

California Polytechnic State University Foundation

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

Years Ended June 30, 2013 and 2012

California Polytechnic State University Foundation
Audited Financial Statements and
Supplementary Schedules for Inclusion in
the Financial Statements of the California State University
Years Ended June 30, 2013 and 2012

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying statements of net position of California Polytechnic State University Foundation (the Foundation) as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Polytechnic State University Foundation as of June 30, 2013 and 2012, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 10 be presented to supplement the basic financial statements. Such information, although not a basic part of the financial statements, is required by the *Government Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the California Polytechnic State University Foundation's basic financial statements. The accompanying supplementary information for inclusion in the financial statements of the California State University on pages 35 through 44 is presented for purposes of additional analysis as required by the California State University and is not a required part of the basic financial statements.

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.

Board of Directors

California Polytechnic State University Foundation

San Luis Obispo, California

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2013, on our consideration of the California Polytechnic State University Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the California Polytechnic State University Foundation's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "GLENN BURDETTE ATTEST CORPORATION". The letters are stylized and connected, with a large, prominent 'G' at the beginning.

Glenn Burdette Attest Corporation

San Luis Obispo, California

September 6, 2013

California Polytechnic State University Foundation
Management's Discussion and Analysis
June 30, 2013

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, 2013 ("2013"), with comparative information for the fiscal year ending June 30, 2012 ("2012"). 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 at their book value, on an accrual basis, as of the financial statement date. It also identifies major categories of restrictions on the net position of the Foundation.

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

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

Analytical Overview

Summary

The following discussion highlights management's understanding of the key financial aspects of the Foundation's financial activities for 2013 and 2012. 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, 2011 ("2011").

California Polytechnic State University Foundation
Management's Discussion and Analysis
June 30, 2013

Condensed Summary of Net Position

	June 30,		
	2013	2012	2011
Assets:			
Current assets	\$ 33,488,961	\$ 31,083,016	\$ 35,209,104
Noncurrent assets	210,194,158	198,543,615	201,381,108
Total assets	<u>243,683,119</u>	<u>229,626,631</u>	<u>236,590,212</u>
Liabilities:			
Current liabilities	2,233,292	2,468,447	1,324,121
Noncurrent liabilities	7,896,029	7,861,588	8,426,385
Total liabilities	<u>10,129,321</u>	<u>10,330,035</u>	<u>9,750,506</u>
Net position:			
Restricted, non-expendable	105,344,124	102,756,422	102,367,540
Restricted, expendable	126,684,039	114,750,163	122,815,855
Unrestricted	1,525,635	1,790,011	1,656,311
Total net position	<u>\$ 233,553,798</u>	<u>\$ 219,296,596</u>	<u>\$ 226,839,706</u>

Net Position

The Foundation's total net position increased in 2013 by \$14.3 million or 7% from prior year, following a decrease of \$7.5 million or 3% in 2012. In 2013, total assets of \$243.7 million increased \$14.1 million or 6% and were offset by total liabilities of \$10.1 million. Total liabilities decreased \$0.2 million or 2% from prior year.

The increase in total net position in 2013 and the decrease in 2012 can be primarily attributed to investment market gains and losses. In 2013, current assets increased \$2.4 million (8%) primarily due to a \$2.3 million increase in pledges receivable while noncurrent assets increased \$11.7 million (6%) primarily due to investment gains. In 2012, current assets decreased \$4.1 million (12%) due to a \$2.6 million decrease in cash and short term investments and a \$1.7 million decrease in pledges receivable while noncurrent assets decreased \$2.8 million (1%), due to investment market losses in endowment and other long-term investments.

California Polytechnic State University Foundation
Management's Discussion and Analysis
June 30, 2013

Restricted Net Position

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

Restricted Net Position

	June 30,		
	2013	2012	2011
Non-expendable:			
Endowments	\$ 101,909,335	\$ 99,727,119	\$ 99,187,281
Split interest trusts	3,434,789	3,029,303	3,180,259
Total non-expendable	<u>\$ 105,344,124</u>	<u>\$ 102,756,422</u>	<u>\$ 102,367,540</u>
Expendable:			
Scholarships and fellowships	\$ 16,568,866	\$ 13,715,112	\$ 15,843,576
Research	6,161,104	5,866,476	7,400,588
Capital projects	17,526,061	20,189,629	22,288,658
Academic support	45,947,095	35,766,339	36,788,110
Other	40,480,913	39,212,607	40,494,923
Total expendable	<u>\$ 126,684,039</u>	<u>\$ 114,750,163</u>	<u>\$ 122,815,855</u>

The principal reasons the value of each type of restricted net position changed from the prior year are: (i) level of contributions received, (ii) expenditures in the current year, and (iii) investment returns. Investment gains in 2013 and investment losses in 2012 account for the largest changes in most categories compared to the prior year; the 2013 increase and the 2012 decrease in expendable scholarships and fellowships, research and other include investment losses/returns on assets held during the year. The 2013 increase in academic support is due to an increase in contributions. Net position expendable for capital projects decreased \$2.7 million in 2013 and \$2.1 million in 2012 as expenditures were made during these years. Investment gains and losses for capital projects are minimal because these funds are held in short term investments with low yields and virtually no principal gain or loss.

Unrestricted Net Position

Unrestricted net position declined by \$0.3 million in 2013 to \$1.5 million, a 15% decrease over the balance of \$1.8 million held at June 30, 2012, primarily due to a decrease in fundraising revenues subject to the gift fee.

California Polytechnic State University Foundation
Management's Discussion and Analysis
June 30, 2013

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

	Year Ended June 30,		
	2013	2012	2011
Operating revenues	\$ 20,140,046	\$ 11,382,338	\$ 10,472,977
Operating expenses	(22,530,882)	(18,712,175)	(17,608,645)
Operating loss	(2,390,836)	(7,329,837)	(7,135,668)
Nonoperating revenues (expenses)	14,452,269	(2,121,047)	34,457,565
Additions to permanent endowments and other	2,195,769	1,907,774	3,080,981
Increase (decrease) in net position	14,257,202	(7,543,110)	30,402,878
Beginning net position	219,296,596	226,839,706	196,436,828
Ending net position	\$ 233,553,798	\$ 219,296,596	\$ 226,839,706

Operating revenues, consisting generally of currently expendable contributions to the Foundation for the benefit of the University, totaled \$20.1 million in 2013, a 77% or \$8.8 million increase from 2012 due to increased donor support to the Foundation. Operating revenues totaled \$11.4 million in 2012, a \$0.9 million (9%) increase over 2011 primarily due to a large endowment payout in 2012. Operating expenses of \$22.5 million increased \$3.8 million or 20% from 2012 due to fluctuations in program expenditures and endowment distributions. Increased expenditures made for equipment and construction at the Warren J. Baker Center for Science and Mathematics accounted for the increase.

Nonoperating revenues (expenses) consist primarily of investment returns (interest, dividends and gain or loss, realized and unrealized) net of fees. The 2013 investment return produced net nonoperating revenues of \$17.8 million compared to \$0.2 million in 2012 and \$33.1 million in 2011. Included in nonoperating revenues in 2013 was a \$3.9 write-off of pledges receivable. Included in nonoperating expenses in 2012 was the return to a donor of a \$1 million endowment, \$0.7 million write-down of certain real estate held for sale, and a \$0.6 million increase in the allowance for uncollectible pledges receivable. Other additions include endowment contributions which added \$2.2 million to net position in 2013 compared to \$1.9 million in 2012 and \$3.1 million in 2011.

Capital Assets and Long-Term Debt Obligations

At June 30, 2013, the Foundation had no capital assets and \$0.4 million in long-term debt obligations to a related entity. This debt obligation was repaid in August 2013.

California Polytechnic State University Foundation
Management's Discussion and Analysis
June 30, 2013

Currently Known Facts Impacting Future Periods

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

The significant volatility in the worldwide equity markets is the most significant factor affecting the change in net position and endowment net investment return which ultimately affects the funds available for operating expenses that benefit the University. The Foundation's payout policy for endowments with total value exceeding donor contributions applies a 4.25% spending rate against the average value of the endowment over the twelve quarters ending as of December 31 of the preceding fiscal year. The payout policy for endowments with total value below donor contributions applies a 2% spending rate against the same twelve trailing quarter investment base. Using a twelve trailing quarter average base value and a 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. These payout policies ameliorated the effects of the market declines in 2008 and 2009 but also extended their impact into 2011 and 2012.

The fall in short term interest rates in 2009 to historically low levels resulted in significantly lower net investment income than prior years. Short-term interest rates continued at low levels through 2013. As a result, the Foundation's investment committee moved \$14.5 million into bond mutual funds to achieve a higher return on investment. However, the significant drop in the bond market in May 2013 resulted in \$0.6 million in market losses, offset by \$0.4 million in interest and dividends. In 2012, short term investments produced \$0.3 million of investment income, a \$0.1 million (25%) decrease from 2011. The Foundation employs the unrestricted portion of these funds to pay its administrative expenses and applies any surplus to support campus fundraising activities.

The Foundation holds within restricted expendable assets \$7.3 million for capital projects planned by the University. The Foundation transferred \$5.4 million of these assets to the University in August 2013 for the Warren J. Baker Center for Science and Mathematics. With this transfer, and as funds are transferred for other planned capital projects, there will be a corresponding decrease in assets associated with these projects which will lower interest income.

California Polytechnic State University Foundation
Statements of Net Position
June 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,071,772	\$ 6,877,208
Short-term investments	17,673,539	19,018,415
Accounts receivable, net	174,894	534,948
Pledges receivable, net	6,098,437	3,808,997
Prepaid expenses	72,848	67,704
Other assets	397,471	775,744
Total current assets	<u>33,488,961</u>	<u>31,083,016</u>
Noncurrent assets:		
Restricted cash and cash equivalents	386,014	344,924
Pledges receivable, net	10,002,015	5,602,936
Endowment investments	176,158,641	163,088,898
Other long-term investments	23,386,979	29,224,315
Other assets	260,509	282,542
Total noncurrent assets	<u>210,194,158</u>	<u>198,543,615</u>
Total assets	<u>243,683,119</u>	<u>229,626,631</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>
Liabilities		
Current liabilities:		
Accounts payable	1,578,805	1,865,171
Unearned revenue	588,500	544,500
Current portion long-term payable	65,987	58,776
Total current liabilities	<u>2,233,292</u>	<u>2,468,447</u>
Noncurrent liabilities:		
Other liabilities:		
Split interest trust liabilities to individual beneficiaries	6,834,363	6,827,330
Split interest trust liabilities to external charitable residuary beneficiaries	712,121	618,024
Long-term payable, net of current portion	349,545	416,234
Total noncurrent liabilities	<u>7,896,029</u>	<u>7,861,588</u>
Total liabilities	<u>\$ 10,129,321</u>	<u>\$ 10,330,035</u>

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

California Polytechnic State University Foundation
Statements of Net Position
June 30, 2013 and 2012
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	<u>2013</u>	<u>2012</u>
Net Position		
Restricted for:		
Non-expendable:		
Endowments	\$ 101,909,335	\$ 99,727,119
Split interest trusts for establishment of endowments	3,434,789	3,029,303
Expendable:		
Scholarships and fellowships	16,568,866	13,715,112
Research	6,161,104	5,866,476
Capital projects	17,526,061	20,189,629
Instruction	26,535,001	25,355,175
Academic support	45,947,095	35,766,339
Institutional support	4,690,689	7,101,597
Operation & maintenance of plant	6,938,746	4,834,253
Other	2,316,477	1,921,582
Unrestricted	<u>1,525,635</u>	<u>1,790,011</u>
Total net position	<u><u>\$ 233,553,798</u></u>	<u><u>\$ 219,296,596</u></u>

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

California Polytechnic State University Foundation
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Contributions - University programs	\$ 14,748,844	\$ 9,599,954
Contributions - University capital	5,391,202	1,782,384
Total operating revenues	<u>20,140,046</u>	<u>11,382,338</u>
Operating expenses:		
Instruction	1,154,358	1,401,711
Research	867,130	620,655
Public service	456,875	261,348
Academic support	7,683,827	7,852,710
Student services	529,805	174,478
Institutional support	10,098,461	6,585,122
Operation and maintenance of plant	191,089	268,977
Student grants and scholarships	1,549,337	1,547,174
Total operating expenses	<u>22,530,882</u>	<u>18,712,175</u>
Operating loss	<u>(2,390,836)</u>	<u>(7,329,837)</u>
Nonoperating revenues (expenses):		
Investment income, net	(60,402)	365,015
Endowment net investment income, net of fees \$513,000 and \$576,000, respectively	17,858,869	(207,816)
Change in value of split interest trusts	572,201	(216,972)
Other nonoperating expenses	(3,918,399)	(2,061,274)
Total nonoperating revenues (expenses)	<u>14,452,269</u>	<u>(2,121,047)</u>
Income (loss) before other additions	12,061,433	(9,450,884)
Additions to permanent endowments and split interest trusts	<u>2,195,769</u>	<u>1,907,774</u>
Increase (decrease) in net position	14,257,202	(7,543,110)
Net position - beginning of year	<u>219,296,596</u>	<u>226,839,706</u>
Net position - end of year	<u><u>\$ 233,553,798</u></u>	<u><u>\$ 219,296,596</u></u>

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

California Polytechnic State University Foundation
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash contributions received	\$ 12,600,498	\$ 12,865,919
Cash payments for operating expenses	(22,444,121)	(17,559,168)
Other receipts	44,000	59,000
Net cash used in operating activities	<u>(9,799,623)</u>	<u>(4,634,249)</u>
Cash flows from noncapital financing activities:		
Cash contributions received for permanent endowments and split interest trusts	2,127,041	1,626,266
Return of endowment to donor		(1,000,000)
Payments of long-term payable	(59,478)	(8,531)
Distributions to split interest trust beneficiaries	(755,098)	(753,749)
Fees and expenses of split interest trusts	(126,193)	(102,317)
Other noncapital financing activities	<u>(3,918,399)</u>	<u>(2,061,274)</u>
Net cash provided by noncapital financing activities	<u>(2,732,127)</u>	<u>(2,299,605)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	24,670,990	25,669,419
Purchases of investments	(16,325,041)	(30,835,434)
Investment income proceeds	6,421,455	5,894,429
Proceeds from long-term receivable		19,750
Net cash provided by investing activities	<u>14,767,404</u>	<u>748,164</u>
Net increase (decrease) in cash and cash equivalents	2,235,654	(6,185,690)
Cash and cash equivalents - beginning of year	<u>7,222,132</u>	<u>13,407,822</u>
Cash and cash equivalents - end of year	<u><u>\$ 9,457,786</u></u>	<u><u>\$ 7,222,132</u></u>

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

California Polytechnic State University Foundation

Statements of Cash Flows

Year Ended June 30, 2013 and 2012

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	2013	2012
Summary of cash and cash equivalents - end of year:		
Cash and cash equivalents	\$ 9,071,772	\$ 6,877,208
Restricted cash and cash equivalents	<u>386,014</u>	<u>344,924</u>
 Total cash and cash equivalents - end of year	 <u><u>\$ 9,457,786</u></u>	 <u><u>\$ 7,222,132</u></u>
 Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (2,390,836)	\$ (7,329,837)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Non-cash operating contributions	(1,145,799)	(490,227)
Change in assets and liabilities:		
Accounts receivable, net	294,770	(271,878)
Pledges receivable, net	(6,688,519)	2,245,686
Prepaid expenses	(5,144)	28,058
Other assets	378,273	41,999
Accounts payable	(286,368)	1,082,950
Unearned revenue	<u>44,000</u>	<u>59,000</u>
 Net cash used in operating activities	 <u><u>\$ (9,799,623)</u></u>	 <u><u>\$ (4,634,249)</u></u>
 Supplemental disclosures of cash flow information:		
Contributions of investments	\$ 1,261,248	\$ 850,599
Increase in fair value of investments	\$ 12,972,232	\$ 5,637,677

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

California Polytechnic State University Foundation
Notes to Financial Statements
June 30, 2013 and 2012

Note 1: Organization

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

Note 2: Summary of Significant Accounting Policies

Financial Reporting Entity

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

Basis of Presentation

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

Classification of Current and Noncurrent Assets and Liabilities

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

California Polytechnic State University Foundation

Notes to Financial Statements

June 30, 2013 and 2012

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Note 2: Summary of Significant Accounting Policies (Continued)

Cash Equivalents

The Foundation considers demand deposit and negotiable order of withdrawal (NOW) accounts with financial institutions, money market funds, certificates of deposit and other highly liquid investments with an original maturity date of three months or less to be cash equivalents for the statement of cash flows. Amounts restricted by the donors for long-term purposes including endowments and split interest trusts are shown as restricted cash and cash equivalents.

Investments

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

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

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

Accounts Receivable

Accounts receivable are shown net of an allowance for uncollectible accounts of approximately \$105,000 at June 30, 2013 and 2012. The allowance for uncollectible accounts is based upon prior experience and management's assessment of the collectability of specific existing accounts.

California Polytechnic State University Foundation

Notes to Financial Statements

June 30, 2013 and 2012

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Note 2: Summary of Significant Accounting Policies (Continued)

Pledges Receivable

Pledges receivable are unconditional promises to make future payments to the Foundation. Endowment pledges are recognized as additions to endowments at the time pledge payments are received. All other pledges receivable are recognized as contributions revenue in accordance with donor imposed restrictions, if any, in the period pledged. Pledge payments promised to be made in future years are recorded at the present value of the future cash flows net of an allowance for doubtful accounts of \$0.6 million and \$1 million at June 30, 2013 and 2012, respectively. The discounts are computed using the five year Treasury note rate applicable in the year pledged. In subsequent years, this discount is accreted and recorded as additional contributions revenue.

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

Endowments

The Foundation holds approximately 730 individual endowments which are managed in a unitized investment pool. Investment earnings and related expenses are allocated based upon each individual endowment's unit market value.

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

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

Annual expenditure appropriations under UPMIFA (payouts) are taken first from endowment reserve (net appreciation in excess of donor contributions) and then from original principal. Endowment net reserves as of June 30, 2013 and 2012, were \$39.6 million and \$32.2 million, respectively, and were included in restricted expendable net position. The Foundation's payout policy for endowments with reserves applies a 4.25% spending rate against the average value of an endowment over the twelve quarters ending as of December 31 of the preceding fiscal year. The payout policy for endowments with total value below donor contributions applies a 2% spending rate against the same twelve trailing quarter investment base.

California Polytechnic State University Foundation

Notes to Financial Statements

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Note 2: Summary of Significant Accounting Policies (Continued)

Split Interest Trusts

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

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

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

Net Position

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

Restricted - Nonexpendable:

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

California Polytechnic State University Foundation

Notes to Financial Statements

June 30, 2013 and 2012

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Note 2: Summary of Significant Accounting Policies (Continued)

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.

Institutional support expenses included \$3.3 million and \$2.4 million expended to administer the gifts and endowments and to operate the Foundation for the years ended June 30, 2013 and 2012, respectively.

Nonoperating revenues and expenses include investment income, net realized and unrealized appreciation or depreciation in the fair value of investments and change in value of split interest trusts. Included in other nonoperating revenues and expenses for the year ended June 30, 2013 was a \$3.9 million write-off of past due pledges receivable, a \$400,000 write-down of paintings held for sale, and a \$200,000 write-down of real estate sold during the year. For the year ended June 30, 2012, non-operating revenue and expenses included a \$0.7 million write-down of certain real estate held for sale, a \$0.6 million increase to the allowance for pledges receivable, and the return of a \$1 million endowment. Contributions for permanent endowments and split interest trusts restricted to establish endowments are classified as other additions to net position.

California Polytechnic State University Foundation

Notes to Financial Statements

June 30, 2013 and 2012

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Note 2: Summary of Significant Accounting Policies (Continued)

The Foundation has elected to report operating expenses by functional classification in the statement of revenues, expenses, and changes in net position in the categories required by the CSU, but to provide the natural classification of those expenses as an additional disclosure. Using natural expense classifications, all operating expenses are supplies and other services except for student scholarships.

Donated Property and Equipment

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

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 November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* and Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. Statement No. 60 applies to arrangements in which a government uses a third party to provide public services through the use and operation of a capital asset. Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity, amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances, and clarifies the reporting of equity interests in legally separate organizations.

California Polytechnic State University Foundation

Notes to Financial Statements

June 30, 2013 and 2012

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Note 2: Summary of Significant Accounting Policies (Continued)

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The intent of Statement No. 62 is to include all pre-November 30, 1989 private sector guidance into a GASB statement; it supersedes GASB Statement No. 20. Under Statement No. 62, governmental entities will no longer have the option to follow private-sector guidance issued after December 1, 1989 for business-type activities.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. This Statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis* – for State and Local Governments, and other pronouncements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – an amendment of GASB Statements No. 10 and No. 62*. Statement No. 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. In addition, the Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*.

Management implemented GASB Statements No. 60, 61, 62, 63, 65, and 66 for Foundation’s June 30, 2013 financial statements. Implementation of these statements did not have a material impact to the Foundation’s financial statements.

In March 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing standards of financial reporting for most pension plans. The provisions of Statement No. 67 are effective for financial statements for fiscal years beginning after June 15, 2013.

California Polytechnic State University Foundation

Notes to Financial Statements

June 30, 2013 and 2012

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Note 2: Summary of Significant Accounting Policies (Continued)

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

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

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

Management has not yet determined the impact of Statements No. 67, 68, 69 and 70 on its financial statements.

Reclassifications

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

Note 3: Cash and Cash Equivalents

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

At June 30, 2013, the Foundation's checking and related deposit accounts were insured by the FDIC up to \$250,000 per account title. The Foundation also participates in the Certificate of Deposit Account Registry Service (CDARS) program which is a deposit-placement service designed to allow FDIC-insured financial institutions to accept deposits of more than \$250,000 and obtain full coverage for the depositor by spreading the funds among as many separate FDIC insured institutions as necessary so that no institution holds more than \$250,000 (principal plus interest) for each depositor. At June 30, 2013, the Foundation had approximately \$4.8 million in uninsured cash deposits.

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Note 3: Cash and Cash Equivalents (Continued)

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

	2013	2012
Restricted and nonexpendable cash and cash equivalents:		
Endowments	\$ 139,544	\$ 232,038
Split interest trusts	246,470	112,886
Total	<u>\$ 386,014</u>	<u>\$ 344,924</u>

Note 4: Investments

Investments were classified in the accompanying financial statements as follows:

	2013	2012
Short-term investments	\$ 17,673,539	\$ 19,018,415
Endowment investments	176,158,641	163,088,898
Other long-term investments	23,386,979	29,224,315
Total	<u>\$ 217,219,159</u>	<u>\$ 211,331,628</u>

Other long-term investments included \$12.2 million and \$11.7 million of investments held in split interest trusts at June 30, 2013 and 2012, respectively.

At June 30, 2013, investments comprised the following:

	2013		
	Current	Noncurrent	Total
Certificates of deposit	\$ 3,312,571	\$ 10,578,136	\$ 13,890,707
Notes receivable		650,655	650,655
Mutual funds:			
Equity funds		106,121,807	106,121,807
Bond funds	14,360,968	47,787,957	62,148,925
All asset fund		25,770,287	25,770,287
Other investments:			
Partnership interest		166,055	166,055
Alternative investments		8,470,723	8,470,723
Total	<u>\$ 17,673,539</u>	<u>\$ 199,545,620</u>	<u>\$ 217,219,159</u>

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Notes to Financial Statements
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Note 4: Investments (Continued)

At June 30, 2012, investments comprised the following:

	2012		
	Current	Noncurrent	Total
Real estate	\$	\$ 300,000	\$ 300,000
Certificates of deposit	11,905,617	16,612,455	28,518,072
Notes receivable		650,655	650,655
Mutual funds:			
Equity funds		94,737,112	94,737,112
Bond funds	7,112,798	43,848,138	50,960,936
All asset fund		24,916,898	24,916,898
Other investments:			
Partnership interest		166,055	166,055
Alternative investments		11,081,900	11,081,900
Total	<u>\$ 19,018,415</u>	<u>\$ 192,313,213</u>	<u>\$ 211,331,628</u>

Investment Policies

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

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

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

California Polytechnic State University Foundation

Notes to Financial Statements

June 30, 2013 and 2012

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Note 4: Investments (Continued)

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

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

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

The investment guidelines for the endowed portfolio also permit alternative investments primarily in limited partnerships where the Foundation is a limited partner relying upon the expertise of experienced general partners. All limited partnerships in which the Foundation invests are subject to annual audits. As of June 30, 2013, the Foundation had contractual commitments to invest an additional \$1.0 million in various limited partnership investments.

Investment Risk Factors

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

Equity Securities Risks:

Equity securities held by the Foundation either directly or through mutual funds comprised \$106.2 million or 49% of the total investments of the Foundation at June 30, 2013. Equities are subject to both unsystematic and systematic risk. Unsystematic risk is the risk of a price change due to the unique circumstances of a specific security or group of related securities. The Foundation addresses unsystematic risk by investing in a diversified portfolio of equity

California Polytechnic State University Foundation**Notes to Financial Statements****June 30, 2013 and 2012****Page 12****Note 4: Investments (Continued)**

securities and equity mutual funds. Equity securities are also subject to systematic risk or market risk. Systematic risk recognizes that equity securities as a class of asset can change in value as a result of occurrences such as inflation, exchanges rates, political instability, war, economic conditions and interest rates. This type of risk is not specific to a particular company or industry and cannot be substantially mitigated by diversification.

Credit Risk:

Fixed income securities are subject to credit risk, which is the chance that a bond issue will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. The following schedule of credit ratings of Foundation investments summarizes the fair value of the fixed income securities subject to credit risk. The Foundation maintains policies to manage credit risk which include requiring minimum credit ratings issued by nationally recognized statistical rating organizations such as Standard and Poor's or Moody's investor services.

At June 30, 2013, the credit ratings of the Foundation's fixed income securities were as follows:

	Fair Value	Rating
Bond mutual funds:		
DFA Intermediate Government Bond	\$ 16,481,012	AAA
PIMCO Total Return Fund - Institutional	18,932,499	A
Loomis Sayles Bond Fund - Institutional	7,492,548	BBB
PIMCO Foreign Bond Fund - Institutional	8,601,063	AA
PIMCO High Yield Fund - Institutional	4,836,696	BB
Vanguard GNMA - Admiral	5,770,757	AA
Bond Fund of America	23,477	AA
Vanguard Total Market Bond Index	10,873	AA
Money market funds:		
Wells Fargo Cash Investment Money Market - Institutional	499,576	Unrated
Schwab One Fund	139,543	Unrated
Total fixed income and debt securities subject to credit risk	<u>\$ 62,788,044</u>	

California Polytechnic State University Foundation

Notes to Financial Statements

June 30, 2013 and 2012

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Note 4: Investments (Continued)

Custodial Risk:

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

Concentration of Credit Risk:

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

Interest Rate Risk:

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

At June 30, 2013, the weighted average duration of the Foundation's fixed income securities was as follows:

	Fair Value	Weighted Average Duration (in years)
Bond mutual funds:		
DFA Intermediate Government Bond	\$ 16,481,012	5.1
PIMCO Total Return Fund - Institutional	18,932,499	5.8
Loomis Sayles Bond Fund - Institutional	7,492,548	5.3
PIMCO Foreign Bond Fund - Institutional	8,601,063	8.1
PIMCO High Yield Fund - Institutional	4,836,696	3.6
Vanguard GNMA - Admiral	5,770,757	7.8
Bond Fund of America	23,477	3.3
Vanguard Total Market Bond Index	10,873	5.5
Money market funds	639,119	0.1
Total fixed income and debt securities subject to interest rate risk	<u>\$ 62,788,044</u>	5.8

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Notes to Financial Statements

June 30, 2013 and 2012

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Note 4: Investments (Continued)

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. The Foundation's estimated fair value of investments subject to foreign currency risk in its endowments and split interest trusts at June 30, 2013 was as follows:

	Total Fair Value
Euro	\$ 8,053,255
British Pounds	6,919,075
Japanese Yen	4,716,080
Swiss Francs	2,617,801
Brazilian Reais	1,659,225
Canadian Dollars	1,422,837
Australian Dollars	1,168,114
Other	<u>9,124,728</u>
Total investments subject to foreign currency risk	<u><u>\$ 35,681,115</u></u>

Other currencies are individually less than 1% of the Foundation's investments. The foreign currency risk by investment type at June 30, 2013 was as follows:

Equity mutual funds	\$ 31,321,139
Bond mutual funds	4,028,652
Alternative investments	<u>331,324</u>
Total investments subject to foreign currency risk	<u><u>\$ 35,681,115</u></u>

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Notes to Financial Statements

June 30, 2013 and 2012

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Note 4: Investments (Continued)

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 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, 2013, the Foundation held alternative investments at estimated fair value in its endowments as follows:

Private equity limited partnerships	\$ 1,100,521
International private equity limited partnerships	759,449
Venture capital limited partnerships	909,635
Distressed debt	1,822,070
Commodity funds	<u>3,879,048</u>
Total	<u>\$ 8,470,723</u>

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Notes to Financial Statements
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Note 5: Pledges Receivable

Pledges receivable comprised the following at June 30:

	2013	2012
Campus programs support	\$ 3,218,894	\$ 2,405,200
College-specific facilities	13,342,589	8,707,627
Scholarship contributions	615,000	120,000
Subtotal	17,176,483	11,232,827
Less: Allowance for uncollectible accounts	(588,437)	(1,041,330)
Less: Unamortized discount	(487,594)	(779,564)
Pledges receivable, net	<u>\$ 16,100,452</u>	<u>\$ 9,411,933</u>
Pledges due in:		
One year or less	\$ 6,208,437	\$ 4,250,327
One to five years	10,794,371	5,870,000
More than five years	173,675	1,112,500
Total	<u>\$ 17,176,483</u>	<u>\$ 11,232,827</u>

Pledges receivable from two donors represented approximately 72% and 62% of pledges receivable at June 30, 2013 and 2012, respectively.

Note 6: Long-Term Payable and Negative Net Position

At June 30, 2013, restricted expendable net position for academic support was shown net of negative net position of \$416,000 related to the engineering plaza fund. The Foundation borrowed amounts under a long-term payable from CPC to fund the negative net position. The activity under the long-term payable for the year ended June 30, 2013 was as follows:

Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013
\$ 475,010	\$ -	\$ (59,478)	\$ 415,532

Interest on the outstanding balance was calculated at prime plus 1% (4.25% at June 30, 2013) adjusted quarterly and totaled \$22,000 and \$23,000 for the years ended June 30, 2013 and 2012, respectively. The Foundation repaid the loan in August 2013.

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Notes to Financial Statements

June 30, 2013 and 2012

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Note 7: 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, 2013 and 2012:

	2013	2012
Accounts receivable	\$ 3,001	\$ 26,754
Accounts payable	\$ 432,033	\$ 1,144,328
Reimbursements to University for salaries and benefits of University personnel	\$ 3,786,550	\$ 2,519,370
Reimbursements to University for other than salaries of University personnel	\$ 1,475,654	\$ 1,653,095
Cash gifts to the University	\$ 8,051,443	\$ 4,484,259
Noncash gifts to the University	\$ 615,910	\$ 1,599,562

Through June 30, 2012, the Foundation contracted with CPC for accounting, administrative, processing, cash management, reporting, and service functions under an administrative services agreement ("ASA"). Effective July 1, 2012, the Foundation and CPC agreed to restructure the ASA such that CPC will provide information technology and other services through June 30, 2015 at a cost of \$150,000 per year. The accounting, administrative, processing, cash management, reporting, and service functions previously provided by CPC are performed by employees who were transferred to the University effective July 1, 2012.

CPC is the employer for certain employees who perform services that fulfill donor restrictions on the use of Foundation gifts and endowments. The costs of payroll, taxes, insurance and benefits of those employees are charged to the Foundation.

The Foundation has other transactions with CPC in conjunction with its role as an auxiliary organization that administers gifts and endowments for the benefit of the University. The following were transactions with CPC as of and for the years ended June 30, 2013 and 2012:

	2013	2012
Current accounts receivable	\$ 151,498	\$ 131,917
Accounts payable	\$ 32,417	\$ 322,699
Current portion long-term payable	\$ 65,987	\$ 58,777
Long-term payable	\$ 349,545	\$ 416,233
Endowment payable	\$ 157,689	\$ 134,547
Payments to CPC under ASA	\$ 154,143	\$ 1,121,965
Reimbursements to CPC for salaries and benefits	\$ 1,594,765	\$ 1,313,411
Cash contributions to CPC	\$ 1,671,405	\$ 1,907,235
Cash contributions from CPC	\$ 781,056	\$ 837,429

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Notes to Financial Statements

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Note 8: 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 \$1.5 million related to split interest trusts at June 30, 2013 and 2012, respectively.

Note 9: Risk Management

The Foundation manages its risk through the purchase of insurance through California State University Risk Management Authority (CSURMA), a public entity risk pool, for coverage of liability, property and general organizational risk. CSURMA provides self insured risk with purchase of excess insurance. The Foundation maintains general liability insurance coverage for individual claims up to \$15 million per occurrence. Errors and omission claims under \$25,000 are self insured. The Foundation also maintains excess property insurance coverage to limits of \$100 million in excess of \$5,000 self insured limits. There have been no settlements since the Foundation's inception that have exceeded insurance limits. There are no self insurance claims liabilities recorded in the accompanying financial statements because any amounts at June 30, 2013 are expected to be minimal. Likewise, no amounts have been paid to CSURMA during the year ended June 30, 2013, related to the Foundation's estimated future funding for claims liability.

Note 10: Commitments

The Foundation has a funding guarantee to the University totaling \$6.5 million as of June 30, 2013 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. The Foundation paid \$5.4 million of this commitment in August 2013.

Note 11: Subsequent Events

Events subsequent to June 30, 2013 have been evaluated through September 6, 2013, which is the date the financial statements were available to be issued.

In August 2013, the Foundation repaid its outstanding loan from CPC. See Note 6.

In August 2013, the Foundation paid to the University \$5.4 million of its funding commitment to the Warren J. Baker Center for Science and Mathematics. See Note 10.

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

California Polytechnic State University Foundation

Schedule of Net Position

June 30, 2013

(for inclusion in the California State University)

Assets:

Current assets:	
Cash and cash equivalents	\$ 9,071,772
Short-term investments	17,673,539
Accounts receivable, net	174,894
Leases receivable, current portion	—
Notes receivable, current portion	—
Pledges receivable, net	6,098,437
Prepaid expenses and other assets	470,319
Total current assets	<u>33,488,961</u>
Noncurrent assets:	
Restricted cash and cash equivalents	386,014
Accounts receivable, net	—
Leases receivable, net of current portion	—
Notes receivable, net of current portion	—
Student loans receivable, net	—
Pledges receivable, net	10,002,015
Endowment investments	176,158,641
Other long-term investments	23,386,979
Capital assets, net	—
Other assets	260,509
Total noncurrent assets	<u>210,194,158</u>
Total assets	<u>243,683,119</u>
Deferred outflows of resources:	
Unamortized loss on refunding(s)	—
Total deferred outflows of resources	<u>—</u>

Liabilities:

Current liabilities:	
Accounts payable	1,578,805
Accrued salaries and benefits payable	—
Accrued compensated absences— current portion	—
Unearned revenue	588,500
Capitalized lease obligations – current portion	—
Long-term debt obligations – current portion	—
Self-insurance claims liability - current portion	—
Depository accounts	—
Other liabilities	65,987
Total current liabilities	<u>2,233,292</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	—
Self-insurance claims liabilities, net of current portion	—
Depository accounts	—
Other postemployment benefits obligation	—
Other liabilities	7,896,029
Total noncurrent liabilities	<u>7,896,029</u>
Total liabilities	<u>10,129,321</u>
Deferred inflows of resources:	
Deferred inflows from SCAs, grants, and others	—
Total deferred inflows of resources	<u>—</u>

Net Position:

Net investment in capital assets	—
Restricted for:	
Nonexpendable – endowments	105,344,124
Expendable:	
Scholarships and fellowships	16,568,866
Research	6,161,104
Loans	—
Capital projects	17,526,061
Debt service	—
Other	86,428,008
Unrestricted	1,525,635
Total net position	<u>\$ 233,553,798</u>

California Polytechnic State University Foundation
Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2013
(for inclusion in the California State University)

Revenues:

Operating revenues:

Student tuition and fees (net of scholarship allowances of \$0)	\$	—
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 \$0)		—
Other operating revenues		—
Total operating revenues		<u>—</u>

Expenses:

Operating expenses:

Instruction	1,154,358
Research	867,130
Public service	456,875
Academic support	7,683,827
Student services	529,805
Institutional support	10,098,461
Operation and maintenance of plant	191,089
Student grants and scholarships	1,549,337
Auxiliary enterprise expenses	—
Depreciation and amortization	—
Total operating expenses	<u>22,530,882</u>
Operating income (loss)	<u>(22,530,882)</u>

Nonoperating revenues (expenses):

State appropriations, noncapital	—
Federal financial aid grants, noncapital	—
State financial aid grants, noncapital	—
Local financial aid grants, noncapital	—
Nongovernmental and other financial aid grants, noncapital	—
Other federal nonoperating grants, noncapital	—
Gifts, noncapital	14,748,844
Investment income (loss), net	511,799
Endowment income (loss), net	17,858,869
Interest Expenses	—
Other nonoperating revenues (expenses)	<u>(3,918,399)</u>
Net nonoperating revenues (expenses)	<u>29,201,113</u>

Income (loss) before other additions 6,670,231

State appropriations, capital

Grants and gifts, capital 5,391,202

Additions (reductions) to permanent endowments 2,195,769

Increase (decrease) in net position 14,257,202

Net position:

Net position at beginning of year, as previously reported	219,296,596
Restatements	—
Net position at beginning of year, as restated	<u>219,296,596</u>
Net position at end of year	<u>\$ 233,553,798</u>

California Polytechnic State University Foundation
Other Information
June 30, 2013
(for inclusion in the California State University)

1 Restricted cash and cash equivalents at June 30, 2013:

Portion of restricted cash and cash equivalents related to endowments	\$	139,544
All other restricted cash and cash equivalents		<u>246,470</u>
Total restricted cash and cash equivalents	\$	<u><u>386,014</u></u>

2.1 Composition of investments at June 30, 2013:

	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)	-	-	-	-	-	-	-
Wachovia Short Term Fund	-	-	-	-	-	-	-
Wachovia Medium Term Fund	-	-	-	-	-	-	-
Wachovia Equity Fund	-	-	-	-	-	-	-
CSU Consolidated Investment Pool (includes SWIFT and 0948 SMIF)	-	-	-	-	-	-	-
Common Fund - Short Term Fund	-	-	-	-	-	-	-
Common Fund - Others	-	-	-	-	4,591,675	4,591,675	4,591,675
Debt securities	-	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-	-
Fixed income securities (Treasury notes, GNMA's)	-	-	-	-	-	-	-
Land and other real estate	-	-	-	-	-	-	-
Certificates of deposit	-	3,312,571	3,312,571	-	3,313,721	3,313,721	6,626,292
Notes receivable	-	-	-	-	650,655	650,655	650,655
Mutual funds	-	14,360,968	14,360,968	-	179,706,562	179,706,562	194,067,530
Money Market funds	-	-	-	-	7,403,959	7,403,959	7,403,959
Collateralized mortgage obligations:	-	-	-	-	-	-	-
Inverse floaters	-	-	-	-	-	-	-
Interest-only strips	-	-	-	-	-	-	-
Agency pass-through	-	-	-	-	-	-	-
Partnership interests (includes private pass-through)	-	-	-	-	-	-	-
Alternative investments	-	-	-	-	3,879,048	3,879,048	3,879,048
Hedge funds	-	-	-	-	-	-	-
Other major investments:	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Total investments	<u>-</u>	<u>17,673,539</u>	<u>17,673,539</u>	<u>-</u>	<u>199,545,620</u>	<u>199,545,620</u>	<u>217,219,159</u>
Less endowment investments (enter as negative number)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(176,158,641)</u>	<u>(176,158,641)</u>	<u>(176,158,641)</u>
Total investments	<u><u>-</u></u>	<u><u>17,673,539</u></u>	<u><u>17,673,539</u></u>	<u><u>-</u></u>	<u><u>23,386,979</u></u>	<u><u>23,386,979</u></u>	<u><u>41,060,518</u></u>

2.2 Investments held by the University under contractual agreements at June 30, 2013:

Portion of investments in note 2.1 held by the University under contractual agreements at June 30, 2013 :	-	-	-	-	-	-	-
---	---	---	---	---	---	---	---

2.3 Restricted current investments at June 30, 2013 related to:

	<u>Amount</u>
Campus Programs	\$ 17,673,539
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Total restricted current investments at June 30, 2013	<u><u>\$ 17,673,539</u></u>

2.4 Restricted noncurrent investments at June 30, 2013 related to:

	<u>Amount</u>
Endowment investment	\$ 176,158,641
Facilities Investment Fund	7,264,417
Split Interest Trusts	12,170,841
Investments held for institutional support	650,655
Campus Programs	3,301,066
Add description	—
Add description	—
Add description	—
Total restricted noncurrent investments at June 30, 2013	<u><u>\$ 199,545,620</u></u>

California Polytechnic State University Foundation
Other Information
June 30, 2013
(for inclusion in the California State University)

3.1 Composition of capital assets at June 30, 2013:

	Balance June 30, 2012	Prior period Adjustments	Reclassifications	Balance June 30, 2012 (restated)	Additions	Reductions	Transfers of Completed CWIP	Balance June 30, 2013
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:	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-
Total accumulated depreciation/amortization	-	-	-	-	-	-	-	-
Total capital assets, net	\$ -	-	-	-	-	-	-	-

California Polytechnic State University Foundation
Other Information
June 30, 2013
(for inclusion in the California State University)

3.2 Detail of depreciation and amortization expense for the year ended June 30, 2013:

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

4 Long-term liabilities activity schedule:

	Balance June 30, 2012	Prior period adjustments	Reclassifications	Balance June 30, 2012 (restated)	Additions	Reductions	Balance June 30, 2013	Current portion	Long-term portion
Accrued compensated absences	\$ —	—	—	—	-	-	—	—	—
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:									
Revenue Bonds	—	—	—	—	-	-	—	—	—
Other bonds (non-Revenue Bonds)	—	—	—	—	-	-	—	—	—
Commercial Paper	—	—	—	—	-	-	—	—	—
Note Payable related to SRB	—	—	—	—	-	-	—	—	—
Other:									
Add description	—	—	—	—	-	-	—	—	—
Add description	—	—	—	—	-	-	—	—	—
Add description	—	—	—	—	-	-	—	—	—
Add description	—	—	—	—	-	-	—	—	—
Add description	—	—	—	—	-	-	—	—	—
Add description	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>-</u>	<u>-</u>	<u>—</u>	<u>—</u>	<u>—</u>
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)	—	—	—	—	-	-	—	—	—
Unamortized loss on refunding	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>-</u>	<u>-</u>	<u>—</u>	<u>—</u>	<u>—</u>
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>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

5 Future minimum lease payments - capital lease obligations:

	Principal	Interest	Principal and Interest
Year ending June 30:			
2014	-	-	—
2015	-	-	—
2016	-	-	—
2017	-	-	—
2018	-	-	—
2019 - 2023	-	-	—
2024 - 2028	-	-	—
2029 - 2033	-	-	—
2034 - 2038	-	-	—
2039 - 2043	-	-	—
2044 - 2048	-	-	—
2049 - 2053	-	-	—
2054 - 2058	-	-	—
2059 - 2063	<u>-</u>	<u>-</u>	<u>—</u>
Total minimum lease payments			—
Less amounts representing interest			<u>—</u>
Present value of future minimum lease payments			—
Less: current portion			<u>—</u>
Capitalized lease obligation, net of current portion			\$ <u><u>—</u></u>

California Polytechnic State University Foundation
Other Information
June 30, 2013
(for inclusion in the California State University)

6 Long-term debt obligation schedule

	Revenue Bonds			All other long-term debt obligations			Total		
	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest
Year ending June 30:									
2014	\$ -	-	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-	-
2019 - 2023	-	-	-	-	-	-	-	-	-
2024 - 2028	-	-	-	-	-	-	-	-	-
2029 - 2033	-	-	-	-	-	-	-	-	-
2034 - 2038	-	-	-	-	-	-	-	-	-
2039 - 2043	-	-	-	-	-	-	-	-	-
2044 - 2048	-	-	-	-	-	-	-	-	-
2049 - 2053	-	-	-	-	-	-	-	-	-
2054 - 2058	-	-	-	-	-	-	-	-	-
2059 - 2063	-	-	-	-	-	-	-	-	-
Total	\$ -	-	-	-	-	-	-	-	-

7 Calculation of net position

	Auxiliary Organizations		Total
	GASB	FASB	Auxiliaries
7.1 Calculation of net position - Net investment in capital assets			
Capital assets, net of accumulated depreciation	\$ —	—	—
Capitalized lease obligations - current portion	—	—	—
Capitalized lease obligations, net of current portion	—	—	—
Long-term debt obligations - current portion	—	—	—
Long-term debt obligations, net of current portion	—	—	—
Portion of outstanding debt that is unspent at year-end	—	—	—
Other adjustments: (please list)			
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Net position - net investment in capital asset	\$ —	—	—
7.2 Calculation of net position - Restricted for nonexpendable - endowments			
Portion of restricted cash and cash equivalents related to endowments	\$ 139,544	—	139,544
Endowment investments	176,158,641	—	176,158,641
Other adjustments: (please list)			
Split interest trusts restricted to establish endowments	3,434,789	—	3,434,789
Quasi endowments - Restricted Expendable	(18,905,389)	—	(18,905,389)
Endowment spending reserves - Restricted Expendable	(50,550,404)	—	(50,550,404)
Other subtractions to endowment principal - Restricted Expendable	(1,115,081)	—	(1,115,081)
Net Endowment payables and receivables	(3,817,976)	—	(3,817,976)
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Net position - Restricted for nonexpendable - endowments per SNP	\$ 105,344,124	—	105,344,124

California Polytechnic State University Foundation
Other Information
June 30, 2013
(for inclusion in the California State University)

8 Transactions with Related Entities

	Amount
Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$ 3,786,550
Payments to University for other than salaries of University personnel	1,475,654
Payments received from University for services, space, and programs	—
Gifts-in-kind to the University from Auxiliary Organizations	—
Gifts (cash or assets) to the University from recognized Auxiliary Organizations	8,667,353
Accounts (payable to) University (enter as negative number)	(432,033)
Other amounts (payable to) University (enter as negative number)	—
Accounts receivable from University	3,001
Other amounts receivable from University	—

9 Other Postemployment Benefits Obligation (OPEB)

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

10 Pollution remediation liabilities under GASB Statement No. 49:

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

California Polytechnic State University Foundation
Other Information
June 30, 2013
(for inclusion in the California State University)

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, 2012, as previously reported		\$ 219,296,596
Prior period adjustments:		
1 (list description of each adjustment)		—
2 (list description of each adjustment)		—
3 (list description of each adjustment)		—
4 (list description of each adjustment)		—
5 (list description of each adjustment)		—
6 (list description of each adjustment)		—
7 (list description of each adjustment)		—
8 (list description of each adjustment)		—
9 (list description of each adjustment)		—
10 (list description of each adjustment)		—
Net position as of June 30, 2012, as restated		\$ 219,296,596

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statements of net position and related statements of revenues, expenses and changes in net position and cash flows of California Polytechnic State University Foundation (the Foundation) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated September 6, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors**California Polytechnic State University Foundation****San Luis Obispo, California****Page 2****Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "GLENN BURDETTE ATTEST CORPORATION". The letters are stylized and connected, with a large, prominent 'G' at the beginning.

Glenn Burdette Attest Corporation

San Luis Obispo, California

September 6, 2013