Cal Poly Corporation VEBA Trust

Financial Statements

Inception to June 30, 2014

Cal Poly Corporation VEBA Trust

Financial Statements

June 30, 2014

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GLENN BURDETTE
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Cal Poly Corporation Benefits Committee
San Luis Obispo, California

Report on the Financial Statements
We have audited the financial statements of the Cal Poly Corporation VEBA Trust, as of June 30, 2014 and for the period March 3, 2014 to June 30, 2014, and the related notes to the financial statements, which collectively comprise the Cal Poly Corporation VEBA Trust's basic financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cal Poly Corporation VEBA Trust as of June 30, 2014, and the change in financial position for the period then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the Cal Poly Corporation VEBA Trust and do not purport to, and do not, present fairly the financial position of Cal Poly Corporation as of June 30, 2014, and the change in its financial position for the period then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules of funding progress and contributions as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the 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 response to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Glenn Burdette Attest Corporation

Glenn Burdette Attest Corporation
San Luis Obispo, California

October 13, 2014

Cal Poly Corporation VEBA Trust
Management's Discussion and Analysis
June 30, 2014

The Cal Poly Corporation VEBA Trust (Trust) is a single employer voluntary beneficiary association (VEBA). It is administered by the Cal Poly Corporation Benefits Committee (Trust Administrator) and is bound to provide medical healthcare benefits for qualified employees. It was formed on March 3, 2014 when the trust agreement was accepted and signed by the Cal Poly Corporation (Corporation) and U.S. Bank National Association (USB). The trust was established pursuant to Section 501(c)(9) of the Internal Revenue Code which allows for the formation of such a plan. An application to the Internal Revenue Service for a determination of the trust as a 501(c)(9)plan is in process at June 30, 2014.

This section of the Trust's annual financial report presents a discussion and analysis of the financial performance of the Trust during inception to June 30, 2014, the first period of the Trust's existence. This discussion has been prepared by Trust Administrator management and should be read in conjunction with and is qualified in its entirety by the accompanying audited financial statements and notes.

Introduction to the Financial Statements

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board ("GASB"). The financial statements include the Statements of Plan Net Position and the Statements of Changes in Plan Net Position. These statements provide information about the Trust's financial position as a whole and the result of this year's activities on that position. These statements are prepared using the accrual basis of accounting, which recognizes expenses when incurred and revenue when earned rather than when payment is made or received. They are supported by the notes to the financial statements and this section. All sections must be considered together to obtain a complete understanding of the financial picture of the Trust.

<u>Statements of Net Position</u>: The Statement of Plan Net Position includes all assets, liabilities, and net assets of the Trust reported at their book value, as of the statement date. Net position — the difference between assets and liabilities—is one way to measure the Trust's financial health, or financial position. Over time, increases or decreases in net position in conjunction with changes in projected retiree benefit liabilities can be an indicator as to whether the Trust's financial health is improving or declining.

<u>Statements of Revenues, Expenses, and Changes in Net Position</u>: The Statements of Changes in Plan Net Position present the revenues earned and expenses incurred during the period.

Cal Poly Corporation VEBA Trust
Management's Discussion and Analysis
June 30, 2014

Analytical Overview

<u>Summary</u>

The following discussion highlights management's understanding of the key financial aspects of the Trust's financial activities for the period March 3, 2014 to June 30, 2014. The following schedules and accompanying audited financial statements as of June 30, 2014 and for the period March 3, 2014 to June 30, 2014 are reported in accordance with standards and requirements of the GASB.

Statement of Net Position

Assets	
Restricted cash and cash equivalents	$ 208,868
Investments	
Equity	8,074,855
Fixed Income	6,265,236
Commodities	433,830
All Asset All Authority	2,543,854
	17,317,775
Total assets	17,526,643
Liabilities	
Accounts payable	26,467
Net position restricted for other postemployment benefits	$ 17,500,176

<u>Net Position</u>

The VEBA Trust's net position of $17.5 million was driven primarily by the transfer of mutual funds and cash from the Corporation's Other Post-Employment Benefits (OPEB) Investment Pool. Total mutual funds and cash transferred in from the Corporation was $17.2 million. Investment return, less benefits expense account for $300,000 of the net position. The Trust Administrator believes net assets held in trust are equal to 100.0% of the estimated expense for future retiree medical benefits for current retirees and active vested employees (based on the most recent actuarial study, valuation date July 1, 2013).

<u>Assets</u>

Assets consist of one money market fund and various mutual funds. The money market is being funded by the employer as OPEB Investment Fund Certificate of Deposits (CD) mature. Benefit payments are made out of the Trust money market account. By funding the money market with matured CD assets, it is estimated that the Trust can pay benefits through spring 2015 without the need to sell long-term investment assets. 15% of the mutual funds are allocated to a tactical strategy and the remainder is invested 57% in equities and 43% in fixed income.

Liabilities

Liabilities, or amounts owed or due within one year, consist of accrued operating expense and investment management fees. Expenses accrued were for audit, tax and trustee fees.

Results of Operations

Statement of Changes in Plan Net Position
Inception to June 30, 2014

Additions:	
Contributions:	
Employer contributions	$ 17,236,982
Total contributions	17,236,982
Investment income:	
Investment earnings and dividends, net of fees	86,329
Net appreciation in fair value of mutual fund investments	506,168
Total additions	17,829,479
Deductions:	
Benefit payments	314,636
Administration expenses	14,667
Total deductions	329,303
Change in net position	17,500,176
Net position - beginning of period	-
Net position - end of period	$ 17,500,176

Additions consist of employer contribution and investment return. Employer contributions consist of $17.2 million of contributions from the Corporation and $592.5 thousand net investment return. The net investment income is the result of approximately three months of participation in the markets. $506.2 thousand of the return was market value gain. The remainder was primarily dividends less an amount accrued for the payment of investment management fees.

Deductions totaled $329.3 thousand of which $314.6 thousand was paid to the Corporation to reimburse them for benefit expense (retiree insurance cost). This amount covered the premium for 29 days of March and the entire months of April, May and June. Administration expenses accounted for $14.7 thousand of the total operating expense. Most of this ($13.0 thousand) is the estimated cost of tax and audit. The remainder is trustee fees prorated based on the trustee's minimum fee of $5.0 thousand per year.

Currently Known Facts Impacting Future Periods

The Trust Administrator believes the Trust holds assets sufficient to meet the calculated future liability for retiree healthcare benefits for retiree and active vested employees. Assets sufficient to meet the calculated future liability for active non-vested employees are held by the Corporation in its Other Post-Employment Benefits (OPEB) investment pool. The Corporation continues to charge departments for their participation in the healthcare benefits program. Departmental funding in conjunction with net investment return is expected to be such that the OPEB Investment Pool can continue to fund the Trust to the point it remains fully funded for retirees and vested employees. At the same time, it is expected that the OPEB investment pool assets will continue to support 100% of the liability associated with active non-vested employees.

Cal Poly Corporation VEBA Trust

Statement of Plan Net Position

June 30, 2014

Assets		
Restricted cash and cash equivalents	$	208,868
Investments		
Equity		8,074,855
Fixed Income		6,265,236
Commodities		433,830
All Asset All Authority		2,543,854
		17,317,775
Total assets		17,526,643
Liabilities		
Accounts payable		26,467
Net position restricted for other postemployment benefits	$	17,500,176

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Cal Poly Corporation VEBA Trust
Statement of Changes in Plan Net Position
Inception to June 30, 2014

Additions:	
Contributions:	
Employer contributions	$ 17,236,982
Total contributions	17,236,982
Investment income:	
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See independent auditors' report.
The accompanying notes are an integral part of this financial statement.

Cal Poly Corporation VEBA Trust

Notes to Financial Statements

June 30, 2014

Note 1: Plan Description and Contribution Information

The following brief description of the Cal Poly Corporation VEBA Trust (Trust) is provided for general information purposes only. The authority for the establishment and amendment of the Trust, benefits, vesting, and contributions are established by the Trust agreement and the Cal Poly Corporation Retiree Benefits Plan. Participants should refer to those documents for more complete information.

General

The Trust was established effective March 3, 2014 by Cal Poly Corporation (Corporation). It is a single-employer welfare benefit trust providing health care benefits to qualified retirees. U.S. Bank National Association (USBNA) serves as trustee.

An application is being made to the IRS for determination of the Trust as a 501(c)(9) organization and these financial reports and notes are presented on the assumption that the determination will be made. The financial statements and notes represent information on the Trust only. The statements presented herein do not constitute the basic financial statements of Cal Poly Corporation which are issued separately.

The 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. An actuary is engaged every two years to calculate liability. The last actuarial report was as of July 1, 2013. The Corporation continues to hold assets sufficient to cover future benefits associated with active, non-vested employees in its board designated OPEB investment pool.

The Trust is administered by the Cal Poly Corporation Benefits Committee (Trust Administrator) as defined by the Cal Poly Corporation Retiree Welfare Benefits Plan. Members of the Committee are approved by the Corporation Executive Director and Chair of the Board.

Benefits

Eligibility for benefits is limited to benefited Corporation employees and is primarily determined by a combination of age and years of service. Eligibility requirements vary by hiring date. Once vested, an employee can expect that, as a retiree, the employer contribution towards medical coverage premiums will be the same as provided for active employees. Plan members are not required to contribute to the plan. The Corporation is a member of California Public Employees Retirement System for purposes of retirement, medical coverage and other benefits. It complies with applicable law including the California Public Employees' Retirement Law and the California Public Employees' Medical and Hospital Care Act.

Note 1: Plan Description and Contribution Information (Continued)

At June 30, 2014, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	122
Active vested and non-vested employees	218
Total membership	340

Trust Termination

The Trust Administrator has the right to modify the benefits provided or to terminate the Trust subject to the provisions set forth in the Trust Agreement and Retiree Welfare Benefits Plan.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The Trust is maintained using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Employer contributions are recognized in the period in which the contributions are earned. Benefits and expenses are recognized when due and payable in accordance with the terms of the plan.

Fair Value and Income Recognition

Investments are reported at fair value which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; and (c) cash deposits are reported at carrying amounts which reasonably approximates fair value.

Administration

Administration costs are financed through the Trust’s investment earnings and employer contributions.

Note 2: Summary of Significant Accounting Policies (Continued)

Risks and Uncertainties

The plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect Trust balances and the amounts reported in the statement of net assets available for benefits.

Income Tax Status

The Trust is considered to be exempt from income tax under Section 501(c)9 of the Internal Revenue Code. A consultant has been engaged and an application to the Internal Revenue Service is being drafted as of June 30, 2014.

Subsequent Events

Events subsequent to June 30, 2014 have been evaluated by the Trust administrator through September 12, 2014, the date financial statements were available to be issued. The Trust administrator did not identify any subsequent events that required disclosure.

Note 3: Cash and Cash Equivalents

At June 30, 2014, the Trust held $208,868 in a USBNA money market account. Money market assets fluctuate during the year. The first $250,000 of money market assets is insured via the Federal Deposit Insurance Corporation.

Note 4: Investments

Investment Policy

The Corporation's Board of Directors (Board) oversees the management of its investments and establishes investment policy. The Board has delegated, to the Trust Administrator, with the concurrence of its Investment Advisory Committee, the implementation of the Trust investment policy. 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 Trust. 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.

Note 4: Investments (Continued)

The Trust is managed consistent with the designation and use of the assets. Investments recommended by the Investment Advisory Committee include high quality, readily marketable securities. 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. Overall, the investments are 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.

The goal of the fixed income securities is to limit risk while outperforming what would otherwise be available in cash or money market products. 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 Bond and Citi 1-Month CD.

The commodities fund seeks to add real return, hedge against inflation and further diversify the portfolio. Performance is measured against the Dow Jones UBS Commodity. The Trust's commodities allocation is made via mutual funds traded daily on open markets.

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. The Trust's all asset all authority allocation is made via a mutual fund traded daily on open markets.

At June 30, 2014, investments comprised the following:

Mutual funds:		
Equity funds	$	8,074,835
Bond funds		6,265,236
Commodities		433,830
All asset all authority		2,543,854
Other investments:		
Cash and interest receivable pending		20
Total investments	$	17,317,775

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 Trust through mutual funds comprised $8,074,835, or 47%, of the total investments of the Trust at June 30, 2014. 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 Trust 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 Trust 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 Trust and its investment advisor monitor the investments and fund managers to determine if the portfolio is managed according to the stated guidelines.

Note 4: Investments (Continued)

At June 30, 2014, the credit ratings of the Trust fixed income securities held in investments and money market funds were as follows:

	Fair Value	Rating
Bond mutual funds:		
DFA Intermediate Government Bond	$ 1,440,808	AAA
Loomis Sayles Bond Fund - Institutional	993,854	A
PIMCO Total Return Fund - Institutional	2,148,573	A
PIMCO Foreign Bond Fund - Institutional	1,317,044	A
PIMCO High Yield Fund - Institutional	364,957	BB
Commodities:		
PIMCO Commodity Real Return - Institutional	433,830	AA
Tactical Strategy:		
PIMCO All Asset All Authority	2,543,854	AA
Money market funds:		
US Bank	208,868	Unrated
Total fixed income and debt securities subject to credit risk	$ 9,451,788	

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 Trust's investments are issued, registered or held in the name of the Trust by US Bank as its Trustee and agent.

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 Trust to greater risks resulting from adverse conditions or developments. The Trust's investment policy requires that no more than 5% of the total fund be invested in any one company or governmental agency.

Interest Rate Risk:
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Trust Administrator measures interest rate risk using the weighted average duration method.

Note 4: Investments (Continued)

At June 30, 2014, the weighted average duration of the Trust's fixed income securities and money market funds was as follows:

	Fair Value	Weighted Average Duration (in years)
Bond mutual funds:		
DFA Intermediate Government Bond	$ 1,440,808	5.1
Loomis Sayles Bond Fund - Institutional	993,854	4.4
PIMCO Total Return Fund - Institutional	2,148,573	5.7
PIMCO Foreign Bond Fund - Institutional	1,317,044	5.9
PIMCO High Yield Fund - Institutional	364,957	3.6
Commodities:		
PIMCO Commodity Real Return - Institutional	433,830	2.5
Tactical Strategy:		
PIMCO All Asset All Authority	2,543,854	3.5
Money market funds		
US Bank	208,868	0.0
Total fixed income and debt securities subject to interest rate risk	$ 9,451,788	

Foreign Currency Risk:

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

Note 4: Investments (Continued)

At June 30, 2014, the Trust's exposure to foreign currency risk was as follows:

	Total Fair Value
Euro	$ 794,294
British Pounds	655,847
Japanese Yen	442,818
Swiss Francs	301,229
Canadian Dollars	276,052
Mexican Peso	186,939
Hong Kong Dollars	177,874
Korean Won	167,358
Brazilian Reais	163,462
Australian Dollars	155,927
Taiwanese Dollars	142,022
Indian Rupee	138,350
Chinese Yuan	136,992
South African Rand	91,300
Swedish Krona	83,642
Russian Rubble	83,267
Malaysian Ringgit	78,568
Singapore Dollars	74,315
Polish Zloty	54,189
Other	327,727
Total investments subject to foreign currency risk	$ 4,532,172

Other currencies are individually less than $50,000 per country.

At June 30, 2014, the foreign currency risk by investment type was as follows:

Equity mutual funds	$ 3,245,715
Bond mutual funds	1,286,457
Total investments subject to foreign currency risk	$ 4,532,172

Alternative Investment Risks:
The Trust 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*. In some instances, both commodities and all asset all authority funds could be considered alternative investments. As both these allocations in the Trust are traded daily on open markets, they are not considered alternative investments as such for this note to the financial statements.

Note 5: Related-Party Transactions

The Corporation has historically held assets associated with the liability of retiree medical benefits in its Other Post-Employment Benefits (OPEB) investment pool. Liabilities are categorized in three ways:

1. Active retirees
2. Active vested employees
3. Active non-vested employees

The Trust is meant to cover assets associated with the liabilities of active retirees and active, vested employees. Between the period of March 3, 2104 and June 30, 2014, the Corporation contributed $17,236,982 in support of those liabilities. Medical insurance premiums are paid directly from the Corporation. A monthly reimbursement is made from Trust assets back to the Corporation to cover the monthly premiums. Those reimbursements constitute a portion of the Corporation's total contribution for the period ended June 30, 2014.

Note 6: Funded Status and Funding Progress

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. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of trust assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The funded status of the Trust as of July 1, 2013, the date of the most recent actuarial valuation, was as follows:

Actuarial Accrued liability (AAL)	$	21,362,644
Actuarial value of assets *		1,281,802
Unfunded ALL (UAAL)	$	20,080,842
Funded ratio		6.00%
Covered payroll	$	10,543,666
UAAL as % of covered payroll		190.45%

* As the Trust was established in March 2014, no actuarial valuation has been performed to determine the actuarial value of the trust assets transferred after July 1, 2013 (the date of the most recent actuarial valuation).

Note 6: Funded Status and Funding Progress (Continued)

The accompanying required supplementary information schedule of employer contributions presents trend information about the amounts contributed to the Trust by the employer in comparison to the Annual Required Contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

Additional information as of the latest actuarial valuation includes:

Valuation date:	July 1, 2013
Actuarial cost method:	Entry age normal cost
Amortization method:	Level percentage of payroll
Remaining amortization period:	30-year
Actuarial assumptions:	
Investment rate of return	7%
Healthcare cost trend rate	6.7% initial, 5.0% ultimate
Projected annual salary increase	5%
Health plan participation	100%

Required Supplementary Information

Cal Poly Corporation VEBA Trust
Schedule of Funding Progress for OPEB Obligation
June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
7/1/2013	$ 1,281,802	$ 21,362,644	$ 20,080,842	0.00%	$ 10,543,666	190.45%
7/1/2011	$ -	$ 31,644,906	$ 31,644,906	0.00%	$ 9,453,908	334.73%

Cal Poly Corporation VEBA Trust
Schedule of Employer Contributions for OPEB Obligation
June 30, 2014

Fiscal Year	Annual OPEB Cost	Actual Contributions	% of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	$ 2,146,522	$ 17,880,670	833.01%	$ (4,085,545)
6/30/2013	$ 3,071,329	$ 875,789	28.51%	$ 11,648,603
6/30/2012	$ 2,878,275	$ 800,901	27.83%	$ 9,453,063

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

Cal Poly Corporation Benefits Committee
San Luis Obispo, California

We have audited, 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, the statement of plan net position for the year ended June 30, 2014 and the related statement of changes in plan net position for the period March 3, 2014 to June 30, 2014 of Cal Poly Corporation VEBA Trust (Trust), and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated October 13, 2014.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Glenn Burdette Attest Corporation

Glenn Burdette Attest Corporation
San Luis Obispo, California

October 13, 2014