

California Polytechnic State University Foundation

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

Years Ended June 30, 2015 and 2014

California Polytechnic State University Foundation
Audited Financial Statements and
Supplementary Schedules for Inclusion in
the Financial Statements of the California State University
Years Ended June 30, 2015 and 2014

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying statements of net position of California Polytechnic State University Foundation (the Foundation) as of June 30, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the years 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 opinions.

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Opinions

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, 2015 and 2014, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 6 through 10 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 34 through 41 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.

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 4, 2015, on our consideration of the 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 the California Polytechnic State University Foundation's internal control over financial reporting and compliance.

Glenn Burdette Attest Corporation

Glenn Burdette Attest Corporation
San Luis Obispo, California

September 4, 2015

California Polytechnic State University Foundation
Management's Discussion and Analysis
June 30, 2015 and 2014

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, 2015 ("2015"), with comparative information for the fiscal year ending June 30, 2014 ("2014"). 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.

Analytical Overview

Summary

The following discussion highlights the key financial aspects of the Foundation's financial activities for 2015 and 2014. 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, 2013 ("2013").

California Polytechnic State University Foundation
Management's Discussion and Analysis
June 30, 2015 and 2014

Condensed Summary of Net Position

	June 30,		
	2015	2014	2013
Assets:			
Current assets	\$ 37,694,377	\$ 34,187,794	\$ 33,488,961
Noncurrent assets	243,716,355	232,925,166	210,194,158
Total assets	<u>281,410,732</u>	<u>267,112,960</u>	<u>243,683,119</u>
Liabilities:			
Current liabilities	4,801,232	1,891,793	2,233,292
Noncurrent liabilities	7,701,462	8,490,477	7,896,029
Total liabilities	<u>12,502,694</u>	<u>10,382,270</u>	<u>10,129,321</u>
Net position:			
Restricted, non-expendable	111,069,290	109,067,646	105,344,124
Restricted, expendable	157,131,114	146,207,151	126,684,039
Unrestricted	707,634	1,455,893	1,525,635
Total net position	<u>\$ 268,908,038</u>	<u>\$ 256,730,690</u>	<u>\$ 233,553,798</u>

Net Position

The Foundation's total net position in 2015 increased by \$12.2 million or 5% from the prior year as compared to an increase of \$23.2 million 10% in 2014. In 2015, total assets increased to \$281.4 million, a \$14.3 million or 5% increase from the prior year and was offset by total liabilities of \$12.5 million. Total liabilities at June 30, 2015 increased \$2.1 million from the prior year.

The increase in total net position in 2015 was primarily due to cash gifts of \$39.6 million offset by investment market value losses on the Foundation's endowment and short term investments. The increase in total net position in 2014 can be primarily attributed to investment market gains on the Foundation's endowment. The Foundation's endowment achieved returns of -1.0% in 2015 and 15.5% in fiscal 2014. In 2015, current assets increased \$3.5 million (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. Noncurrent assets increased \$10.8 million (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.

In 2014, current assets increased \$0.7 million (2%) primarily due to a \$2.2 million increase in cash and short term investments offset by a \$1.5 million decrease in current pledge receivables. Noncurrent assets increased \$22.7 million (11%) primarily due to a \$21.9 million growth in the endowment, a \$4.1 million increase in long-term pledge receivables, offset by a \$3.4 million decrease in other long-term investments.

California Polytechnic State University Foundation
Management's Discussion and Analysis
June 30, 2015 and 2014

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

	June 30,		
	2015	2014	2013
Non-expendable:			
Endowments	\$ 107,281,866	\$ 105,042,041	\$ 101,909,335
Split interest trusts	3,787,424	4,025,605	3,434,789
Total non-expendable	<u>\$ 111,069,290</u>	<u>\$ 109,067,646</u>	<u>\$ 105,344,124</u>
Expendable:			
Scholarships and fellowships	\$ 18,416,486	\$ 21,680,969	\$ 16,568,866
Research	4,801,403	9,406,072	6,161,104
Capital projects	31,215,310	10,688,575	17,526,061
Academic support	51,217,752	55,038,189	45,947,095
Other	51,480,163	49,393,346	40,480,913
Total expendable	<u>\$ 157,131,114</u>	<u>\$ 146,207,151</u>	<u>\$ 126,684,039</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 currently year (primarily in support of the University), and (iii) investment returns. Investment gains accounted for the largest changes in most categories in 2014 and 2013. The \$20.5 million increase in capital projects in 2015 was principally due to funds received for various agricultural facilities. The decrease in capital projects in 2014 was due to the Foundation's \$5.4 million payment to the University for the Warren J. Baker Center for Science and Mathematics. 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.

Unrestricted Net Position

Unrestricted net position decreased by \$750,000 in 2015 to \$0.7 million, a 51% decrease from June 30, 2014, primarily due to market value losses on mutual funds. Unrestricted net position decreased by \$0.1 million in 2014 to \$1.5 million, a 5% decrease from June 30, 2013, primarily due to an increase in salary reimbursements to the University.

California Polytechnic State University Foundation
Management's Discussion and Analysis
June 30, 2015 and 2014

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

	Year Ended June 30,		
	2015	2014	2013
Operating revenues	\$ 37,221,431	\$ 13,580,949	\$ 20,140,046
Operating expenses	(29,754,479)	(23,687,664)	(22,530,882)
Operating income (loss)	7,466,952	(10,106,715)	(2,390,836)
Nonoperating revenues (expenses)	1,903,454	29,912,307	14,452,269
Additions to permanent endowments and other	2,806,942	3,371,300	2,195,769
Increase in net position	12,177,348	23,176,892	14,257,202
Beginning net position	256,730,690	233,553,798	219,296,596
Ending net position	<u>\$ 268,908,038</u>	<u>\$ 256,730,690</u>	<u>\$ 233,553,798</u>

Operating revenues, consisting generally of currently expendable contributions to the Foundation for the benefit of the University, totaled \$37.2 million, an increase of \$23.6 million from 2014. This is compared to operating revenues of \$13.6 million in 2014, a \$6.6 million (33%) decrease from 2013 due to decreased donor support for capital projects to the Foundation. These changes primarily related to funds received for various agricultural facilities in 2015 and the Warren J. Baker Center for Science and Mathematics which opened in September 2013. Operating expenses of \$29.8 million in 2015 increased \$6.1 million (26%) from 2014 due to increased payouts from the endowment which lead to increased program expenditures.

Nonoperating revenues (expenses) consist primarily of investment returns (unrealized and realized gains and losses on marketable securities, interest, and dividends), net of fees. Investment returns produced \$1.3 million in 2015, compared to \$29.2 million in 2014 and \$17.8 million in 2013. Included in nonoperating revenues in 2013 was a \$3.9 million write-off of pledges receivable. Additions to the endowment were \$2.8 million in 2015, compared to \$3.4 million in 2014 and \$2.2 million in 2013.

Capital Assets and Long-Term Debt Obligations

At June 30, 2015, the Foundation has no capital assets or long-term debt obligations.

California Polytechnic State University Foundation
Management's Discussion and Analysis
June 30, 2015 and 2014

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 4.25% spending rate against the average value of the 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. There were 64 endowments that the total value was below its donor contributions at June 30, 2015. 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 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 2015. As a result, the Foundation's investment committee moved \$20.0 million in 2015 into diversified portfolio of 50% equities and 50% bond mutual funds to achieve a higher return on investment, reducing the Foundation's bond portfolio and increasing its equities position. The Foundation's investment committee moved \$14.5 million in 2012 and 2013 into bond mutual funds. In 2015, the 50% equities/50% bonds portfolio returned \$0.9 million (0.8%). In 2014, the bond mutual funds returned \$0.7 million (5.1%) compared with a loss of \$0.3 million (-1.7%) in 2013. The Foundation employs the unrestricted portion of these funds to pay its administrative expenses and applies any surplus to support campus fundraising activities.

The Foundation holds within restricted expendable assets \$26.1 million for capital projects planned by the University. The Foundation transferred \$5.4 million to the University in August 2013 for the Warren J. Baker Center for Science and Mathematics. 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, 2015 and 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,010,396	\$ 9,282,854
Short-term investments	26,095,898	19,636,096
Accounts receivable, net	293,613	69,264
Pledges receivable, net	3,842,168	4,609,883
Prepaid expenses	49,581	186,976
Other assets	402,721	402,721
Total current assets	<u>37,694,377</u>	<u>34,187,794</u>
Noncurrent assets:		
Restricted cash and cash equivalents	467,139	727,717
Pledges receivable, net	12,238,712	14,107,435
Endowment investments	189,993,354	198,089,247
Other long-term investments	40,797,361	19,955,032
Other assets	219,789	45,735
Total noncurrent assets	<u>243,716,355</u>	<u>232,925,166</u>
Total assets	<u>281,410,732</u>	<u>267,112,960</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>
Liabilities		
Current liabilities:		
Accounts payable	4,298,732	1,259,293
Unearned revenue	502,500	632,500
Total current liabilities	<u>4,801,232</u>	<u>1,891,793</u>
Noncurrent liabilities:		
Other liabilities:		
Split interest trust liabilities to individual beneficiaries	6,830,860	7,677,750
Split interest trust liabilities to external charitable residuary beneficiaries	870,602	812,727
Total noncurrent liabilities	<u>7,701,462</u>	<u>8,490,477</u>
Total liabilities	<u>12,502,694</u>	<u>10,382,270</u>
Deferred Inflows of Resources	<u>-</u>	<u>-</u>

The accompanying notes are an integral part of these financial statements.

California Polytechnic State University Foundation
Statements of Net Position
June 30, 2015 and 2014
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	<u>2015</u>	<u>2014</u>
Net Position		
Restricted for:		
Non-expendable:		
Endowments	\$ 107,281,866	\$ 105,042,041
Split interest trusts for establishment of endowments	3,787,424	4,025,605
Expendable:		
Scholarships and fellowships	18,416,486	21,680,969
Research	4,801,403	9,406,072
Capital projects	31,215,310	10,688,575
Instruction	41,670,990	29,917,215
Academic support	51,217,752	55,038,189
Institutional support	3,696,617	5,436,813
Operation & maintenance of plant	4,605,140	7,882,345
Other	1,507,416	6,156,973
Unrestricted	<u>707,634</u>	<u>1,455,893</u>
Total net position	<u><u>\$ 268,908,038</u></u>	<u><u>\$ 256,730,690</u></u>

The accompanying notes are an integral part of these financial statements.

California Polytechnic State University Foundation
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2015 and 2014

	2015	2014
Operating revenues:		
Contributions - University programs	\$ 17,849,867	\$ 13,481,924
Contributions - University capital	19,371,564	99,025
Total operating revenues	<u>37,221,431</u>	<u>13,580,949</u>
Operating expenses:		
Instruction	3,719,956	1,070,473
Research	-	402,734
Public service	-	468,381
Academic support	9,586,779	5,900,361
Student services	438,266	586,370
Institutional support	13,885,927	13,037,513
Operation and maintenance of plant	-	122,201
Student grants and scholarships	2,123,551	2,099,631
Total operating expenses	<u>29,754,479</u>	<u>23,687,664</u>
Operating income (loss)	<u>7,466,952</u>	<u>(10,106,715)</u>
Nonoperating revenues (expenses):		
Investment income (loss), net	(39,608)	848,185
Endowment net investment income, net of fees \$590,000 and \$580,000, respectively	1,337,850	28,351,112
Change in value of split interest trusts	127,693	592,276
Other nonoperating expenses	477,519	120,734
Total nonoperating revenues (expenses)	<u>1,903,454</u>	<u>29,912,307</u>
Income before other additions	9,370,406	19,805,592
Additions to permanent endowments and split interest trusts	<u>2,806,942</u>	<u>3,371,300</u>
Increase in net position	12,177,348	23,176,892
Net position - beginning of year	<u>256,730,690</u>	<u>233,553,798</u>
Net position - end of year	<u>\$ 268,908,038</u>	<u>\$ 256,730,690</u>

The accompanying notes are an integral part of these financial statements.

California Polytechnic State University Foundation
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash contributions received	\$ 39,087,212	\$ 11,220,728
Cash payments for operating expenses	(26,577,642)	(23,957,369)
Other receipts	(130,000)	44,000
Net cash provided by (used in) operating activities	<u>12,379,570</u>	<u>(12,692,641)</u>
Cash flows from noncapital financing activities:		
Cash contributions received for permanent endowments and split interest trusts	2,806,942	2,478,555
Payments of long-term payable	-	(415,532)
Distributions to split interest trust beneficiaries	(860,256)	(826,230)
Fees and expenses of split interest trusts	(134,635)	(131,236)
Other noncapital financing activities	477,519	120,734
Net cash provided by noncapital financing activities	<u>2,289,570</u>	<u>1,226,291</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	61,066,974	19,657,295
Purchases of investments	(87,617,589)	(14,261,855)
Investment income proceeds	9,348,439	6,623,696
Net cash provided by (used in) investing activities	<u>(17,202,176)</u>	<u>12,019,136</u>
Net increase (decrease) in cash and cash equivalents	(2,533,036)	552,785
Cash and cash equivalents - beginning of year	<u>10,010,571</u>	<u>9,457,786</u>
Cash and cash equivalents - end of year	<u><u>\$ 7,477,535</u></u>	<u><u>\$ 10,010,571</u></u>
Summary of cash and cash equivalents - end of year:		
Cash and cash equivalents	\$ 7,010,396	\$ 9,282,854
Restricted cash and cash equivalents	467,139	727,717
Total cash and cash equivalents - end of year	<u><u>\$ 7,477,535</u></u>	<u><u>\$ 10,010,571</u></u>

The accompanying notes are an integral part of these financial statements.

California Polytechnic State University Foundation

Statements of Cash Flows

Year Ended June 30, 2015 and 2014

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Reconciliation of operating loss to net cash used in operating activities:

Operating income (loss)	\$ 7,466,952	\$ (10,106,715)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Non-cash operating contributions	(526,658)	189,952
Change in assets and liabilities:		
Accounts receivable, net	(243,999)	105,630
Pledges receivable, net	2,636,438	(2,616,866)
Prepaid expenses	137,395	(114,128)
Other assets	-	125,000
Accounts payable	3,039,442	(319,514)
Unearned revenue	(130,000)	44,000
	<u>\$ 12,379,570</u>	<u>\$ (12,692,641)</u>

Supplemental disclosures of cash flow information:

Contributions of investments	\$ 526,658	\$ 1,197,008
Increase (decrease) in fair value of investments	\$ (7,871,032)	\$ 24,697,303

The accompanying notes are an integral part of these financial statements.

California Polytechnic State University Foundation
Notes to Financial Statements
June 30, 2015 and 2014

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 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 to be noncurrent.

California Polytechnic State University Foundation**Notes to Financial Statements****June 30, 2015 and 2014****Page 2****Note 2: Summary of Significant Accounting Policies (Continued)****Cash Equivalents**

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. 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, hedge 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. In subsequent periods, real estate is evaluated for impairment based on market conditions, market quotes or updated 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, 2015 and 2014. The allowance for uncollectible accounts is based upon prior experience and management's assessment of the collectability of specific existing accounts.

California Polytechnic State University Foundation

Notes to Financial Statements

June 30, 2015 and 2014

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Note 2: Summary of Significant Accounting Policies (Continued)

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. 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 \$1.4 million and \$0.7 million at June 30, 2015 and 2014, respectively. The 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.

Endowments

The Foundation holds 823 individual endowments which 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 as of June 30, 2015 and 2014, were \$58.6 million and \$55.1 million, respectively, and were included in restricted expendable net position. The Foundation's payout policy for endowments with reserves applies a 4.25% 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.

California Polytechnic State University Foundation

Notes to Financial Statements

June 30, 2015 and 2014

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Note 2: Summary of Significant Accounting Policies (Continued)

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.

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

California Polytechnic State University Foundation

Notes to Financial Statements

June 30, 2015 and 2014

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Note 2: Summary of Significant Accounting Policies (Continued)

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.

Institutional support expenses included \$3.9 million and \$4.2 million expended to provide support for University staff, administer the gifts and endowments, and to operate the Foundation for the years ended June 30, 2015 and 2014, respectively.

Nonoperating 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, but to provide the natural classification of those expenses as an additional disclosure. Using natural expense classifications, all operating expenses are supplies and other services except for student scholarships.

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.

California Polytechnic State University Foundation

Notes to Financial Statements

June 30, 2015 and 2014

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Note 2: Summary of Significant Accounting Policies (Continued)

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 June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, that addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers. The provisions of Statement No. 68 were effective for financial statements for fiscal years beginning after June 15, 2014.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The provisions of Statement No. 69 are effective for government combinations and disposals of government operations occurring after December 15, 2013.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. This Statement specifies the information required to be disclosed by governments that extend non-exchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive non-exchange financial guarantees. The provisions of Statement No. 70 are effective for fiscal years beginning after June 15, 2013.

California Polytechnic State University Foundation

Notes to Financial Statements

June 30, 2015 and 2014

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Note 2: Summary of Significant Accounting Policies (Continued)

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This Statement addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of Statement No. 71 are required to be applied simultaneously with the provisions of Statement No. 68.

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.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statements No. 67 and No. 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016.

California Polytechnic State University Foundation

Notes to Financial Statements

June 30, 2015 and 2014

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Note 2: Summary of Significant Accounting Policies (Continued)

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 2105, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose certain information about these agreements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

GASB Statements No. 68, 71, 73, 74, and 75 have no impact on the Foundation as it does not have any employees. Management implemented GASB Statements No. 69 and 70 for the Foundation's June 30, 2014 financial statements; implementation of these statements did not have a material impact to the Foundation's financial statements. Management has not determined the impact of GASB Statements No. 72 and 76 on the Foundation's financial statements. GASB Statement No. 77 has no impact on the Foundation as it does not have any such agreements.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current financial statement presentation.

Subsequent Events

Events subsequent to June 30, 2015 have been evaluated through September 4, 2015, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that required disclosure.

Note 3: Cash and Cash Equivalents

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, 2015, 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, 2015, the Foundation had approximately \$6.1 million in uninsured cash deposits.

California Polytechnic State University Foundation
Notes to Financial Statements
June 30, 2015 and 2014
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Note 3: Cash and Cash Equivalents (continued)

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

	2015	2014
Restricted and nonexpendable cash and cash equivalents:		
Endowments	\$ 53,625	\$ 505,078
Split interest trusts	413,514	222,639
Total	<u>\$ 467,139</u>	<u>\$ 727,717</u>

Note 4: Investments

Investments were classified in the accompanying financial statements as follows:

	2015	2014
Short-term investments	\$ 26,095,898	\$ 19,636,096
Endowment investments	189,993,354	198,089,247
Other long-term investments	40,797,361	19,955,032
Total	<u>\$ 256,886,613</u>	<u>\$ 237,680,375</u>

Other long-term investments included \$12.9 million and \$14.3 million of investments held in split interest trusts at June 30, 2015 and 2014, respectively.

At June 30, 2015, investments comprised the following:

	2015		
	Current	Noncurrent	Total
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	121,443,082	131,288,399
Bond funds	9,667,797	69,927,316	79,595,113
All asset fund	2,894,469	25,175,367	28,069,836
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>

California Polytechnic State University Foundation
Notes to Financial Statements
June 30, 2015 and 2014
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Note 4: Investments (Continued)

At June 30, 2014, investments comprised the following:

	2014		
	Current	Noncurrent	Total
Certificates of deposit	\$ 4,547,843	\$ 5,322,226	\$ 9,870,069
Notes receivable		638,000	638,000
Mutual funds:			
Equity funds		121,563,936	121,563,936
Bond funds	15,088,253	53,724,845	68,813,098
All asset fund		27,630,332	27,630,332
Other investments:			
Partnership interest		166,055	166,055
Alternative investments		8,998,885	8,998,885
Total	\$ 19,636,096	\$ 218,044,279	\$ 237,680,375

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 so as 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.

California Polytechnic State University Foundation

Notes to Financial Statements

June 30, 2015 and 2014

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Note 4: Investments (Continued)

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, 2015, the Foundation had contractual commitments to invest an additional \$0.6 million in various limited partnership 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 Securities Risks:

Equity securities held by the Foundation either directly or through mutual funds comprised \$131.3 million or 51% of the total investments of the Foundation at June 30, 2015. 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

California Polytechnic State University Foundation**Notes to Financial Statements****June 30, 2015 and 2014****Page 12****Note 4: Investments (Continued)**

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, 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, 2015, the credit ratings of the Foundation's fixed income securities were as follows:

	Fair Value	Rating
Bond mutual funds:		
DFA Intermediate Government Bond	\$ 20,038,135	AAA
Various Corporate Bonds	14,984,794	A
PIMCO Total Return Fund - Institutional	14,001,672	A
PIMCO Foreign Bond Fund - Institutional	11,557,121	A
Loomis Sayles Bond Fund - Institutional	9,886,086	A
PIMCO High Yield Fund - Institutional	6,475,399	BB
Various Corporate Bonds	2,627,806	BBB
Bond Fund of America	24,100	AA
Money market funds:		
Wells Fargo Cash Investment Money Market - Institutional	735,045	Unrated
Schwab One Fund	511,294	Unrated
Total fixed income and debt securities subject to credit risk	<u>\$ 80,841,452</u>	

Custodial Risk:

Custodial risk is the risk that in the event of the failure of the custodian, the investments may not be returned. 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.

California Polytechnic State University Foundation**Notes to Financial Statements****June 30, 2015 and 2014****Page 13****Note 4: Investments (Continued)***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, 2015, the weighted average duration of the Foundation's fixed income securities was as follows:

	Fair Value	Weighted Average Duration (in years)
Bond mutual funds:		
DFA Intermediate Government Bond	\$ 20,038,135	5.4
Various Corporate Bonds	14,984,794	1.9
PIMCO Total Return Fund - Institutional	14,001,672	3.7
PIMCO Foreign Bond Fund - Institutional	11,557,121	7.6
Loomis Sayles Bond Fund - Institutional	9,886,086	4.8
PIMCO High Yield Fund - Institutional	6,475,399	4.1
Various Corporate Bonds	2,627,806	2.1
Bond Fund of America	24,100	4.4
Money market funds	<u>1,246,339</u>	0
Total fixed income and debt securities subject to interest rate risk	<u>\$ 80,841,452</u>	4.4

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 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

California Polytechnic State University Foundation**Notes to Financial Statements****June 30, 2015 and 2014****Page 14****Note 4: Investments (Continued)**

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 endowments and split interest trusts at June 30, 2015 was as follows:

	Fair Value
Euro	\$ 8,363,202
British Pounds	6,640,378
Japanese Yen	5,016,859
Swiss Francs	2,684,533
Hong Kong Dollars	1,643,976
Chinese Yuan	1,556,470
Canadian Dollars	1,401,320
Korean Won	1,268,536
Taiwanese Dollars	1,224,215
Mexican Pesos	954,423
Other	<u>8,353,786</u>
Total investments subject to foreign currency risk	<u><u>\$ 39,107,698</u></u>

Other currencies are individually less than 1% of the Foundation's investments. The foreign currency risk by investment type at June 30, 2015 was as follows:

Equity mutual funds	\$ 31,579,620
Bond mutual funds	6,993,694
Alternative investments	<u>534,384</u>
Total investments subject to foreign currency risk	<u><u>\$ 39,107,698</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. Generally these investments do not have a ready market or may not be traded without approval of the general partner or fund management.

California Polytechnic State University Foundation**Notes to Financial Statements****June 30, 2015 and 2014****Page 15****Note 4: Investments (Continued)**

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, 2015, the Foundation held alternative investments at estimated fair value in its endowments as follows:

Private equity limited partnerships	\$ 1,629,810
Venture capital limited partnerships	1,162,692
Distressed debt	<u>554,134</u>
Total	<u><u>\$ 3,346,636</u></u>

Note 5: Pledges Receivable

Pledges receivable comprised the following at June 30:

	2015	2014
Campus programs support	\$ 2,881,584	\$ 5,039,717
College-specific facilities	11,691,514	12,625,765
Scholarship contributions	<u>3,783,887</u>	<u>2,329,506</u>
Subtotal	18,356,985	19,994,988
Less: Allowance for uncollectible accounts	(1,380,936)	(709,736)
Less: Unamortized discount	<u>(895,169)</u>	<u>(567,934)</u>
Pledges receivable, net	<u><u>\$ 16,080,880</u></u>	<u><u>\$ 18,717,318</u></u>
Pledges due in:		
One year or less	\$ 3,842,168	\$ 4,609,883
One to five years	13,342,871	14,355,599
More than five years	<u>1,171,946</u>	<u>1,029,506</u>
Total	<u><u>\$ 18,356,985</u></u>	<u><u>\$ 19,994,988</u></u>

California Polytechnic State University Foundation**Notes to Financial Statements****June 30, 2015 and 2014****Page 16****Note 5: Pledges Receivable (Continued)**

At June 30, 2015, pledges receivable from three donors represented approximately 66% of pledges receivable while at June 30, 2014, three donors represented 74% 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, 2015 and 2014:

	2015	2014
Accounts receivable	\$ -	\$ 13,353
Accounts payable	\$ 1,000,000	\$ 486,276
Reimbursements to University for salaries and benefits of University personnel	\$ 3,111,642	\$ 3,893,139
Reimbursements to University for other than salaries of University personnel	\$ 1,263,928	\$ 1,935,620
Cash gifts to the University	\$ 11,123,551	\$ 9,774,944
Noncash gifts to the University	\$ 37,623	\$ 373,462

The Foundation contracts with CPC for information technology and other services through June 30, 2015 at a cost of \$100,000 per year. Effective July 1, 2015, a new agreement was implemented through June 30, 2017. CPC is the employer for certain employees who perform services that fulfill donor restrictions on the use of Foundation gifts and endowments. The costs of payroll, taxes, insurance and benefits of those employees are charged to the Foundation.

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, 2015 and 2014:

	2015	2014
Current accounts receivable	\$ 237,613	\$ 47,700
Accounts payable	\$ 25,370	\$ 61,150
Endowment payable	\$ -	\$ 15,962
Payments to CPC under ASA	\$ 100,000	\$ 156,857
Reimbursements to CPC for salaries and benefits	\$ 1,373,122	\$ 1,778,097
Cash contributions to CPC	\$ 2,684,578	\$ 1,412,182
Cash contributions from CPC	\$ 631,638	\$ 722,812

California Polytechnic State University Foundation

Notes to Financial Statements

June 30, 2015 and 2014

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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 \$1.7 million related to split interest trusts at June 30, 2015 and 2014.

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 for individual claims up to \$15 million per occurrence. Errors and omission claims under \$25,000 are self-insured. The Foundation also maintains excess property insurance coverage to limits of \$100 million in excess of \$5,000 self-insured limits. There have been no settlements since the Foundation's inception that have exceeded insurance limits. There are no self-insurance claims liabilities recorded in the accompanying financial statements because any amounts at June 30, 2015 are expected to be minimal. Likewise, no amounts have been paid to CSURMA during the year ended June 30, 2015, related to the Foundation's estimated future funding for claims liability.

Note 9: Commitments

The Foundation has a funding guarantee to the University totaling \$939 thousand as of June 30, 2015 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.

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

California Polytechnic State University Foundation
Schedule of Net Position
June 30, 2015
(for inclusion in the California State University)

Assets:	
Current assets:	
Cash and cash equivalents	\$ 7,010,396
Short-term investments	26,095,898
Accounts receivable, net	293,613
Leases receivable, current portion	—
Notes receivable, current portion	—
Pledges receivable, net	3,842,168
Prepaid expenses and other assets	452,302
Total current assets	<u>37,694,377</u>
Noncurrent assets:	
Restricted cash and cash equivalents	467,139
Accounts receivable, net	—
Leases receivable, net of current portion	—
Notes receivable, net of current portion	—
Student loans receivable, net	—
Pledges receivable, net	12,238,712
Endowment investments	189,993,354
Other long-term investments	40,797,361
Capital assets, net	—
Other assets	219,789
Total noncurrent assets	<u>243,716,355</u>
Total assets	<u>281,410,732</u>
Deferred outflows of resources:	
Unamortized loss on debt refunding	—
Net pension obligation	—
Others	—
Total deferred outflows of resources	<u>—</u>
Liabilities:	
Current liabilities:	
Accounts payable	4,298,732
Accrued salaries and benefits payable	—
Accrued compensated absences— current portion	502,500
Unearned revenue	—
Capitalized lease obligations – current portion	—
Long-term debt obligations – current portion	—
Claims Liability for losses and LAE - current portion	—
Depository accounts	—
Other liabilities	—
Total current liabilities	<u>4,801,232</u>
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 LAE, net of current portion	—
Depository accounts	—
Other postemployment benefits obligation	—
Pension obligation	—
Other liabilities	7,701,462
Total noncurrent liabilities	<u>7,701,462</u>
Total liabilities	<u>12,502,694</u>
Deferred inflows of resources:	
Unamortized gain on debt refunding	—
Non-exchange transactions	—
Service concession arrangements	—
Net pension obligation	—
Others	—
Total deferred inflows of resources	<u>—</u>
Net Position:	
Net investment in capital assets	—
Restricted for:	
Nonexpendable – endowments	110,978,483
Expendable:	
Scholarships and fellowships	18,416,486
Research	4,801,403
Loans	—
Capital projects	31,215,310
Debt service	—
Other	102,788,722
Unrestricted	707,634
Total net position	<u>\$ 268,908,038</u>

California Polytechnic State University Foundation
Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2015
(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		—
Total operating revenues		<u>—</u>

Expenses:

Operating expenses:

Instruction	3,719,956
Research	—
Public service	—
Academic support	9,586,779
Student services	438,266
Institutional support	13,885,927
Operation and maintenance of plant	—
Student grants and scholarships	2,123,551
Auxiliary enterprise expenses	—
Depreciation and amortization	—
Total operating expenses	<u>29,754,479</u>
Operating income (loss)	<u>(29,754,479)</u>

Nonoperating revenues (expenses):

State appropriations, noncapital	—
Federal financial aid grants, noncapital	—
State financial aid grants, noncapital	—
Local financial aid grants, noncapital	—
Nongovernmental and other financial aid grants, noncapital	—
Other federal nonoperating grants, noncapital	—
Gifts, noncapital	17,849,867
Investment income (loss), net	(39,608)
Endowment income (loss), net	1,337,850
Interest Expenses	—
Other nonoperating revenues (expenses)	<u>605,212</u>
Net nonoperating revenues (expenses)	<u>19,753,321</u>
Income (loss) before other additions	<u>(10,001,158)</u>

State appropriations, capital

Grants and gifts, capital	19,371,564
Additions (reductions) to permanent endowments	<u>2,806,942</u>
Increase (decrease) in net position	<u>12,177,348</u>

Net position:

Net position at beginning of year, as previously reported	256,730,690
Restatements	—
Net position at beginning of year, as restated	<u>256,730,690</u>
Net position at end of year	<u>\$ 268,908,038</u>

California Polytechnic State University Foundation
Other Information
June 30, 2015
(for inclusion in the California State University)

1 Restricted cash and cash equivalents at June 30, 2015:

Portion of restricted cash and cash equivalents related to endowments	\$ 53,625
All other restricted cash and cash equivalents	<u>413,514</u>
Total restricted cash and cash equivalents	<u>\$ 467,139</u>

2.1 Composition of investments at June 30, 2015:

	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	-	-	-	-	17,612,601	17,612,601	17,612,601
Certificates of deposit	-	3,688,315	3,688,315	-	10,094,259	10,094,259	13,782,574
Mutual funds	-	22,407,583	22,407,583	-	199,099,215	199,099,215	221,506,798
Money Market funds	-	-	-	-	-	-	-
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)	-	-	-	-	1,629,810	1,629,810	1,629,810
Hedge funds	-	-	-	-	-	-	-
Managed futures	-	-	-	-	-	-	-
Real estate investments (including REITs)	-	-	-	-	-	-	-
Commodities	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-
Other alternative investment types	-	-	-	-	1,716,830	1,716,830	1,716,830
Other external investment pools (excluding SWIFT)							
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Other major investments:							
Notes Receivable	-	-	-	-	638,000	638,000	638,000
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Total investments	<u>-</u>	<u>26,095,898</u>	<u>26,095,898</u>	<u>-</u>	<u>230,790,715</u>	<u>230,790,715</u>	<u>256,886,613</u>
Less endowment investments (enter as negative number)					(189,993,354)	(189,993,354)	(189,993,354)
Total investments	<u>-</u>	<u>26,095,898</u>	<u>26,095,898</u>	<u>-</u>	<u>40,797,361</u>	<u>40,797,361</u>	<u>66,893,259</u>

2.2 Investments held by the University under contractual agreements at June 30, 2015:

Portion of investments in note 2.1 held by the University under contractual agreements at June 30, 2015:	-	-	-	-	-	-	-
--	---	---	---	---	---	---	---

2.3 Restricted current investments at June 30, 2015 related to:

Campus Programs	<u>\$ 26,095,898</u>
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Total restricted current investments at June 30, 2015	<u>\$ 26,095,898</u>

2.4 Restricted noncurrent investments at June 30, 2015 related to:

Endowment investment	<u>\$ 189,993,354</u>
Split Interest Trusts	12,455,330
Investments Held for Institutional Support	638,000
Campus Programs	27,704,031
Add description	—
Add description	—
Add description	—
Add description	—
Total restricted noncurrent investments at June 30, 2015	<u>\$ 230,790,715</u>

California Polytechnic State University Foundation
Other Information
June 30, 2015
(for inclusion in the California State University)

3.1 Composition of capital assets at June 30, 2015:

	Balance June 30, 2014	Prior period Adjustments	Reclassifications	Balance June 30, 2014 (restated)	Additions	Reductions	Transfers of Completed CWIP	Balance June 30, 2015
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	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-
Total accumulated depreciation/amortization	-	-	-	-	-	-	-	-
Total capital assets, net	\$ -	-	-	-	-	-	-	-

California Polytechnic State University Foundation
Other Information
June 30, 2015
(for inclusion in the California State University)

3.2 Detail of depreciation and amortization expense for the year ended June 30, 2015:

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, 2014	Prior period adjustments	Reclassifications	Balance June 30, 2014 (restated)	Additions	Reductions	Balance June 30, 2015	Current portion	Long-term portion
Accrued compensated absences	\$ —	—	—	—	-	-	—	—	—
Capitalized lease obligations:									
Gross balance	—	—	—	—	-	-	—	—	—
Unamortized premium / (discount) on capitalized lease obligations	—	—	—	—	-	-	—	—	—
Total capitalized lease obligations	—	—	—	—	-	-	—	—	—
Long-term debt obligations:									
Revenue Bonds	—	—	—	—	-	-	—	—	—
Other bonds (non-Revenue Bonds)	—	—	—	—	-	-	—	—	—
Commercial Paper	—	—	—	—	-	-	—	—	—
Note Payable related to SRB	—	—	—	—	-	-	—	—	—
Other:									
Add description	—	—	—	—	-	-	—	—	—
Add description	—	—	—	—	-	-	—	—	—
Add description	—	—	—	—	-	-	—	—	—
Add description	—	—	—	—	-	-	—	—	—
Add description	—	—	—	—	-	-	—	—	—
Add description	—	—	—	—	-	-	—	—	—
Total long-term debt obligations	—	—	—	—	-	-	—	—	—
Unamortized bond premium / (discount)	—	—	—	—	-	-	—	—	—
Total long-term debt obligations, net	—	—	—	—	—	—	—	—	—
Total long-term liabilities	\$ —	—	—	—	—	—	—	—	—

5 Future minimum lease payments - capital lease obligations:

	Principal	Interest	Principal and Interest
Year ending June 30:			
2016	-	-	—
2017	-	-	—
2018	-	-	—
2019	-	-	—
2020	-	-	—
2021 - 2025	-	-	—
2026 - 2030	-	-	—
2031 - 2035	-	-	—
2036 - 2040	-	-	—
2041 - 2045	-	-	—
2046 - 2050	-	-	—
2051 - 2055	-	-	—
2056 - 2060	-	-	—
2061 - 2065	-	-	—
Total minimum lease payments			—
Less amounts representing interest			—
Present value of future minimum lease payments			—
Less: current portion			—
Capitalized lease obligation, net of current portion			\$ —

California Polytechnic State University Foundation
Other Information
June 30, 2015
(for inclusion in the California State University)

6 Long-term debt obligation schedule

	Revenue Bonds			All other long-term debt obligations			Total		
	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest
Year ending June 30:									
2016	\$ -	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-	-
2021 - 2025	-	-	-	-	-	-	-	-	-
2026 - 2030	-	-	-	-	-	-	-	-	-
2031 - 2035	-	-	-	-	-	-	-	-	-
2036 - 2040	-	-	-	-	-	-	-	-	-
2041 - 2045	-	-	-	-	-	-	-	-	-
2046 - 2050	-	-	-	-	-	-	-	-	-
2051 - 2055	-	-	-	-	-	-	-	-	-
2056 - 2060	-	-	-	-	-	-	-	-	-
2061 - 2065	-	-	-	-	-	-	-	-	-
Total	\$ -	-	-	-	-	-	-	-	-

7 Calculation of net position

	Auxiliary Organizations		Total
	GASB	FASB	Auxiliaries
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	—	—	—
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
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	\$ 53,625		53,625
Endowment investments	189,993,354		189,993,354
Other adjustments: (please list)			
Quasi endowments - Restricted Expendable	(19,932,243)		(19,932,243)
Endowment spending reserves - Restricted Expendable	(58,611,947)		(58,611,947)
Other subtractions to endowment principal - Restricted Expendable	(524,306)	—	(524,306)
Net Endowment payables and receivables	—	—	—
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Net position - Restricted for nonexpendable - endowments per SNP	\$ 110,978,483	—	110,978,483

California Polytechnic State University Foundation
Other Information
June 30, 2015
(for inclusion in the California State University)

8 Transactions with Related Entities

	Amount
Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$ 3,111,642
Payments to University for other than salaries of University personnel	1,263,928
Payments received from University for services, space, and programs	—
Gifts-in-kind to the University from discretely presented component units	37,623
Gifts (cash or assets) to the University from discretely presented component units	11,123,551
Accounts (payable to) University (enter as negative number)	(1,000,000)
Other amounts (payable to) University (enter as negative number)	—
Accounts receivable from University	—
Other amounts receivable from University	—

9 Other Postemployment Benefits Obligation (OPEB)

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

10 Pollution remediation liabilities under GASB Statement No. 49:

Description	Amount
Add description	\$ —
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
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, 2014, as previously reported		\$ 256,730,690
Prior period adjustments:		
1 (list description of each adjustment)		—
2 (list description of each adjustment)		—
3 (list description of each adjustment)		—
4 (list description of each adjustment)		—
5 (list description of each adjustment)		—
6 (list description of each adjustment)		—
7 (list description of each adjustment)		—
8 (list description of each adjustment)		—
9 (list description of each adjustment)		—
10 (list description of each adjustment)		—
Net position as of June 30, 2014, as restated		\$ 256,730,690

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***

Board of Directors
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 statements of net position and related statements of revenues, expenses and changes in net position and cash flows of California Polytechnic State University Foundation (the Foundation) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated September 4, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of 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*.

Purpose of this Report

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

A handwritten signature in black ink that reads "GLENN BURDETTE ATTEST CORPORATION". The signature is written in a cursive, slightly stylized font.

Glenn Burdette Attest Corporation
San Luis Obispo, California

September 4, 2015