

**Cal Poly Corporation**  
**Audited Financial Statements and**  
**Supplementary Information**  
**Years Ended June 30, 2016 and 2015**

**Cal Poly Corporation  
Audited Financial Statements and  
Supplementary Information  
Years Ended June 30, 2016 and 2015**

**Table of Contents**

|   | <b>Page</b> |
|---|-------------|
| <i>Audited Financial Statements</i>   |             |
| Independent Auditors' Report  | 3-5         |
| Management's Discussion and Analysis  | 6-15        |
| Statements of Net Position  | 17-18       |
| Statements of Revenues, Expenses and Changes in Net Position  | 19-20       |
| Statements of Cash Flows  | 21-22       |
| Notes to Financial Statements   | 23-55       |
| <i>Required Supplementary Information</i>   |             |
| Schedule of Funding Progress for OPEB Obligation  | 57          |
| Schedule of Changes in the Net Pension Liability and Related Ratios   | 58          |
| Schedule of Contributions   | 59          |
| <i>Supplementary Information for Inclusion in the Financial Statements<br/>of the California State University</i> |             |
| Schedule of Net Position  | 61          |
| Schedule of Revenues, Expenses and Changes in Net Position  | 62          |
| Other Information   | 63-69       |
| <i>Other Supplementary Information</i>  |             |
| Statements of Financial Position of the California State University -<br>San Luis Obispo Alumni Association       | 71          |
| Statements of Activities of the California State University -<br>San Luis Obispo Alumni Association               | 72          |

## Independent Auditors' Report

Board of Directors  
Cal Poly Corporation  
San Luis Obispo, California

### Report on the Financial Statements

We have audited the accompanying statements of net position of Cal Poly Corporation (the Corporation) as of June 30, 2016 and 2015, 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 Corporation's basic financial statements as listed in the table of contents.

### 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 the Corporation as of June 30, 2016 and 2015, 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 15, Schedule of Funding Progress for OPEB Obligation on page 57, Schedule of Changes in the Net Pension Liability and Related Ratios on page 58, and the Schedule of Contributions on page 59, 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 Corporation's basic financial statements. The accompanying supplementary information for inclusion in the financial statements of the California State University on pages 61 through 69 as required by the California State University and other supplementary information on pages 71 through 72 are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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.

The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Board of Directors**  
**Cal Poly Corporation**  
**San Luis Obispo, California**  
**Page 3**

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2016, on our consideration of the Corporation'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 Corporation's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "GLENN BURDETTE ATTEST CORPORATION". The letters are in all caps and have a cursive, slightly slanted appearance.

Glenn Burdette Attest Corporation  
San Luis Obispo, California

September 9, 2016

**Cal Poly Corporation**  
**Management's Discussion and Analysis**  
**June 30, 2016 and 2015**

The Cal Poly Corporation ("Corporation") is an auxiliary organization of the California Polytechnic State University, San Luis Obispo ("University"). The Corporation is an IRC Section 501(c)(3) not-for-profit public benefit organization established to provide services which complement the instructional program of the University and assist the institution in achieving its educational mission.

This section of the Corporation's annual financial report presents a discussion and analysis of the financial performance of the Corporation during the fiscal years ended June 30, 2016 ("2015-16"), June 30, 2015 ("2014-15") and June 30, 2014 ("2013-14"). 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. The financial statements presented here are incorporated into the University's financial statements as a component unit.

**Introduction to the Financial Statements**

This annual report consists of a series of financial statements, prepared in accordance with principles issued by the Governmental Accounting Standards Board ("GASB"). For reporting purposes, the Corporation is considered a special-purpose government engaged in business-type activities which best represents the activities of the Corporation as an auxiliary organization of the University.

The financial statements include the Statements of Net Position; the Statements of Revenues, Expenses, and Changes in Net Position; and the Statements of Cash Flows. These statements provide information about the Corporation's financial position as a whole and the results of activities on that position for each year presented. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, which recognizes expenses when incurred and revenues when earned rather than when payment is made or received. They are supported by the Notes to Financial Statements and this section. All sections must be considered together to obtain a complete understanding of the financial picture of the Corporation.

Statements of Net Position: The Statements of Net Position include all assets, deferred outflows, liabilities, and deferred inflows of the Corporation reported at their recorded value, as of the statement date. Net position - the difference between assets plus deferred outflows and liabilities plus deferred inflows - is one way to measure the Corporation's financial health, or financial position. Over time, increases or decreases in net position can be an indicator as to whether the Corporation's financial health is improving or declining.

Statements of Revenues, Expenses, and Changes in Net Position: The Statements of Revenues, Expenses, and Changes in Net Position present the revenues earned and expenses incurred during the year.

Statements of Cash Flows: The Statements of Cash Flows present the inflows and outflows of cash for the year and are summarized by operating, noncapital financing, capital and related financing, and investing activities. The statements are prepared using the direct method of cash flows, and therefore, present gross rather than net amounts for the years' activities.

**Cal Poly Corporation**  
**Management's Discussion and Analysis**  
**June 30, 2016 and 2015**

**Analytical Overview**

Summary

The following discussion highlights management's understanding of the key financial aspects of the Corporation's financial activities for the fiscal years 2015-16, 2014-15 and 2013-14. The accompanying audited financial statements as of and for the years ended June 30, 2016 and 2015 are reported in accordance with standards and requirements of the GASB as are the following schedules.

**Condensed Statements of Net Position**

|                                  | <b>June 30,</b>       |                       |                       |
|----------------------------------|-----------------------|-----------------------|-----------------------|
|                                  | <b>2016</b>           | <b>2015</b>           | <b>2014</b>           |
| <b>Assets:</b>                   |                       |                       |                       |
| Current assets                   | \$ 101,229,273        | \$ 90,905,754         | \$ 88,887,718         |
| <b>Noncurrent assets:</b>        |                       |                       |                       |
| Capital assets, net              | 35,695,343            | 36,177,216            | 22,181,485            |
| Other noncurrent assets          | 15,323,391            | 26,039,978            | 28,619,257            |
| Total assets                     | <u>152,248,007</u>    | <u>153,122,948</u>    | <u>139,688,460</u>    |
| Deferred Outflows of Resources   | 4,273,067             | 1,432,671             |                       |
| <b>Liabilities:</b>              |                       |                       |                       |
| Current liabilities              | 11,286,704            | 11,176,384            | 8,971,381             |
| Noncurrent liabilities           | 31,803,531            | 34,885,408            | 15,419,786            |
| Total liabilities                | <u>43,090,235</u>     | <u>46,061,792</u>     | <u>24,391,167</u>     |
| Deferred Inflows of Resources    | 4,118,148             | 3,872,119             |                       |
| <b>Net Position:</b>             |                       |                       |                       |
| Net investment in capital assets | 33,205,194            | 33,617,216            | 19,556,485            |
| Restricted, expendable           | 13,291,685            | 13,047,111            | 11,353,433            |
| Unrestricted                     | 62,815,812            | 57,957,381            | 84,387,375            |
| Total net position               | <u>\$ 109,312,691</u> | <u>\$ 104,621,708</u> | <u>\$ 115,297,293</u> |

Net Position

Net position may serve over time as an indicator of the Corporation's financial position. As of June 30, 2016, assets and deferred outflows exceeded liabilities and deferred inflows by \$109.3 million, resulting in an increase of \$4.7 million in net position over the prior year. The increase primarily represents the net result of a \$3.6 million operating loss combined with noncapital gifts of \$4.6 million and capital grants and gifts of \$3.5 million. For the year ended June 30, 2015, overall net position decreased \$10.7 million. An adjustment of \$13.9 million was made in the prior year to reduce beginning net position to reflect the cumulative impact of implementing previously issued GASB standards

**Cal Poly Corporation**  
**Management's Discussion and Analysis**  
**June 30, 2016 and 2015**

regarding the accounting for pensions. The decrease in net position as a result of recording this adjustment was offset by an overall increase in net position of \$3.2 million, which primarily represents the net result of a \$15.3 million operating loss combined with noncapital gifts of \$5.4 million and capital grants and gifts of \$12.9 million.

**Net investment in capital assets** represents the Corporation's capital assets, net of accumulated depreciation and amortization, and also net of outstanding balances of related debt. The Corporation uses these capital assets in its day-to-day operations. Net investment in capital assets decreased \$412,000 or 1.2% from the prior year. The decrease is primarily the result of depreciation and amortization expense on existing capital assets exceeding capital asset purchases during the year. For the year ended June 30, 2015, net investment in capital assets increased \$14.1 million. During 2014-15, the Corporation was gifted a 448-acre working ranch valued at \$11.3 million situated in the city of Arroyo Grande, referred to as the Bartleson Ranch and Conservatory (the "Ranch"). The increase in net investment in capital assets is primarily the result of the acquisition of this Ranch. In addition, capital asset purchases exceeded the combined total of disposals and depreciation and amortization expense on existing capital assets.

**Restricted, expendable** represents the portion of the Corporation's net position that 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:

|                              | Year Ended June 30,  |                      |                      |
|------------------------------|----------------------|----------------------|----------------------|
|                              | 2016                 | 2015                 | 2014                 |
| Restricted, expendable:      |                      |                      |                      |
| Research                     | \$ 272,206           | \$ 293,578           | \$ 222,484           |
| Capital projects             | 4,822,146            | 3,731,603            | 2,871,445            |
| Instruction                  | 950,772              | 1,272,192            | 1,032,022            |
| Academic support             | 207,655              | 311,288              | 1,848,630            |
| Other                        | 7,038,906            | 7,438,450            | 5,378,852            |
| Total restricted, expendable | <u>\$ 13,291,685</u> | <u>\$ 13,047,111</u> | <u>\$ 11,353,433</u> |

This balance can fluctuate from year to year based on the level of activity and expenditures. Overall restricted, expendable net position increased \$245,000 or 1.9% from the prior year. The increase is primarily the result of pledges and gifts received offset by current year expenditures. These funds are restricted by their donors, the majority of which are on behalf of athletics. For the year ended June 30, 2015, restricted, expendable net position increased \$1.7 million from the prior year. The increase is primarily the result of \$2.1 million and \$1.2 million in both pledges and gifts received, respectively, offset by current year expenditures. These funds are restricted by their donors, the majority of which are on behalf of athletics. Fluctuations in restricted, expendable net position are based on the timing of project expenditures in relation to the receipt of gift and other funds.

**Unrestricted** represents the portion of net position that can be used to finance day-to-day operations of the Corporation without constraints established by donor restrictions, debt covenants or other legal requirements. Although unrestricted net position is not subject to externally imposed restrictions per accounting definitions,

**Cal Poly Corporation**  
**Management's Discussion and Analysis**  
**June 30, 2016 and 2015**

significant portions of unrestricted net position are designated for specific programs or projects. Unrestricted net position increased by \$4.9 million to \$62.8 million from the prior year. The increase was driven by favorable operating results from commercial activities of \$7.4 million offset by \$1.8 million in market value losses. Unrestricted net position decreased \$26.4 million for the year ended June 30, 2015. As mentioned previously, an adjustment of \$13.9 million was made in the prior year to reduce beginning net position (unrestricted) to reflect the cumulative impact of implementing previously issued GASB standards regarding the accounting for pensions. In addition, during 2014-15, the Corporation chose to amortize the remaining unamortized unfunded actuarial accrued liability, which resulted in a \$9.4 million decrease in unrestricted net position. This liability represents the Corporation's *net other postemployment benefit obligation*.

Assets

**Current assets** represent assets that can normally be converted to cash in less than one year, including cash and cash equivalents, certificates of deposit, accounts receivable, contracts and grants receivable, inventories, prepaid expenses and the current portion of notes and pledges receivable.

Investments available for current operations are classified as *short-term investments*, which increased \$11 million or 20.1% from the prior year. During 2015-16, \$7.8 million in certificates of deposit classified as other long-term investments matured and were re-invested into the Corporation's short-term and low duration funds, classified as short-term investments. In addition, the Corporation transferred an additional \$3.2 million from money market funds into the short-term and low duration funds. For the year ended June 30, 2015, short-term investments decreased \$6.3 million or 10.4%. During 2014-15, the Corporation transferred \$6 million of short-term investments from Corporation investment pools to the Voluntary Employees' Beneficiary Association (VEBA) Trust, which is not included in this report.

*Accounts receivable, net* decreased \$711,000 or 25.7% from the prior year. The accounts receivable balance from the University decreased \$116,000 from the prior year. In addition, net receivable balances due from book publishers decreased over \$500,000 from the prior year, the result of better collection efforts by the Corporation. For the year ended at June 30, 2015, accounts receivable net increased \$564,000 or 25.6% from the prior year. Receivables related to the Corporation's commercial activities increased \$434,000. In addition, receivables from the University increased \$384,000. These increases were offset by a \$248,000 decrease in receivables from Cal Poly Foundation (Foundation).

*Contracts and grants receivable, net* increased \$1 million or 25.2% from the prior year. The increase is consistent with the change in grants and contracts revenue, which increased 20.7% over the same period. During 2015-16, the Corporation experienced significant increases in grant and contract activity coming from the federal, state and non-profit industry sectors. For the year ended June 30, 2015, contracts and grants receivable, net remained relatively consistent with the prior year, decreasing only 2.5%.

**Cal Poly Corporation**  
**Management's Discussion and Analysis**  
**June 30, 2016 and 2015**

*Pledges receivable, net* represents the portion of pledges receivable expected to be collected within one year and increased \$454,000 or 35.4% from the prior year. The Corporation received \$2.9 million in pledges during the current year, primarily on behalf of athletics. The increase in the current portion of pledges receivable relates to the portion of new pledges expected to be collected within one year offset by payments received on new and existing pledges. For the year ended June 30, 2015, pledges receivable, net increased \$491,000. The Corporation received \$2.1 million in pledges during 2014-15, which was offset by payments received.

*Inventories* increased \$450,000 or 13.9% from the prior year. Commercial agriculture inventories increased \$257,000 primarily driven by an increase in donated livestock. In addition, courseware inventory increased \$172,000 at the University Store as a result of the decision to sell less courseware inventory back to suppliers at the end of the academic school year. For the year ended June 30, 2015, inventories remained relatively consistent with the prior year, decreasing only 2.8%.

**Noncurrent assets** consist primarily of restricted cash and cash equivalents related to endowments and split interest trusts, pledges receivable not expected to be collected within one year, endowment and other long-term investments and capital assets, net of depreciation. Investments that are restricted for withdrawal or to be used for other than current operations, including endowments and split-interest trusts, are classified as other long-term investments.

*Pledges receivable, net* increased \$1.1 million or 18% from the prior year. As mentioned previously, the Corporation received \$2.9 million in pledges during the current year, primarily on behalf of athletics. Pledge amounts expected to be collected within one year are classified as current assets. The increase as a result of new pledges was offset by amounts reclassified to current assets. For the year ended June 30, 2015, pledges receivable, net increased \$809,000. Athletics received \$2.1 million in new capital related pledges during 2014-15, which was offset by amounts reclassified to current assets.

*Endowment investments* decreased \$3.9 million or 67.3% from the prior year. During the year, the Foundation for the Performing Arts Center exited their \$3.5 million position from the endowment fund. For the year ended June 30, 2015, endowment investments remained relatively consistent with the prior year, increasing 9%.

*Other long-term investments* decreased \$7.9 million or 60.5% over the prior year. As mentioned previously, \$7.8 million in certificates of deposit classified as other long-term investments matured and were re-invested into the Corporation's short-term and low duration funds, classified as short-term investments. For the year ended June 30, 2015, endowment investments remained relatively consistent with the prior year, increasing only 1.7%.

Deferred Outflows of Resources

**Deferred Outflows of Resources** represents contributions made by the Corporation to its pension plan during 2015-16 as well as differences between projected and actual earnings on pension plan investments, which are recognized in pension expense over a closed five-year period. In addition, deferred outflows of resources at June 30, 2016 includes a \$291,000 deferred loss on the refunding of a portion of the California State University ("CSU") System-Wide Revenue Bonds Series 2009A.

**Cal Poly Corporation**  
**Management's Discussion and Analysis**  
**June 30, 2016 and 2015**

Liabilities

**Current liabilities**, or amounts owed or due within one year, consist of accounts payable, accrued salaries and benefits payable, unearned revenue and other liabilities.

*Accounts payable* increased \$324,000 or 14% from the prior year. Changes in accounts payable are dependent on the timing of expenses incurred and payment made. In the current year, there was a \$452,000 increase in accounts payable related to sponsored research, which is consistent with the increase in grant and contract activity during the fiscal year. For the year ended June 30, 2015, accounts payable remained relatively consistent with the prior year, increasing 5.2%.

**Noncurrent liabilities** consist primarily of grants refundable, long-term debt, deposits held in custody for others (including endowments), the net other postemployment benefit (OPEB) obligation, the net pension liability, split-interest trust liabilities and the use interest of beneficiary obligation.

The Corporation's *long-term debt obligation* of \$2.5 million at June 30, 2015 represents a note payable as part of the CSU System-wide Revenue Bonds Series 2009A bond issuance. This note was issued to fund the construction of the Cal Poly Technology Park ("Tech Park"). The net capital asset value of this building, including tenant improvements, and related equipment at June 30, 2016 is \$5 million.

During 2015-16, \$2.3 million of the Series 2009A bonds were defeased through the issuance of \$2.1 million in Systemwide Revenue Bonds Series 2016A. The bond refunding reduces the Corporation's total financing cost by approximately \$402,000 over the life of the bonds. The bond refunding resulted in a loss of \$293,000, which was recorded as a deferred outflow of resources in the statement of net position. The long-term portion of the note payable outstanding as of June 30, 2016 is \$2.7 million and includes a bond premium of \$436,000 related to the issuance of the Series 2016A bonds. The Corporation made principal payments in the amounts of \$70,000 and \$65,000 on this debt during 2015-16 and 2014-15.

*Deposits held in custody for others* decreased \$4.1 million or 53.9% from the prior year. During the year, the Foundation for the Performing Arts Center exited their \$3.5 million position from the endowment fund. In addition, there was a \$208,000 decrease in agency deposits held by the Corporation. For the year ended June 30, 2015, deposits held in custody for others increased \$859,000 primarily the result of a \$476,000 increase in the endowment fund and a \$315,000 increase in agency deposits held by the Corporation.

The *net OPEB obligation* is related to the Corporation's defined benefit postretirement plan providing medical benefits to retirees of the Corporation. Based on the most recent actuarial study as of July 1, 2016, the actuarial accrued liability (AAL) was \$29.2 million. The net OPEB obligation, both current and noncurrent combined, at June 30, 2016 is equal to the AAL less the value of assets in the VEBA trust on that date, which was \$23.6 million, and is also referred to as the unfunded actuarial accrued liability (UAAL).

**Cal Poly Corporation**  
**Management's Discussion and Analysis**  
**June 30, 2016 and 2015**

The *net pension liability* is related to the Corporation's defined benefit pension plan. As mentioned previously, during 2014-15, the Corporation adopted recently issued GASB standards regarding the accounting for pensions. The net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures.

Deferred Inflows of Resources

***Deferred Inflows of Resources*** represents differences between projected and actual earnings on pension plan investments and are recognized in pension expense over a closed five-year period. In addition, deferred inflows of resources includes differences between actual and expected actuarial experience as well as changes in actuarial assumptions.

Results of Operations

***Increase in net position*** for 2015-16 was \$4.7 million as compared to \$3.2 million for 2014-15. The increase for 2015-16 primarily represents the net result of \$3.6 million operating loss combined with noncapital gifts of \$4.8 million and capital grants and gifts of \$3.5 million.

**Cal Poly Corporation**  
**Management's Discussion and Analysis**  
**June 30, 2016 and 2015**

**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

|   | Year Ended June 30,   |                       |                       |
|---|-----------------------|-----------------------|-----------------------|
|   | 2016                  | 2015                  | 2014                  |
| Operating revenues:                         |                       |                       |                       |
| Grants and contracts                        | \$ 24,865,017         | \$ 20,605,349         | \$ 18,485,730         |
| Sales and services of auxiliary enterprises | 47,915,827            | 48,348,577            | 48,438,529            |
| Fees for services                           | 6,105,981             | 5,518,341             | 5,767,257             |
| University programs support                 | 2,619,639             | 3,637,520             | 3,846,516             |
| Conference and workshop revenues            | 2,640,349             | 2,876,258             | 2,278,294             |
| Other operating revenue                     | 703,929               | 1,218,618             | 2,745,409             |
| Total operating revenues                    | <u>84,850,742</u>     | <u>82,204,663</u>     | <u>81,561,735</u>     |
| Operating expenses:                         |                       |                       |                       |
| Corporation administration                  | 4,990,212             | 4,203,895             | 3,403,634             |
| Contract and grant expense                  | 25,321,198            | 21,246,378            | 19,100,210            |
| Auxiliary activities cost of sales          | 19,928,144            | 19,929,427            | 19,554,772            |
| Auxiliary activities expense                | 20,632,448            | 20,793,845            | 18,865,515            |
| University programs support                 | 13,689,572            | 13,397,242            | 12,431,282            |
| Sponsored program administration            | 996,367               | 1,035,765             | 941,701               |
| Depreciation and amortization               | 1,870,754             | 1,787,640             | 1,935,411             |
| Other operating expenses                    | 1,062,818             | 15,072,506            | 4,437,296             |
| Total operating expense                     | <u>88,491,513</u>     | <u>97,466,698</u>     | <u>80,669,821</u>     |
| Operating income (loss)                     | <u>(3,640,771)</u>    | <u>(15,262,035)</u>   | <u>891,914</u>        |
| Nonoperating revenues (expenses):           |                       |                       |                       |
| Gifts, noncapital                           | 4,648,095             | 5,362,975             | 2,741,014             |
| Investment income (loss), net               | (69,158)              | (284,357)             | 7,032,622             |
| Interest expense                            | (129,677)             | (134,527)             | (137,427)             |
| Other nonoperating revenues, net            | 358,808               | 582,726               | 435,249               |
| Total nonoperating revenues (expenses)      | <u>4,808,068</u>      | <u>5,526,817</u>      | <u>10,071,458</u>     |
| Other changes in net position:              |                       |                       |                       |
| Capital grants and gifts                    | 3,523,686             | 12,949,396            | 3,490,529             |
| Increase in net position                    | <u>4,690,983</u>      | <u>3,214,178</u>      | <u>14,453,901</u>     |
| Beginning net position                      | 104,621,708           | 115,297,293           | 100,843,392           |
| Prior year restatement                      | -                     | (13,889,763)          | -                     |
| Beginning net position, as restated         | <u>104,621,708</u>    | <u>101,407,530</u>    | <u>100,843,392</u>    |
| Ending net position                         | <u>\$ 109,312,691</u> | <u>\$ 104,621,708</u> | <u>\$ 115,297,293</u> |

**Cal Poly Corporation**  
**Management's Discussion and Analysis**  
**June 30, 2016 and 2015**

**Operating revenues** increased \$2.6 million or 3.2% in 2015-16 as compared to 2014-15. *Grants and contracts* revenue increased \$4.3 million or 20.7%, primarily from an increase in sponsored project activity in the federal, state and non-profit sectors. The increase in sponsored project activity also contributed to the \$588,000 increase in *fee for services* income, which includes indirect cost recovery fees on sponsored projects. Offsetting these increases was a \$1 million decrease in *University programs support* revenues. The 2015-16 decrease in *University programs support* revenues resulted from the loss of all activity related to the Mustang Athletic Fund, which was transferred to the University towards the end of 2014-15. In addition, there was a \$269,000 decrease in ticket sales for Cal Poly Arts, which resulted from the decision to hold fewer performances. *Other operating revenues* also decreased \$515,000. The Corporation sold one Bella Montana condo unit in 2014-15 compared to zero in 2015-16.

In 2014-15, total operating revenues increased \$643,000 or 0.8% over the prior year. Grants and contracts revenue increased \$2.1 million or 11.5%, primarily from an increase in sponsored project activity in the federal and nongovernmental sectors. Offsetting this increase was a \$1.5 million decrease in other operating revenues. The Corporation sold six Bella Montana condo units in 2013-14 compared to one unit in 2014-15.

In addition, *conference and workshop revenues* increased \$598,000 or 26.2% in 2014-15 as operations expanded and services were promoted. The increase reflected an increase in attendance numbers for repeat events and revenues from new events.

**Operating expenses** decreased \$9 million or 9.2% in 2015-16 as compared to 2014-15. The decrease is primarily driven by a \$14 million decrease in *other operating expenses*. During 2014-15, the Corporation chose to amortize the remaining unamortized unfunded actuarial accrued liability, which resulted in a \$9.4 million increase in other operating expenses. This liability represents the Corporation's *net other postemployment benefit obligation*. In addition, the Corporation's end-of-year contribution to the VEBA trust was \$3.4 million during 2014-15 compared to \$1.4 million during 2015-16. Finally, the Corporation sold one Bella Montana condo unit in 2014-15 compared to zero in 2015-16; other operating expenses include the book value of the condo unit sold.

Offsetting the decrease in other operating expenses was an increase of \$4.1 million, or 19.2%, in *contract and grant expense*, which is consistent with the increase in grants and contracts revenue and reflects an overall increase in project activity, primarily in the federal, state and non-profit sectors. *Corporation administration* expense also increased in 2015-16 by \$786,000 or 18.7%, which was driven by an organizational restructuring and the formation of marketing, facilities, and IT support departments. Previously, these functions were decentralized across Corporation business units.

In 2014-15, total operating expenses increased \$16.8 million over the prior year. The increase was primarily driven by a \$10.6 million increase in other operating expenses. As mentioned previously, during 2014-15 the Corporation chose to amortize the remaining unamortized unfunded OPEB actuarial accrued liability, which resulted in a \$9.4 million increase in other operating expenses. In addition, contract and grant expenses increased \$2.1 million or 11.2%, which was consistent with the increase in grants and contracts revenue and reflects an overall increase in project activity,

**Cal Poly Corporation**  
**Management's Discussion and Analysis**  
**June 30, 2016 and 2015**

primarily in the federal and nongovernmental sectors. Corporation administration expense also increased in 2014-15 by \$800,000 or 24%, which was driven by an increase in employee-related expenses resulting from multiple transitions in key areas of responsibility.

**Nonoperating revenues (expenses)** consists primarily of noncapital gifts and investment income.

*Gifts, noncapital* decreased \$715,000 or 13.3% in 2015-16 as compared to 2014-15. The decrease is the result of fewer gifts and pledges received primarily on behalf of athletics. In 2014-15, noncapital gifts increased \$2.6 million or 95.7% from the prior year. Variances in gift income are due to the varying nature of contribution revenue from year to year, which depends on a number of both internal and external factors.

*Investment loss, net* decreased \$215,000 or 75.7% in 2015-16 as compared to 2014-15. Investment loss, net is the result of \$1.8 million in market value losses, which exceeded interest and dividend revenues for the year. The decrease in 2015-16 as compared to the prior year is primarily the result of a \$313,000 decrease in market value losses. In 2014-15, investment loss, net resulted from \$2.1 million in market value losses exceeding interest and dividend revenues for the year.

**Other changes in net position** includes *capital grants and gifts*, which decreased \$9.4 million or 72.8% in 2015-16 as compared to 2014-15. As mentioned previously, during 2014-15 the Corporation was gifted the Bartleson Ranch and Conservatory valued at \$11.3 million, which is the primary reason for the change in capital grants and gifts. In 2014-15, capital grants and gifts increased \$9.5 million over the prior year primarily the result of the gifted Ranch. In general, contribution revenue varies from year to year depending on a number of factors.

The **prior year restatement** in 2014-15 was an adjustment of \$13.9 million made to reduce beginning net position. This adjustment reflects the cumulative impact of implementing previously issued GASB standards regarding the accounting for pensions. See Note 13 to Financial Statements for further discussion.

**Currently Known Facts Impacting Future Periods**

The Corporation is in the design phase of building new facilities for its campus dining commercial operations. Construction of these facilities is expected to commence in the third quarter of fiscal year 2016-17 and will be accompanied by significant capital outlay expenditures. These expenditures are expected to have a material impact on the Corporation's unrestricted net position.

## **Financial Statements**

**Cal Poly Corporation**  
**Statements of Net Position**  
**June 30, 2016 and 2015**

|   | <b>2016</b>   | <b>2015</b>   |
|---|---------------|---------------|
| <b>Assets</b>                             |               |               |
| <b>Current assets:</b>                    |               |               |
| Cash and cash equivalents                 | \$ 22,005,340 | \$ 24,371,626 |
| Short-term investments                    | 65,704,584    | 54,687,394    |
| Accounts receivable, net                  | 2,053,210     | 2,764,354     |
| Contracts and grants receivable, net      | 5,077,378     | 4,056,202     |
| Pledges receivable, net                   | 1,736,428     | 1,282,504     |
| Inventories                               | 3,674,780     | 3,225,116     |
| Prepaid expenses and other current assets | 977,553       | 518,558       |
| Total current assets                      | 101,229,273   | 90,905,754    |
| <b>Noncurrent assets:</b>                 |               |               |
| Restricted cash and cash equivalents      | 48,477        | 61,048        |
| Accounts receivable, net                  | 20,356        | 19,336        |
| Pledges receivable, net                   | 7,531,220     | 6,383,957     |
| Endowment investments                     | 1,898,609     | 5,808,968     |
| Other long-term investments               | 5,186,729     | 13,128,669    |
| Capital assets, net                       | 35,695,343    | 36,177,216    |
| Other assets                              | 638,000       | 638,000       |
| Total noncurrent assets                   | 51,018,734    | 62,217,194    |
| Total assets                              | 152,248,007   | 153,122,948   |
| <b>Deferred Outflows of Resources</b>     |               |               |
| Unamortized loss on refunding             | 290,570       |               |
| Related to net pension liability          | 3,982,497     | 1,432,671     |
| Total deferred outflows of resources      | 4,273,067     | 1,432,671     |

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

**Cal Poly Corporation**  
**Statements of Net Position**  
**June 30, 2016 and 2015**  
**Page 2**

|   | <u>2016</u>           | <u>2015</u>           |
|---|-----------------------|-----------------------|
| <b>Liabilities</b>                                      |                       |                       |
| <b>Current liabilities:</b>                             |                       |                       |
| Accounts payable  | \$ 2,642,272          | \$ 2,317,367          |
| Accrued salaries and benefits payable                   | 770,736               | 803,060               |
| Accrued compensated absences                            | 780,364               | 752,748               |
| Unearned revenue  | 5,852,176             | 6,132,320             |
| Long-term debt obligations                              | 75,000                | 70,000                |
| Self-insurance claims liability                         | 15,000                | 15,000                |
| Other postemployment benefit obligation, current        | <u>1,151,156</u>      | <u>1,085,889</u>      |
| Total current liabilities                               | <u>11,286,704</u>     | <u>11,176,384</u>     |
| <b>Noncurrent liabilities:</b>                          |                       |                       |
| Accrued compensated absences, net                       | -                     | 22,812                |
| Grants refundable                                       | 7,620,834             | 8,034,297             |
| Long-term debt obligation                               | 2,705,719             | 2,490,000             |
| Deposits held in custody for others                     | 3,506,267             | 7,603,859             |
| Other postemployment benefit obligation, net of current | 4,480,685             | 4,225,961             |
| Net pension liability                                   | 12,199,036            | 11,120,981            |
| Other liabilities:                                      |                       |                       |
| Split-interest trust liabilities                        | 885,109               | 959,498               |
| Use interest of beneficiary                             | <u>405,881</u>        | <u>428,000</u>        |
| Total noncurrent liabilities                            | <u>31,803,531</u>     | <u>34,885,408</u>     |
| Total liabilities                                       | <u>43,090,235</u>     | <u>46,061,792</u>     |
| <b>Deferred Inflows of Resources</b>                    | <u>4,118,148</u>      | <u>3,872,119</u>      |
| <b>Net Position</b>                                     |                       |                       |
| Net investment in capital assets                        | 33,205,194            | 33,617,216            |
| Restricted for:   |                       |                       |
| Expendable:   |                       |                       |
| Research  | 272,206               | 293,578               |
| Capital projects  | 4,822,146             | 3,731,603             |
| Instruction   | 950,772               | 1,272,192             |
| Academic support  | 207,655               | 311,288               |
| Other   | 7,038,906             | 7,438,450             |
| Unrestricted  | <u>62,815,812</u>     | <u>57,957,381</u>     |
| Total net position                                      | <u>\$ 109,312,691</u> | <u>\$ 104,621,708</u> |

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

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

|   | <u>2016</u>        | <u>2015</u>         |
|---|--------------------|---------------------|
| <b>Operating revenues:</b>                  |                    |                     |
| Grants and contracts, noncapital:           |                    |                     |
| Federal                                     | \$ 15,097,189      | \$ 12,662,860       |
| State                                       | 4,034,258          | 3,187,806           |
| Local                                       | 556,446            | 399,923             |
| Nongovernmental                             | 5,177,124          | 4,354,760           |
| Sales and services of auxiliary enterprises | 47,915,827         | 48,348,577          |
| Fees for services                           | 6,105,981          | 5,518,341           |
| University programs support                 | 2,619,639          | 3,637,520           |
| Conference and workshop revenues            | 2,640,349          | 2,876,258           |
| Other operating revenues                    | 703,929            | 1,218,618           |
| Total operating revenues                    | <u>84,850,742</u>  | <u>82,204,663</u>   |
| <b>Operating expenses:</b>                  |                    |                     |
| Corporation administration                  | 4,990,212          | 4,203,895           |
| Contract and grant expenses                 | 25,321,198         | 21,246,378          |
| Auxiliary activities cost of sales          | 19,928,144         | 19,929,427          |
| Auxiliary activities expenses               | 20,632,448         | 20,793,845          |
| University programs support:                |                    |                     |
| Conference and workshops expense            | 2,002,446          | 2,424,787           |
| Public service support                      | 5,297,012          | 4,951,790           |
| Institutional support                       | 1,528,720          | 1,904,089           |
| Academic support                            | 1,438,446          | 1,543,210           |
| Student services                            | 485,088            | 1,070,763           |
| Other University programs                   | 2,937,860          | 1,502,603           |
| Sponsored programs administration           | 996,367            | 1,035,765           |
| Depreciation and amortization               | 1,870,754          | 1,787,640           |
| Other operating expenses                    | 1,062,818          | 15,072,506          |
| Total operating expenses                    | <u>88,491,513</u>  | <u>97,466,698</u>   |
| Operating loss                              | <u>(3,640,771)</u> | <u>(15,262,035)</u> |

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

**Cal Poly Corporation**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2016 and 2015**  
**Page 2**

|   | <u>2016</u>           | <u>2015</u>           |
|---|-----------------------|-----------------------|
| <b>Nonoperating revenues (expenses):</b>                        |                       |                       |
| Gifts, noncapital   | \$ 4,648,095          | \$ 5,362,975          |
| Investment loss, net  | (69,158)              | (284,357)             |
| Interest expense  | (129,677)             | (134,527)             |
| Other nonoperating revenues, net                                | <u>358,808</u>        | <u>582,726</u>        |
| Total nonoperating revenues (expenses)                          | <u>4,808,068</u>      | <u>5,526,817</u>      |
| <br><b>Other changes in net position:</b>                       |                       |                       |
| Capital grants and gifts  | <u>3,523,686</u>      | <u>12,949,396</u>     |
| Total other changes in net position                             | <u>3,523,686</u>      | <u>12,949,396</u>     |
| <br>Increase in net position                                    | 4,690,983             | 3,214,178             |
| <br><b>Net position - beginning of year, before restatement</b> | <u>104,621,708</u>    | <u>115,297,293</u>    |
| <br>Prior year restatement                                      | <u>-</u>              | <u>(13,889,763)</u>   |
| <br><b>Net position - beginning of year, as restated</b>        | <u>104,621,708</u>    | <u>101,407,530</u>    |
| <br><b>Net position - end of year</b>                           | <u>\$ 109,312,691</u> | <u>\$ 104,621,708</u> |

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

**Cal Poly Corporation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

|   | <u>2016</u>          | <u>2015</u>          |
|---|----------------------|----------------------|
| <b>Cash flows from operating activities:</b>                            |                      |                      |
| Receipts from grants and contracts                                      | \$ 22,745,204        | \$ 23,124,903        |
| Receipts from sales and services of auxiliary enterprises               | 50,858,818           | 51,162,010           |
| Receipts from fees for services   | 6,105,981            | 5,518,341            |
| Receipts from University programs                                       | 2,619,639            | 3,637,520            |
| Payments to vendors   | (38,511,424)         | (36,090,446)         |
| Payments to employees   | (35,448,728)         | (32,469,853)         |
| Payments to University, net   | (9,939,342)          | (10,654,428)         |
| Payments to Foundation, net   | (521,239)            | (189,791)            |
| Payments to VEBA Trust  | (2,188,695)          | (6,020,115)          |
| Other receipts  | 702,909              | 1,219,013            |
| Other payments  | (458,995)            | (116,625)            |
| Net cash used in operating activities                                   | <u>(4,035,872)</u>   | <u>(879,471)</u>     |
| <b>Cash flows from noncapital financing activities:</b>                 |                      |                      |
| Cash contributions received   | 1,968,927            | 3,576,375            |
| Cash contributions received for split-interest trusts                   | 10,000               | 10,000               |
| Distributions to trust beneficiaries                                    | (177,909)            | (199,242)            |
| Fees and expenses of split-interest trusts                              | (9,240)              | (10,162)             |
| Foundation support  | 442,311              | 442,311              |
| Change in depository accounts   | (4,097,592)          | 859,037              |
| Net cash provided by (used in) noncapital financing activities          | <u>(1,863,503)</u>   | <u>4,678,319</u>     |
| <b>Cash flows from capital and related financing activities:</b>        |                      |                      |
| Capital grants and gifts  | 3,629,155            | 2,303,086            |
| Acquisition of capital assets   | (1,349,810)          | (3,046,383)          |
| Proceeds from sale of capital assets                                    | 50,775               | 725,218              |
| Interest paid on long-term debt obligation                              | (129,528)            | (134,527)            |
| Defeasance of long-term obligation                                      | (70,000)             | (65,000)             |
| Net cash provided by (used in) capital and related financing activities | <u>2,130,592</u>     | <u>(217,606)</u>     |
| <b>Cash flows from investing activities:</b>                            |                      |                      |
| Proceeds from sale and maturities of investments                        | 10,241,045           | 8,367,122            |
| Purchase of investments   | (10,626,947)         | (6,453,868)          |
| Investment income proceeds  | 1,775,828            | 1,877,958            |
| Net cash provided by investing activities                               | <u>1,389,926</u>     | <u>3,791,212</u>     |
| Net increase (decrease) in cash   | (2,378,857)          | 7,372,454            |
| <b>Cash and cash equivalents - beginning of year</b>                    | <u>24,432,674</u>    | <u>17,060,220</u>    |
| <b>Cash and cash equivalents - end of year</b>                          | <u>\$ 22,053,817</u> | <u>\$ 24,432,674</u> |

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

**Cal Poly Corporation**

**Statements of Cash Flows**

**Years Ended June 30, 2016 and 2015**

**Page 2**

|  | <u>2016</u>           | <u>2015</u>          |
|--|-----------------------|----------------------|
| <b>Reconciliation of cash and cash equivalents to Statements of Net Position:</b>        |                       |                      |
| Cash and cash equivalents  | \$ 22,005,340         | \$ 24,371,626        |
| Restricted cash and cash equivalents   | 48,477                | 61,048               |
|  | <u>\$ 22,053,817</u>  | <u>\$ 24,432,674</u> |
| <br><b>Reconciliation of operating loss to net cash used in operating activities:</b>    |                       |                      |
| Operating loss   | \$ (3,640,771)        | \$ (15,262,035)      |
| Adjustments to reconcile operating loss to<br>net cash provided by operating activities: |                       |                      |
| Depreciation and amortization  | 1,870,754             | 1,787,640            |
| Bad debt   | 13,236                | 64,878               |
| Loss (gain) on disposal of assets  | 76,151                | (121,791)            |
| Other noncash expenses   | 179,678               |                      |
| Changes in operating assets and liabilities:   |                       |                      |
| Accounts receivable, net   | (324,288)             | (524,002)            |
| Inventories  | (449,664)             | 93,946               |
| Prepaid expenses and other current assets  | (458,995)             | (116,625)            |
| Accounts payable   | 488,034               | 34,660               |
| Accounts payable - University  | 78,013                | (116,160)            |
| Accounts payable - Foundation  | (241,142)             | 196,793              |
| Accrued salaries and benefits payable  | (32,324)              | 284,267              |
| Accrued compensated absences   | 4,804                 | 9,268                |
| Unearned revenue   | (280,144)             | 683,044              |
| Grants refundable  | (413,463)             | 3,038,585            |
| Other postemployment benefit obligation  | 319,991               | 9,397,395            |
| Net pension liability  | 1,078,055             | (2,768,782)          |
| Deferred outflow and inflows   | (2,303,797)           | 2,439,448            |
|  | <u>\$ (4,035,872)</u> | <u>\$ (879,471)</u>  |
| Net cash used in operating activities  |                       |                      |
| <br><b>Supplemental disclosures of cash flow information:</b>                            |                       |                      |
| Contributions of investments   | \$ 540,166            | \$ 256,808           |
| Other noncash contributions  | 1,114,253             | 11,495,416           |
| Decrease in fair value of investments  | (1,761,177)           | (2,073,989)          |
| Reclassification of condo units from capital assets to inventories                       |                       | 195,709              |
| Amortization of net bond premium   | 7,128                 |                      |
| Amortization of loss on debt refunding   | 2,625                 |                      |

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

**Cal Poly Corporation**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**Note 1: Organization**

The Cal Poly Corporation (Corporation) is a nonprofit auxiliary organization to the California Polytechnic State University, San Luis Obispo (University). The Corporation is a self-supporting entity which provides the University with certain services and facilities that are an integral part of the educational program of the University. The University has delegated authority for these activities to the auxiliary in order to mitigate risk to the University or because the activities cannot be financially supported by the state government by law or can be more efficiently operated through the auxiliary. Essentially, all revenues, and the realization of certain assets, are dependent upon the continuation of the Corporation's status as an auxiliary organization to the University. The Corporation was originally incorporated as California Polytechnic State University Foundation and legally changed its name to Cal Poly Corporation in 2006.

In February 2012, the Corporation accepted all of the assets, liabilities and activities of Cal Poly Housing Corporation, a nonprofit auxiliary organization to the University organized to develop and maintain affordable housing and related facilities for University faculty and staff.

**Note 2: Summary of Significant Accounting Policies**

**Financial Reporting Entity**

The accompanying financial statements present the accounts of the Corporation, including the endowment and campus program accounts held for the benefit of the University and related organizations. The Corporation is a governmental organization under accounting principles generally accepted in the United States of America (GAAP) and is also a component unit of the University, a public university under the California State University (CSU) system. The Corporation 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 financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Government 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. Grants, gifts, and similar items are recognized as soon as all eligibility requirements have been met. The Corporation complies with all applicable GASB pronouncements.

**Classification of Current and Noncurrent Assets (Other than Investments) and Liabilities**

The Corporation 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 dates of the Statements of Net Position to be current. All other assets and liabilities are considered to be noncurrent.

**Note 2: Summary of Significant Accounting Policies (Continued)**

**Cash and Cash Equivalents**

The Corporation considers all unrestricted highly-liquid investments with an initial maturity of three months or less to be cash equivalents for purposes of the Statements of Cash Flows. Cash equivalents held by brokers at year-end pending long-term reinvestment are considered investments.

**Investments**

Investment securities are reported at fair value. Marketable securities' fair values are based on quoted market prices from independent sources. 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.

Investments that are used for current operations are classified as short-term investments. Investments that are restricted from withdrawal or use for other than current operations, designated or restricted for the acquisition or construction of noncurrent assets, designated or restricted for the liquidation of the noncurrent portion of long-term debt, and restricted as to the liquidity of the investments are classified as other long-term investments. All endowment and split-interest trust investments are classified as noncurrent regardless of maturity due to restrictions limiting the Corporation'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**

The Corporation has accounts receivable from the University, University organizations and students and external organizations in conjunction with the services it provides as an auxiliary organization. Accounts receivable are also recorded from contract and grant sponsors, generally federal, state and local governments, nonprofit organizations and corporate sponsors. The Corporation provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off against the valuation allowance. The Corporation maintains a minimal allowance for doubtful accounts for these receivables based upon management's estimate of their collectability. The allowance for doubtful accounts for accounts receivable was \$13,179 and \$2,506 at June 30, 2016 and 2015, respectively.

**Note 2: Summary of Significant Accounting Policies (Continued)**

**Pledges Receivable**

Pledges receivable are unconditional promises to make future payments to the Corporation. Pledges receivable are recognized as gift revenue in the period pledged when all applicable eligibility requirements are met. Pledge payments promised to be made in future years are recorded at the present value of future cash flows net of an allowance for doubtful accounts of \$1,062,166 and \$985,858 at June 30, 2016 and 2015, respectively. The discount on pledges receivable is computed using the five-year Treasury note rate applicable in the year pledged. In subsequent years, this discount is accreted and recorded as additional gift revenue.

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

**Inventories**

Inventories are valued according to various methods, which approximate the lower of cost (first-in, first-out method) or market as follows:

- Bookstore - retail inventory method except electronic hardware, specific identification cost
- Breeding stock - actual cost less accumulated depreciation
- Other livestock - unit value livestock method
- Foodstuff - moving average cost
- Other inventories - moving average cost or first-in, first-out

**Endowments**

The Corporation holds 8 individual endowments for others. These endowments are managed by the Corporation to be invested long-term and the related income either expended for support of University programs, including the Alumni Association and Associated Students, Inc., or related external organizations. Additions to endowments held for others (principally the return on investment of fund assets) are recorded as liabilities as opposed to revenues.

**Capital Assets**

Capital assets, consisting of land, buildings, leasehold improvements, construction-in-progress, equipment and intangible assets, with an estimated useful life greater than one year, are recorded at cost at the date of acquisition. Capital assets with a unit acquisition cost of less than \$5,000 are generally not capitalized. Capital assets acquired as a group with individual unit acquisition costs less than \$5,000 may be capitalized if they are considered collectively

**Note 2: Summary of Significant Accounting Policies (Continued)**

material. The cost of normal maintenance and repairs that do not add to the value of the asset, or materially extend its useful life, are expensed to operations. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets.

Estimated useful lives are generally as follows:

|                        |              |
|------------------------|--------------|
| Buildings              | 30 years     |
| Leasehold improvements | 5 - 20 years |
| Equipment              | 3 - 8 years  |
| Intangible assets      | 3 - 5 years  |

Capital assets acquired through federal and state grants and contracts where the government retains a reversionary interest are not capitalized, or depreciated, until title passes to the Corporation.

**Deferred Inflows/Outflows of Resources**

The Corporation records all inflows and outflows of resources that are not assets and liabilities and are related to future periods as deferred inflows or outflows of resources.

**Compensated Absences**

The Corporation accrues leave for employees at rates based upon length of service and job classification. Accrued balances are categorized as current and noncurrent based upon the criteria discussed above.

**Unearned Revenue**

The Corporation sells dining plan contracts to University students on a prepaid basis. The amount of the dining plan contracts that has not been earned is recorded as unearned revenue. Unearned revenue also includes unearned amounts for conference deposits.

**Grants Refundable**

Grants refundable primarily includes revenue billed or collected in advance of when it is earned on grants and contracts.

**Note 2: Summary of Significant Accounting Policies (Continued)**

**Actuarial Trust Liabilities and Change in Value of Split-Interest Agreements**

Actuarial trust liabilities include charitable gift annuities based on the present value of future payments calculated using IRS life expectancy tables or California Department of Insurance standard annuity tables and discounted at the Treasury note rate in effect for a comparable period of time at the date of the gift. Change in value of split-interest agreements is recorded for the amortization of discount and any changes in actuarial assumptions.

**Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Corporation's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Net Position**

The Corporation's net position is classified into the following categories for accounting and reporting purposes:

*Net investment in capital assets:*

This category includes capital assets, net of accumulated depreciation and amortization, less the outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets, including any related deferred outflows or inflows of resources.

*Restricted – expendable:*

This category relates to contributions restricted by donors to be expended for specific purposes in support of the University.

*Unrestricted:*

This category includes the portion of net position not subject to donor-imposed restrictions, which Corporation management may designate for specific purposes. The Corporation first expends restricted-expendable assets, when available, prior to utilizing unrestricted funds.

**Note 2: Summary of Significant Accounting Policies (Continued)**

**Classification of Revenues and Expenses**

The Corporation considers operating revenues and expenses in the Statements of Revenues, Expenses and Changes in Net Position to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the Corporation's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services.

In accordance with GASB Statement No. 35, certain significant revenues relied upon and budgeted for fundamental operational support of the core mission of the Corporation are mandated to be recorded as nonoperating revenues. Nonoperating revenues and expenses include the Corporation's net investment income, private gifts for other than capital purposes, interest expense on capital related debt and gain or loss on disposal of capital assets. Capital grants and gifts and extraordinary and nonrecurring events are classified as other changes in net position.

**Donated Assets**

Donated materials, livestock, property and equipment, and other noncash donations of greater than \$5,000 and all marketable securities are recorded as contributions at their estimated fair values at the date of donation.

**Donated Services**

The Corporation records the amount of contributed services, specialized skills that would typically be purchased if not provided by donation, as revenue in the period received. For the years ended June 30, 2016 and 2015, grants and contracts revenue included \$685,174 and \$623,416, respectively, of assigned time of project directors paid by the University.

**Donated Collection Items**

The Corporation maintains an art collection acquired by donation which has not been recorded in the financial statements, as the collection is held for public exhibition or education; the collection is protected, kept unencumbered, cared for, and preserved. The value of the collection was estimated at \$1,400,000 at June 30, 2016 and 2015.

**Note 2: Summary of Significant Accounting Policies (Continued)**

**Fair Value Measurements**

As defined in GASB Statement No. 72, *Fair Value Measurement and Application*, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Corporation uses valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

GASB Statement No. 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 — Observable inputs, other than Level 1 prices, for the asset or liability, either directly or indirectly;
- Level 3 — Unobservable inputs for the asset or liability.

For fiscal year ended June 30, 2016, the application of valuation techniques applied to the Corporation's financial statements has been consistent.

**Income Tax Status**

The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Corporation's tax-exempt purpose is subject to taxation as unrelated business income. No liability for income taxes has been recorded since the amount is not expected to be significant. In addition, the Corporation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

**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 of assets and liabilities and disclosures as of the date of the financial statements and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**Note 2: Summary of Significant Accounting Policies (Continued)**

**Recent Pronouncements**

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of Statement No. 27*, that addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for pensions. Note disclosure and required supplementary information requirements about pensions also are addressed. The provisions of Statement No. 68 was effective for fiscal years beginning after June 15, 2014.

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

Management implemented GASB Statements No. 68 and 71 for the Corporation’s June 30, 2015 financial statements. Implementation of these statements resulted in a restatement of beginning net position as of July 1, 2015. See Note 11 and Note 13 to Financial Statements for further discussion.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting disclosures related to fair value measurements. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Management implemented GASB Statement No. 72 for the Corporation’s June 30, 2016 financial statements. Implementation of this statement resulted in additional fair value measurement disclosures. See Note 4 to Financial Statements for further discussion.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. The provisions of Statement No. 73 are effective for fiscal years beginning after June 15, 2015. Implementation of this statement did not have a material impact on the Corporation’s financial statements.

**Cal Poly Corporation**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

**Page 9**

**Note 2: Summary of Significant Accounting Policies (Continued)**

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting standards for state and local governmental OPEB plans—defined benefit OPEB plans and defined contribution OPEB plans—that are administered through trusts or equivalent arrangements. The provisions of Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management has not yet determined the impact of this Statement on its financial statements.

Additionally, in June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. Statement No. 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management has not yet determined the impact of this Statement on its financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles. The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The provisions of Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Implementation of this statement did not have a material impact on the Corporation’s financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. The provisions of Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management has not yet determined the impact of this Statement on its financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. Statement No. 78 addresses a practice issue regarding the scope and applicability of Statement No. 68 for pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The provisions of Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management has not yet determined the impact of this Statement on its financial statements.

**Cal Poly Corporation**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

**Page 10**

**Note 2: Summary of Significant Accounting Policies (Continued)**

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. The provisions of Statement No. 79 are effective for reporting periods beginning after June 15, 2016. Management has not yet determined the impact of this Statement on its financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. Statement No. 80 amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The provisions of Statement No. 80 are effective for fiscal years beginning after December 15, 2015. Management has not yet determined the impact of this Statement on its financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The Statement also provides additional recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management has not yet determined the impact of this Statement on its financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management has not yet determined the impact of this Statement on its financial statements.

**Reclassifications**

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

**Note 3: Cash and Cash Equivalents**

The Corporation maintains cash balances at several financial institutions located in California. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account title. The Corporation also participates in several deposit-placement programs designed to allocate funds amongst member

**Note 3: Cash and Cash Equivalents (Continued)**

institutions in such a way that no one bank holds more than \$250,000 in Corporation assets, meaning that all the assets placed with a particular program are fully FDIC insured. These programs include the Wells Fargo Brokered CD program, the Certificate of Deposit Account Registry (CDARS) program and the Insured Cash Sweep (ICS) money market program. At June 30, 2016, the Corporation had uninsured cash deposits totaling \$5,428,717, held principally at Wells Fargo Bank in the Corporation's operating bank account.

At June 30, 2016 and 2015, a portion of cash and cash equivalents was restricted according to donor stipulations as follows:

|  | <u>2016</u>      | <u>2015</u>      |
|--|------------------|------------------|
| Endowments                                 | \$ 13,752        | \$ 25,450        |
| Split interest trusts                      | 34,725           | 35,598           |
|  | <u>48,477</u>    | <u>61,048</u>    |
| Total restricted cash and cash equivalents | <u>\$ 48,477</u> | <u>\$ 61,048</u> |

**Note 4: Investments**

At June 30, 2016 and 2015, investments were classified in the accompanying financial statements as follows:

|                             | <u>2016</u>          | <u>2015</u>          |
|-----------------------------|----------------------|----------------------|
| Short-term investments      | \$ 65,704,584        | \$ 54,687,394        |
| Endowment investments       | 1,898,609            | 5,808,968            |
| Other long-term investments | 5,186,729            | 13,128,669           |
|                             | <u>72,789,922</u>    | <u>73,625,031</u>    |
| Total investments           | <u>\$ 72,789,922</u> | <u>\$ 73,625,031</u> |

At June 30, 2016 and 2015, other long-term investments included \$1,672,614 and \$1,858,693, respectively, held in split-interest trusts.

**Cal Poly Corporation**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**  
**Page 12**

**Note 4: Investments (Continued)**

At June 30, 2016, investments comprised the following:

|                                      | <b>2016</b>          |                     |                      |
|--------------------------------------|----------------------|---------------------|----------------------|
|                                      | <b>Current</b>       | <b>Noncurrent</b>   | <b>Total</b>         |
| Equity securities                    | \$ 548,200           | \$                  | \$ 548,200           |
| Fixed income securities              |                      | 463,930             | 463,930              |
| Real estate                          |                      | 980,000             | 980,000              |
| Certificates of deposit              |                      | 2,529,892           | 2,529,892            |
| Mutual funds:                        |                      |                     |                      |
| Equity funds                         | 19,853,901           | 2,293,031           | 22,146,932           |
| Bond funds                           | 41,196,212           | 416,758             | 41,612,970           |
| All Asset All Authority funds        | 3,612,129            | 373,802             | 3,985,931            |
| Other investments:                   |                      |                     |                      |
| Cash and interest receivable pending |                      |                     |                      |
| long-term investment                 | 94,051               | 1,309               | 95,360               |
| Alternative investments              | 400,091              | 22,393              | 422,484              |
| Agriculture related retains          |                      | 4,223               | 4,223                |
| <b>Total investments</b>             | <b>\$ 65,704,584</b> | <b>\$ 7,085,338</b> | <b>\$ 72,789,922</b> |

At June 30, 2015, investments comprised the following:

|                                      | <b>2015</b>          |                      |                      |
|--------------------------------------|----------------------|----------------------|----------------------|
|                                      | <b>Current</b>       | <b>Noncurrent</b>    | <b>Total</b>         |
| Equity securities                    | \$ 402,840           | \$                   | \$ 402,840           |
| Fixed income securities              |                      | 498,958              | 498,958              |
| Real estate                          |                      | 980,000              | 980,000              |
| Certificates of deposit              |                      | 10,285,753           | 10,285,753           |
| Mutual funds:                        |                      |                      |                      |
| Equity funds                         | 18,888,162           | 4,806,550            | 23,694,712           |
| Bond funds                           | 29,706,360           | 1,516,595            | 31,222,955           |
| Exchange traded funds                | 94,296               |                      | 94,296               |
| All Asset All Authority funds        | 4,596,853            | 686,401              | 5,283,254            |
| Other investments:                   |                      |                      |                      |
| Cash and interest receivable pending |                      |                      |                      |
| long-term investment                 | 112,671              | 1,350                | 114,021              |
| Alternative investments              | 886,212              | 157,807              | 1,044,019            |
| Agriculture related retains          |                      | 4,223                | 4,223                |
| <b>Total investments</b>             | <b>\$ 54,687,394</b> | <b>\$ 18,937,637</b> | <b>\$ 73,625,031</b> |

**Note 4: Investments (Continued)**

**Investment Policies**

The Corporation's Board of Directors (Board) oversees the management of its investments and establishes investment policy. The Board has delegated the implementation of the investment policy to staff with the concurrence of its Investment Advisory Committee. The Investment Advisory Committee advises on investment guidelines and selection of investment managers. The Corporation prohibits investments that jeopardize the safety of principal concept or non-profit status of the Corporation. The Board of Trustees of the CSU adopted a resolution urging auxiliary boards that make corporate investments to issue statements of social responsibility and to follow those precepts in examining past and considering future investments. The Corporation's Board recognizes and accepts its social responsibility with respect to the investment of funds.

The Corporation manages investments consistent with the designation and use of the assets. Investments recommended by the Investment Advisory Committee include high quality, readily marketable securities.

The goal of the fixed income securities and certificates of deposit (CDs) is to limit risk while outperforming what would otherwise be available in cash or money market products.

The All Asset All Authority 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.

Alternative investments are mutual fund commodities. Alternative investments are measured against the Dow Jones UBS Commodity Index.

The equity portion of the investments may include both domestic and international equities, including foreign currency denominated, common and preferred stocks and actively managed and passive (index) strategies. The equity portion is measured against the Standard & Poor's 500 (S&P 500), S&P 500 Developed--Excluding U.S. BMI Property, Russell 2000, MSCI Europe, Australasia, and Far East (EAFE), MSCI EAFE Small Cap, MSCI EAFE Emerging Markets, FTSE NAREIT Equity and Dow Jones UBS Commodity Index.

The fixed income portion of the investments 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, non-investment grade and foreign bonds. The fixed income portfolio is measured against the Barclays Capital Intermediate U.S. Government/Credit, Merrill Lynch 1 – 3 Year U.S. Treasuries, Citi 3-Month Treasury Bill and Citi 1-Month CD.

**Note 4: Investments (Continued)**

**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 sensitive to credit risks and changes in interest rates.

*Equity Securities Risk:*

Equity securities held by the Corporation through mutual funds or the Student Investment Management Portfolio comprised \$22,695,132, or 31%, of the total investments of the Corporation at June 30, 2016. Equities are subject to both unsystematic and systematic risk. Unsystematic risk is the risk of a price change due to the unique circumstances of a specific security or group of related securities. The Corporation addresses unsystematic risk by investing in widely diversified equity mutual funds. Equity securities are also subject to systematic risk or market risk. Systematic risk recognizes that equity securities, as an asset class, can change in value as a result of such factors 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 risk summarizes the fair value of the fixed income securities subject to credit risk. The Corporation maintains policies to manage credit risk which include requiring minimum credit ratings issued by nationally recognized statistical rating organizations, including Standard and Poor's or Moody's Investor Services, for certain investments. For investments in securities rated below investment grade, the Corporation and its investment advisor monitor the investments and fund managers to determine if the portfolio is managed according to the stated guidelines.

**Cal Poly Corporation**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

**Page 15**

**Note 4: Investments (Continued)**

The credit ratings of the Corporation's fixed income securities held in investments and money market funds at June 30, 2016 were as follows:

|   | <u>Fair Value</u>    | <u>Rating</u> |
|---|----------------------|---------------|
| Bond mutual funds:  |                      |               |
| DFA Intermediate Government Bond                              | \$ 3,142,968         | AAA           |
| Loomis Sayles Bond Fund - Institutional                       | 1,541,821            | BBB           |
| PIMCO Total Return Fund - Institutional                       | 2,645,341            | AA            |
| PIMCO Foreign Bond Fund - Institutional                       | 1,820,961            | A             |
| PIMCO High Yield Fund - Institutional                         | 647,087              | BB            |
| PIMCO Short Term - Institutional                              | 14,953,627           | A             |
| PIMCO Low Duration Fund                                       | 16,861,165           | AA            |
| U.S. government:  |                      |               |
| U.S. Treasury bills   | 97,805               | AAA           |
| U.S. government backed - asset backed securities              | 366,125              | AAA           |
| Money market funds:   |                      |               |
| Wells Fargo Cash Investment Money Market - Institutional      | 4,767,818            | Unrated       |
| Schwab One Fund   | 127,478              | Unrated       |
| Schwab Government Money Fund                                  | <u>15,050</u>        | Unrated       |
| Total fixed income and debt securities subject to credit risk | <u>\$ 46,987,246</u> |               |

*Custodial Risk:*

Custodial risk is the risk that in the event of the failure of the custodian, the investments may not be returned. Substantially all of the Corporation's investments are issued, registered or held in the name of the Corporation 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. GASB requires disclosure of investments in any one individual issuer that represent 5% or more of total investments. At June 30, 2016 and 2015, the Corporation had no investments that exceeded this threshold.

**Note 4: Investments (Continued)**

*Interest Rate Risk:*

Interest rate risk is the risk that fixed income securities will decline because of rising interest rates. The Corporation measures interest rate risk using the weighted average duration method. The weighted average duration of the Corporation's fixed income securities and money market funds at June 30, 2016 was as follows:

|   | <u>Fair Value</u>    | <u>Weighted<br/>Average<br/>Duration<br/>(in years)</u> |
|---|----------------------|---|
| Bond mutual funds:  |                      |   |
| DFA Intermediate Government Bond  | \$ 3,142,968         | 6.2   |
| Loomis Sayles Bond Fund - Institutional                                 | 1,541,821            | 3.8   |
| PIMCO Total Return Fund - Institutional                                 | 2,645,341            | 5.7   |
| PIMCO Foreign Bond Fund - Institutional                                 | 1,820,961            | 7.8   |
| PIMCO High Yield Fund - Institutional                                   | 647,087              | 3.6   |
| PIMCO Short Term - Institutional  | 14,953,627           | 0.0   |
| PIMCO Low Duration Fund   | 16,861,165           | 2.0   |
| U.S. government:  |                      |   |
| U.S. Treasury bills   | 97,805               | 4.7   |
| U.S. government backed - asset backed securities                        | 366,125              | 4.7   |
| Money market funds  | <u>4,910,346</u>     | 0.0   |
| Total fixed income and debt securities<br>subject to interest rate risk | <u>\$ 46,987,246</u> | 2.0   |

*Foreign Currency Risk:*

Exposure to foreign currency risk results from investments in foreign currency denominated equity or fixed income investments. The Corporation maintains international equity investments by investing in international mutual funds that are broadly diversified over many developed and emerging markets. Exposure to foreign currency risk from these investments is permitted and may be fully or partially hedged by the individual mutual fund managers, but hedging is not permitted for speculation or to create leverage.

**Cal Poly Corporation**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**  
**Page 17**

**Note 4: Investments (Continued)**

The Corporation's exposure to foreign currency risk at June 30, 2016 was as follows:

|  | <u>Fair Value</u>   |
|--|---------------------|
| Euro   | \$ 1,427,871        |
| British Pounds                                     | 1,300,932           |
| Japanese Yen                                       | 1,223,300           |
| Swiss Francs                                       | 539,093             |
| Hong Kong Dollars                                  | 531,839             |
| Australian Dollars                                 | 477,716             |
| Taiwanese Dollars                                  | 389,713             |
| Brazilian Reals                                    | 326,970             |
| Indian Rupee                                       | 314,573             |
| Mexican Peso                                       | 309,348             |
| South African Rand                                 | 258,964             |
| Chinese Yuan                                       | 230,412             |
| Russian Ruble                                      | 214,968             |
| Canadian Dollars                                   | 156,382             |
| Malaysian Ringgit                                  | 144,964             |
| Korean Won   | 142,480             |
| Thai Baht  | 135,562             |
| Indonesian Rupiah                                  | 116,695             |
| Polish Zloty                                       | 101,889             |
| Singapore Dollars                                  | (204,934)           |
| Other  | <u>704,510</u>      |
| Total investments subject to foreign currency risk | <u>\$ 8,843,247</u> |

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

|  |                     |
|--|---------------------|
| Equity mutual funds                                | \$ 7,901,519        |
| Bond mutual funds                                  | <u>941,728</u>      |
| Total investments subject to foreign currency risk | <u>\$ 8,843,247</u> |

*Alternative Investment Risks:*

The Corporation held alternative investments at estimated fair value at June 30, 2016. The Corporation 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*. Alternative investments at fair market value at June 30, 2016 were as follows:

**Cal Poly Corporation**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**  
**Page 18**

**Note 4: Investments (Continued)**

|                               |                            |
|-------------------------------|----------------------------|
| All Asset All Authority funds | \$ 3,985,931               |
| Commodity funds               | <u>422,484</u>             |
| Total alternative investments | <u><u>\$ 4,408,415</u></u> |

*Investment Fair Values:*

The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. With the exception of the following, all of the Corporation investments are classified in Level 1 of the fair value hierarchy:

- Level 2 – U.S. government backed – asset backed securities
- Level 3 – Agriculture related retains and real estate

Securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique, which is derived from the spread applied to U.S. treasury securities of a similar maturity and were valued at \$366,125 and \$401,856 at June 30, 2016 and 2015, respectively. Agriculture related retains classified in Level 3 are partnership interests based on values provided by the partnership and were valued at \$4,233 at June 30, 2016 and 2015. Real estate classified in Level 3 consists of gifted assets based on fair values at the time of donation and were valued at \$980,000 at June 30, 2016 and 2015. There was no activity in Level 3 investments for the year ended June 30, 2016.

**Note 5: Pledges Receivable**

At June 30, 2016 and 2015, pledges receivable comprised the following:

|   | <u>2016</u>                 | <u>2015</u>                |
|---|-----------------------------|----------------------------|
| Athletic programs                         | \$ 4,267,083                | \$ 2,026,154               |
| College-specific facilities               | 6,839,480                   | 7,214,307                  |
| Stadium suites                            | <u>121,491</u>              | <u>197,567</u>             |
| Subtotal                                  | 11,228,054                  | 9,438,028                  |
| Less allowance for uncollectible accounts | (1,062,166)                 | (985,858)                  |
| Less unamortized discount                 | <u>(898,240)</u>            | <u>(785,709)</u>           |
| Pledges receivable, net                   | <u><u>\$ 9,267,648</u></u>  | <u><u>\$ 7,666,461</u></u> |
| Amounts due in:                           |                             |                            |
| One year or less                          | \$ 1,948,817                | \$ 1,440,362               |
| One to five years                         | 2,757,418                   | 1,814,814                  |
| More than five years                      | <u>6,521,819</u>            | <u>6,182,852</u>           |
| Total amounts due                         | <u><u>\$ 11,228,054</u></u> | <u><u>\$ 9,438,028</u></u> |

**Cal Poly Corporation**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**  
**Page 19**

**Note 6: Capital Assets**

At June 30, 2016, capital assets comprised the following:

|  | <b>2016</b>                      |                     |                     |   | <b>Balance<br/>June 30, 2016</b> |
|--|----------------------------------|---------------------|---------------------|---|----------------------------------|
|  | <b>Balance<br/>June 30, 2015</b> | <b>Additions</b>    | <b>Reductions</b>   | <b>Transfers of<br/>Completed<br/>CIP</b> |                                  |
| <b>Nondepreciable capital assets:</b>                  |                                  |                     |                     |   |                                  |
| Land and improvements                                  | \$ 18,692,425                    | \$                  | \$                  | \$  | \$ 18,692,425                    |
| Works of art and historical treasures                  | 445,799                          |                     |                     |   | 445,799                          |
| Construction in progress                               | 1,871,496                        | 1,033,105           | (61,766)            | (580,892)                                 | 2,261,943                        |
| Total nondepreciable capital assets                    | <u>21,009,720</u>                | <u>1,033,105</u>    | <u>(61,766)</u>     | <u>(580,892)</u>                          | <u>21,400,167</u>                |
| <b>Depreciable and amortizable capital assets:</b>     |                                  |                     |                     |   |                                  |
| Buildings and building improvements                    | 22,204,671                       | 21,716              |                     | 390,117                                   | 22,616,504                       |
| Leasehold improvements                                 | 1,148,379                        | 11,110              | (462,184)           | 140,067                                   | 837,372                          |
| Equipment  | 9,451,023                        | 477,713             | (509,628)           | 21,658                                    | 9,440,766                        |
| <b>Intangible assets:</b>                              |                                  |                     |                     |   |                                  |
| Software and websites                                  | 1,195,804                        | 29,485              | (488)               | 29,050                                    | 1,253,851                        |
| Licenses and permits                                   | 461,733                          | 26,082              |                     |   | 487,815                          |
| Total depreciable and amortizable capital assets       | <u>34,461,610</u>                | <u>566,106</u>      | <u>(972,300)</u>    | <u>580,892</u>                            | <u>34,636,308</u>                |
| <b>Less accumulated depreciation and amortization:</b> |                                  |                     |                     |   |                                  |
| Buildings and building improvements                    | (10,231,639)                     | (672,425)           |                     |   | (10,904,064)                     |
| Leasehold improvements                                 | (369,260)                        | (426,500)           | 440,871             |   | (354,889)                        |
| Equipment  | (7,586,488)                      | (577,538)           | 382,865             |   | (7,781,161)                      |
| <b>Intangible assets:</b>                              |                                  |                     |                     |   |                                  |
| Software and websites                                  | (896,048)                        | (134,960)           |                     |   | (1,031,008)                      |
| Licenses and permits                                   | (210,679)                        | (59,331)            |                     |   | (270,010)                        |
| Total accumulated depreciation and amortization        | <u>(19,294,114)</u>              | <u>(1,870,754)</u>  | <u>823,736</u>      | <u>-</u>                                  | <u>(20,341,132)</u>              |
| Total capital assets, net                              | <u>\$ 36,177,216</u>             | <u>\$ (271,543)</u> | <u>\$ (210,330)</u> | <u>\$ -</u>                               | <u>\$ 35,695,343</u>             |

**Cal Poly Corporation**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**  
**Page 20**

**Note 6: Capital Assets (Continued)**

At June 30, 2015, capital assets comprised the following:

|  | 2015                     |                      |                     |                                  | Balance<br>June 30, 2015 |
|--|--------------------------|----------------------|---------------------|----------------------------------|--------------------------|
|  | Balance<br>June 30, 2014 | Additions            | Reductions          | Transfers of<br>Completed<br>CIP |                          |
| Nondepreciable capital assets:                   |                          |                      |                     |                                  |                          |
| Land and improvements                            | \$ 7,459,164             | \$ 11,291,000        | \$ (57,739)         | \$                               | \$ 18,692,425            |
| Works of art and historical treasures            | 508,060                  |                      | (62,261)            |                                  | 445,799                  |
| Construction in progress                         | 493,178                  | 2,584,241            | (138,650)           | (1,067,273)                      | 1,871,496                |
| Total nondepreciable capital assets              | <u>8,460,402</u>         | <u>13,875,241</u>    | <u>(258,650)</u>    | <u>(1,067,273)</u>               | <u>21,009,720</u>        |
| Depreciable and amortizable capital assets:      |                          |                      |                     |                                  |                          |
| Buildings  | 20,491,666               | 1,925,785            | (212,780)           |                                  | 22,204,671               |
| Leasehold improvements                           | 949,510                  | 18,443               | (553,733)           | 734,159                          | 1,148,379                |
| Equipment  | 10,513,992               | 399,301              | (1,680,407)         | 218,137                          | 9,451,023                |
| Intangible assets:                               |                          |                      |                     |                                  |                          |
| Software and websites                            | 1,560,076                | 27,613               | (506,862)           | 114,977                          | 1,195,804                |
| Licenses and permits                             | 467,114                  |                      | (5,381)             |                                  | 461,733                  |
| Total depreciable and amortizable capital assets | <u>33,982,358</u>        | <u>2,371,142</u>     | <u>(2,959,163)</u>  | <u>1,067,273</u>                 | <u>34,461,610</u>        |
| Less accumulated depreciation and amortization:  |                          |                      |                     |                                  |                          |
| Buildings  | (9,811,948)              | (502,294)            | 82,603              |                                  | (10,231,639)             |
| Leasehold improvements                           | (426,208)                | (31,351)             | 88,299              |                                  | (369,260)                |
| Equipment  | (8,587,304)              | (1,071,928)          | 2,072,744           |                                  | (7,586,488)              |
| Intangible assets:                               |                          |                      |                     |                                  |                          |
| Software and websites                            | (1,273,742)              | (128,186)            | 505,880             |                                  | (896,048)                |
| Licenses and permits                             | (162,073)                | (53,881)             | 5,275               |                                  | (210,679)                |
| Total accumulated depreciation and amortization  | <u>(20,261,275)</u>      | <u>(1,787,640)</u>   | <u>2,754,801</u>    | <u>-</u>                         | <u>(19,294,114)</u>      |
| Total capital assets, net                        | <u>\$ 22,181,485</u>     | <u>\$ 14,458,743</u> | <u>\$ (463,012)</u> | <u>\$ -</u>                      | <u>\$ 36,177,216</u>     |

**Cal Poly Corporation**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

**Page 21**

**Note 7: Long-Term Debt Obligation**

At June 30, 2015, the long-term debt obligation represented a note payable related to the CSU System-Wide Revenue Bonds Series 2009A bond issuance. Principal payments began in 2012 with \$60,000 due for each of the first two years, with payments continuing until the final payment in November 2035. The note is secured by pledged revenues, including indirect cost recovery payments. The Corporation cannot incur, assume, guarantee, or obligate itself for any debt senior to this unless it meets certain income tests and notifies the Board of Trustees of the CSU of such issuance.

**Current Year Refunding**

In May 2016, a portion of the Series 2009A bonds were partially defeased by placing a portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2016A refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. The proceeds from the Series 2016A refunding bonds were used to purchase U.S. federal, state, and local government securities that were placed in escrow accounts. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matured. These transactions will reduce the Corporation's total financing cost by approximately \$401,738 over the life of the bonds. The economic gain (difference between net present values of the debt service payments on the old debt and new debt) from these transactions was approximately \$310,963. Accordingly, the refunded bonds have been considered defeased and, therefore, a portion of the note payable was removed as a liability from the accompanying financial statements. The note payable related to the amount of defeased bonds outstanding as of the date of refunding totaled \$2,260,000.

The loss on the debt refunding for SRB Series 2016A of \$293,195 as of date of refunding was included in deferred outflows of resources in the statement of net position. The loss on debt refunding is the difference between the reacquisition price and the net carrying amount of the old debt. The loss on debt refunding is deferred and amortized over the shorter of the old debt (or original amortization period remaining in the prior refunding) or the life of the latest refunding debt. The unamortized loss on debt refunding, included in deferred outflows of resources in the Statements of Net Position, was \$290,570 as of June 30, 2016.

The SRB Series 2016A refunding also resulted in a bond premium of \$442,847 that will be amortized over the life of the latest refunding debt. Amortization of the bond premium for the year ended June 30, 2016 was \$7,128.

The all-in true interest rate of the original loan was 5.28% and of the refunded bonds is 2.78%. Payments on the note are made each May and November. The long-term debt obligation activity for the year ended June 30, 2016 was as follows:

Cal Poly Corporation  
Notes to Financial Statements  
June 30, 2016 and 2015  
Page 22

**Note 7: Long-Term Debt Obligation (Continued)**

|                           | <u>Balance</u><br><u>June 30, 2015</u> | <u>Additions</u>    | <u>Reductions</u>     | <u>Balance</u><br><u>June 30, 2016</u> | <u>Due Within</u><br><u>One Year</u> |
|---------------------------|--|---------------------|-----------------------|--|--------------------------------------|
| Note payable, State-Wide: |  |                     |                       |  |                                      |
| Revenue Bond Series 2009A | \$ 2,560,000                           | \$                  | \$ (2,330,000)        | \$ 230,000                             | \$ 75,000                            |
| Revenue Bond Series 2016A |  | 2,115,000           |                       | 2,115,000                              |                                      |
|                           | <u>2,560,000</u>                       | <u>2,115,000</u>    | <u>(2,330,000)</u>    | <u>2,345,000</u>                       | <u>75,000</u>                        |
| Unamortized bond premium  |  | 442,847             | (7,128)               | 435,719                                |                                      |
|                           | <u>\$ 2,560,000</u>                    | <u>\$ 2,557,847</u> | <u>\$ (2,337,128)</u> | <u>\$ 2,780,719</u>                    | <u>\$ 75,000</u>                     |

At June 30, 2016, future maturities of the long-term debt obligation balance were as follows:

| <u>For the Year Ending June 30,</u> | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>        |
|-------------------------------------|---------------------|---------------------|---------------------|
| 2017                                | \$ 75,000           | \$ 114,447          | \$ 189,447          |
| 2018                                | 80,000              | 107,825             | 187,825             |
| 2019                                | 85,000              | 103,950             | 188,950             |
| 2020                                | 80,000              | 99,850              | 179,850             |
| 2021                                | 85,000              | 95,725              | 180,725             |
| 2022-2026                           | 500,000             | 408,000             | 908,000             |
| 2027-2031                           | 640,000             | 266,000             | 906,000             |
| 2032-2036                           | <u>800,000</u>      | <u>89,400</u>       | <u>889,400</u>      |
| Total future maturities             | <u>\$ 2,345,000</u> | <u>\$ 1,285,197</u> | <u>\$ 3,630,197</u> |

**Note 8: Other Postemployment Benefit (OPEB) Obligation**

**Plan Description**

The Corporation sponsors a defined benefit postretirement plan (Plan) that covers both salaried and non-salaried employees. The Plan provides an extension of medical benefits provided while under employment to the plan participants. The Plan is contributory, with retiree contributions adjusted annually for the difference between the total medical premium cost and the Corporation contribution rate. Retirees pay their portion of medical premiums directly to CalPERS so retiree contributions are not recorded in the accompanying financial statements. For employees hired prior to December 1, 2011, vesting occurs after five years credited service with CalPERS and attainment of age fifty. Employees hired as of December 1, 2011 and thereafter are subject to an alternative vesting schedule based on years of service and age. Under this revised schedule, an employee is eligible for 50% of the benefits after ten years credited service with CalPERS (five of which must be with the Corporation) and attainment of age fifty, and is eligible for 100% after twenty years of service and attainment of age fifty.

**Note 8: Other Postemployment Benefit (OPEB) Obligation (Continued)**

**Funding Policy**

The annual required contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The Corporation's ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and recognize the unfunded actuarial liability.

In March 2014, the Corporation established a single employer Voluntary Employees' Beneficiary Association (VEBA) Trust, which is a separate welfare benefit trust established to provide health care benefits to qualified retirees. The Cal Poly Corporation VEBA Trust (Trust) is intended to hold assets sufficient to cover, at a minimum, the calculated future healthcare benefits associated with current retirees and active, vested employees. The Corporation funded \$2,188,695 and \$6,020,115 into the Trust during the fiscal years ended June 30, 2016 and 2015, respectively. Copies of the Trust annual financial report may be obtained from the Cal Poly Corporation Business Office at One Grand Avenue, San Luis Obispo, CA 93407.

**Annual OPEB Cost and Net OPEB Obligation**

The Corporation's annual OPEB cost, annual OPEB cost contributed to the Plan (as described in the funding policy above) and the net OPEB obligation for the years ended June 30, 2016 and 2015 were as follows:

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| Annual required contribution (ARC)              | \$ 7,820,536        | \$ 11,331,966       |
| Interest on net OPEB obligation (asset)         | 345,270             | (285,989)           |
| Adjustment to annual required contributions     | <u>(5,657,120)</u>  | <u>4,371,533</u>    |
| Annual OPEB cost                                | 2,508,686           | 15,417,510          |
| Contributions made                              | <u>(2,188,695)</u>  | <u>(6,020,115)</u>  |
| Increase in net OPEB obligation                 | 319,991             | 9,397,395           |
| Net OPEB obligation (asset) - beginning of year | <u>5,311,850</u>    | <u>(4,085,545)</u>  |
| Net OPEB obligation - end of year               | <u>\$ 5,631,841</u> | <u>\$ 5,311,850</u> |

The Corporation's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation (asset) for the years ended June 30, 2016, 2015 and 2014 were as follows:

| <u>Fiscal Year</u> | <u>Annual OPEB Cost</u> | <u>Actual Contributions</u> | <u>% of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation (Asset)</u> |
|--------------------|-------------------------|-----------------------------|--|------------------------------------|
| 6/30/2016          | \$ 2,508,686            | \$ 2,188,695                | 87.24%                                   | \$ 5,631,841                       |
| 6/30/2015          | \$ 15,417,510           | \$ 6,020,115                | 39.05%                                   | \$ 5,311,850                       |
| 6/30/2014          | \$ 2,146,522            | \$ 17,880,670               | 833.01%                                  | \$ (4,085,545)                     |

**Note 8: Other Postemployment Benefit (OPEB) Obligation (Continued)**

**Funded Status and Funding Progress**

The funded status of the Plan as of July 1, 2016, the Plan's most recent actuarial valuation date, was as follows:

|   |                   |
|---|-------------------|
| Actuarial accrued liability                 | \$ 29,204,311     |
| Actuarial value of plan assets              | <u>23,572,470</u> |
| Unfunded actuarial accrued liability (UAAL) | \$ 5,631,841      |
| Funded ratio                                | 80.72%            |
| Covered payroll                             | \$ 11,961,254     |
| UAAL as a percentage of covered payroll     | 47.08%            |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress is presented as required supplementary information following the notes to the financial statements. The schedule presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, and will include additional years in the future as information becomes available.

As of June 30, 2016, the Trust held cash and investments of \$23,572,470 which are restricted for the purpose of providing medical healthcare benefits for qualified employees. In addition, the Corporation's Board has designated \$6,596,744 of the Corporation's cash and investments for payments of future post-employment benefit obligation liabilities.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**Cal Poly Corporation**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

**Page 25**

**Note 8: Other Postemployment Benefit (OPEB) Obligation (Continued)**

The Plan's most recent actuarial valuation was performed as of July 1, 2016. In that valuation, the entry age of normal actuarial cost method was used and assumed full recognition of the unfunded actuarial accrued liability. The actuarial assumptions assumed a 6.5% discount rate and assumed that in all future years the maximum annual contribution for employees hired prior to November 1, 2011 will increase by 5% per year. Similarly, the actuarial assumptions assumed that beginning in 2016 the State Annuitant Contribution (applicable to employees hired November 1, 2011 and later) will increase by 5% per year.

**Note 9: Transactions with Related Parties**

As discussed in Note 1, the Corporation is an auxiliary organization of the University. Services are provided by the Corporation to the University with billings rendered for services provided. The University also bills the Corporation for services it provides. The following were transactions with the University as of and for the years ended June 30, 2016 and 2015:

|  | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|
| Accounts receivable  | \$ 560,500  | \$ 678,955  |
| Accounts payable   | 538,392     | 447,152     |
| Reimbursements to University for salaries and benefits of University personnel | 2,808,154   | 2,700,490   |
| Reimbursements to University for other than salaries of University personnel   | 4,866,977   | 5,823,422   |
| Payments received from University for services, space and programs             | 5,260,788   | 5,462,332   |
| Cash gifts to the University   | 2,458,436   | 1,630,546   |
| Noncash gifts to the University  | 471,081     | 823,404     |

Effective July 1, 2012, a Business Support Services Agreement (BSSA) was implemented with the Cal Poly Foundation. Under the BSSA, the Corporation provides information technology and other services to the Foundation through June 30, 2015. Effective July 1, 2015, a new BSSA was implemented, which provides information technology and other services to the Foundation through June 30, 2017. The following were transactions with the Foundation as of and for the years ended June 30, 2016 and 2015:

|  | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|
| Current accounts receivable                              | \$ 20,321   | \$ 32,467   |
| Deposit with Corporation                                 | 638,000     | 638,000     |
| Accounts payable   | 3,300       | 244,442     |
| Payments from Foundation under BSSA/ASA                  | 40,000      | 100,000     |
| Reimbursements from Foundation for salaries and benefits | 3,000       | 1,373,122   |
| Cash contributions to Foundation                         | 292,243     | 634,859     |
| Cash contributions from Foundation                       | 2,872,636   | 3,218,010   |

**Cal Poly Corporation**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**  
**Page 26**

**Note 10: Operating Leases**

In exchange for services provided to the University, the Corporation has entered into certain long-term operating lease agreements with the University which allow the Corporation the use of campus land and facilities at nominal amounts through June 30, 2019. In addition, the Corporation has operating lease agreements with the University and its auxiliaries for certain facilities. Rental payments are due through June 30, 2023 and are subject to annual rent adjustments of up to 4%. The total rent expense paid on these leases for the years ended June 30, 2016 and 2015 was \$285,412 and \$279,121, respectively. At June 30, 2016, future minimum rental payments for these leases were as follows:

| <u>For the Year Ending June 30,</u> |                     |
|-------------------------------------|---------------------|
| 2017                                | \$ 294,221          |
| 2018                                | 302,446             |
| 2019                                | 218,272             |
| 2020                                | 211,995             |
| 2021                                | 217,825             |
| Thereafter                          | 453,786             |
| Total                               | <u>\$ 1,698,545</u> |

The Corporation also has a lease with an unrelated third party for Cal Poly Downtown. The total rent expense paid on this lease for the years ended June 30, 2016 and 2015 was \$ 148,870 and \$121,625, respectively. Rental payments are due through March 31, 2017 and are subject to annual rent adjustments of up to 5%. During the current year, the Corporation executed a new lease with another unrelated third party for Cal Poly Downtown. Monthly rental payments begin November 1, 2016 at a monthly base amount of \$13,650 and are subject to biannual rent adjustments based on CPI indices for a term of 10 years. At June 30, 2016, future minimum rental payments for these leases were as follows:

| <u>For the Year Ending June 30,</u> |                     |
|-------------------------------------|---------------------|
| 2017                                | \$ 220,852          |
| 2018                                | 163,800             |
| 2019                                | 167,076             |
| 2020                                | 168,714             |
| 2021                                | 172,088             |
| Thereafter                          | 958,395             |
| Total                               | <u>\$ 1,850,925</u> |

The Corporation leases office space to various tenants in the Technology Park (Tech Park) with original lease terms of one to six years. The leases require tenants to pay their pro-rata share of common area maintenance (CAM) expenses. Rental income and CAM charges for the years ended June 30, 2016 and 2015 were \$432,061 and \$439,885, respectively. The cost of the Tech Park included in land, building and improvements was \$6,695,132 and \$6,695,132 and related accumulated depreciation was \$1,677,873 and \$1,367,863 at June 30, 2016 and 2015, respectively.

**Note 10: Operating Leases (Continued)**

At June 30, 2016, future minimum rental income and CAM charges under these leases were as follows:

| <u>For the Year Ending June 30,</u> |                   |
|-------------------------------------|-------------------|
| 2017                                | \$ 261,032        |
| 2018                                | 104,612           |
| 2019                                | 27,981            |
| Total                               | <u>\$ 393,625</u> |

In conjunction with the Bella Montaña development, the Corporation holds a ground lease with the University which expires April 2104. The lease requires the homes to be sold under a University faculty and staff housing eligibility priority system which requires the homeowner to reside there as principal place of residence and restricts resale to eligible buyers. Each home is subject to a ground sublease. Under the ground lease agreement, the Corporation is to pay the University annually all ground rents received under the subleases less costs of administration, operating expenses and reserves. Total ground rents less costs of administration, operating expenses and reserves for the years ended June 30, 2016 and 2015 were \$0 and no amounts were paid to the University.

**Note 11: Defined Benefit Pension Plan**

**General Information about the Pension Plan**

*Plan Description and Benefits Provided*

Substantially all full-time employees of the Corporation participate in CalPERS (the Plan), an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California.

Employees hired for the first time by the Corporation on or after January 1, 2013 (Tier 3) who are eligible for retirement at the age of 62 are entitled to a monthly benefit of 2% of final compensation for each year of service credit. Employees hired for the first time on or after May 14, 2005 but before January 1, 2013 (Tier 2) may become eligible for the 2% benefit at age 60. Employees hired for the first time prior to May 14, 2005 (Tier 1) may become eligible for the 2% benefit at age 55. Retirement compensation is reduced if the plan is coordinated with social security. Retirement may begin at age 50 (Tiers 1 and 2) or 52 (Tier 3) with a reduced benefit rate. The Plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Corporation, members' accumulated contributions are refundable with interest credited through the date of separation. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**Note 11: Defined Benefit Pension Plan (Continued)**

*Employees Covered*

At June 30, 2016, the following employees were covered by the benefit terms for the Plan:

|  |                         |
|--|-------------------------|
| Inactive employees or beneficiaries currently receiving benefits | 348                     |
| Inactive employees entitled to but not yet receiving benefits    | 528                     |
| Active employees   | <u>246</u>              |
| <br>Total  | <br><u><u>1,122</u></u> |

*Contributions*

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Corporation is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

**Net Pension Liability**

The Corporation’s net pension liability for the Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

**Note 11: Defined Benefit Pension Plan (Continued)**

*Actuarial Assumptions*

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

|                           |                                    |
|---------------------------|------------------------------------|
| Valuation Date            | June 30, 2014                      |
| Measurement Date          | June 30, 2015                      |
| Actuarial Cost Method     | Entry-Age<br>Normal Cost<br>Method |
| Actuarial Assumptions:    |                                    |
| Discount Rate             | 7.65%                              |
| Inflation                 | 2.75%                              |
| Payroll Growth            | 3.00%                              |
| Projected Salary Increase | (1)                                |
| Investment Rate of Return | 7.50% (2)                          |
| Mortality                 | (3)                                |

(1) Depending on age, service and type of employment

(2) Net of pension plan investment and administrative expenses, including inflation

(3) The probabilities of mortality are based on the 2010 CalPERS  
Experience Study for the period from 1997 to 2007

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can found on the CalPERS website.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.65%, which was a change from the previous discount rate of 7.50% used to measure the total pension liability at the previous measurement date. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

**Note 11: Defined Benefit Pension Plan (Continued)**

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

| <u>Asset Class</u>            | <u>Strategic Allocation</u> | <u>Real Return Years 1 - 10(a)</u> | <u>Real Return Years 11 + (b)</u> |
|-------------------------------|-----------------------------|------------------------------------|-----------------------------------|
| Global Equity                 | 51.00%                      | 5.25%                              | 5.71%                             |
| Global Fixed Income           | 19.00%                      | 0.99%                              | 2.43%                             |
| Inflation Sensitive           | 6.00%                       | 0.45%                              | 3.36%                             |
| Private Equity                | 10.00%                      | 6.83%                              | 6.95%                             |
| Real Estate                   | 10.00%                      | 4.50%                              | 5.13%                             |
| Infrastructure and Forestland | 2.00%                       | 4.50%                              | 5.09%                             |
| Liquidity                     | 2.00%                       | -0.55%                             | -1.05%                            |
| Total                         | <u>100.00%</u>              |                                    |                                   |

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

**Note 11: Defined Benefit Pension Plan (Continued)**

**Changes in the Net Pension Liability**

The changes in the Net Pension Liability for the Plan follow:

|  | <b>Increase (Decrease)</b>         |  |  |
|--|------------------------------------|--|--|
|  | <b>Total Pension<br/>Liability</b> | <b>Plan Fiduciary<br/>Net Position</b> | <b>Net Pension<br/>Liability (Asset)</b> |
| <b>Balance at June 30, 2015</b>                                  | \$ 67,360,075                      | \$ 56,239,094                          | \$ 11,120,981                            |
| <b>Changes in the year:</b>                                      |                                    |  |  |
| Service cost   | 1,403,277                          |  | 1,403,277                                |
| Interest on total pension liability                              | 4,920,633                          |  | 4,920,633                                |
| Differences between actual and<br>expected experience            | (888,401)                          |  | (888,401)                                |
| Changes in assumptions   | (1,192,843)                        |  | (1,192,843)                              |
| Contribution - employer  |                                    | 1,438,515                              | (1,438,515)                              |
| Contribution - employee  |                                    | 561,411                                | (561,411)                                |
| Net investment income  |                                    | 1,227,805                              | (1,227,805)                              |
| Benefit payments, including refunds of<br>employee contributions | (3,316,952)                        | (3,316,952)                            |  |
| Administrative expense   |                                    | (63,120)                               | 63,120                                   |
| <b>Net changes</b>   | <b>925,714</b>                     | <b>(152,341)</b>                       | <b>1,078,055</b>                         |
| <b>Balance at June 30, 2016</b>                                  | <b>\$ 68,285,789</b>               | <b>\$ 56,086,753</b>                   | <b>\$ 12,199,036</b>                     |

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

|                                      | <b>Discount Rate -</b> | <b>Current</b>                     | <b>Discount Rate +</b>                |
|--------------------------------------|------------------------|------------------------------------|---------------------------------------|
|                                      | <b>1% (6.65%)</b>      | <b>Discount Rate -<br/>(7.65%)</b> | <b>Discount Rate +<br/>1% (8.65%)</b> |
| Plan's Net Pension Liability (Asset) | \$ 21,260,181          | \$ 12,199,036                      | \$ 4,738,625                          |

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**Note 11: Defined Benefit Pension Plan (Continued)**

**Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

For the year ended June 30, 2016, the Corporation recognized pension expense of \$349,278. At June 30, 2016, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <b>Deferred<br/>Outflows<br/>of Resources</b> | <b>Deferred<br/>Inflows<br/>of Resources</b> |
|---|---|--|
| Pension contributions subsequent to measurement date                        | \$ 1,569,176                                  | \$   |
| Changes of assumptions  |   | (695,825)                                    |
| Differences between expected and actual experiences                         |   | (518,234)                                    |
| Net difference between projected and actual earnings<br>on plan investments | <u>2,413,321</u>                              | <u>(2,904,089)</u>                           |
| Total   | <u>\$ 3,982,497</u>                           | <u>\$ (4,118,148)</u>                        |

Deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. All other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in future pension expense as follows:

| <b><u>For the Year Ending June 30,</u></b> |                       |
|--|-----------------------|
| 2017                                       | \$ (1,231,885)        |
| 2018                                       | (711,574)             |
| 2019                                       | (364,699)             |
| 2020                                       | <u>603,331</u>        |
| Total                                      | <u>\$ (1,704,827)</u> |

**Payable to the Pension Plan**

At June 30, 2016, the Corporation reported a payable of \$133 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

**Note 12: Risk Management**

The Corporation 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 Corporation maintains general liability insurance coverage for individual claims up to \$15 million per occurrence. Unfair employment practices liability claims under \$50,000 are self-insured. The Corporation also maintains excess property insurance coverage to limits of \$100 million in excess of \$5,000 self-insured limits.

**Note 13: Restatement of Beginning Net Position**

The Corporation implemented GASB Statement No. 68, *Financial Reporting for Pensions—an amendment of Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, for the year ended June 30, 2015. At that time, the Corporation chose to present prior year data, but not restate the data for the prior year because all of the information available to restate prior year amounts was not readily available. An adjustment of \$13,889,763 to beginning net position at July 1, 2014 was made to reflect the cumulative impact of implementing these standards.

**Note 14: Subsequent Events**

Events subsequent to June 30, 2016 have been evaluated through September 9, 2016, which is the date the financial statements were available to be issued. The Corporation did not identify any subsequent events that require disclosure.

**Required Supplementary Information**

**Cal Poly Corporation**  
**Schedule of Funding Progress for OPEB Obligation**  
**June 30, 2016**

| <b>Actuarial<br/>Valuation Date</b> | <b>Actuarial<br/>Value<br/>of Assets</b> | <b>Actuarial<br/>Accrued<br/>Liability (AAL)</b> | <b>Unfunded<br/>AAL (UAAL)</b> | <b>Funded<br/>Ratio</b> | <b>Covered<br/>Payroll</b> | <b>UAAL as a %<br/>of Covered<br/>Payroll</b> |
|-------------------------------------|--|--|--------------------------------|-------------------------|----------------------------|---|
| 7/1/2016                            | \$ 23,572,470                            | \$ 29,204,311                                    | \$ 5,631,841                   | 80.72%                  | \$ 11,961,254              | 47.08%  |
| 7/1/2015                            | \$ 22,446,396                            | \$ 27,758,246                                    | \$ 5,311,850                   | 80.86%                  | \$ 11,444,107              | 46.42%  |
| 7/1/2013                            | \$ 1,281,802                             | \$ 21,362,644                                    | \$ 20,080,842                  | 6.00%                   | \$ 10,543,666              | 190.45%                                       |

**Cal Poly Corporation**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**Last 10 Fiscal Years\***

|   | <u>2016</u>          | <u>2015</u>          |
|---|----------------------|----------------------|
| <b>Total pension liability</b>  |                      |                      |
| Service cost  | \$ 1,403,277         | \$ 1,402,348         |
| Interest on total pension liability   | 4,920,633            | 4,760,420            |
| Differences between expected and actual experience                            | (888,401)            |                      |
| Changes in assumptions  | (1,192,843)          |                      |
| Changes in benefits   |                      |                      |
| Benefit payments, including refunds of employee contributions                 | <u>(3,316,952)</u>   | <u>(3,147,576)</u>   |
| <b>Net change in total pension liability</b>                                  | 925,714              | 3,015,192            |
| <b>Total pension liability - beginning</b>                                    | <u>67,360,075</u>    | <u>64,344,883</u>    |
| <b>Total pension liability - ending (a)</b>                                   | <u>\$ 68,285,789</u> | <u>\$ 67,360,075</u> |
| <br>  |                      |                      |
| <b>Plan fiduciary net position</b>  |                      |                      |
| Contributions - employer  | \$ 1,438,515         | \$ 1,281,507         |
| Contributions - employee  | 561,411              | 461,197              |
| Net investment income   | 1,227,805            | 8,470,353            |
| Benefit payments  | (3,316,952)          | (3,147,576)          |
| Administrative expense  | <u>(63,120)</u>      |                      |
| <b>Net change in plan fiduciary net position</b>                              | (152,341)            | 7,065,481            |
| <b>Plan fiduciary net position - beginning</b>                                | <u>56,239,094</u>    | <u>49,173,613</u>    |
| <b>Plan fiduciary net position - ending (b)</b>                               | <u>\$ 56,086,753</u> | <u>\$ 56,239,094</u> |
| <br>  |                      |                      |
| <b>Net pension liability - ending (a)-(b)</b>                                 | <u>\$ 12,199,036</u> | <u>\$ 11,120,981</u> |
| <br>  |                      |                      |
| Plan fiduciary net position as a percentage of<br>the total pension liability | 82.14%               | 83.49%               |
| <br>  |                      |                      |
| Covered employee payroll  | 10,733,343           | 10,427,158           |
| <br>  |                      |                      |
| Net pension liability as a percentage of covered employee payroll             | 113.66%              | 106.65%              |

\* Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

**Notes to Schedule:**

**Benefit Changes:** The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

**Changes of Assumptions:** The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent.

**Cal Poly Corporation  
Schedule of Contributions  
Last 10 Fiscal Years\***

|   | <b>2016</b>  | <b>2015</b>  |
|---|--------------|--------------|
| Actuarially determined contribution                                   | \$ 1,438,515 | \$ 1,281,507 |
| Contributions in relation to the actuarially determined contributions | 1,438,515    | 1,281,507    |
| Contribution deficiency (excess)                                      | \$ -         | \$ -         |
| Covered employee payroll  | 10,733,343   | 10,427,158   |
| Net pension liability as a percentage of covered-employee payroll     | 13.40%       | 12.29%       |

\* Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

**Notes to Schedule:**

|                            |  |
|----------------------------|--|
| Actuarial Cost Method      | Entry Age Normal   |
| Amortization Method/Period | For details, see June 30, 2012 Funding Valuation Report  |
| Asset Valuation Method     | Actuarial Value of Assets. For details, see June 30, 2012 Funding Valuation Report   |
| Inflation                  | 2.75%  |
| Salary Increases           | Varies by entry age and service  |
| Payroll Growth             | 3.00%  |
| Investment Rate of Return  | 7.50% Net of Pension Plan Investment and Administration Expenses; includes inflation   |
| Retirement Age             | The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007  |
| Mortality                  | The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 year of projected mortality improvement using Scale AA published by the Society of Actuaries. |

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

**Cal Poly Corporation**  
Schedule of Net Position  
June 30, 2016  
(for inclusion in the California State University)

|  |                       |
|--|-----------------------|
| Assets:  |                       |
| Current assets:  |                       |
| Cash and cash equivalents  | \$ 22,005,340         |
| Short-term investments   | 65,704,584            |
| Accounts receivable, net   | 7,130,588             |
| Leases receivable, current portion   | -                     |
| Notes receivable, current portion  | -                     |
| Pledges receivable, net  | 1,736,428             |
| Prepaid expenses and other current assets  | 4,652,333             |
| Total current assets   | <u>101,229,273</u>    |
| Noncurrent assets:   |                       |
| Restricted cash and cash equivalents   | 48,477                |
| Accounts receivable, net   | 20,356                |
| Leases receivable, net of current portion  | -                     |
| Notes receivable, net of current portion   | -                     |
| Student loans receivable, net  | -                     |
| Pledges receivable, net  | 7,531,220             |
| Endowment investments  | 1,898,609             |
| Other long-term investments  | 5,186,729             |
| Capital assets, net  | 35,695,343            |
| Other assets   | 638,000               |
| Total noncurrent assets  | <u>51,018,734</u>     |
| Total assets   | <u>152,248,007</u>    |
| Deferred outflows of resources:  |                       |
| Unamortized loss on debt refunding   | 290,570               |
| Related to net pension liability   | 3,982,497             |
| Others   | -                     |
| Total deferred outflows of resources   | <u>4,273,067</u>      |
| Liabilities:   |                       |
| Current liabilities:   |                       |
| Accounts payable   | 2,642,272             |
| Accrued salaries and benefits  | 770,736               |
| Accrued compensated absences, current portion                                    | 780,364               |
| Unearned revenue   | 5,852,176             |
| Capitalized lease obligations, current portion                                   | -                     |
| Long-term debt obligations, current portion                                      | 75,000                |
| Claims liability for losses and loss adjustment expenses, current portion        | 15,000                |
| Depository accounts  | -                     |
| Other liabilities  | 1,151,156             |
| Total current liabilities  | <u>11,286,704</u>     |
| Noncurrent liabilities:  |                       |
| Accrued compensated absences, net of current portion                             | -                     |
| Unearned revenue   | -                     |
| Grants refundable  | 7,620,834             |
| Capitalized lease obligations, net of current portion                            | -                     |
| Long-term debt obligations, net of current portion                               | 2,705,719             |
| Claims liability for losses and loss adjustment expenses, net of current portion | -                     |
| Depository accounts  | 3,506,267             |
| Other postemployment benefits obligations  | 4,480,685             |
| Net pension liability  | 12,199,036            |
| Other liabilities  | 1,290,990             |
| Total noncurrent liabilities   | <u>31,803,531</u>     |
| Total liabilities  | <u>43,090,235</u>     |
| Deferred inflows of resources:   |                       |
| Service concession arrangements  | -                     |
| Net pension liability  | 4,118,148             |
| Unamortized gain on debt refunding   | -                     |
| Nonexchange transactions   | -                     |
| Others   | -                     |
| Total deferred inflows of resources  | <u>4,118,148</u>      |
| Net Position:  |                       |
| Net investment in capital assets   | 33,205,194            |
| Restricted for:  |                       |
| Nonexpendable – endowments   | -                     |
| Expendable:  |                       |
| Scholarships and fellowships   | -                     |
| Research   | 272,206               |
| Loans  | -                     |
| Capital projects   | 4,822,146             |
| Debt service   | -                     |
| Others   | 8,197,333             |
| Unrestricted   | 62,815,812            |
| Total net position   | <u>\$ 109,312,691</u> |

See accompanying independent auditors' report.

**Cal Poly Corporation**  
Schedule of Revenues, Expenses, and Changes in Net Position  
Year Ended June 30, 2016  
(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  | 15,097,189            |    |
| State  | 4,034,258             |    |
| Local  | 556,446               |    |
| Nongovernmental  | 5,177,124             |    |
| Sales and services of educational activities                                       | -                     |    |
| Sales and services of auxiliary enterprises (net of scholarship allowances of \$0) | 47,915,827            |    |
| Other operating revenues   | 12,069,898            |    |
| Total operating revenues   | <u>84,850,742</u>     |    |
| Expenses:  |                       |    |
| Operating expenses:  |                       |    |
| Instruction  | 727,500               |    |
| Research   | 18,196,081            |    |
| Public service   | 14,701,339            |    |
| Academic support   | 1,440,588             |    |
| Student services   | 757,403               |    |
| Institutional support  | 7,303,559             |    |
| Operation and maintenance of plant   | 1,300,067             |    |
| Student grants and scholarships  | 797,416               |    |
| Auxiliary enterprise expenses  | 41,396,806            |    |
| Depreciation and amortization  | 1,870,754             |    |
| Total operating expenses   | <u>88,491,513</u>     |    |
| Operating loss   | <u>(3,640,771)</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  | 4,648,095             |    |
| Investment loss, net   | (69,158)              |    |
| Endowment income (loss), net   | -                     |    |
| Interest expense   | (129,677)             |    |
| Other nonoperating revenues (expenses)   | 358,808               |    |
| Net nonoperating revenues (expenses)   | <u>4,808,068</u>      |    |
| Income (loss) before other revenues (expenses)                                     | 1,167,297             |    |
| State appropriations, capital  |                       |    |
| Grants and gifts, capital  | 3,523,686             |    |
| Additions (reductions) to permanent endowments                                     | -                     |    |
| Increase in net position   | <u>4,690,983</u>      |    |
| Net position:  |                       |    |
| Net position at beginning of year, as previously reported                          | 104,621,708           |    |
| Restatements   | -                     |    |
| Net position at beginning of year, as restated                                     | <u>104,621,708</u>    |    |
| Net position at end of year  | <u>\$ 109,312,691</u> |    |

**Cal Poly Corporation**  
Other Information  
June 30, 2016  
(for inclusion in the California State University)

**1 Restricted cash and cash equivalents at June 30, 2016:**

|   |                  |
|---|------------------|
| Portion of restricted cash and cash equivalents related to endowments | \$ 13,752        |
| All other restricted cash and cash equivalents                        | <u>34,725</u>    |
| Total restricted cash and cash equivalents                            | <u>\$ 48,477</u> |

**2.1 Composition of investments at June 30, 2016:**

|   | Current<br>Unrestricted | Current Restricted | Total Current     | Noncurrent<br>Unrestricted | Noncurrent<br>Restricted | Total Noncurrent   | Total              |
|---|-------------------------|--------------------|-------------------|----------------------------|--------------------------|--------------------|--------------------|
| State of California Surplus Money Investment Fund (SMIF)  | \$ —                    | —                  | —                 | —                          | —                        | —                  | —                  |
| State of California Local Agency Investment Fund (LAIF)   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Corporate bonds   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Certificates of deposit                                   | —                       | —                  | —                 | 2,529,892                  | —                        | 2,529,892          | 2,529,892          |
| Mutual funds  | 64,662,242              | —                  | 64,662,242        | —                          | 3,083,591                | 3,083,591          | 67,745,833         |
| Money Market funds  | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Repurchase agreements                                     | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Commercial paper  | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Asset backed securities                                   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Mortgage backed securities                                | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Municipal bonds   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| U.S. agency securities                                    | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| U.S. treasury securities                                  | —                       | —                  | —                 | —                          | 463,930                  | 463,930            | 463,930            |
| Equity securities   | 548,200                 | —                  | 548,200           | —                          | —                        | —                  | 548,200            |
| Exchange traded funds (ETFs)                              | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Alternative investments:                                  |                         |                    |                   |                            |                          |                    |                    |
| Private equity (including limited partnerships)           | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Hedge funds   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Managed futures   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Real estate investments (including REITs)                 | —                       | —                  | —                 | —                          | 980,000                  | 980,000            | 980,000            |
| Commodities   | 400,091                 | —                  | 400,091           | —                          | 22,393                   | 22,393             | 422,484            |
| Derivatives   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Other alternative investment types                        | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Other external investment pools (excluding SWIFT)         |                         |                    |                   |                            |                          |                    |                    |
| Add description   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Add description   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Add description   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Add description   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Add description   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Add description   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Other major investments:                                  |                         |                    |                   |                            |                          |                    |                    |
| Cash and interest receivable pending long-term investment | 94,051                  | —                  | 94,051            | —                          | 1,309                    | 1,309              | 95,360             |
| Agriculture related retains                               | —                       | —                  | —                 | 4,223                      | —                        | 4,223              | 4,223              |
| Add description   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Add description   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Add description   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Add description   | —                       | —                  | —                 | —                          | —                        | —                  | —                  |
| Total investments   | <u>65,704,584</u>       | <u>—</u>           | <u>65,704,584</u> | <u>2,534,115</u>           | <u>4,551,223</u>         | <u>7,085,338</u>   | <u>72,789,922</u>  |
| Less endowment investments (enter as negative number)     |                         |                    |                   |                            | <u>(1,898,609)</u>       | <u>(1,898,609)</u> | <u>(1,898,609)</u> |
| Total investments   | <u>65,704,584</u>       | <u>—</u>           | <u>65,704,584</u> | <u>2,534,115</u>           | <u>2,652,614</u>         | <u>5,186,729</u>   | <u>70,891,313</u>  |

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

|   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|
| Portion of investments in note 2.1 held by the University under contractual agreements at June 30, 2016 : | — | — | — | — | — | — | — |
|---|---|---|---|---|---|---|---|

**2.3 Restricted current investments at June 30, 2016 related to:**

|  |               |
|--|---------------|
|  | <u>Amount</u> |
| Add description  | \$ —          |
| Add description  | —             |
| Add description  | —             |
| Add description  | —             |
| Add description  | —             |
| Add description  | —             |
| Add description  | —             |
| Add description  | —             |
| <b>Total restricted current investments at June 30, 2016</b> | <u>\$ —</u>   |

**2.4 Restricted noncurrent investments at June 30, 2016 related to:**

|   |                     |
|---|---------------------|
|   | <u>Amount</u>       |
| Endowment investment  | \$ 1,898,609        |
| Grant and Annuity Society                                       | 1,672,614           |
| Al Smith / Valencia Creek Property                              | 900,000             |
| Ragged Point Property   | 80,000              |
| Add description   | —                   |
| <b>Total restricted noncurrent investments at June 30, 2016</b> | <u>\$ 4,551,223</u> |

**Cal Poly Corporation**  
Other Information  
June 30, 2016  
(for inclusion in the California State University)

**2.5 Fair value hierarchy in investments at June 30, 2016:**

|   | Total             | Fair Value Measurements Using                                  |   |   | Net Asset Value (NAV) |
|---|-------------------|--|---|---|-----------------------|
|   |                   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |                       |
| State of California Surplus Money Investment Fund (SMIF)  | \$ —              | —  | —   | —   | —                     |
| State of California Local Agency Investment Fund (LAIF)   | —                 | —  | —   | —   | —                     |
| Corporate bonds   | —                 | —  | —   | —   | —                     |
| Certificates of deposit                                   | 2,529,892         | 2,529,892  | —   | —   | —                     |
| Mutual funds  | 67,745,833        | 67,745,833   | —   | —   | —                     |
| Money Market funds  | —                 | —  | —   | —   | —                     |
| Repurchase agreements                                     | —                 | —  | —   | —   | —                     |
| Commercial paper  | —                 | —  | —   | —   | —                     |
| Asset backed securities                                   | —                 | —  | —   | —   | —                     |
| Mortgage backed securities                                | —                 | —  | —   | —   | —                     |
| Municipal bonds   | —                 | —  | —   | —   | —                     |
| U.S. agency securities                                    | 366,125           | —  | 366,125                                       | —   | —                     |
| U.S. treasury securities                                  | 97,805            | 97,805   | —   | —   | —                     |
| Equity securities   | 548,200           | 548,200  | —   | —   | —                     |
| Exchange traded funds (ETFs)                              | —                 | —  | —   | —   | —                     |
| Alternative investments:                                  |                   |  |   |   |                       |
| Private equity (including limited partnerships)           | —                 | —  | —   | —   | —                     |
| Hedge funds   | —                 | —  | —   | —   | —                     |
| Managed futures   | —                 | —  | —   | —   | —                     |
| Real estate investments (including REITs)                 | 980,000           | —  | —   | 980,000                                   | —                     |
| Commodities   | 422,484           | 422,484  | —   | —   | —                     |
| Derivatives   | —                 | —  | —   | —   | —                     |
| Other alternative investment types                        | —                 | —  | —   | —   | —                     |
| Other external investment pools (excluding SWIFT)         |                   |  |   |   |                       |
| Add description   | —                 | —  | —   | —   | —                     |
| Add description   | —                 | —  | —   | —   | —                     |
| Add description   | —                 | —  | —   | —   | —                     |
| Add description   | —                 | —  | —   | —   | —                     |
| Add description   | —                 | —  | —   | —   | —                     |
| Add description   | —                 | —  | —   | —   | —                     |
| Other major investments:                                  |                   |  |   |   |                       |
| Cash and interest receivable pending long-term investment | 95,360            | 95,360   | —   | —   | —                     |
| Agriculture related retains                               | 4,223             | —  | —   | 4,223                                     | —                     |
| Add description   | —                 | —  | —   | —   | —                     |
| Add description   | —                 | —  | —   | —   | —                     |
| Add description   | —                 | —  | —   | —   | —                     |
| Add description   | —                 | —  | —   | —   | —                     |
| <b>Total investments</b>                                  | <b>72,789,922</b> | <b>71,439,574</b>  | <b>366,125</b>                                | <b>984,223</b>                            | <b>—</b>              |



**Cal Poly Corporation**  
Other Information  
June 30, 2016  
(for inclusion in the California State University)

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

|   |              |
|---|--------------|
| Depreciation and amortization expense related to capital assets | \$ 1,870,754 |
| Amortization expense related to other assets                    | —            |
| Total depreciation and amortization                             | \$ 1,870,754 |

**4 Long-term liabilities activity schedule:**

|   | Balance<br>June 30, 2015 | Prior period<br>adjustments | Reclassifications | Balance<br>June 30, 2015<br>(restated) | Additions | Reductions  | Balance<br>June 30, 2016 | Current<br>portion | Long-term<br>portion |
|---|--------------------------|-----------------------------|-------------------|--|-----------|-------------|--------------------------|--------------------|----------------------|
| Accrued compensated absences                                      | \$ 775,560               | —                           | —                 | 775,560                                | 807,523   | (802,719)   | 780,364                  | 780,364            | —                    |
| Claims liability for losses and loss adjustment expenses          | 15,000                   | —                           | —                 | 15,000                                 | —         | —           | 15,000                   | 15,000             | —                    |
| Capitalized lease obligations:                                    |                          |                             |                   |  |           |             |                          |                    |                      |
| Gross balance   | —                        | —                           | —                 | —                                      | —         | —           | —                        | —                  | —                    |
| Unamortized premium / (discount) on capitalized lease obligations | —                        | —                           | —                 | —                                      | —         | —           | —                        | —                  | —                    |
| Total capitalized lease obligations                               | —                        | —                           | —                 | —                                      | —         | —           | —                        | —                  | —                    |
| Long-term debt obligations:                                       |                          |                             |                   |  |           |             |                          |                    |                      |
| Auxiliary revenue bonds   | —                        | —                           | —                 | —                                      | —         | —           | —                        | —                  | —                    |
| Commercial paper  | —                        | —                           | —                 | —                                      | —         | —           | —                        | —                  | —                    |
| Notes payable related to SRB                                      | 2,560,000                | —                           | —                 | 2,560,000                              | 2,115,000 | (2,330,000) | 2,345,000                | 75,000             | 2,270,000            |
| Others: (list by type)  |                          |                             |                   |  |           |             |                          |                    |                      |
| Add description   | —                        | —                           | —                 | —                                      | —         | —           | —                        | —                  | —                    |
| Add description   | —                        | —                           | —                 | —                                      | —         | —           | —                        | —                  | —                    |
| Add description   | —                        | —                           | —                 | —                                      | —         | —           | —                        | —                  | —                    |
| Add description   | —                        | —                           | —                 | —                                      | —         | —           | —                        | —                  | —                    |
| Add description   | —                        | —                           | —                 | —                                      | —         | —           | —                        | —                  | —                    |
| Add description   | —                        | —                           | —                 | —                                      | —         | —           | —                        | —                  | —                    |
| Total long-term debt obligations                                  | 2,560,000                | —                           | —                 | 2,560,000                              | 2,115,000 | (2,330,000) | 2,345,000                | 75,000             | 2,270,000            |
| Unamortized bond premium / (discount)                             | —                        | —                           | —                 | —                                      | 442,847   | (7,128)     | 435,719                  | —                  | 435,719              |
| Total long-term debt obligations, net                             | 2,560,000                | —                           | —                 | 2,560,000                              | 2,557,847 | (2,337,128) | 2,780,719                | 75,000             | 2,705,719            |
| Total long-term liabilities                                       | \$ 3,350,560             | —                           | —                 | 3,350,560                              | 3,365,370 | (3,139,847) | 3,576,083                | 870,364            | 2,705,719            |

**5 Future minimum lease payments - capitalized lease obligations:**

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

Cal Poly Corporation  
Other Information  
June 30, 2016  
(for inclusion in the California State University)

6 Long-term debt obligation schedule

|   | Auxiliary revenue bonds |               |                        | All other long-term debt obligations |               |                        | Total long-term debt obligations |               |                        |
|---|-------------------------|---------------|------------------------|--------------------------------------|---------------|------------------------|----------------------------------|---------------|------------------------|
|   | Principal Only          | Interest Only | Principal and Interest | Principal Only                       | Interest Only | Principal and Interest | Principal Only                   | Interest Only | Principal and Interest |
| Year ending June 30:                                      |                         |               |                        |                                      |               |                        |                                  |               |                        |
| 2017  | \$ —                    | —             | —                      | 75,000                               | 114,447       | 189,447                | 75,000                           | 114,447       | 189,447                |
| 2018  | —                       | —             | —                      | 80,000                               | 107,825       | 187,825                | 80,000                           | 107,825       | 187,825                |
| 2019  | —                       | —             | —                      | 85,000                               | 103,950       | 188,950                | 85,000                           | 103,950       | 188,950                |
| 2020  | —                       | —             | —                      | 80,000                               | 99,850        | 179,850                | 80,000                           | 99,850        | 179,850                |
| 2021  | —                       | —             | —                      | 85,000                               | 95,725        | 180,725                | 85,000                           | 95,725        | 180,725                |
| 2022 - 2026   | —                       | —             | —                      | 500,000                              | 408,000       | 908,000                | 500,000                          | 408,000       | 908,000                |
| 2027 - 2031   | —                       | —             | —                      | 640,000                              | 266,000       | 906,000                | 640,000                          | 266,000       | 906,000                |
| 2032 - 2036   | —                       | —             | —                      | 800,000                              | 89,400        | 889,400                | 800,000                          | 89,400        | 889,400                |
| 2037 - 2041   | —                       | —             | —                      | —                                    | —             | —                      | —                                | —             | —                      |
| 2042 - 2046   | —                       | —             | —                      | —                                    | —             | —                      | —                                | —             | —                      |
| 2047 - 2051   | —                       | —             | —                      | —                                    | —             | —                      | —                                | —             | —                      |
| 2052 - 2056   | —                       | —             | —                      | —                                    | —             | —                      | —                                | —             | —                      |
| 2057 - 2061   | —                       | —             | —                      | —                                    | —             | —                      | —                                | —             | —                      |
| 2062 - 2066   | —                       | —             | —                      | —                                    | —             | —                      | —                                | —             | —                      |
| Total minimum payments                                    | —                       | —             | —                      | 2,345,000                            | 1,285,197     | 3,630,197              | 2,345,000                        | 1,285,197     | 3,630,197              |
| Less amounts representing interest                        |                         |               |                        |                                      |               |                        |                                  |               | (1,285,197)            |
| Present value of future minimum payments                  |                         |               |                        |                                      |               |                        |                                  |               | 2,345,000              |
| Unamortized net premium (discount)                        |                         |               |                        |                                      |               |                        |                                  |               | 435,719                |
| Total long-term debt obligations                          |                         |               |                        |                                      |               |                        |                                  |               | 2,780,719              |
| Less: current portion                                     |                         |               |                        |                                      |               |                        |                                  |               | (75,000)               |
| <b>Long-term debt obligations, net of current portion</b> |                         |               |                        |                                      |               |                        |                                  |               | <b>\$ 2,705,719</b>    |

7 Calculation of net position

7.1 Calculation of net position - net investment in capital assets

|   |                      |
|---|----------------------|
| Capital assets, net of accumulated depreciation         | \$ 35,695,343        |
| Capitalized lease obligations, current portion          | —                    |
| Capitalized lease obligations, net of current portion   | —                    |
| Long-term debt obligations, current portion             | (75,000)             |
| Long-term debt obligations, net of current portion      | (2,705,719)          |
| Portion of outstanding debt that is unspent at year-end | —                    |
| Other adjustments: (please list)                        |                      |
| Unamortized loss on refunding                           | 290,570              |
| Add description   | —                    |
| Net position - net investment in capital asset          | <u>\$ 33,205,194</u> |

7.2 Calculation of net position - restricted for nonexpendable - endowments

|   |             |
|---|-------------|
| Portion of restricted cash and cash equivalents related to endowments | \$ 13,752   |
| Endowment investments   | 1,898,609   |
| Other adjustments: (please list)                                      |             |
| Endowment accounts receivable   | 89,136      |
| Endowment funds held for others                                       | (1,988,142) |
| Endowment accounts payable  | (13,355)    |
| Add description   | —           |
| Net position - Restricted for nonexpendable - endowments per SNP      | <u>\$ —</u> |



**Cal Poly Corporation**  
 Other Information  
 June 30, 2016  
 (for inclusion in the California State University)

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

|  | <b>Net Position<br/>Class</b> | <b>Amount<br/>Dr. (Cr.)</b> |
|--|-------------------------------|-----------------------------|
| Net position as of June 30, 2015, as previously reported | \$                            | 104,621,708                 |
| 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, 2015, as restated            | \$                            | 104,621,708                 |

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

|   | <b>Debit</b> | <b>Credit</b> |
|---|--------------|---------------|
| 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) | —            | —             |

## **Other Supplementary Information**

**Cal Poly Corporation**  
**Statements of Financial Position of the California State**  
**University – San Luis Obispo Alumni Association**  
**June 30, 2016 and 2015**

|                                       | <b>2016</b> | <b>2015</b> |
|---------------------------------------|-------------|-------------|
| <b>Assets</b>                         |             |             |
| <b>Current assets:</b>                |             |             |
| Cash and cash equivalents             | \$ 124,703  | \$ 124,448  |
| Certificates of deposit               | 34,483      | 34,468      |
| Accounts receivable                   | 19,525      | 15,398      |
| Inventories                           | 1,258       | 1,258       |
| Prepaid expenses and other assets     | 2,177       | 4,496       |
| Total current assets                  | 182,146     | 180,068     |
| <br><b>Other assets:</b>              |             |             |
| Investments                           | 366,098     | 408,881     |
| Total assets                          | \$ 548,244  | \$ 588,949  |
| <br><b>Liabilities and Net Assets</b> |             |             |
| <b>Current liabilities:</b>           |             |             |
| Accounts payable                      | \$ 352      | \$ 1,726    |
| Total current liabilities             | 352         | 1,726       |
| <br><b>Net assets:</b>                |             |             |
| Unrestricted:                         |             |             |
| Undesignated                          | 547,892     | 587,223     |
| Total unrestricted net assets         | 547,892     | 587,223     |
| Total liabilities and net assets      | \$ 548,244  | \$ 588,949  |

*See accompanying independent auditor's report.*

**Cal Poly Corporation**  
**Statements of Activities of the California State**  
**University – San Luis Obispo Alumni Association**  
**Years Ended June 30, 2016 and 2015**

|  | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|
| <b>Unrestricted revenue and support:</b>               |             |             |
| Donations and grants                                   | \$ 12,556   | \$ 24,450   |
| Travel and promotion                                   | 31,753      | 61,532      |
| Homecoming   | 32,120      | 26,054      |
| Investment loss  | (7,101)     | (6,945)     |
| External activities                                    | 27,351      | 24,282      |
| Total unrestricted revenue and support                 | 96,679      | 129,373     |
| <br><b>Expenses:</b>                                   |             |             |
| Program services:                                      |             |             |
| Salaries and wages                                     | 2,974       | 13,549      |
| Cost of goods sold                                     | 115         | 4,142       |
| Postage  | 5,854       | 1,889       |
| Tax preparation  | 2,190       | 1,750       |
| Travel   | 1,010       | 4,821       |
| Office expense   | 31,213      | 41,123      |
| Accounting services                                    | 9,190       | 8,080       |
| Hosting special events                                 | 61,788      | 47,610      |
| External activities                                    | 20,344      | 11,813      |
| Other  | 1,332       | 3,820       |
| Total expenses   | 136,010     | 138,597     |
| <br>Decrease in unrestricted net assets                | (39,331)    | (9,224)     |
| <br><b>Unrestricted net assets - beginning of year</b> | 587,223     | 596,447     |
| <br><b>Unrestricted net assets - end of year</b>       | \$ 547,892  | \$ 587,223  |

*See accompanying independent auditor's report.*