

California Polytechnic State University Foundation

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

June 30, 2018 and 2017

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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 statements of net position of California Polytechnic State University Foundation (the Foundation), a non-profit organization, as of June 30, 2018 and 2017, 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 an opinion 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 *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 net position of California Polytechnic State University Foundation, as of June 30, 2018 and 2017 and the changes in net position and its 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 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 audits were 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 43 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 17, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the California Polytechnic State University Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering California Polytechnic State University Foundation's internal control over financial reporting and compliance.

Caliber Audit & Attest, LLP

San Luis Obispo, California
September 17, 2018

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, 2018 ("2018"), with comparative information for the fiscal years ending June 30, 2017 ("2017") and June 30, 2016 ("2016"). 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 Statements of Net Position; the Statements of Revenues, Expenses, and Changes in Net Position; and the Statements of Cash Flows. These statements are supported by 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.

Statements of Net Position:

The Statements 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.

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

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

Statements of Cash Flows:

The Statements 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 statements are 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 2018 and 2017. 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, 2016 ("2016").

Condensed Summary of Net Position

	<i>June 30,</i>		
	<i>2018</i>	<i>2017</i>	<i>2016</i>
Assets:			
Current assets	\$ 34,218,449	\$ 20,438,153	\$ 43,652,847
Noncurrent assets	334,773,190	328,999,957	255,919,500
Total assets	<u>368,991,639</u>	<u>349,438,110</u>	<u>299,572,347</u>
Liabilities:			
Current liabilities	1,630,136	2,212,196	5,982,003
Noncurrent liabilities	7,265,189	7,410,603	7,182,238
Total liabilities	<u>8,895,325</u>	<u>9,622,799</u>	<u>13,164,241</u>
Net position and deferred inflows:			
Restricted, non-expendable	130,673,332	123,131,742	117,513,178
Restricted, expendable	227,445,922	215,439,431	167,639,218
Unrestricted	1,977,060	1,244,138	1,255,710
Total net position & deferred inflows	<u>\$ 360,096,314</u>	<u>\$ 339,815,311</u>	<u>\$ 286,408,106</u>

Net Position and Deferred Inflows

The Foundation's total net position in 2018 increased by \$20.3 million or 6% from the prior year as compared to an increase of \$53.4 million or 19% in 2017. In 2018, total assets increased to \$369.0 million, a \$19.6 million or 6% increase from the prior year and was offset by total liabilities of \$8.9 million. Total liabilities in 2018 decreased \$0.7 million or 8% from the prior year.

The increase in total net position in 2018 was primarily due to market value gains of \$10.8 million on investments and a \$10.0 million gift from a single donor.

The Foundation's endowment pool achieved a return net of fees of approximately 7% for fiscal year end 2018. Prior year returns net of fees were 12% in 2017 and -1% in 2016.

In 2018, current assets increased \$13.8 million or 67% primarily due to an increase to cash of \$8.4 million due to fixed income maturities and a \$5.8 million increase to current pledges receivable.

California Polytechnic State University Foundation

Management's Discussion and Analysis

In 2018, noncurrent assets increased \$5.8 million or 2% due to a \$9.9 million increase in pledges receivable, \$10.7 million increase in endowment investments, and a \$14.9 million decrease in long-term investments.

Restricted Deferred Inflows and Net Position Combined

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 Deferred Inflows and Net Position Combined

	<i>June 30,</i>		
	<u><i>2018</i></u>	<u><i>2017</i></u>	<u><i>2016</i></u>
Non-expendable:			
Endowments	\$ 126,459,179	\$ 119,148,272	\$ 113,909,498
Split interest trusts	4,214,153	3,983,470	3,603,680
Total non-expendable	<u>\$ 130,673,332</u>	<u>\$ 123,131,742</u>	<u>\$ 117,513,178</u>
Expendable:			
Scholarships and fellowships	\$ 23,414,651	\$ 22,065,143	\$ 18,102,788
Research	9,157,491	8,412,543	7,300,249
Capital projects	55,584,941	58,754,048	49,815,710
Instruction	29,526,192	28,600,472	26,671,522
Academic support	86,503,554	81,570,696	57,881,815
Operation & maintenance of plant	6,458,239	6,337,062	6,504,804
Institutional support, other	16,800,854	9,699,467	1,362,330
Total expendable	<u>\$ 227,445,922</u>	<u>\$ 215,439,431</u>	<u>\$ 167,639,218</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. Total expendable net position and deferred inflows increased \$12.0 million primarily due to \$5.1 million in gifts and endowment distributions for academic support and an \$8.8 million increase in gifts and endowment distributions for institutional support.

Unrestricted Net Position

Unrestricted net position increased by \$0.7 million in 2018, primarily due to endowment management fees collected for management of the business activities of the endowment funds.

California Polytechnic State University Foundation

Management's Discussion and Analysis

*Condensed Summary of Revenues, Expenses,
and Changes in Deferred Inflows and Net Position*

	<i>Year Ended June 30,</i>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 40,831,734	\$ 47,643,502	\$ 37,402,985
Operating expenses	(43,816,337)	(28,292,819)	(30,554,783)
Operating income (loss)	(2,984,603)	19,350,683	6,848,202
Nonoperating revenues (expenses)	15,480,916	27,664,135	661,769
Additions to permanent endowments	7,784,690	6,392,387	9,990,097
Increase in net position	20,281,003	53,407,205	17,500,068
Beginning net position & def. inflows	339,815,311	286,408,106	268,908,038
Ending net position & def. inflows	<u>\$ 360,096,314</u>	<u>\$ 339,815,311</u>	<u>\$ 286,408,106</u>

Operating revenues, consisting generally of currently expendable contributions to the Foundation for the benefit of the University, were \$40.8 million in 2018, a \$6.8 million decrease from the prior year. This is compared to operating revenues of \$47.6 million in 2017, an increase of \$10.2 million from 2016. Operating expenses were \$43.8 million in 2018, an increase of \$15.5 million or 55% from the prior year. This increase is the result of higher percentage of gifts to the University expended on operating expenses, including but not limited to academic and institutional support.

Non-operating revenues consist primarily of investment returns (unrealized and realized gains and losses on marketable securities, interest, and dividends), net of fees. Non-operating revenues were \$15.5 million for 2018, a \$12.2 million decrease from 2017, compared to an increase of \$27.0 million in 2017 as compared to 2016.

Additions to the endowment and life income funds were \$7.8 million in 2018, compared to \$6.4 million in 2017 and \$10.0 million in 2016.

Capital Assets and Long-Term Debt Obligations

At June 30, 2018, the Foundation has no capital assets or long-term debt obligations, other than the long-term liabilities for split interest 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

California Polytechnic State University Foundation

Management's Discussion and Analysis

available for operating expenses that benefit the University. The Foundation's payout policy for endowments with total value exceeding donor contributions applies a 4% 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.

Fixed income investments in the Endowment and Campus Programs have yielded a higher rate of return due to interest rate increases initiated by the Federal Reserve Bank. No changes were made to the allocation of fixed income and equities in the Foundation's endowment or life income investment portfolios.

California Polytechnic State University Foundation

Statements of Net Position

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,803,638	\$ 3,145,811
Short-term investments	9,079,775	6,326,004
Accounts receivable, net	372,334	471,639
Pledges receivable, net	15,645,864	9,796,485
Prepaid expenses	216,838	448,214
Other assets	100,000	250,000
Total current assets	<u>34,218,449</u>	<u>20,438,153</u>
Noncurrent assets:		
Restricted cash and cash equivalents	290,042	310,003
Pledges receivable, net	51,392,332	41,462,258
Endowment investments	218,369,931	207,630,854
Other long-term investments	64,656,778	79,538,237
Other assets	64,107	58,605
Total noncurrent assets	<u>334,773,190</u>	<u>328,999,957</u>
Total assets	<u>\$ 368,991,639</u>	<u>\$ 349,438,110</u>
LIABILITIES AND NET POSITION		
Liabilities		
Current liabilities:		
Accounts payable	\$ 1,367,289	\$ 1,873,596
Unearned revenue	262,847	338,600
Total current liabilities	<u>1,630,136</u>	<u>2,212,196</u>
Noncurrent liabilities:		
Split interest trust liabilities to individual beneficiaries	6,463,070	6,645,416
Split interest trust liabilities to external charitable residuary beneficiaries	802,119	765,187
Total noncurrent liabilities	<u>7,265,189</u>	<u>7,410,603</u>
Total liabilities	<u>8,895,325</u>	<u>9,622,799</u>

See Notes to Financial Statements.

California Polytechnic State University Foundation

Statements of Net Position - continued

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<i>Deferred Inflows of Resources</i>		
Split interest trusts	\$ 5,874,401	\$ -
<i>Net Position</i>		
Restricted for:		
Non-expendable:		
Endowments	126,459,179	119,148,272
Split interest trusts	-	3,983,470
Expendable:		
Scholarships and fellowships	23,414,651	22,065,143
Research	9,157,491	8,412,543
Capital projects	55,584,941	58,754,048
Instruction	29,526,192	28,600,472
Academic support	84,843,306	81,570,696
Operation and maintenance of plant	6,458,239	6,337,062
Institutional support and other	16,800,854	9,699,467
Unrestricted	<u>1,977,060</u>	<u>1,244,138</u>
Total net position	<u>354,221,913</u>	<u>339,815,311</u>
Total deferred inflows and net position	<u>360,096,314</u>	<u>339,815,311</u>
Total liabilities, deferred inflows, and net position	<u>\$ 368,991,639</u>	<u>\$ 349,438,110</u>

See Notes to Financial Statements.

California Polytechnic State University Foundation

*Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017*

	<u>2018</u>	<u>2017</u>
<i>Operating revenues:</i>		
Contributions - University programs	\$ 29,181,365	\$ 42,677,860
Contributions - University capital	11,650,369	4,965,642
Total operating revenues	<u>40,831,734</u>	<u>47,643,502</u>
<i>Operating expenses:</i>		
Instruction	2,700,317	1,951,746
Research	705,513	1,049,661
Public Service	78,000	185,708
Academic support	6,545,971	5,671,386
Student services	203,871	304,413
Institutional support	18,005,073	15,494,571
Operation and maintenance of plant	13,486,913	1,630,595
Student grants and scholarships	2,090,679	2,004,739
Total operating expenses	<u>43,816,337</u>	<u>28,292,819</u>
Operating income (loss)	<u>(2,984,603)</u>	<u>19,350,683</u>
<i>Nonoperating revenues (expenses):</i>		
Investment income, net of fees of \$6,000 and \$61,000, respectively	1,086,934	2,012,601
Endowment investment income, net of fees of \$467,000 and \$491,000, respectively	14,738,982	24,948,524
Change in value of split interest trusts	252,443	395,868
Other nonoperating revenues (expenses)	(597,443)	307,142
Total nonoperating revenues	<u>15,480,916</u>	<u>27,664,135</u>
Income before other additions	12,496,313	47,014,818
<i>Additions to permanent endowments</i>	<u>7,784,690</u>	<u>6,392,387</u>
Increase in net position	<u>20,281,003</u>	<u>53,407,205</u>
<i>Net position- beginning of year, before restatement</i>	339,815,311	286,408,106
GASB 81 restatement to reclassify to deferred inflows	<u>(5,874,401)</u>	<u>-</u>
<i>Net position - beginning of year, as restated</i>	333,940,910	286,408,106
<i>Net position - end of year</i>	<u><u>\$ 354,221,913</u></u>	<u><u>\$ 339,815,311</u></u>

See Notes to Financial Statements.

California Polytechnic State University Foundation

**Statements of Cash Flows
Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<i>Cash flows from operating activities:</i>		
Cash contributions received	\$ 24,707,694	\$ 25,678,714
Cash payments for operating expenses	<u>(43,941,268)</u>	<u>(31,929,354)</u>
Net cash used in operating activities	<u>(19,233,574)</u>	<u>(6,250,640)</u>
<i>Cash flows from noncapital financing activities:</i>		
Cash contributions received for permanent endowments and split interest trusts	7,848,992	6,392,387
Distributions to split interest trust beneficiaries	(875,811)	(798,957)
Fees and expenses of split interest trusts	(131,515)	(152,841)
Other noncapital financing activities	<u>(505,783)</u>	<u>307,142</u>
Net cash provided by noncapital financing activities	<u>6,335,883</u>	<u>5,747,731</u>
<i>Cash flows from investing activities:</i>		
Proceeds from sales and maturities of investments	76,570,547	39,355,579
Purchases of investments	(64,161,435)	(50,406,205)
Investment income proceeds	<u>6,126,445</u>	<u>7,494,858</u>
Net cash provided by (used in) investing activities	<u>18,535,557</u>	<u>(3,555,768)</u>
Net increase (decrease) in cash and cash equivalents	5,637,866	(4,058,677)
<i>Cash and cash equivalents - beginning of year</i>	<u>3,455,814</u>	<u>7,514,491</u>
<i>Cash and cash equivalents - end of year</i>	<u>\$ 9,093,680</u>	<u>\$ 3,455,814</u>
<i>Summary of cash and cash equivalents - end of year:</i>		
Cash and cash equivalents	\$ 8,803,638	\$ 3,145,811
Restricted cash and cash equivalents	<u>290,042</u>	<u>310,003</u>
Total cash and cash equivalents - end of year	<u>\$ 9,093,680</u>	<u>\$ 3,455,814</u>

See Notes to Financial Statements.

California Polytechnic State University Foundation

Statements of Cash Flows - continued

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<i>Reconciliation of operating income to net cash used in operating activities:</i>		
Operating income (loss)	\$ (2,984,603)	\$ 19,350,683
Adjustments to reconcile operating income to net cash used in operating activities:		
Non-cash operating contributions	(268,834)	(1,472,858)
Change in assets and liabilities:		
Pledges receivable, net	(15,779,456)	(20,311,930)
Prepaid expenses	231,376	(399,452)
Other assets	150,000	352,721
Accounts payable	(506,304)	(3,589,804)
Unearned revenue	(75,753)	(180,000)
Net cash used in operating activities	<u>\$ (19,233,574)</u>	<u>\$ (6,250,640)</u>
<i>Supplemental disclosures of cash flow information:</i>		
Contributions of investments	<u>\$ 268,834</u>	<u>\$ 1,563,066</u>
Increase (decrease) in fair value of investments	<u>\$ 10,751,667</u>	<u>\$ 20,850,669</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 statements 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 statements 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 any allowance for uncollectible accounts, as of June 30, 2018 there were no allowances for non-pledge receivables. Any 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. Pledges receivable as of June 30, 2018 were \$67.0 million, which includes an allowance for uncollectible pledges of \$4.9 million, and a present value discount of \$4.8 million. Pledges receivable as of June 30, 2017 were \$51.3 million, which includes an allowance for uncollectible pledges of \$3.7 million, and a present value discount of \$3.7 million. 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.

California Polytechnic State University Foundation

Notes to Financial Statements

Endowments:

The Foundation holds 889 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, 2018 and 2017, were \$88.2 million and \$84.6 million, respectively, and were included in restricted expendable net position.

The Foundation's payout policy for endowments with reserves applies a 4% 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 (deferred inflows):

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 deferred inflows 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

California Polytechnic State University Foundation

Notes to Financial Statements

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. After the implementation of GASB 81, this will be recorded to deferred inflows.

Deferred inflows of resources:

Deferred inflows of resources represent an acquisition of resources that do not require a further exchange of goods and services, but that are applicable to a future reporting period. They are not shown on the statement of revenues and expenses because they are not revenue items relating to the current fiscal year, but to future periods. They are not shown on the statement of net position in the liability section because they are not items the Foundation owes. Instead, they are presented on the statement of net position as deferred inflows to reflect the fact that the recognition of the related revenue will happen at a future date. The amounts recorded as deferred inflows for the fiscal year presented result from split interest agreements and the adoption of GASB 81 in the current year.

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.

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.

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 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

California Polytechnic State University Foundation

Notes to Financial Statements

Foundation are presented in the financial statements as operating expenses. The institutional support expenses for the years ended June 30, 2018 and June 30, 2017 include general fund expenses of \$3.7 million for both years. These expenses are incurred to provide support for University staff, administer the gifts and endowments, and to operate the Foundation. Non-operating revenues and expenses include investment income, and net realized and unrealized appreciation or depreciation in the fair value of investments. Contributions for permanent endowments are classified as other additions to net position. The Foundation has elected to report operating expenses by functional classification in the statements 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 estimated fair value, if donated. Title to all capital assets is transferred to the University upon receipt unless the item is to be sold. 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 March 2016, 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. The Organization has adopted the guidance in the current year.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified for various topics.

Recently issued GASB Statements No. 80, 82, 83, 86, 87, 88, 89, and 90 have no impact on the Foundation as it does not have any employees, component units, debt, leases, equity

California Polytechnic State University Foundation

Notes to Financial Statements

interest, asset retirement obligations, construction, or fiduciary funds. Management implemented GASB Statements No. 81 and 85 for the Foundation's June 30, 2017 and 2016 financial statements; implementation of these statements did not have a material impact to the Foundation's financial statements.

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, 2018, 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 Wells Fargo Securities FDIC insured brokered CD program, which invested balances in multiple FDIC-insured financial institutions brokered CDs and obtains full coverage per issuer 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 issuer. At June 30, 2018, the Foundation had approximately \$3.3 million in uninsured cash deposits in its operating account. A portion of cash and cash equivalents were restricted according to donor stipulations as follows:

	<u>2018</u>	<u>2017</u>
Endowments	\$ 31,826	\$ 39,535
Split interest trusts	258,216	270,468
Total	<u>\$ 290,042</u>	<u>\$ 310,003</u>

Note 4. Investments

Investments are classified in the accompanying financial statement as follows:

	<u>2018</u>	<u>2017</u>
Short-term investments	\$ 9,079,775	\$ 6,326,004
Endowment investments	218,369,931	207,630,854
Other long-term investments	<u>64,656,778</u>	<u>79,538,237</u>
Total	<u>\$ 292,106,484</u>	<u>\$ 293,495,095</u>

Other long-term investments included \$13.0 million and \$12.9 million of investments held in split interest trusts at June 30, 2018 and 2017, respectively.

California Polytechnic State University Foundation

Notes to Financial Statements

At June 30, 2018, investments comprise the following:

	<i>2018</i>		
	<i>Current</i>	<i>Noncurrent</i>	<i>Total</i>
Fixed income - bonds and certificates of deposit	\$ 9,079,775	\$ 48,900,209	\$ 57,979,984
Notes receivable	-	638,000	638,000
Mutual funds:			
Equity funds	-	162,024,673	162,024,673
Bond funds	-	67,225,126	67,225,126
Money market fund	-	2,063,363	2,063,363
Other investments:			
Partnership interest	-	166,055	166,055
Alternative investments	-	2,009,283	2,009,283
Total	<u>\$ 9,079,775</u>	<u>\$ 283,026,709</u>	<u>\$ 292,106,484</u>

At June 30, 2017, investments compromised the following:

	<i>2017</i>		
	<i>Current</i>	<i>Noncurrent</i>	<i>Total</i>
Fixed income - bonds and certificates of deposit	\$ 6,326,004	\$ 61,396,330	\$ 67,722,334
Notes receivable	-	638,000	638,000
Mutual funds:			
Equity funds	-	154,750,397	154,750,397
Bond funds	-	63,185,877	63,185,877
Money market fund	-	4,620,774	4,620,774
Other investments:			
Partnership interest	-	166,055	166,055
Alternative investments	-	2,411,658	2,411,658
Total	<u>\$ 6,326,004</u>	<u>\$ 287,169,091</u>	<u>\$ 293,495,095</u>

California Polytechnic State University Foundation

Notes to Financial Statements

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.

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.

California Polytechnic State University Foundation

Notes to Financial Statements

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 \$162.0 million or 55% of the total investments of the Foundation at June 30, 2018. 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, 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.

California Polytechnic State University Foundation

Notes to Financial Statements

At June 30, 2018, the credit ratings of the Foundation's fixed income securities were as follows:

	<u><i>Fair Value</i></u>	<u><i>Rating</i></u>
<i>Bond mutual funds:</i>		
DFA Intermediate Government Bond	\$ 23,154,760	AAA
PIMCO Total Return Fund - Institutional	16,793,520	A
PIMCO Foreign Bond Fund - Institutional	12,120,301	AA
Loomis Sayles Bond Fund - Institutional	10,495,583	A
PIMCO High Yield Fund - Institutional	4,660,418	BB
Vanguard Total Bond Market Index Adm.	544	AA
Total bond mutual funds	<u>67,225,126</u>	
 <i>Various corporate bonds and CD's</i>	 <u>57,979,984</u>	 Unrated
 <i>Government money market fund:</i>		
Wells Fargo Money Market - Institutional	7,299,303	AAA
<i>Cash and restricted cash:</i>		
Schwab One Fund	<u>290,042</u>	Unrated
 Total fixed income and debt securities subject to credit risk	 <u><u>\$ 132,794,455</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.

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.

California Polytechnic State University Foundation

Notes to Financial Statements

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, 2018, the weighted average duration of the Foundation's fixed income securities was as follows:

	<u><i>Fair Value</i></u>	<u><i>Weighted Average Duration (in years)</i></u>
<i>Bond mutual funds:</i>		
DFA Intermediate Government Bond	\$ 23,154,760	6.1
PIMCO Total Return Fund - Institutional	16,793,520	4.1
PIMCO Foreign Bond Fund - Institutional	12,120,301	6.9
Loomis Sayles Bond Fund - Institutional	10,495,583	3.2
PIMCO High Yield Fund - Institutional	4,660,418	3.7
Vanguard Total Bond Market Index Adm.	544	6.1
Total bond mutual funds	<u>67,225,126</u>	
<i>Various corporate bonds and CD's</i>	<u>57,979,984</u>	2.0
<i>Money market fund and restricted cash:</i>	<u>7,589,345</u>	0
Total fixed income and debt securities subject to credit risk	<u>\$ 132,794,455</u>	3.5

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 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.

California Polytechnic State University Foundation

Notes to Financial Statements

The Foundation's estimated fair value of investments subject to foreign currency risk in its endowment and split interest trusts at June 30, 2018 was as follows:

Euro	\$ 16,641,652
British Pounds	8,865,453
Japanese Yen	10,171,723
Swiss Francs	1,933,480
Canadian Dollars	2,109,253
Hong Kong Dollars	3,224,089
Australian Dollars	2,406,138
Korean	2,349,879
Taiwanese Dollars	1,822,689
Other	<u>13,626,383</u>
Total investments subject to foreign currency risk	<u>\$ 63,150,739</u>

The foreign currency risk by investment type at June 30, 2018 was as follows:

Equity mutual funds	\$ 60,560,467
Bond mutual funds	<u>2,590,272</u>
Total investments subject to foreign currency risk	<u>\$ 63,150,739</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.

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.

California Polytechnic State University Foundation

Notes to Financial Statements

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, 2018, the Foundation held alternative investments at estimated fair value in its endowment as follows:

Public sector investments	\$ 843,608
Private sector investments	937,767
Distressed debt	<u>227,908</u>
Total	<u>\$ 2,009,283</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.
- 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:

California Polytechnic State University Foundation

Notes to Financial Statements

- 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.
- 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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income - bonds and certificates of deposit	\$ 57,979,984	\$ -	\$ -
Mutual funds:			
Equity funds	162,024,673	-	-
Bond funds	67,225,126	-	-
Money market fund	2,063,363	-	-
Other investments:			
Alternative investments	-	-	2,009,283
Notes receivable	-	-	638,000
Partnership interest	-	-	166,055
Total	<u>\$ 289,293,146</u>	<u>\$ -</u>	<u>\$ 2,813,338</u>

California Polytechnic State University Foundation

Notes to Financial Statements

The Foundation has the following recurring fair value investments as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income - bonds and certificates of deposit	\$ 67,722,334	\$ -	\$ -
Mutual funds:			
Equity funds	154,750,397	-	-
Bond funds	63,185,877	-	-
Money market fund	4,620,774	-	-
Other investments:			
Alternative investments	-	-	2,411,658
Notes receivable	-	-	638,000
Partnership interest	-	-	166,055
Total	<u>\$ 290,279,382</u>	<u>\$ -</u>	<u>\$ 3,215,713</u>

Note 5. Pledges Receivable

Pledges receivable compromised the following at June 30:

	<u>2018</u>	<u>2017</u>
Campus programs support	\$ 40,554,466	\$ 37,744,405
College-specific facilities	31,511,643	16,276,957
Scholarship contributions	4,614,393	4,649,392
Subtotal	76,680,502	58,670,754
Less: Allowance for uncollectible accounts	(4,868,810)	(3,733,359)
Less: Unamortized discount	(4,773,496)	(3,678,652)
 Pledges receivable, net	 <u>\$ 67,038,196</u>	 <u>\$ 51,258,743</u>
 Gross pledges due in:		
One year or less	\$ 20,464,494	\$ 12,799,048
One to five years	37,221,400	25,971,666
More than five years	18,994,608	19,900,040
 Total gross	 <u>\$ 76,680,502</u>	 <u>\$ 58,670,754</u>

At June 30, 2018, pledges receivable from one donor represented approximately 55% of pledges receivable while at June 30, 2017, one donor represented 73% of pledges receivable.

California Polytechnic State University Foundation

Notes to Financial Statements

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Accounts payable	\$ 4,900	\$ -
Payable to University for salaries	1,157,580	1,655,207
Payments to University for salaries and benefits of University personnel	3,004,372	2,919,258
Payments to University for other than salaries of University personnel	15,882,140	2,510,769
Payments or transfers to University from endowments	8,248,710	7,527,100
Gifts to the University	13,856,718	9,108,626

The Foundation contracts with CPC for information technology services under a Business Support Services Agreement. 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. Also, 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Accounts receivable	\$ 103,964	\$ 3,769
Accounts payable	28,557	27,690
Payments to CPC under Support Agreement	10,000	30,000
Cash contributions to CPC	3,234,952	2,686,708
Cash contributions from CPC	498,212	612,633

The Foundation has transactions with the Associated Students Inc. of Cal Poly (ASI) which is another auxiliary organization of the University. The following were transactions with ASI as of and for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Accounts receivable	\$ 730	\$ 604
Accounts payable	376	3,153
Cash contributions to CPC	64,719	44,700

California Polytechnic State University Foundation

Notes to Financial Statements

Note 7. *Split Interest Trusts*

The Foundation records split interest trust classification internally 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. After adopting GASB 81, the net amounts are recorded to deferred inflows instead of net position. Expendable deferred inflows includes \$1.7 million related to split interest trusts at June 30, 2018 and \$1.7 million at June 30, 2017. Nonexpendable deferred inflows includes \$4.2 million and \$4.0 million related to split interest trusts at June 30, 2018 and 2017, 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 no self-insurance claims liabilities recorded in the accompanying financial statements because any amounts at June 30, 2018 are expected to be minimal. Likewise, no amounts have been paid to CSURMA during the year ended June 30, 2018, related to the Foundation's estimated future funding for claims liability.

Note 9. *Subsequent Events*

Events subsequent to June 30, 2018 have been evaluated through September 17, 2018, 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, 2018

California Polytechnic State University Foundation

Schedule of Net Position

June 30, 2018

(for inclusion in the California State University)

Assets:

Current assets:

Cash and cash equivalents	\$	8,803,638
Short-term investments		9,079,775
Accounts receivable, net		372,334
Leases receivable, current portion		-
Notes receivable, current portion		-
Pledges receivable, net		15,645,864
Prepaid expenses and other current assets		316,838
Total current assets		<u>34,218,449</u>

Noncurrent assets:

Restricted cash and cash equivalents		290,042
Accounts receivable, net		-
Leases receivable, net of current portion		-
Notes receivable, net of current portion		-
Student loans receivable, net		-
Pledges receivable, net		51,392,332
Endowment investments		218,369,931
Other long-term investments		64,656,778
Capital assets, net		-
Other assets		64,107
Total noncurrent assets		<u>334,773,190</u>
Total assets		<u>368,991,639</u>

Deferred outflows of resources:

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

California Polytechnic State University Foundation

Schedule of Net Position - Continued

June 30, 2018

(for inclusion in the California State University)

Liabilities:

Current liabilities:

Accounts payable	1,367,289
Accrued salaries and benefits	-
Accrued compensated absences, current portion	-
Unearned revenue	262,847
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	<u>1,630,136</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 loss adjustment expenses, net of current portion	-
Depository accounts	-
Other postemployment benefits obligations	-
Net pension liability	-
Other liabilities	7,265,189
Total noncurrent liabilities	<u>7,265,189</u>
Total liabilities	<u>8,895,325</u>

Deferred inflows of resources:

Service concession arrangements	-
Net pension liability	-
Unamortized gain on debt refunding	-
Nonexchange transactions	-
Split interest trusts	5,874,401
Total deferred inflows of resources	<u>5,874,401</u>

Net Position:

Net investment in capital assets	-
Restricted for:	
Nonexpendable – endowments	126,459,179
Other	-
Expendable:	
Scholarships and fellowships	23,414,651
Research	9,157,491
Loans	-
Capital projects	55,584,941
Debt service	-
Other	137,628,591
Unrestricted	1,977,060
Total net position	<u>\$ 354,221,913</u>

California Polytechnic State University Foundation
Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2018
(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		-

Expenses:

Operating expenses:

Instruction	2,700,317
Research	705,513
Public service	78,000
Academic support	6,545,971
Student services	203,871
Institutional support	18,005,073
Operation and maintenance of plant	13,486,913
Student grants and scholarships	2,090,679
Auxiliary enterprise expenses	-
Depreciation and amortization	-
	-
Total operating expenses	43,816,337
Operating income (loss)	(43,816,337)

California Polytechnic State University Foundation
Schedule of Revenues, Expenses, and Changes in Net Position - Continued
Year Ended June 30, 2018
(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	29,181,365
Investment income (loss), net	1,086,934
Endowment income (loss), net	14,738,982
Interest expense	-
Other nonoperating revenues (expenses)	(345,000)
	<hr/>
Net nonoperating revenues (expenses)	44,662,281
	<hr/>
Income (loss) before other revenues (expenses)	845,944
State appropriations, capital	-
Grants and gifts, capital	11,650,369
Additions (reductions) to permanent endowments	7,784,690
	<hr/>
Increase (decrease) in net position	20,281,003
	<hr/>
Net position:	
Net position at beginning of year, as previously reported	339,815,311
Restatement for GASB 81 classification	(5,874,401)
	<hr/>
Net position at beginning of year, as restated	333,940,910
	<hr/>
Net position at end of year	\$ 354,221,913
	<hr/> <hr/>

California Polytechnic State University Foundation
Other Information
June 30, 2018
(for inclusion in the California State University)

1 Restricted cash and cash equivalents at June 30, 2018:

Portion of restricted cash and cash equivalents related to endowments	\$ 31,826
All other restricted cash and cash equivalents	<u>258,216</u>
Total restricted cash and cash equivalents	<u><u>\$ 290,042</u></u>

2.1 Composition of investments at June 30, 2018:

	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	-	-	-	-	15,165,535	15,165,535	15,165,535
Certificates of deposit	-	9,079,775	9,079,775	-	33,734,674	33,734,674	42,814,449
Mutual funds	-	-	-	-	67,225,126	67,225,126	67,225,126
Money Market funds	-	-	-	-	2,063,363	2,063,363	2,063,363
Repurchase agreements	-	-	-	-	-	-	-
Commercial paper	-	-	-	-	-	-	-
Asset backed securities	-	-	-	-	-	-	-
Mortgage backed securities	-	-	-	-	-	-	-
Municipal bonds	-	-	-	-	-	-	-
U.S. agency securities	-	-	-	-	-	-	-
U.S. treasury securities	-	-	-	-	-	-	-
Equity securities	-	-	-	-	162,024,673	162,024,673	162,024,673
Exchange traded funds (ETFs)	-	-	-	-	-	-	-
Alternative investments:							
Private equity (including limited partnerships)	-	-	-	-	843,608	843,608	843,608
Hedge funds	-	-	-	-	-	-	-
Managed futures	-	-	-	-	-	-	-
Real estate investments (including REITs)	-	-	-	-	-	-	-
Commodities	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-
Other alternative investment types	-	-	-	-	1,165,675	1,165,675	1,165,675
Other external investment pools (excluding SWIFT)							
Add description	-	-	-	-	-	-	-
Other major investments:							
Notes Receivable	-	-	-	-	638,000	638,000	638,000
Other	-	-	-	-	166,055	166,055	166,055
Total investments	<u>-</u>	<u>9,079,775</u>	<u>9,079,775</u>	<u>-</u>	<u>283,026,709</u>	<u>283,026,709</u>	<u>292,106,484</u>
Less endowment investments (enter as negative number)					<u>(218,369,931)</u>	<u>(218,369,931)</u>	<u>(218,369,931)</u>
Total investments	<u>\$ -</u>	<u>9,079,775</u>	<u>9,079,775</u>	<u>-</u>	<u>64,656,778</u>	<u>64,656,778</u>	<u>73,736,553</u>

2.2 Investments held by the University under contractual agreements at June 30, 2018:

Portion of investments in note 2.1 held by the University under contractual agreements at June 30, 2018:	-	-	-	-	-	-	-
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California Polytechnic State University Foundation

Other Information

June 30, 2018

(for inclusion in the California State University)

2.3 Restricted current investments at June 30, 2018 related to:

	Amount
Campus Programs	\$ 9,079,775
Add description	-
Total restricted current investments at June 30, 2018	\$ 9,079,775

2.4 Restricted noncurrent investments at June 30, 2018 related to:

	Amount
Endowment investment	\$ 218,369,931
Split Interest Trusts	12,971,401
Investments Held for Institutional Support	638,000
Campus Programs	51,047,377
Add description	-
Total restricted noncurrent investments at June 30, 2018	\$ 283,026,709

2.5 Fair value hierarchy in investments at June 30, 2018:

	Total	Fair Value Measurements Using			Net Asset Value (NAV)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
State of California Surplus Money Investment Fund (SMIF)	\$ -	-	-	-	-
State of California Local Agency Investment Fund (LAIF)	-	-	-	-	-
Corporate bonds	15,165,535	15,165,535	-	-	-
Certificates of deposit	42,814,449	42,814,449	-	-	-
Mutual funds	67,225,126	67,225,126	-	-	-
Money Market funds	2,063,363	2,063,363	-	-	-
Repurchase agreements	-	-	-	-	-
Commercial paper	-	-	-	-	-
Asset backed securities	-	-	-	-	-
Mortgage backed securities	-	-	-	-	-
Municipal bonds	-	-	-	-	-
U.S. agency securities	-	-	-	-	-
U.S. treasury securities	-	-	-	-	-
Equity securities	162,024,673	162,024,673	-	-	-
Exchange traded funds (ETFs)	-	-	-	-	-
Alternative investments:					
Private equity (including limited partnerships)	843,608	-	-	-	843,608
Hedge funds	-	-	-	-	-
Managed futures	-	-	-	-	-
Real estate investments (including REITs)	-	-	-	-	-
Commodities	-	-	-	-	-
Derivatives	-	-	-	-	-
Other alternative investment types	1,165,675	-	-	-	1,165,675
Other external investment pools (excluding SWIFT)					
Add description	-	-	-	-	-
Other major investments:					
Notes Receivable	638,000	-	-	638,000	-
Other	166,055	-	-	166,055	-
Total investments	\$ 292,106,484	289,293,146	-	804,055	2,009,283

California Polytechnic State University Foundation

Other Information

June 30, 2018

(for inclusion in the California State University)

3.1 Composition of capital assets at June 30, 2018:

	Balance June 30, 2017	Prior period Adjustments	Reclass- ifications	Balance 2017 (restated)	Additions	Reductions	Transfers of Completed CWIP	Balance June 30, 2018
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, 2018
(for inclusion in the California State University)

3.2 Detail of depreciation and amortization expense for the year ended June 30, 2018:

Depreciation and amortization expense	\$	-
related to capital assets		
Amortization expense related to other assets		-
Total depreciation and amortization	\$	<u>-</u>

4 Long-term liabilities activity schedule:

	Balance	Prior	Reclass-	Balance			Balance	Current	Long-
	30-Jun-17	period	ifications	30-Jun-17	Additions	Reductions	30-Jun-18	portion	term
	<u>30-Jun-17</u>	<u>adjustments</u>	<u></u>	<u>(restated)</u>	<u></u>	<u></u>	<u>30-Jun-18</u>	<u></u>	<u>portion</u>
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unamortized bond premium / (discount)	-	-	-	-	-	-	-	-	-
Total long-term debt obligations, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total long-term liabilities	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

California Polytechnic State University Foundation
Other Information
June 30, 2018
(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:									
2019	\$ -	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-	-	-
2023	-	-	-	-	-	-	-	-	-
2024 - 2028	-	-	-	-	-	-	-	-	-
2029 - 2033	-	-	-	-	-	-	-	-	-
2034 - 2038	-	-	-	-	-	-	-	-	-
2039 - 2043	-	-	-	-	-	-	-	-	-
2044 - 2048	-	-	-	-	-	-	-	-	-
2049 - 2053	-	-	-	-	-	-	-	-	-
2054 - 2058	-	-	-	-	-	-	-	-	-
2059 - 2063	-	-	-	-	-	-	-	-	-
2064 - 2068	-	-	-	-	-	-	-	-	-
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, 2018
(for inclusion in the California State University)

6 Long-term debt obligation schedule

	<u>Auxiliary revenue bonds</u>			<u>All other long-term debt obligations</u>			<u>Total long-term debt obligations</u>		
	<u>Principal Only</u>	<u>Interest Only</u>	<u>Principal and Interest</u>	<u>Principal Only</u>	<u>Interest Only</u>	<u>Principal and Interest</u>	<u>Principal Only</u>	<u>Interest Only</u>	<u>Principal and Interest</u>
Year ending June 30:									
2019	\$ -	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-	-	-
2023	-	-	-	-	-	-	-	-	-
2024 - 2028	-	-	-	-	-	-	-	-	-
2029 - 2033	-	-	-	-	-	-	-	-	-
2034 - 2038	-	-	-	-	-	-	-	-	-
2039 - 2043	-	-	-	-	-	-	-	-	-
2044 - 2048	-	-	-	-	-	-	-	-	-
2049 - 2053	-	-	-	-	-	-	-	-	-
2054 - 2058	-	-	-	-	-	-	-	-	-
2059 - 2063	-	-	-	-	-	-	-	-	-
2064 - 2068	-	-	-	-	-	-	-	-	-
Total minimum payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Less amounts representing interest									<u>-</u>
Present value of future minimum payments									<u>-</u>
Unamortized net premium (discount)									<u>-</u>
Total long-term debt obligations									<u>-</u>
Less: current portion									<u>-</u>
Long-term debt obligations, net of current portion									<u><u>\$ -</u></u>

California Polytechnic State University Foundation

Other Information

June 30, 2018

(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

Portion of restricted cash and cash equivalents related to endowments	\$	31,826
Endowment investments		218,369,931
Other adjustments: (please list)		
Quasi endowments - Restricted Expendable		(35,378,324)
Endowment spending reserves - Restricted Expendable		(52,814,294)
Other subtractions to endowment principal - Restricted Expendable		
Endowment payout payable		(3,688,825)
AR - other		100,000
Due to other funds		246,845
Accruals		(407,980)
Add description		-
Add description		-
Add description		-
Net position - Restricted for nonexpendable	\$	126,459,179

8 Transactions with related entities

		<u>Amount</u>
Payments to University for salaries of		
University personnel working on contracts, grants, and other programs	\$	3,004,372
Payments to University for other than salaries of University personnel		15,882,140
Payments received from University for services, space, and programs		-
Gifts-in-kind to the University from discretely presented component units		-
Gifts (cash or assets) to the University from discretely presented component units		22,105,428
Accounts (payable to) University (enter as negative number)		-
Other amounts (payable to) University (enter as negative number)		(1,162,480)
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)		-
Other adjustments		-
NOO - beginning of year		-
NOO - end of year	\$	-

California Polytechnic State University Foundation

Other Information

June 30, 2018

(for inclusion in the California State University)

10 Pollution remediation liabilities under GASB Statement No. 49:

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

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

	<u>Net Position Class</u>	<u>Amount Dr. (Cr.)</u>
Net position as of June 30, 2017, as previously reported		\$ 339,815,311
Prior period adjustments:		
10 Restatement for GASB 81 classification		(5,874,401)
Net position as of June 30, 2017, as restated		<u>\$ 333,940,910</u>

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

	<u>Debit</u>	<u>Credit</u>
Net position class: Expendable		
1		
Net position	\$ 1,660,248.00	
Deferred inflows of resources		1,660,248.00
Net position class: Non-expendable		
2		
Net position	4,214,153.00	
Deferred inflows of resources		4,214,153.00
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)	-	-

California Polytechnic State University Foundation
Other Information
June 30, 2018
(for inclusion in the California State University)

12 Natural Classifications of Operating Expenses:

	Salaries	Benefits	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	Total operating expenses
Instruction	\$ -	\$ -	\$ -	\$ 2,700,317	\$ -	\$ 2,700,317
Research	-	-	-	705,513	-	705,513
Public service	-	-	-	78,000	-	78,000
Academic support	-	-	-	6,545,971	-	6,545,971
Student services	-	-	-	203,871	-	203,871
Institutional support	-	-	-	18,005,073	-	18,005,073
Operation and maintenance of plant	-	-	-	13,486,913	-	13,486,913
Student grants and scholarships	-	-	2,090,679	-	-	2,090,679
Auxiliary enterprise expenses	-	-	-	-	-	-
Depreciation and amortization	-	-	-	-	-	-
Total	<u>\$ 2,700,317</u>	<u>\$ 7,533,355</u>	<u>\$ 2,090,679</u>	<u>\$ 31,491,986</u>	<u>\$ -</u>	<u>\$ 43,816,337</u>



**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 Foundation), which comprise the statements of net position as of June 30, 2018 and 2017, 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, and have issued our report thereon dated September 17, 2018.

Internal Control over Financial Reporting

In planning and performing our audits 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.

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.



**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**

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*.

Purpose of this Report

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

Caliber Audit & Attest, LLP

San Luis Obispo, California
September 17, 2018