.

A portion of cash and cash equivalents were restricted according to donor stipulations as follows:

Restricted and nonexpendable cash and cash equivalents:

	<u>2016</u>	<u>2015</u>
Endowments	\$ 51,871	\$ 53,625
Split interest trusts	<u>249,187</u>	<u>413,514</u>
Total	<u>\$ 301,058</u>	<u>\$ 467,139</u>

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Note 4. Investments

Investments are classified in the accompanying financial statement as follows:

	<u>2016</u>	<u>2015</u>
Short-term investments	\$ 26,356,842	\$ 26,095,898
Endowment investments	188,432,286	189,993,354
Other long-term investments	<u>45,241,609</u>	<u>40,797,361</u>
 Total	 <u><u>\$ 260,030,737</u></u>	 <u><u>\$ 256,886,613</u></u>

Other long-term investments included \$12.3 million and \$12.9 million of investments held in split interest trusts at June 30, 2016 and 2015, respectively.

At June 30, 2016, investments comprise the following:

	<u>2016</u>		
	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Certificates of deposit	\$ 4,121,000	\$ 12,858,825	\$ 16,979,825
Notes receivable	-	638,000	638,000
Mutual funds:			
Equity funds	10,715,650	132,153,790	142,869,440
Bond funds	10,526,266	74,160,578	84,686,844
All asset fund	993,926	9,013,750	10,007,676
Money market fund	-	1,769,933	1,769,933
Other investments:			
Partnership interest	-	166,055	166,055
Alternative investments	<u>-</u>	<u>2,912,964</u>	<u>2,912,964</u>
 Total	 <u><u>\$ 26,356,842</u></u>	 <u><u>\$ 233,673,895</u></u>	 <u><u>\$ 260,030,737</u></u>

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At June 30, 2015, investments compromised the following:

	<i>2015</i>		
	<i>Current</i>	<i>Noncurrent</i>	<i>Total</i>
Certificates of deposit	\$ 3,688,315	\$ 10,094,259	\$ 13,782,574
Notes receivable	-	638,000	638,000
Mutual funds:			
Equity funds	9,845,317	120,708,037	130,553,354
Bond funds	9,667,797	69,927,316	79,595,113
All asset fund	2,894,469	25,175,367	28,069,836
Money market fund	-	735,045	735,045
Other investments:			
Partnership interest	-	166,055	166,055
Alternative investments	-	3,346,636	3,346,636
Total	<u>\$ 26,095,898</u>	<u>\$ 230,790,715</u>	<u>\$ 256,886,613</u>

Investment policies:

The Foundation's Board of Directors oversees the management of its investments and establishes an investment policy. The board has delegated to its Investment Committee the implementation of the investment policy. The Investment Committee establishes investment guidelines and selects investment managers.

The unendowed investment portfolio is managed to maximize returns consistent with safety of principal and liquidity considerations necessary to meet the Foundation's cash flow requirements. Investments authorized by the Investment Committee include readily marketable money market and fixed income securities with an average maturity of three years or less.

The endowed portfolio is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. The primary investment objective of the endowed investment portfolio is total return sufficient to preserve purchasing power and to provide income to support current and future expenditures consistent with endowment restrictions. Long-term, the total return on the portfolio, net of investment and administration fees, should compensate for inflation, plus provide the payout rate which is used to support current activities. Investments authorized by the Investment Committee include primarily high quality, readily marketable equity and fixed income securities in mutual funds and a limited amount of alternative investments.

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The equity portion of the endowed portfolio may include both domestic and international equities, including foreign currency denominated, common and preferred stocks, actively managed and passive (index) strategies, along with a modest exposure to private equities, including venture capital partnerships, buyout and international funds. Overall, the equity portfolio is measured against the Standard & Poor's 500, Russell 2000, EAFE, EAFE Small Cap, MSCI Emerging Markets, FTSE-NAREIT, and the S&P/Citi BMI World Property ex U.S. indices.

The fixed income portion of the endowed portfolio may include both domestic and international securities, along with common bond substitutes. Investment guidelines establish set ranges for the percentage of the total bond portfolio that can be invested in U.S. government, investment grade, international, and high yield bonds. The fixed income portfolio is measured against the Barclays Capital U.S. Intermediate Government/Credit Bond index and the Citi one-month CD.

The All Asset Fund uses an asset allocation approach, targeting solid real (after-inflation) returns from a global opportunity set of traditional and alternative asset classes. The fund has the flexibility to draw on a wide selection of investments, including inflation-hedging assets, such as Treasury Inflation-Protected Securities (TIPS) and commodities, as well as U.S. and international stocks and bonds.

The investment guidelines for the endowed portfolio also permit alternative investments primarily in limited partnerships where the Foundation is a limited partner relying upon the expertise of experienced general partners. All limited partnerships in which the Foundation invests are subject to annual audits. As of June 30, 2016, the Foundation had contractual commitments to invest an additional \$0.3 million in various alternative investments.

Investment risk factors:

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, and foreign currency risk may affect both the equity and fixed income securities. Equity securities respond to such investment behavioral factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates. Alternative investments are subject to these risk factors and additional risk factors discussed below.

Equity security risks:

Equity securities held by the Foundation either directly or through mutual funds comprised \$142.8 million or 55% of the total investments of the Foundation at June 30, 2016. Equities are subject to both unsystematic and systematic risk. Unsystematic risk is the risk of a price change due to the unique circumstances of a specific security or group of related securities. The Foundation addresses unsystematic risk by investing in a diversified portfolio of equity securities and equity mutual funds. Equity securities are also subject to systematic risk or market risk. Systematic risk recognizes that equity securities as a class of asset can change in value as a result of occurrences such as inflation, exchange rates, political instability,

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war, economic conditions and interest rates. This type of risk is not specific to a particular company or industry and cannot be substantially mitigated by diversification.

Credit risk:

Fixed income securities are subject to credit risk, which is the chance that a bond issue 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 following schedule of credit ratings of Foundation investments summarizes the fair value of the fixed income securities subject to credit risk. The Foundation maintains policies to manage credit risk which include requiring minimum credit ratings issued by nationally recognized statistical rating organizations such as Standard and Poor's or Moody's investor services.

At June 30, 2016, the credit ratings of the Foundation's fixed income securities were as follows:

	<i>Fair Value</i>	<i>Rating</i>
<i>Bond mutual funds:</i>		
DFA Intermediate Government Bond	\$ 21,587,178	AAA
PIMCO Total Return Fund - Institutional	15,036,469	A
Various Corporate Bonds	13,263,110	A
PIMCO Foreign Bond Fund - Institutional	12,608,012	A
Loomis Sayles Bond Fund - Institutional	10,746,367	A
PIMCO High Yield Fund - Institutional	6,986,995	BB
Various Corporate Bonds	4,436,182	BBB
Bond Fund of America	22,531	A
Total bond mutual funds	<u>84,686,844</u>	
<i>Money market fund:</i>		
Wells Fargo Money Market - Institutional	<u>1,769,933</u>	Unrated
<i>Cash and restricted cash:</i>		
Schwab One Fund	<u>351,664</u>	Unrated
Total fixed income and debt securities subject to credit risk	<u><u>\$ 86,808,441</u></u>	

Custodial risk:

Custodial risk is the risk that in the event of the failure of the custodian, the investments may not be accessible in a timely manner. Substantially all of the Foundation's investments are issued, registered or held in the name of the Foundation by custodian banks and brokers, as its agent. Other types of investments represent ownership interest that do not exist in physical or book entry form.

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Concentration of credit risk:

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers; thereby exposing the organization to greater risks resulting from adverse conditions or developments. The Foundation maintains investment policies that limit the holdings of any individual security (except those issued or guaranteed by the federal government) to 5% of invested funds. The Foundation does not have any holdings exceeding this limitation. Investment managers are required to confirm quarterly that they are in compliance with this policy.

Interest rate risk:

Interest rate risk is the risk that fixed income securities will decline because of rising interest rates. The Foundation measures interest rate risk using the weighted average duration method.

At June 30, 2016, the weighted average duration of the Foundation's fixed income securities was as follows:

	<i>Fair Value</i>	<i>Weighted Average Duration (in years)</i>
<i>Bond mutual funds:</i>		
DFA Intermediate Government Bond	\$ 21,587,178	6.2
PIMCO Total Return Fund - Institutional	15,036,469	5.7
Various Corporate Bonds	13,263,110	1.1
PIMCO Foreign Bond Fund - Institutional	12,608,012	7.8
Loomis Sayles Bond Fund - Institutional	10,746,367	3.8
PIMCO High Yield Fund - Institutional	6,986,995	3.6
Various Corporate Bonds	4,436,182	0.9
Bond Fund of America	22,531	2.0
Total bond mutual funds	<u>84,686,844</u>	
<i>Money market fund and cash</i>	<u>2,121,597</u>	0
Total fixed income and debt securities subject to credit risk	<u><u>\$ 86,808,441</u></u>	4.6

Foreign currency risk:

Exposure from foreign currency risk results from investments in foreign currency denominated equity, fixed income and alternative investments in addition to some foreign currency investments held within U.S. mutual funds. The Foundation maintains significant

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international equity and fixed investments by investing in international mutual funds and alternative investments that are broadly diversified over many developed markets with limited exposure to emerging markets. Exposure from foreign currency risk from these investments is permitted and it may be fully or partially hedged by the individual mutual fund or alternative investment managers but hedging is not permitted for speculation or to create leverage.

The Foundation's estimated fair value of investments subject to foreign currency risk in its endowment and split interest trusts at June 30, 2016 was as follows:

Euro	\$ 13,189,412
British Pounds	8,896,128
Japanese Yen	8,660,062
Swiss Francs	3,619,163
Canadian Dollars	3,050,277
Hong Kong Dollars	2,840,412
Australian Dollars	2,754,173
Korean	2,211,910
Tiawanese Dollars	2,157,771
Other	<u>14,852,569</u>
Total investments subject to foreign currency risk	<u><u>\$ 62,231,877</u></u>

Other currencies are individually less than 1% of the Foundation's investments. The foreign currency risk by investment type at June 30, 2016 was as follows:

Equity mutual funds	\$ 54,076,344
Bond mutual funds	7,587,743
Alternative investments	<u>567,790</u>
Total investments subject to foreign currency risk	<u><u>\$ 62,231,877</u></u>

Alternative investment risks:

Alternative investments include ownership interests in a wide variety of partnership and fund structures. Generally, there is little or no regulation of these investments by the Securities and Exchange Commission or state attorney general. These investments employ a wide variety of strategies including absolute return, hedge, venture capital, private equity, distressed debt and other strategies. Investments in this category may employ leverage to enhance the investment return. Underlying investments can include financial assets such as marketable securities, non-marketable securities, derivatives and synthetic and structured investments; real assets; tangible and intangible assets, and other funds and partnerships.

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Generally, these investments do not have a ready market or may not be traded without approval of the general partner or fund management.

Alternative investments are subject to all of the risks described previously related to equities and fixed income instruments. In addition, the underlying assets may not be held by a custodian either because they cannot be, or because the entity has chosen not to hold them in this form. Valuations are determined by the investment managers who have a conflict of interest in that they are compensated for performance. Real and tangible assets may be subject to physical damage from a variety of means, and may suffer loss from natural causes, theft and other criminal actions, lawsuits involving rights, and other means. Intangible assets are subject to legal challenge or other possible impairment. These risks may or may not be insured or insurable. Broadly, alternative strategies and their underlying assets and rights are subject to an array of economic and market vagaries that can limit or erode value.

The Foundation does not have any direct investments in derivative financial instruments which would require accounting and disclosure under GASB Statement No. 53, *Accounting for Derivative Instruments*.

At June 30, 2016, the Foundation held alternative investments at estimated fair value in its endowment as follows:

Private equity limited partnerships	\$ 1,423,849
Venture capital limited partnerships	1,043,428
Distressed debt	<u>445,687</u>
Total	<u>\$ 2,912,964</u>

Fair value of investments:

Investments are measured at fair market value on a recurring basis. Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- Level 2 inputs are based on significant observable inputs, including unadjusted quoted market prices for similar assets and liabilities in active markets, unadjusted quoted prices for identical or similar assets or liabilities in inactive markets, or inputs other than quoted prices that are observable for the asset or liability.

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- Level 3 inputs are significant unobservable inputs for the asset or liability.

The level of the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Investments are stated at fair value, which is based on quoted market prices, except for alternative investments, notes receivable, and partnership interests, for which quoted market prices are not available. The following describes the fair value hierarchy level and valuation technique for each type of investment:

- Certificates of deposit, corporate bonds, and mutual funds are classified within Level 1, and fair value is based on quoted market prices.
- Alternative investments in private equity, venture capital limited partnerships, and distressed debt investments are classified as Level 3. The fair value of the alternative investments have been estimated using the net asset value (NAV) per share of the investments provided by the fund managers. For these Level 3 assets measured using NAV, the redemption frequency is quarterly and the redemption notice period is 90 days. There are \$0.3 million in unfunded commitments.
- Partnership interests and notes receivable are classified as Level 3, and have been recorded at cost, which approximates the current fair value.

The Foundation has the following recurring fair value investments as of June 30, 2016:

	<u><i>Level 1</i></u>	<u><i>Level 2</i></u>	<u><i>Level 3</i></u>
Certificates of deposit	\$ 16,979,825	\$ -	\$ -
Mutual funds:			
Equity funds	142,869,440	-	-
Bond funds	84,686,844	-	-
All asset fund	10,007,676	-	
Money market fund	1,769,933		
Other investments:			
Alternative investments	-	-	2,912,964
Notes receivable	-	-	638,000
Partnership interest	-	-	166,055
Total	<u>\$ 256,313,718</u>	<u>\$ -</u>	<u>\$ 3,717,019</u>

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Note 5. Pledges Receivable

Pledges receivable compromised the following at June 30:

	2016	2015
Campus programs support	\$ 4,598,466	\$ 2,881,584
College-specific facilities	28,900,408	11,691,514
Scholarship contributions	3,284,460	3,783,887
Subtotal	36,783,334	18,356,985
Less: Allowance for uncollectible accounts	(3,525,327)	(1,380,936)
Less: Unamortized discount	(2,311,194)	(895,169)
Pledges receivable, net	<u>\$ 30,946,813</u>	<u>\$ 16,080,880</u>
Gross pledges due in:		
One year or less	\$ 9,502,283	\$ 3,842,168
One to five years	24,999,806	13,342,871
More than five years	2,281,245	1,171,946
Total gross	<u>\$ 36,783,334</u>	<u>\$ 18,356,985</u>

At June 30, 2016, pledges receivable from one donor represented approximately 68% of pledges receivable while at June 30, 2015, three donors represented 66% of pledges receivable.

Note 6. Transactions with University and Cal Poly Corporation

As discussed in Note 1, the Foundation is an auxiliary organization of the University. The following were transactions with the University as of and for the years ended June 30, 2016 and 2015:

	2016	2015
Accounts receivable	\$ 171,906	\$ -
Payable to University	(5,121,224)	(3,432,073)
Payments to University for salaries and benefits of University personnel	1,000,000	3,111,642
Payments to University for other than salaries of University personnel	1,120,088	1,263,928
Payments received from University for transfer of endowments	3,340,398	-
Cash gifts to the University	15,813,315	11,123,551
Noncash gifts to the University	-	37,623

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The Foundation contracts with CPC for information technology and other services through June 30, 2017 under a Business Support Services Agreement. For 2016, the contractual cost was \$40,000 while for 2015 the contractual cost was \$109,686. The Foundation also provides funds to CPC for various program expenditures and to reimburse for employees who perform services that fulfill donor restrictions on the use of Foundation gifts and endowments.

The Foundation has other transactions with CPC in conjunction with its role as an auxiliary organization that administers gifts and endowments for the benefit of the University.

The following were transactions with CPC as of and for the years ended June 30, 2016 and 2015:

	<i>2016</i>	<i>2015</i>
Accounts receivable	\$ 5,400	\$ 237,613
Accounts payable	(120,321)	(25,370)
Payments to CPC under Support Agreement	40,000	109,686
Reimbursements to CPC for salaries and benefits	-	1,373,122
Cash contributions to CPC	2,339,413	2,684,578
Cash contributions from CPC	716,250	631,638

Note 7. Split Interest Trusts

The Foundation records split interest trust net position as expendable or nonexpendable depending on whether the donors' restrictions specify the balance will be distributed to a campus program account or an endowment at the end of the trust. Expendable net position includes \$1.9 million related to split interest trusts at June 30, 2016 and \$1.7 million at June 30, 2015. Nonexpendable net position includes \$3.6 million and \$3.8 million related to split interest trusts at June 30, 2016 and 2015, respectively.

The valuation of split interest trust liabilities falls into the Level 3 category of the fair value hierarchy, as discussed in Note 4. The estimated fair value is established by calculating the net present value of the payments to the lifetime beneficiaries by Foundation, based on input assumptions from actuarial tables for remaining time until maturity, and pay out and earnings rates.

Note 8. Risk Management

The Foundation manages its risk through the purchase of insurance through California State University Risk Management Authority (CSURMA), a public entity risk pool, for coverage of liability, property and general organizational risk. CSURMA provides self-insured risk with purchase of excess insurance. The Foundation maintains general liability insurance coverage and errors and omission claims coverage, subject to certain deductibles. The Foundation also maintains excess property insurance coverage. There have been no settlements since the Foundation's inception that have exceeded insurance limits. There are

California Polytechnic State University Foundation

Notes to Financial Statements

no self-insurance claims liabilities recorded in the accompanying financial statements because any amounts at June 30, 2016 are expected to be minimal. Likewise, no amounts have been paid to CSURMA during the year ended June 30, 2016, related to the Foundation's estimated future funding for claims liability.

Note 9. Commitments

The Foundation has a funding guarantee to the University totaling \$0.5 million as of June 30, 2016 in relation to the construction of the Warren J. Baker Center for Science and Math. Net position associated with these funding guarantees is held as restricted and expendable for capital projects.

Note 10. Subsequent Events

Events subsequent to June 30, 2016 have been evaluated through September 8, 2016, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that required disclosure.

California Polytechnic State University Foundation
Supplementary Schedules for Inclusion in the Financial
Statements of the California State University
June 30, 2016

California Polytechnic State University Foundation
Schedule of Net Position
June 30, 2016
(for inclusion in the California State University)

Assets:

Current assets:

Cash and cash equivalents	\$ 7,213,433
Short-term investments	26,356,842
Accounts receivable, net	345,476
Leases receivable, current portion	-
Notes receivable, current portion	-
Pledges receivable, net	9,085,613
Prepaid expenses and other current assets	651,483
	<hr/>
Total current assets	43,652,847

Noncurrent assets:

Restricted cash and cash equivalents	301,058
Accounts receivable, net	
Leases receivable, net of current portion	-
Notes receivable, net of current portion	-
Student loans receivable, net	-
Pledges receivable, net	21,861,200
Endowment investments	188,432,286
Other long-term investments	45,241,609
Capital assets, net	-
Other assets	83,347
	<hr/>
Total noncurrent assets	255,919,500
	<hr/>
Total assets	299,572,347

Deferred outflows of resources:

Unamortized loss on debt refunding	-
Net pension liability	-
Others	-
	<hr/>
Total deferred outflows of resources	-

California Polytechnic State University Foundation
Schedule of Net Position - Continued
June 30, 2016
(for inclusion in the California State University)

Liabilities:

Current liabilities:

Accounts payable	5,463,403
Accrued salaries and benefits	-
Accrued compensated absences, current portion	-
Unearned revenue	518,600
Capitalized lease obligations, current portion	-
Long-term debt obligations, current portion	-
Claims liability for losses and loss adjustment expenses, current portion	-
Depository accounts	-
Other liabilities	-

Total current liabilities	5,982,003
---------------------------	-----------

Noncurrent liabilities:

Accrued compensated absences, net of current portion	-
Unearned revenue	-
Grants refundable	-
Capitalized lease obligations, net of current portion	-
Long-term debt obligations, net of current portion	-
Claims liability for losses and loss adjustment expenses, net of current portion	-
Depository accounts	-
Other postemployment benefits obligations	-
Net pension liability	-
Other liabilities	7,182,238

Total noncurrent liabilities	7,182,238
------------------------------	-----------

Total liabilities	13,164,241
-------------------	------------

Deferred inflows of resources:

Service concession arrangements	-
Net pension liability	-
Unamortized gain on debt refunding	-
Nonexchange transactions	-
Others	-

Total deferred inflows of resources	-
-------------------------------------	---

Net Position:

Net investment in capital assets	-
----------------------------------	---

Restricted for:

Nonexpendable – endowments	117,513,178
----------------------------	-------------

Expendable:

Scholarships and fellowships	18,102,788
Research	7,300,249
Loans	-
Capital projects	49,815,710
Debt service	-
Others	92,420,471

Unrestricted	1,255,710
--------------	-----------

Total net position	\$ 286,408,106
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California Polytechnic State University Foundation
Schedule of Revenues, Expenses, and Changes in Net Position
June 30, 2016
(for inclusion in the California State University)

Revenues:

Operating revenues:

Student tuition and fees (net of scholarship allowances of \$_____)	\$	-
Grants and contracts, noncapital:		
Federal		-
State		-
Local		-
Nongovernmental		-
Sales and services of educational activities		-
Sales and services of auxiliary enterprises (net of scholarship allowances of \$_____)		-
Other operating revenues		-
		<hr/>
Total operating revenues		-
		<hr/>

Expenses:

Operating expenses:

Instruction	1,615,964
Research	-
Public service	-
Academic support	8,303,395
Student services	-
Institutional support	18,714,933
Operation and maintenance of plant	-
Student grants and scholarships	1,920,491
Auxiliary enterprise expenses	-
Depreciation and amortization	-
	<hr/>
Total operating expenses	30,554,783
	<hr/>
Operating income (loss)	(30,554,783)
	<hr/>

California Polytechnic State University Foundation
Schedule of Revenues, Expenses, and Changes in Net Position - Continued
June 30, 2016
(for inclusion in the California State University)

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	17,779,217
Investment income (loss), net	815,301
Endowment income (loss), net	(1,191,400)
Interest expense	-
Other nonoperating revenues (expenses)	1,037,868
	<hr/>
Net nonoperating revenues (expenses)	18,440,986
	<hr/>
Income (loss) before other revenues (expenses)	(12,113,797)
State appropriations, capital	-
Grants and gifts, capital	19,623,768
Additions (reductions) to permanent endowments	9,990,097
	<hr/>
Increase (decrease) in net position	17,500,068
Net position:	
Net position at beginning of year, as previously reported	268,908,038
Restatements	-
	<hr/>
Net position at beginning of year, as restated	268,908,038
	<hr/>
Net position at end of year	\$ 286,408,106
	<hr/> <hr/>

California Polytechnic State University Foundation
Other Information
June 30, 2016
(for inclusion in the California State University)

Restricted cash and cash equivalents at June 30, 2016:

Portion of restricted cash and cash equivalents related to endowments	\$ 51,871
All other restricted cash and cash equivalents	249,187
Total restricted cash and cash equivalents	<u>\$ 301,058</u>

2.1 Composition of investments at June 30, 2016:

	Current Unrestricted	Current Restricted	Total Current	Noncurrent Unrestricted	Noncurrent Restricted	Total Noncurrent	Total
State of California Surplus Money Investment Fund (SMIF) \$	-	-	-	-	-	-	-
State of California Local Agency Investment Fund (LAIF)	-	-	-	-	-	-	-
Corporate bonds	-	-	-	-	17,699,292	17,699,292	17,699,292
Certificates of deposit	-	4,121,000	4,121,000	-	12,858,825	12,858,825	16,979,825
Mutual funds	-	20,299,854	20,299,854	-	199,564,814	199,564,814	219,864,668
Money Market funds	-	1,769,933	1,769,933	-	-	-	1,769,933
Repurchase agreements	-	-	-	-	-	-	-
Commercial paper	-	-	-	-	-	-	-
Asset backed securities	-	-	-	-	-	-	-
Mortgage backed securities	-	-	-	-	-	-	-
Municipal bonds	-	-	-	-	-	-	-
U.S. agency securities	-	-	-	-	-	-	-
U.S. treasury securities	-	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-	-
Exchange traded funds (ETFs)	-	-	-	-	-	-	-
Alternative investments:							
Private equity (including limited partnerships)	-	-	-	-	1,423,849	1,423,849	1,423,849
Hedge funds	-	-	-	-	-	-	-
Managed futures	-	-	-	-	-	-	-
Real estate investments (including REITs)	-	-	-	-	-	-	-
Commodities	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-
Other alternative investment types	-	166,055	166,055	-	1,489,115	1,489,115	1,655,170
Other external investment pools (excluding SWIFT)							
Add description	-	-	-	-	-	-	-
Other major investments:							
Notes Receivable	-	-	-	-	638,000	638,000	638,000
Add description	-	-	-	-	-	-	-
Total investments	<u>-</u>	<u>26,356,842</u>	<u>26,356,842</u>	<u>-</u>	<u>233,673,895</u>	<u>233,673,895</u>	<u>260,030,737</u>
Less endowment investments (enter as negative number)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(188,432,286)</u>	<u>(188,432,286)</u>	<u>(188,432,286)</u>
Total investments	<u><u>-</u></u>	<u><u>26,356,842</u></u>	<u><u>26,356,842</u></u>	<u><u>-</u></u>	<u><u>45,241,609</u></u>	<u><u>45,241,609</u></u>	<u><u>71,598,451</u></u>

2.2 Investments held by the University under contractual agreements at June 30, 2016:

Portion of investments in note 2.1 held by the University under contractual agreements at June 30, 2016 :	-	-	-	-	-	-	-
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California Polytechnic State University Foundation

Other Information

June 30, 2016

(for inclusion in the California State University)

1.3 Restricted current investments at June 30, 2016 related to:

	Amount
Campus Programs	\$ 26,356,842
Add description	-
Total restricted current investments at June 30, 2016	\$ 26,356,842

1.4 Restricted noncurrent investments at June 30, 2016 related to:

	Amount
Endowment investment	\$ 188,432,286
Split Interest Trusts	12,275,558
Investments Held for Institutional Support	638,000
Campus Programs	32,328,051
Add description	-
Total restricted noncurrent investments at June 30, 2016	\$ 233,673,895

1.5 Fair value hierarchy in investments at June 30, 2016:

		Fair Value Measurements Using			
		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)
	Total				
State of California Surplus Money Investment Fund (SMIF)	\$ -	-	-	-	-
State of California Local Agency Investment Fund (LAIF)	-	-	-	-	-
Corporate bonds	17,699,292	17,699,292	-	-	-
Certificates of deposit	16,979,825	16,979,825	-	-	-
Mutual funds	219,864,668	219,864,668	-	-	-
Money Market funds	1,769,933	1,769,933	-	-	-
Repurchase agreements	-	-	-	-	-
Commercial paper	-	-	-	-	-
Asset backed securities	-	-	-	-	-
Mortgage backed securities	-	-	-	-	-
Municipal bonds	-	-	-	-	-
U.S. agency securities	-	-	-	-	-
U.S. treasury securities	-	-	-	-	-
Equity securities	-	-	-	-	-
Exchange traded funds (ETFs)	-	-	-	-	-
Alternative investments:					
Private equity (including limited partnerships)	1,423,849	-	-	-	1,423,849
Hedge funds	-	-	-	-	-
Managed futures	-	-	-	-	-
Real estate investments (including REITs)	-	-	-	-	-
Commodities	-	-	-	-	-
Derivatives	-	-	-	-	-
Other alternative investment types	1,655,170	-	-	166,055	1,489,115
Other external investment pools (excluding SWIFT)					
Add description	-	-	-	-	-
Other major investments:					
Notes Receivable	638,000	-	-	638,000	-
Add description	-	-	-	-	-
Total investments	260,030,737	256,313,718	-	804,055	2,912,964

California Polytechnic State University Foundation

Other Information

June 30, 2016

(for inclusion in the California State University)

i.1 Composition of capital assets at June 30, 2016:

	Balance June 30, 2015	Prior period Adjustments	Reclass- ifications	Balance 2015 (restated)	Additions	Reductions	Transfers of Completed CWIP	Balance June 30, 2016
Nondepreciable/nonamortizable capital assets:								
Land and land improvements	\$ -	-	-	-	-	-	-	-
Works of art and historical treasures	-	-	-	-	-	-	-	-
Construction work in progress (CWIP)	-	-	-	-	-	-	-	-
Intangible assets:								
Rights and easements	-	-	-	-	-	-	-	-
Patents, copyrights and trademarks	-	-	-	-	-	-	-	-
Internally generated intangible assets in progress	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Other intangible assets:								
Total intangible assets	-	-	-	-	-	-	-	-
Total nondepreciable/nonamortizable capital assets	-	-	-	-	-	-	-	-
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, copyright and trademarks	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Other intangible assets:								
Total intangible assets	-	-	-	-	-	-	-	-
Total depreciable/amortizable capital assets	-	-	-	-	-	-	-	-
Total capital assets	-	-	-	-	-	-	-	-
Less accumulated depreciation/amortization:								
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, copyright and trademarks	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Other intangible assets:								
Add description	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-
Total accumulated depreciation/amortization	-	-	-	-	-	-	-	-
Total capital assets, net	\$ -	-	-	-	-	-	-	-

California Polytechnic State University Foundation

Other Information

June 30, 2016

(for inclusion in the California State University)

3.2 Detail of depreciation and amortization expense for the year ended June 30, 2016:

Depreciation and amortization expense related to capital assets	\$ -
Amortization expense related to other assets	-
Total depreciation and amortization	\$ -

4 Long-term liabilities activity schedule:

	Balance June 30, 2015	Prior period adjustments	Reclass- ifications	Balance June 30, 2015 (restated)	Additions	Reductions	Balance June 30, 2016	Current portion	Long- term portion
Accrued compensated absences	\$ -	-	-	-	-	-	-	-	-
Claims liability for losses and loss adjustment expenses	-	-	-	-	-	-	-	-	-
Capitalized lease obligations:									
Gross balance	-	-	-	-	-	-	-	-	-
Unamortized premium / (discount) on capitalized lease obligations	-	-	-	-	-	-	-		-
Total capitalized lease obligations	-	-	-	-	-	-	-	-	-
Long-term debt obligations:									
Auxiliary revenue bonds	-	-	-	-	-	-	-	-	-
Commercial paper	-	-	-	-	-	-	-	-	-
Notes payable related to SRB	-	-	-	-	-	-	-	-	-
Others: (list by type)									
Add description	-	-	-	-	-	-	-	-	-
Total long-term debt obligations	-	-	-	-	-	-	-	-	-
Unamortized bond premium / (discount)	-	-	-	-	-	-	-		-
Total long-term debt obligations, net	-	-	-	-	-	-	-	-	-
Total long-term liabilities	\$ -	-	-	-	-	-	-	-	-

California Polytechnic State University Foundation
Other Information
June 30, 2016
(for inclusion in the California State University)

5 Future minimum lease payments - capitalized lease obligations:

	Capitalized lease obligations related to SRB			All other capitalized lease obligations			Total capitalized lease obligations		
	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest
Year ending June 30:									
2017	\$ -	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-	-
2022 - 2026	-	-	-	-	-	-	-	-	-
2027 - 2031	-	-	-	-	-	-	-	-	-
2032 - 2036	-	-	-	-	-	-	-	-	-
2037 - 2041	-	-	-	-	-	-	-	-	-
2042 - 2046	-	-	-	-	-	-	-	-	-
2047 - 2051	-	-	-	-	-	-	-	-	-
2052 - 2056	-	-	-	-	-	-	-	-	-
2057 - 2061	-	-	-	-	-	-	-	-	-
2062 - 2066	-	-	-	-	-	-	-	-	-
Total minimum lease payments	-	-	-	-	-	-	-	-	-
Less amounts representing interest									-
Present value of future minimum lease payments									-
Unamortized net premium (discount)									-
Total capitalized lease obligations									-
Less: current portion									-
Capitalized lease obligation, net of current portion									\$ -

California Polytechnic State University Foundation
Other Information
June 30, 2016
(for inclusion in the California State University)

6 Long-term debt obligation schedule

	Auxiliary revenue bonds			All other long-term debt obligations			Total long-term debt obligations		
	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest
Year ending June 30:									
2017	\$ -	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-	-
2022 - 2026	-	-	-	-	-	-	-	-	-
2027 - 2031	-	-	-	-	-	-	-	-	-
2032 - 2036	-	-	-	-	-	-	-	-	-
2037 - 2041	-	-	-	-	-	-	-	-	-
2042 - 2046	-	-	-	-	-	-	-	-	-
2047 - 2051	-	-	-	-	-	-	-	-	-
2052 - 2056	-	-	-	-	-	-	-	-	-
2057 - 2061	-	-	-	-	-	-	-	-	-
2062 - 2066	-	-	-	-	-	-	-	-	-
Total minimum payments	-	-	-	-	-	-	-	-	-
Less amounts representing interest									-
Present value of future minimum payments									-
Unamortized net premium (discount)									-
Total long-term debt obligations									-
Less: current portion									-
Long-term debt obligations, net of current portion									\$ -

California Polytechnic State University Foundation

Other Information

June 30, 2016

(for inclusion in the California State University)

7 Calculation of net position

7.1 Calculation of net position - net investment in capital assets

Capital assets, net of accumulated depreciation	\$	-
Capitalized lease obligations, current portion		-
Capitalized lease obligations, net of current portion		-
Long-term debt obligations, current portion		-
Long-term debt obligations, net of current portion		-
Portion of outstanding debt that is unspent at year-end		-
Other adjustments: (please list)		
Add description		-
Net position - net investment in capital asset	\$	-

7.2 Calculation of net position - restricted for nonexpendable - endowments

Portion of restricted cash and cash equivalents related to endowments	\$	51,871
Endowment investments		188,432,286
Other adjustments: (please list)		
Quasi endowments - Restricted Expendable		(22,362,177)
Endowment spending reserves - Restricted Expendable		(48,442,748)
Other subtractions to endowment principal - Restricted Expendable		(166,054)
Add description		-
Add description		-
Add description		-
Add description		-
Add description		-
Add description		-
Add description		-
Net position - Restricted for nonexpendable - endowments per SNP	\$	117,513,178

8 Transactions with related entities

	<u>Amount</u>
Payments to University for salaries of	
University personnel working on contracts, grants, and other programs	\$ 1,000,000
Payments to University for other than salaries of University personnel	1,120,088
Payments received from University for services, space, and programs	3,340,398
Gifts-in-kind to the University from discretely presented component units	-
Gifts (cash or assets) to the University from discretely presented component units	15,813,315
Accounts (payable to) University (enter as negative number)	-
Other amounts (payable to) University (enter as negative number)	(5,121,224)
Accounts receivable from University	171,906
Other amounts receivable from University	-

9 Other postemployment benefits obligation (OPEB)

Annual required contribution (ARC)	\$	-
Contributions during the year		-
Increase (decrease) in net OPEB obligation (NOO)		-
Other adjustments		-
NOO - beginning of year		-
NOO - end of year	\$	-

California Polytechnic State University Foundation
Other Information
June 30, 2016
(for inclusion in the California State University)

10 Pollution remediation liabilities under GASB Statement No. 49:

Description	Amount
Add description	-
Total pollution remediation liabilities	\$ -
Less: current portion	-
Pollution remediation liabilities, net of current portion	-

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

	Net Position Class	Amount Dr. (Cr.)
Net position as of June 30, 2015, as previously reported		\$ 268,908,038
Prior period adjustments:		
10 (list description of each adjustment)		-
Net position as of June 30, 2015, as restated		\$ 268,908,038

Provide a detailed breakdown of the journal entries

(at the financial statement line item level) booked to record each prior period adjustment:

	Debit	Credit
Net position class: _____		
1 (breakdown of adjusting journal entry)	\$ -	-
Net position class: _____		
2 (breakdown of adjusting journal entry)	-	-
Net position class: _____		
3 (breakdown of adjusting journal entry)	-	-
Net position class: _____		
4 (breakdown of adjusting journal entry)	-	-
Net position class: _____		
5 (breakdown of adjusting journal entry)	-	-
Net position class: _____		
6 (breakdown of adjusting journal entry)	-	-
Net position class: _____		
7 (breakdown of adjusting journal entry)	-	-
Net position class: _____		
8 (breakdown of adjusting journal entry)	-	-
Net position class: _____		
9 (breakdown of adjusting journal entry)	-	-
Net position class: _____		
10 (breakdown of adjusting journal entry)	-	-



**Independent Auditors' 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**

To the Board of Directors of
California Polytechnic State University Foundation
San Luis Obispo, California

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 California Polytechnic State University Foundation (the Company), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated September 8, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered California Polytechnic State University Foundation's internal control over financial reporting (internal control) to determine the 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 California Polytechnic State University Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of California Polytechnic State University Foundation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. As described below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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.



**Independent Auditors' 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 – Continued**

We consider the deficiency described below to be a *significant deficiency*.

Criteria: Journal entries for accrued contractual services should be reviewed for proper reporting and cut-off.

Condition: During our audit procedures, we noted that the Foundation had incorrectly recorded a journal entry in June 2016 that offset the due to the University account and contractual services compensation expense, which is the amount that the Foundation reimburses the State for salaries based on the approved budget by the board under the Master Operating Agreement (MOA) of the Foundation. An adjustment was required to increase contractual services compensation expense and increase the payable accounts by approximately \$2.3 million in order to properly reflect the amount that the Foundation will reimburse for contractual services for fiscal year ending June 30, 2016.

Cause: There was not a procedure in place at the Foundation to review the impact of the journal entry for the contractual services expense accounts, specifically for the campus program accounts.

Effect: Because of the failure to review and reconcile the contractual services expense accounts, the Foundation's expenses may be misstated.

Recommendation: Procedures should be implemented requiring the review of contractual services journal entries and expense accounts.

Views of responsible officials and planned corrective actions: The Foundation agrees with the finding and the recommended procedures will be implemented. Management of the Foundation also notes that timing played a factor given the quick year-end close to start the Foundation audit, and had there been more time in between the close and the start of the audit, the error may have been detected internally.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether California Polytechnic State University 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 determination of financial statement amounts. 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.



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California Polytechnic State University Foundation's Response to Finding

California Polytechnic State University Foundation's response to the finding identified in our audit is described in the section above under views of responsible officials and planned corrective actions. California Polytechnic State University Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Company'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.

Caliber Audit & Attest, LLP

San Luis Obispo, California
September 8, 2016