

California Polytechnic State University Foundation

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

June 30, 2017 and 2016

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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, 2017 and 2016, 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 financial position of California Polytechnic State University Foundation, as of June 30, 2017 and 2016 and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 19, 2017, on our consideration of California Polytechnic State University Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering California Polytechnic State University Foundation's internal control over financial reporting and compliance.

Caliber Audit & Attest, LLP

San Luis Obispo, California
September 19, 2017

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, 2017 ("2017"), with comparative information for the fiscal years ending June 30, 2016 ("2016") and June 30, 2015 ("2015"). This discussion has been prepared by management and should be read in conjunction with and is qualified in its entirety by the accompanying audited financial statements and notes.

Introduction to the Financial Statements

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

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

Statement of Net Position:

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

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

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

Statement of Cash Flows:

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

California Polytechnic State University Foundation

Management's Discussion and Analysis

Analytical Overview

Summary

The following discussion highlights the key financial aspects of the Foundation's financial activities for 2017 and 2016. 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, 2015 ("2015").

Condensed Summary of Net Position

	June 30,		
	2017	2016	2015
Assets:			
Current assets	\$ 20,438,153	\$ 43,652,847	\$ 37,694,377
Noncurrent assets	328,999,957	255,919,500	243,716,355
Total assets	<u>349,438,110</u>	<u>299,572,347</u>	<u>281,410,732</u>
Liabilities:			
Current liabilities	2,212,196	5,982,003	4,801,232
Noncurrent liabilities	7,410,603	7,182,238	7,701,462
Total liabilities	<u>9,622,799</u>	<u>13,164,241</u>	<u>12,502,694</u>
Net position:			
Restricted, non-expendable	123,131,742	117,513,178	111,069,290
Restricted, expendable	215,439,431	167,639,218	157,131,114
Unrestricted	1,244,138	1,255,710	707,634
Total net position	<u>\$ 339,815,311</u>	<u>\$ 286,408,106</u>	<u>\$ 268,908,038</u>

Net Position

The Foundation's total net position in 2017 increased by \$53.4 million or 19% from the prior year as compared to an increase of \$17.5 million or 7% in 2016. In 2017, total assets increased to \$349.4 million, a \$49.9 million or 17% increase from the prior year and was offset by total liabilities of \$9.6 million. Total liabilities in 2017 decreased \$3.5 million or 27% from the prior year.

The increase in total net position in 2017 was primarily due to an increase in campus program funds, which was mostly due to additional gifts, including a \$30.0 million gift from a single donor, and an approximate \$19.2 million increase in the endowment fund investments, which was primarily due to market value gains.

The Foundation's endowment pool achieved a return net of fees of approximately 12.0% for fiscal year end 2017. Prior year returns net of fees were -0.8% in 2016 and -1.0% in 2015.

In 2017, current assets decreased \$23.2 million or -53% primarily due to moving approximately \$24.0 million in campus program short-term investments to longer term fixed income investments.

California Polytechnic State University Foundation

Management's Discussion and Analysis

In 2017, noncurrent assets increased \$73.1 million or 29% primarily due to moving campus programs investments from short term to long term and a \$19.6 million increase in long-term pledge receivables.

Restricted Net Position

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

Restricted Net Position

	<i>June 30,</i>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Non-expendable:			
Endowments	\$ 119,148,272	\$ 113,909,498	\$ 107,281,866
Split interest trusts	3,983,470	3,603,680	3,787,424
Total non-expendable	<u>\$ 123,131,742</u>	<u>\$ 117,513,178</u>	<u>\$ 111,069,290</u>
Expendable:			
Scholarships and fellowships	\$ 22,065,143	\$ 18,102,788	\$ 18,416,486
Research	8,412,543	7,300,249	4,801,403
Capital projects	58,754,048	49,815,710	31,215,310
Instruction	28,600,472	26,671,522	41,670,990
Academic support	81,570,696	57,881,815	51,217,752
Operation & maintenance of plant	6,337,062	6,504,804	4,605,140
Institutional support, other	9,699,467	1,362,330	5,204,033
Total expendable	<u>\$ 215,439,431</u>	<u>\$ 167,639,218</u>	<u>\$ 157,131,114</u>

The principal reasons the value of each type of restricted net position changed from the prior year are: (i) the level of contributions received, (ii) expenditures in the current year (primarily in support of the University), and (iii) investment returns. The \$8.9 million increase in 2017 and the \$18.6 million increase in capital projects in 2016 was primarily due to pledges for buildings and funds received for various agricultural facilities. The \$23.7 million increase in academic support in 2017 is due to a large pledge received.

Unrestricted Net Position

Unrestricted net position decreased by \$12,000 in 2017 as a result of a small general fund net loss.

California Polytechnic State University Foundation

Management's Discussion and Analysis

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

	<i>Year Ended June 30,</i>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 47,643,502	\$ 37,402,985	\$ 37,221,431
Operating expenses	(28,292,819)	(30,554,783)	(27,585,931)
Operating income (loss)	19,350,683	6,848,202	9,635,500
Nonoperating revenues (expenses)	27,664,135	661,769	(265,094)
Additions to permanent endowments and split interest trusts	6,392,387	9,990,097	2,806,942
Increase in net position	53,407,205	17,500,068	12,177,348
Beginning net position	286,408,106	268,908,038	256,730,690
Ending net position	<u>\$ 339,815,311</u>	<u>\$ 286,408,106</u>	<u>\$ 268,908,038</u>

Operating revenues, consisting generally of currently expendable contributions to the Foundation for the benefit of the University, were \$47.6 million in 2017, a \$10.2 million increase from the prior year. This is compared to operating revenues of \$37.4 million in 2016, an increase of \$0.2 million from 2015. Operating expenses were \$28.3 million in 2017, a decrease of \$2.3 million or -7% from the prior year. This decrease is the result of higher percentage of gifts to the University expended on non-operating expenses including research, public service, and operations and maintenance of plant and expenses as compared to 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 \$27.7 million for 2017, a \$27.0 million increase from 2016, compared to an increase of \$0.9 million in 2016 as compared to 2015.

Additions to the endowment and life income funds were \$6.4 million in 2017, compared to \$10.0 million in 2016 and \$2.8 million in 2015.

Capital Assets and Long-Term Debt Obligations

At June 30, 2017, 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 4.0% spending rate against the average value of the endowment over the twelve quarters ending as of December 31 of the preceding fiscal year.

Using a twelve trailing quarter average base value and two-tiered payout rate means that the reduction in operating expenditures from market declines will be delayed, as will the increase in expenditures when markets rebound. The payout policy for endowments with total value below donor contributions applies a 2% spending rate against the same twelve trailing quarter investment base.

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 2017. As a result, in 2015 the Foundation's investment committee moved \$22.0 million of fixed income investments into a diversified portfolio of 50% equities and 50% bond mutual funds to achieve a higher return on investment. In 2017, the Foundation's investment committee moved the 50/50 portfolio into fixed income investments to protect the principal from market value losses and ensure consistent returns on investment. The Foundation employs the unrestricted portion of these funds to pay its administrative expenses and applies any surplus to support campus fundraising activities. No changes were made to the allocation of fixed income and equities in the Foundation's endowment or life income investment portfolios.

The Foundation holds within restricted expendable assets \$58.8 million, with \$43.6 million in cash or investments, for capital projects planned by the University.

California Polytechnic State University Foundation

*Statements of Net Position
June 30, 2017 and 2016*

	<u>2017</u>	<u>2016</u>
<i>ASSETS</i>		
Current assets:		
Cash and cash equivalents	\$ 3,145,811	\$ 7,213,433
Short-term investments	6,326,004	26,356,842
Accounts receivable, net	471,639	345,476
Pledges receivable, net	9,796,485	9,085,613
Prepaid expenses	448,214	48,762
Other assets	250,000	602,721
Total current assets	<u>20,438,153</u>	<u>43,652,847</u>
Noncurrent assets:		
Restricted cash and cash equivalents	310,003	301,058
Pledges receivable, net	41,462,258	21,861,200
Endowment investments	207,630,854	188,432,286
Other long-term investments	79,538,237	45,241,609
Other assets	58,605	83,347
Total noncurrent assets	<u>328,999,957</u>	<u>255,919,500</u>
Total assets	<u>\$ 349,438,110</u>	<u>\$ 299,572,347</u>
<i>LIABILITIES AND NET POSITION</i>		
<i>Liabilities</i>		
Current liabilities:		
Accounts payable	\$ 1,873,596	\$ 5,463,403
Unearned revenue	338,600	518,600
Total current liabilities	<u>2,212,196</u>	<u>5,982,003</u>
Noncurrent liabilities:		
Split interest trust liabilities to individual beneficiaries	6,645,416	6,484,542
Split interest trust liabilities to external charitable residuary beneficiaries	765,187	697,696
Total noncurrent liabilities	<u>7,410,603</u>	<u>7,182,238</u>
Total liabilities	<u>9,622,799</u>	<u>13,164,241</u>

See Notes to Financial Statements.

California Polytechnic State University Foundation

Statements of Net Position - continued

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<i>Net Position</i>		
Restricted for:		
Non-expendable:		
Endowments	\$ 119,148,272	\$ 113,909,498
Split interest trusts for establishment of endowments	3,983,470	3,603,680
Expendable:		
Scholarships and fellowships	22,065,143	18,102,788
Research	8,412,543	7,300,249
Capital projects	58,754,048	49,815,710
Instruction	28,600,472	26,671,522
Academic support	81,570,696	57,881,815
Operation & maintenance of plant	6,337,062	6,504,804
Institutional support and student and public service	9,699,467	1,362,330
Unrestricted	<u>1,244,138</u>	<u>1,255,710</u>
Total net position	<u>339,815,311</u>	<u>286,408,106</u>
Total liabilities and net position	<u>\$ 349,438,110</u>	<u>\$ 299,572,347</u>

See Notes to Financial Statements.

California Polytechnic State University Foundation

*Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016*

	<u>2017</u>	<u>2016</u>
<i>Operating revenues:</i>		
Contributions - University programs	\$ 42,677,860	\$ 17,779,217
Contributions - University capital	4,965,642	19,623,768
Total operating revenues	<u>47,643,502</u>	<u>37,402,985</u>
<i>Operating expenses:</i>		
Instruction	1,951,746	1,615,964
Academic support	5,671,386	8,303,395
Student services	304,413	-
Institutional support	18,360,535	18,714,933
Student grants and scholarships	2,004,739	1,920,491
Total operating expenses	<u>28,292,819</u>	<u>30,554,783</u>
Operating income	<u>19,350,683</u>	<u>6,848,202</u>
<i>Nonoperating revenues (expenses):</i>		
Investment income, net of fees of \$61,000 and \$58,000, respectively	2,012,601	815,301
Endowment investment income (loss), including fees of \$491,000 and \$547,000, respectively	24,948,524	(1,191,400)
Change in value of split interest trusts	395,868	110,582
Other nonoperating expenses	307,142	927,286
Total nonoperating revenues	<u>27,664,135</u>	<u>661,769</u>
Income before other additions	47,014,818	7,509,971
<i>Additions to permanent endowments and split interest trusts</i>	<u>6,392,387</u>	<u>9,990,097</u>
Increase in net position	53,407,205	17,500,068
<i>Net position - beginning of year</i>	286,408,106	268,908,038
<i>Net position - end of year</i>	<u>\$ 339,815,311</u>	<u>\$ 286,408,106</u>

See Notes to Financial Statements.

California Polytechnic State University Foundation

*Statements of Cash Flows
Years Ended June 30, 2017 and 2016*

	<u>2017</u>	<u>2016</u>
<i>Cash flows from operating activities:</i>		
Cash contributions received	\$ 25,678,714	\$ 21,169,433
Cash payments for operating expenses	<u>(31,929,354)</u>	<u>(29,589,290)</u>
Net cash used in operating activities	<u>(6,250,640)</u>	<u>(8,419,857)</u>
<i>Cash flows from noncapital financing activities:</i>		
Cash contributions received for permanent endowments and split interest trusts	6,392,387	9,990,097
Distributions to split interest trust beneficiaries	(798,957)	(821,416)
Fees and expenses of split interest trusts	(152,841)	(134,355)
Other noncapital financing activities	<u>307,142</u>	<u>927,286</u>
Net cash provided by noncapital financing activities	<u>5,747,731</u>	<u>9,961,612</u>
<i>Cash flows from investing activities:</i>		
Proceeds from sales and maturities of investments	39,355,579	44,572,467
Purchases of investments	(50,406,205)	(53,556,396)
Investment income proceeds	<u>7,494,858</u>	<u>7,479,130</u>
Net cash used in investing activities	<u>(3,555,768)</u>	<u>(1,504,799)</u>
Net increase (decrease) in cash and cash equivalents	(4,058,677)	36,956
<i>Cash and cash equivalents - beginning of year</i>	<u>7,514,491</u>	<u>7,477,535</u>
<i>Cash and cash equivalents - end of year</i>	<u>\$ 3,455,814</u>	<u>\$ 7,514,491</u>
<i>Summary of cash and cash equivalents - end of year:</i>		
Cash and cash equivalents	\$ 3,145,811	\$ 7,213,433
Restricted cash and cash equivalents	<u>310,003</u>	<u>301,058</u>
Total cash and cash equivalents - end of year	<u>\$ 3,455,814</u>	<u>\$ 7,514,491</u>

See Notes to Financial Statements.

California Polytechnic State University Foundation

*Statements of Cash Flows - continued
Years Ended June 30, 2017 and 2016*

	<u>2017</u>	<u>2016</u>
<i>Reconciliation of operating income to net cash used in operating activities:</i>		
Operating income	\$ 19,350,683	\$ 6,848,202
Adjustments to reconcile operating income to net cash used in operating activities:		
Non-cash operating contributions	(1,472,858)	(1,331,856)
Change in assets and liabilities:		
Pledges receivable, net	(20,311,930)	(14,917,796)
Prepaid expenses	(399,452)	819
Other assets	352,721	(200,000)
Accounts payable	(3,589,804)	1,164,674
Unearned revenue	(180,000)	16,100
Net cash used in operating activities	<u>\$ (6,250,640)</u>	<u>\$ (8,419,857)</u>
<i>Supplemental disclosures of cash flow information:</i>		
Contributions of investments	<u>\$ 1,563,066</u>	<u>\$ 1,331,856</u>
Increase (decrease) in fair value of investments	<u>\$ 20,850,669</u>	<u>\$ (7,171,658)</u>

See Notes to Financial Statements.

California Polytechnic State University Foundation

Notes to Financial Statements

Note 1. Organization

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

Note 2. Summary of Significant Accounting Policies

Financial reporting entity:

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

Basis of presentation:

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

Classification of current and noncurrent assets and liabilities:

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

Cash and cash equivalents, and restricted cash:

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

California Polytechnic State University Foundation

Notes to Financial Statements

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

Investments:

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

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

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

Accounts receivable:

Accounts receivable are shown net of any allowance for uncollectible accounts, as of June 30, 2017 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, 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. Pledges receivable as of June 30, 2016 were \$30.9 million, which includes an allowance for uncollectible pledges of \$3.5 million, and a present value discount of \$2.3 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 867 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, 2017 and 2016, were \$84.6 million and \$70.5 million, respectively, and were included in restricted expendable net position.

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

Split interest trusts:

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

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.

Net position:

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

Restricted – nonexpendable:

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

Restricted – expendable:

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

Unrestricted:

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

Classification of revenues and expenses:

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

The institutional support expenses for the years ended June 30, 2017 and June 30, 2016 include general fund expenses of \$3.7 million and \$3.5 million, respectively. These expenses are incurred to provide support for University staff, administer the gifts and endowments, and to operate the Foundation.

California Polytechnic State University Foundation

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

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

Donated property and equipment:

Donations of property, materials and equipment in excess of \$5,000 are recorded at 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 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. 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.

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

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

Recently issued GASB Statements No. 73, 74, 75, 78, and 82 have no impact on the Foundation as it does not have any employees. Recently issued GASB Statement No. 77 has no impact on the Foundation as it does not have any tax abatement agreements. Recently issued GASB Statement No. 79 has not impact on the Foundation as it is not a participant in external investment pools. Recently issued GASB Statement No. 80 has no impact on the Foundation as it does not have any component units. Management implemented GASB Statements No. 72, 76, and 81 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, other than additional disclosures related to fair value under GASB Statement No. 72.

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, 2017, 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, 2017, the Foundation had approximately \$2.7 million in uninsured cash deposits.

California Polytechnic State University Foundation

Notes to Financial Statements

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

	<u>2017</u>	<u>2016</u>
Endowments	\$ 39,535	\$ 51,871
Split interest trusts	<u>270,468</u>	<u>249,187</u>
 Total	 <u>\$ 310,003</u>	 <u>\$ 301,058</u>

Note 4. Investments

Investments are classified in the accompanying financial statement as follows:

	<u>2017</u>	<u>2016</u>
Short-term investments	\$ 6,326,004	\$ 26,356,842
Endowment investments	207,630,854	188,432,286
Other long-term investments	<u>79,538,237</u>	<u>45,241,609</u>
 Total	 <u>\$ 293,495,095</u>	 <u>\$ 260,030,737</u>

Other long-term investments included \$12.9 million and \$12.3 million of investments held in split interest trusts at June 30, 2017 and 2016, respectively.

At June 30, 2017, investments comprise the following:

	<u>2017</u>		
	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
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	-	<u>2,411,658</u>	<u>2,411,658</u>
 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

At June 30, 2016, investments comprised the following:

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

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

California Polytechnic State University Foundation

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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.

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 \$154.8 million or 53% of the total investments of the Foundation at June 30, 2017. 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.

California Polytechnic State University Foundation

Notes to Financial Statements

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, 2017, 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	\$ 21,654,289	AAA
PIMCO Total Return Fund - Institutional	13,865,640	AA
PIMCO Foreign Bond Fund - Institutional	11,256,668	AA
Loomis Sayles Bond Fund - Institutional	9,909,961	A
PIMCO High Yield Fund - Institutional	6,498,787	BB
Vanguard Total Bond Market Index Adm.	532	AA
Total bond mutual funds	<u>63,185,877</u>	
<i>Various corporate bonds and CD's</i>	<u>67,722,334</u>	Unrated
<i>Money market fund:</i>		
Wells Fargo Money Market - Institutional	<u>310,003</u>	Unrated
<i>Cash and restricted cash:</i>		
Schwab One Fund	<u>327,250</u>	Unrated
Total fixed income and debt securities subject to credit risk	<u>\$ 131,545,464</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

California Polytechnic State University Foundation

Notes to Financial Statements

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, 2017, the weighted average duration of the Foundation's fixed income securities was as follows:

	<i>Fair Value</i>	<i>Weighted Average Duration (in years)</i>
<i>Bond mutual funds:</i>		
DFA Intermediate Government Bond	\$ 21,654,289	6.1
PIMCO Total Return Fund - Institutional	13,865,640	5.1
PIMCO Foreign Bond Fund - Institutional	11,256,668	7.3
Loomis Sayles Bond Fund - Institutional	9,909,961	3.3
PIMCO High Yield Fund - Institutional	6,498,787	3.2
Vanguard Total Bond Market Index Adm.	532	6.1
Total bond mutual funds	63,185,877	
 <i>Various corporate bonds and CD's</i>	 67,722,334	 2.0
 <i>Money market fund and cash</i>	 637,253	 0
Total fixed income and debt securities subject to credit risk	\$ 131,545,464	3.6

Foreign currency risk:

Exposure from foreign currency risk results from investments in foreign currency denominated equity, fixed income and alternative investments in addition to some foreign currency investments held within U.S. mutual funds. The Foundation maintains significant 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, 2017 was as follows:

Euro	\$ 16,186,495
British Pounds	9,248,802
Japanese Yen	9,781,988
Swiss Francs	3,201,447
Canadian Dollars	1,842,039
Hong Kong Dollars	3,035,319
Australian Dollars	2,409,172
Korean	1,968,544
Tiawanese Dollars	1,433,666
Other	<u>12,747,708</u>
Total investments subject to foreign currency risk	<u>\$ 61,855,180</u>

The foreign currency risk by investment type at June 30, 2017 was as follows:

Equity mutual funds	\$ 59,489,731
Bond mutual funds	<u>2,365,449</u>
Total investments subject to foreign currency risk	<u>\$ 61,855,180</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. 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

California Polytechnic State University Foundation

Notes to Financial Statements

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, 2017, the Foundation held alternative investments at estimated fair value in its endowment as follows:

Public sector investments	\$	904,079
Private sector investments		1,168,928
Distressed debt		<u>338,651</u>
Total	\$	<u>2,411,658</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:

- Certificates of deposit, corporate bonds, and mutual funds are classified within Level 1, and fair value is based on quoted market prices.

California Polytechnic State University Foundation

Notes to Financial Statements

- 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, 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
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 290,279,382</u>	<u>\$ -</u>	<u>\$ 3,215,713</u>

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

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

California Polytechnic State University Foundation

Notes to Financial Statements

Note 5. Pledges Receivable

Pledges receivable compromised the following at June 30:

	<u>2017</u>	<u>2016</u>
Campus programs support	\$ 37,744,405	\$ 4,598,466
College-specific facilities	16,276,957	28,900,408
Scholarship contributions	<u>4,649,392</u>	<u>3,284,460</u>
Subtotal	58,670,754	36,783,334
Less: Allowance for uncollectible accounts	(3,733,359)	(3,525,327)
Less: Unamortized discount	<u>(3,678,652)</u>	<u>(2,311,194)</u>
 Pledges receivable, net	 <u>\$ 51,258,743</u>	 <u>\$ 30,946,813</u>
 Gross pledges due in:		
One year or less	\$ 12,799,048	\$ 9,502,283
One to five years	25,971,666	24,999,806
More than five years	<u>19,900,040</u>	<u>2,281,245</u>
 Total gross	 <u>\$ 58,670,754</u>	 <u>\$ 36,783,334</u>

At June 30, 2017, pledges receivable from one donor represented approximately 73% of pledges receivable while at June 30, 2016, one donor represented 68% 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Accounts receivable	\$ -	\$ 171,906
Payable to University for salaries	1,655,207	5,121,224
Payments to University for salaries and benefits of University personnel	2,919,258	1,000,000
Payments to University for other than salaries of University personnel	2,510,769	1,120,088
Payments or transfers to University from endowments	7,527,100	3,340,398
Gifts to the University	9,108,626	15,813,315

California Polytechnic State University Foundation

Notes to Financial Statements

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

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

The following were transactions with CPC as of and for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Accounts receivable	\$ 3,769	\$ 5,400
Accounts payable	27,690	120,321
Payments to CPC under Support Agreement	30,000	40,000
Cash contributions to CPC	2,686,708	2,339,413
Cash contributions from CPC	612,633	716,250

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, 2017 and \$1.9 million at June 30, 2016. Nonexpendable net position includes \$4.0 million and \$3.7 million related to split interest trusts at June 30, 2017 and 2016, 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, 2017 are expected to be minimal. Likewise, no amounts have been paid to CSURMA during the year ended June 30, 2017, related to the Foundation's estimated future funding for claims liability.

California Polytechnic State University Foundation

Notes to Financial Statements

Note 9. Commitments

The Foundation has a funding guarantee to the University totaling \$0.5 million as of June 30, 2017 in relation to the construction of the Warren J. Baker Center for Science and Math. Net position associated with these funding guarantees is held as restricted and expendable for capital projects.

Note 10. Subsequent Events

Events subsequent to June 30, 2017 have been evaluated through September 19, 2017, 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, 2017

California Polytechnic State University Foundation

Schedule of Net Position

June 30, 2017

(for inclusion in the California State University)

Assets:

Current assets:

Cash and cash equivalents	\$	3,145,811
Short-term investments		6,326,004
Accounts receivable, net		471,639
Leases receivable, current portion		-
Notes receivable, current portion		-
Pledges receivable, net		9,796,485
Prepaid expenses and other current assets		698,214
		<hr/>
Total current assets		20,438,153

Noncurrent assets:

Restricted cash and cash equivalents		310,003
Accounts receivable, net		-
Leases receivable, net of current portion		-
Notes receivable, net of current portion		-
Student loans receivable, net		-
Pledges receivable, net		41,462,258
Endowment investments		207,630,854
Other long-term investments		79,538,237
Capital assets, net		-
Other assets		58,605
		<hr/>
Total noncurrent assets		328,999,957
		<hr/>
Total assets		349,438,110

Deferred outflows of resources:

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

California Polytechnic State University Foundation

Schedule of Net Position - Continued

June 30, 2017

(for inclusion in the California State University)

Liabilities:

Current liabilities:

Accounts payable	1,873,596
Accrued salaries and benefits	-
Accrued compensated absences, current portion	-
Unearned revenue	338,600
Capitalized lease obligations, current portion	-
Long-term debt obligations, current portion	-
Claims liability for losses and loss adjustment expenses, current portion	-
Depository accounts	-
Other liabilities	-
	<hr/>
Total current liabilities	2,212,196
	<hr/>

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	7,410,603
	<hr/>
Total noncurrent liabilities	7,410,603
	<hr/>
Total liabilities	9,622,799
	<hr/>

Deferred inflows of resources:

Service concession arrangements	-
Net pension liability	-
Unamortized gain on debt refunding	-
Nonexchange transactions	-
Others	-
	<hr/>
Total deferred inflows of resources	-
	<hr/>

Net Position:

Net investment in capital assets	-
Restricted for:	
Nonexpendable – endowments	119,148,272
Nonexpendable – split interest trusts	3,983,470
Expendable:	
Scholarships and fellowships	22,065,143
Research	8,412,543
Loans	-
Capital projects	58,754,048
Debt service	-
Others	126,207,697
Unrestricted	1,244,138
	<hr/>
Total net position	\$ 339,815,311
	<hr/> <hr/>

California Polytechnic State University Foundation
Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2017
(for inclusion in the California State University)

Revenues:

Operating revenues:

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

Expenses:

Operating expenses:

Instruction		1,951,746
Research		-
Public service		-
Academic support		5,671,386
Student services		304,413
Institutional support		18,360,535
Operation and maintenance of plant		-
Student grants and scholarships		2,004,739
Auxiliary enterprise expenses		-
Depreciation and amortization		-
		<hr/>
Total operating expenses		<hr/> <hr/>
Operating income (loss)		<hr/> <hr/> <hr/>

California Polytechnic State University Foundation
Schedule of Revenues, Expenses, and Changes in Net Position - Continued
Year Ended June 30, 2017
(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	42,677,860
Investment income (loss), net	2,012,601
Endowment income (loss), net	24,948,524
Interest expense	-
Other nonoperating revenues (expenses)	703,010
	<hr/>
Net nonoperating revenues (expenses)	70,341,995
	<hr/>
Income (loss) before other revenues (expenses)	42,049,176
State appropriations, capital	-
Grants and gifts, capital	4,965,642
Additions (reductions) to permanent endowments	6,392,387
	<hr/>
Increase (decrease) in net position	53,407,205
	<hr/>
Net position:	
Net position at beginning of year, as previously reported	286,408,106
Restatements	-
	<hr/>
Net position at beginning of year, as restated	286,408,106
	<hr/>
Net position at end of year	\$ 339,815,311
	<hr/> <hr/>

California Polytechnic State University Foundation
Other Information
June 30, 2017
(for inclusion in the California State University)

1 Restricted cash and cash equivalents at June 30, 2017:

Portion of restricted cash and cash equivalents related to endowments	\$ 39,535
All other restricted cash and cash equivalents	270,468
Total restricted cash and cash equivalents	<u>\$ 310,003</u>

2.1 Composition of investments at June 30, 2017:

	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	-	-	-	-	23,064,861	23,064,861	23,064,861
Certificates of deposit	-	6,326,004	6,326,004	-	38,331,469	38,331,469	44,657,473
Mutual funds	-	-	-	-	63,185,877	63,185,877	63,185,877
Money Market funds	-	-	-	-	4,620,774	4,620,774	4,620,774
Repurchase agreements	-	-	-	-	-	-	-
Commercial paper	-	-	-	-	-	-	-
Asset backed securities	-	-	-	-	-	-	-
Mortgage backed securities	-	-	-	-	-	-	-
Municipal bonds	-	-	-	-	-	-	-
U.S. agency securities	-	-	-	-	-	-	-
U.S. treasury securities	-	-	-	-	-	-	-
Equity securities	-	-	-	-	154,750,397	154,750,397	154,750,397
Exchange traded funds (ETFs)	-	-	-	-	-	-	-
Alternative investments:							
Private equity (including limited partnerships)	-	-	-	-	904,079	904,079	904,079
Hedge funds	-	-	-	-	-	-	-
Managed futures	-	-	-	-	-	-	-
Real estate investments (including REITs)	-	-	-	-	-	-	-
Commodities	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-
Other alternative investment types	-	-	-	-	1,507,579	1,507,579	1,507,579
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>6,326,004</u>	<u>6,326,004</u>	<u>-</u>	<u>287,169,091</u>	<u>287,169,091</u>	<u>293,495,095</u>
Less endowment investments (enter as negative number)					<u>(207,630,854)</u>	<u>(207,630,854)</u>	<u>(207,630,854)</u>
Total investments	<u>-</u>	<u>6,326,004</u>	<u>6,326,004</u>	<u>-</u>	<u>79,538,237</u>	<u>79,538,237</u>	<u>85,864,241</u>

2.2 Investments held by the University under contractual agreements at June 30, 2017:

Portion of investments in note 2.1 held by the University under contractual agreements at June 30, 2017:	-	-	-	-	-	-	-
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California Polytechnic State University Foundation

Other Information

June 30, 2017

(for inclusion in the California State University)

2.3 Restricted current investments at June 30, 2017 related to:

	Amount
Campus Programs	\$ 6,326,004
Add description	-
Total restricted current investments at June 30, 2017	\$ 6,326,004

2.4 Restricted noncurrent investments at June 30, 2017 related to:

	Amount
Endowment investment	\$ 207,630,854
Split Interest Trusts	12,882,132
Investments Held for Institutional Support	638,000
Campus Programs	66,018,105
Add description	-
Total restricted noncurrent investments at June 30, 2017	\$ 287,169,091

2.5 Fair value hierarchy in investments at June 30, 2017:

		Fair Value Measurements Using				
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		Net Asset Value (NAV)
	Total					
State of California Surplus Money Investment Fund (SMIF)	\$ -	-	-	-	-	-
State of California Local Agency Investment Fund (LAIF)	-	-	-	-	-	-
Corporate bonds	23,064,861	23,064,861	-	-	-	-
Certificates of deposit	44,657,473	44,657,473	-	-	-	-
Mutual funds	63,185,877	63,185,877	-	-	-	-
Money Market funds	4,620,774	4,620,774	-	-	-	-
Repurchase agreements	-	-	-	-	-	-
Commercial paper	-	-	-	-	-	-
Asset backed securities	-	-	-	-	-	-
Mortgage backed securities	-	-	-	-	-	-
Municipal bonds	-	-	-	-	-	-
U.S. agency securities	-	-	-	-	-	-
U.S. treasury securities	-	-	-	-	-	-
Equity securities	154,750,397	154,750,397	-	-	-	-
Exchange traded funds (ETFs)	-	-	-	-	-	-
Alternative investments:						
Private equity (including limited partnerships)	904,079	-	-	-	-	904,079
Hedge funds	-	-	-	-	-	-
Managed futures	-	-	-	-	-	-
Real estate investments (including REITs)	-	-	-	-	-	-
Commodities	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-
Other alternative investment types	1,507,579	-	-	-	-	1,507,579
Other external investment pools (excluding SWIFT)						
Add description	-	-	-	-	-	-
Other major investments:						
Notes Receivable	638,000	-	-	638,000	-	-
Other	166,055	-	-	166,055	-	-
Total investments	\$ 293,495,095	290,279,382	-	804,055	-	2,411,658

California Polytechnic State University Foundation

Other Information

June 30, 2017

(for inclusion in the California State University)

3.1 Composition of capital assets at June 30, 2017:

	Balance June 30, 2016	Prior period Adjustments	Reclass- ifications	Balance 2016 (restated)	Additions	Reductions	Transfers of Completed CWIP	Balance June 30, 2017
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, 2017
(for inclusion in the California State University)

3.2 Detail of depreciation and amortization expense for the year ended June 30, 2017:

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 June 30, 2016	Prior period adjustments	Reclass- ifications	Balance June 30, 2016 (restated)	Additions	Reductions	Balance June 30, 2017	Current portion	Long- term portion
Accrued compensated absences	\$ -	-	-	-	-	-	-	-	-
Claims liability for losses and loss adjustment expenses	-	-	-	-	-	-	-	-	-
Capitalized lease obligations:									
Gross balance	-	-	-	-	-	-	-	-	-
Unamortized premium / (discount) on capitalized lease obligations	-	-	-	-	-	-	-	-	-
Total capitalized lease obligations	<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, 2017
(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:									
2018	\$ -	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-	-	-
2023 - 2027	-	-	-	-	-	-	-	-	-
2028 - 2032	-	-	-	-	-	-	-	-	-
2033 - 2037	-	-	-	-	-	-	-	-	-
2038 - 2042	-	-	-	-	-	-	-	-	-
2043 - 2047	-	-	-	-	-	-	-	-	-
2048 - 2052	-	-	-	-	-	-	-	-	-
2053 - 2057	-	-	-	-	-	-	-	-	-
20578- 2062	-	-	-	-	-	-	-	-	-
2063 - 2067	-	-	-	-	-	-	-	-	-
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, 2017
(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:									
2018	\$ -	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-	-	-
2023 - 2027	-	-	-	-	-	-	-	-	-
2028 - 2032	-	-	-	-	-	-	-	-	-
2033 - 2037	-	-	-	-	-	-	-	-	-
2038 - 2042	-	-	-	-	-	-	-	-	-
2043 - 2047	-	-	-	-	-	-	-	-	-
2048 - 2052	-	-	-	-	-	-	-	-	-
2053 - 2057	-	-	-	-	-	-	-	-	-
20578- 2062	-	-	-	-	-	-	-	-	-
2063 - 2067	-	-	-	-	-	-	-	-	-
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, 2017
 (for inclusion in the California State University)

10 Pollution remediation liabilities under GASB Statement No. 49:

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

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

	Net Position Class	Amount Dr. (Cr.)
Net position as of June 30, 2016, as previously reported		\$ -
Prior period adjustments:		
10 (list description of each adjustment)		-
Net position as of June 30, 2016, as restated		\$ -

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

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



**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance with Government Auditing Standards**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of California Polytechnic State University Foundation (the Foundation), which comprise the statements of net position as of June 30, 2017 and 2016, 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 19, 2017.

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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



**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 Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Caliber Audit & Attest, LLP

San Luis Obispo, California
September 19, 2017