Cal Poly Corporation VEBA Trust

Audited Financial Statements and

Supplementary Information

Years Ended June 30, 2017 and 2016

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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, for the years ended June 30, 2017 and 2016, 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.

Auditors' 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.

GLENNBURDETTE.COM

SAN LUIS OBISPO
1150 Palm Street
San Luis Obispo, CA 93401
p 805 544 1441
f 805 544 4351

PASO ROBLES
102 South Vine Street, Ste. A
Paso Robles, CA 93446
p 805 237 3995
f 805 239 9332

SANTA MARIA
2222 South Broadway, Ste. A
Santa Maria, CA 93454
p 805 922 4010
f 805 922 4286

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, 2017 and 2016 in conformity 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2018, on our consideration of Cal Poly Corporation VEBA Trust'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 Cal Poly Corporation VEBA Trust's internal control over financial reporting and compliance.

GLENN BURDETTE ATTEST CORPORATION

Glenn Burdette Attest Corporation
San Luis Obispo, California

May 3, 2018

Cal Poly Corporation VEBA Trust
Management's Discussion and Analysis
June 30, 2017 and 2016

The Cal Poly Corporation VEBA Trust (Trust) is a single employer voluntary employees' beneficiary association (VEBA). The Trust 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 (USBNA). The Trust was established pursuant to Section 501(c)(9) of the Internal Revenue Code which allows for the formation of such a plan. On February 10, 2015, the Internal Revenue Service (IRS) granted tax-exempt status to the Trust under section 501(c)(9) of the Internal Revenue Code.

This section of the Trust's annual financial report presents a discussion and analysis of the financial performance of the Trust during the fiscal years ended June 30, 2017 (2016-17), June 30, 2016 (2015-16), and June 30, 2015 (2014-15). This discussion has been prepared by the Trust Administrator 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 Fiduciary Net Position and the Statements of Changes in Fiduciary 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 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 Trust.

Statements of Fiduciary Net Position: The Statements of Fiduciary Net Position include all assets and liabilities 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.

Statements of Changes in Fiduciary Net Position: The Statements of Changes in Fiduciary Net Position present the revenues earned and expenses incurred during the period.

Cal Poly Corporation VEBA Trust
Management's Discussion and Analysis
June 30, 2017 and 2016

Analytical Overview

Summary

The following discussion highlights the Trust Administrator's understanding of the key financial aspects of the Trust's financial activities for the fiscal years 2016-17, 2015-16, and 2014-15. The following schedules and accompanying audited financial statements as of and for these respective periods are reported in accordance with standards and requirements of the GASB.

Statements of Fiduciary Net Position

	June 30,		
	2017	**2016**	**2015**
Assets			
Restricted cash and cash equivalents	$ 295,869	$ 1,462,909	$ 163,598
Investments			
Equity	13,149,703	11,076,802	10,437,303
Fixed income	9,785,823	8,627,747	8,446,468
Commodities		229,784	596,947
All asset all authority	1,910,350	2,175,228	2,802,080
	24,845,876	22,109,561	22,282,798
Total assets	25,141,745	23,572,470	22,446,396
Liabilities			
Accounts payable	22,164	16,307	12,506
Net position restricted for other postemployment benefits	$ 25,119,581	$ 23,556,163	$ 22,433,890

Net Position

Net position may serve over time as an indicator of the Trust's financial position. As of June 30, 2017, assets exceeded liabilities by $25.1 million, resulting in an increase of $1.6 million in net position over the prior year. The increase in net position is primarily the result of $2.4 million in net investment income combined with $296,000 in employer contributions offset by $1.1 million in benefit payments in the current year. For the year ended June 30, 2016, overall net position increased $1.1 million over the prior year. The increase in net position is primarily the result of $2.2 million in employer contributions offset by $1.1 million in benefit payments.

Assets

Assets consist of one checking account, one money market fund and various mutual funds. Benefit payments are made directly out of the Trust's checking account. At June 30, 2017, approximately eight percent of the mutual funds in the Trust are allocated to a tactical strategy and the remainder are invested 57% in equities and 43% in fixed income. The Trust is intended to hold assets sufficient to cover, at a minimum, the calculated future healthcare liability associated with current retirees and active employees vested according to the Cal Poly Corporation Retiree Welfare Benefits Plan. An actuary is engaged every two years to calculate this liability. The last actuarial report was as of June 30, 2017.

Cal Poly Corporation VEBA Trust
Management's Discussion and Analysis
June 30, 2017 and 2016

As of June 30, 2017, total assets increased $1.6 million over the prior year. The increase in total assets is primarily the result of $2.4 million in net investment income combined with $296,000 in employer contributions offset by $1.1 million in benefit payments in the current year. For the year ended June 30, 2016, total assets increased $1.1 million over the prior year. The increase in total assets is primarily the result of $2.2 million in employer contributions offset by $1.1 million in benefit payments.

Liabilities

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

Results of Operations

Condensed Statements of Changes in Fiduciary Net Position

	June 30, 2017	June 30, 2016	June 30, 2015
Additions			
Contributions	$ 296,314	$ 2,188,695	$ 6,020,115
Net investment income (loss)	2,404,507	36,474	(109,163)
Total additions	2,700,821	2,225,169	5,910,952
Deductions			
Benefit payments	1,119,651	1,083,278	967,719
Administration expenses	17,752	19,618	9,519
Total deductions	1,137,403	1,102,896	977,238
Net increase in net position	1,563,418	1,122,273	4,933,714
Net position - beginning of period	23,556,163	22,433,890	17,500,176
Net position - end of period	$ 25,119,581	$ 23,556,163	$ 22,433,890

Additions consist of employer contributions and investment returns. For the year ended June 30, 2017, employer contributions decreased $1.9 million or 87% as compared to the prior year. Annual employer contributions are made at amounts that allow the Trust to cover, at a minimum, the calculated future healthcare benefits associated with current retirees and active employees vested according to the Cal Poly Corporation Retiree Welfare Benefits Plan. For the year ended June 30, 2016, employer contributions decreased $3.8 million or 64% as compared to 2014-15.

Net investment return increased $2.4 million from $36,000 in the prior year to $2.4 million in the current year, which consisted of market value gains of $1.9 million combined with interest and dividends of $580,000 in the current year. For the year ended June 30, 2016, net investment return increased $146,000 from the prior year. Market value losses of $613,000 in 2015-16 drove the overall return down similarly to losses of $547,000 in 2014-15.

Deductions primarily consist of benefit payments, which totaled $1.1 million in the current year as compared to $1.1 million in the prior year. For the year ended June 30, 2016, benefit payments increased $116,000 from the prior year. The increase is primarily the result of rising healthcare costs and an increase in the number of plan participants receiving benefits.

Currently Known Facts Impacting Future Periods

The Trust is intended to hold assets sufficient to meet the calculated future liability for retiree healthcare benefits for retiree and active vested employees. Assets to meet the calculated future liability for active non-vested employees are held by the Corporation in its 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.

Financial Statements

Cal Poly Corporation VEBA Trust

Statements of Fiduciary Net Position

June 30, 2017 and 2016

	2017	2016
Assets		
Restricted cash and cash equivalents	$ 295,869	$ 1,462,909
Investments		
Equity	13,149,703	11,076,802
Fixed income	9,785,823	8,627,747
Commodities	-	229,784
All asset all authority	1,910,350	2,175,228
	24,845,876	22,109,561
Total assets	25,141,745	23,572,470
Liabilities		
Accounts payable	22,164	16,307
Net position restricted for other postemployment benefits	$ 25,119,581	$ 23,556,163

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

Cal Poly Corporation VEBA Trust
Statements of Changes in Fiduciary Net Position
Year Ended June 30, 2017 and 2016

	2017	2016
Additions		
Contributions:		
Employer contributions	$ 296,314	$ 2,188,695
Total contributions	296,314	2,188,695
Investment income:		
Investment earnings and dividends, net of fees	514,511	649,153
Net appreciation (depreciation) in fair value of mutual fund investments	1,889,996	(612,679)
Total additions	2,700,821	2,225,169
Deductions		
Benefit payments	1,119,651	1,083,278
Administration expenses	17,752	19,618
Total deductions	1,137,403	1,102,896
Net increase in net position	1,563,418	1,122,273
Net position - beginning of period	23,556,163	22,433,890
Net position - end of period	$ 25,119,581	$ 23,556,163

The accompanying notes are an integral part of this financial statement.

Cal Poly Corporation VEBA Trust
Notes to Financial Statements
June 30, 2017 and 2016

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 Welfare Benefits Plan. Participants should refer to those documents for more complete information.

Description of the Trust

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. On February 10, 2015, the Internal Revenue Service (IRS) granted tax-exempt status to the Trust under section 501(c)(9) of the Internal Revenue Code.

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 this liability. The last actuarial report was as of June 30, 2017. The Corporation continues to hold assets to cover future healthcare 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 (the Plan). Members of the Cal Poly Corporation Benefits Committee are approved by the Corporation Executive Director and the Chair of the Corporation's Board of Directors.

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. The Corporation is a member of California Public Employees Retirement System for purposes of retirement, medical coverage and other benefits. It complies with applicable laws 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)

Plan Membership

At June 30, 2017, Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	228
Inactive plan members entitled to but not yet receiving benefit payments	125
Active plan members	25
Total membership	378

Contributions

Contributions to the Trust are intended to maintain Trust assets sufficient to cover, at a minimum, the calculated future healthcare benefits associated with current retirees and active, vested employees. Annual contribution rates are based on the results of the biennial actuarial report. Plan members are not required to contribute to the Plan.

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

Financial Reporting Entity

The Trust has applied the criteria set forth in accounting principles generally accepted in the United States of America and Governmental Accounting Standards Board (GASB) Statement No. 74 in preparing these financial statements as of and for the year ended June 30, 2017. In addition, the Trust has evaluated GASB Statement No. 14, amended by GASB Statements No. 39 and 61 in determining potential component unit reporting in the reporting entity. The Trust has no component units and is not a component unit of another entity.

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 as applicable to governmental entities. 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.

Note 2: Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Trust considers demand deposits with financial institutions, money market funds and certificates of deposits with an original maturity date of three months or less to be cash equivalents for the statement of cash flows.

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 Trust Administrator 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, 2017, the application of valuation techniques applied to the Corporation's financial statements has been consistent. 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.

Risks and Uncertainties

The Trust 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 available for benefits reported in the statements of fiduciary net position.

Note 2: Summary of Significant Accounting Policies (Continued)

Income Tax Status

The Trust is exempt from income tax under Section 501(c)9 of the Internal Revenue Code.

Note 3: Cash and Cash Equivalents

At June 30, 2017 and 2016, the Trust held $255,847 and $49,987, respectively, in a USBNA checking account. In addition, at June 30, 2017 and 2016, the Trust held $40,022 and $1,412,922, respectively, in a USBNA money market account. Money market assets fluctuate during the year. The first $250,000 of checking account 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. The Board has determined that 92.5% of the total investment is based upon strategic asset allocation and the remaining 7.5% is based upon the tactical asset allocation.

Note 4: Investments (Continued)

The following was the Board's adopted asset allocation policy as of June 30, 2017:

Asset Class	Target Allocation
Domestic Large Cap	24.5%
Domestic Small Cap	3.5%
Intl Large Cap	11.0%
Intl Small Cap	1.5%
Emerging Markets	3.5%
Domestic REITs	8.0%
Intl REITs	5.0%
Domestic Fixed Income - High Quality	10.0%
Domestic Fixed Income - Investment Grade	21.5%
Intl Fixed Income	9.0%
High Yield Bonds	2.5%
Total (Excluding Tactical Strategies)	100.0%
Tactical Strategies	7.5%

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

Note 4: Investments (Continued)

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, 2017 and 2016, investments comprised the following:

	2017	2016
Mutual funds:		
Equity funds	$ 13,149,691	$ 11,076,795
Bond funds	9,785,823	8,627,747
Commodities		229,784
All Asset All Authority funds	1,910,350	2,175,228
Other investments:		
Cash and interest receivable pending investment	12	7
Total investments	$ 24,845,876	$ 22,109,561

Rate of return

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 10.2 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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 $13,149,691, or 53%, of the total investments of the Trust at June 30, 2017. Equities are subject to both unsystematic and systematic risk. Unsystematic risk is the risk of a price change due to the unique circumstances of a specific security or group of related securities. The 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.

Note 4: Investments (Continued)

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.

At June 30, 2017, the credit ratings of the Trust fixed income and debt securities held in investments and money market funds were as follows:

	Fair Value	Rating
Bond mutual funds:		
DFA Intermediate Government Bond	$ 2,273,936	AAA
Loomis Sayles Bond Fund - Institutional	1,543,755	A
PIMCO Total Return Fund - Institutional	3,373,857	AA
PIMCO Foreign Bond Fund - Institutional	2,018,680	AA
PIMCO High Yield Fund - Institutional	575,595	BB
Tactical Strategy:		
PIMCO All Asset All Authority	1,910,350	A
Money market funds:		
US Bank	40,022	Unrated
Total fixed income and debt securities subject to credit risk	$ 11,736,195	

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.

Note 4: Investments (Continued)

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.

At June 30, 2017, the weighted average duration of the Trust's fixed income and debt securities and money market funds were as follows:

	Fair Value	Weighted Average Duration (in years)
Bond mutual funds:		
DFA Intermediate Government Bond	$ 2,273,936	6.1
Loomis Sayles Bond Fund - Institutional	1,543,755	3.3
PIMCO Total Return Fund - Institutional	3,373,857	5.1
PIMCO Foreign Bond Fund - Institutional	2,018,680	7.3
PIMCO High Yield Fund - Institutional	575,595	3.2
Tactical Strategy:		
PIMCO All Asset All Authority	1,910,350	3.6
Money market funds		
US Bank	40,022	0.0
Total fixed income and debt securities subject to interest rate risk	$ 11,736,195	

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, 2017, the Trust's exposure to foreign currency risk was as follows:

	Fair Value
Euro	$ 1,358,924
Japanese Yen	854,470
British Pound	834,348
Hong Kong Dollar	334,083
Australian Dollar	275,024
Canadian Dollar	270,119
Swiss Francs	263,336
Chinese Yuan	208,276
Mexican Peso	175,892
Indian Rupee	164,847
Korean Won	164,419
Brazilian Real	159,761
Swedish Krona	104,671
South African Rand	98,495
Taiwanese Dollar	78,089
Russian Ruble	70,192
New Zealand Dollar	67,524
Malaysian Ringgit	64,530
Norwegian Krone	63,618
Indonesian Rupiah	61,925
Polish Zloty	59,990
Thai Baht	59,611
Other	246,775
Total investments subject to foreign currency risk	$ 6,038,919

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

At June 30, 2017, the foreign currency risk by investment type was as follows:

Equity mutual funds	$ 4,696,834
Bond mutual funds	1,342,085
Total investments subject to foreign currency risk	$ 6,038,919

Note 4: Investments (Continued)

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.

Investment Fair Values

The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. All of the Corporation investments are classified in Level 1 of the fair value hierarchy.

Note 5: Related-Party Transactions

For the years ended June 30, 2017 and 2016, the Corporation contributed $296,314 and $2,188,695, respectively, to the Trust. Medical insurance premiums are paid directly from the Trust.

Note 6: Net OPEB Liability of the Trust

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. To that end, the funded status of the Trust as of June 30, 2017, the date of the most recent actuarial report, was as follows:

OPEB liability - active vested employees	$7,437,006
OPEB liability - retirees	$16,267,432
OPEB liability - active vested employees and retirees	$23,704,438
Trust fiduciary net position	$25,141,745
Amount over / (under) funded	$1,437,307
Trust fiduciary net position as a percentage of OPEB liability for active vested employees and retirees	106.06%

The Corporation holds assets to cover future healthcare benefits associated with active, non-vested employees in its board designated OPEB investment pool. Contributions made to the OPEB investment pool are not considered irrevocable. Further, OPEB investment pool assets are not legally protected from the creditors of the Corporation, or the OPEB plan administrator. As such, these assets are excluded from the calculation of the Plan's overall net OPEB liability.

Note 6: Net OPEB Liability of the Trust (Continued)

The components of the Plan's overall net OPEB liability at June 30, 2017, were as follows:

OPEB liability - active non-vested employees	$7,120,760
OPEB liability - active vested employees and retirees	$23,704,438
Total Plan OPEB liability	$30,825,198
Plan fiduciary net position	$25,141,745
Plan net OPEB liability / (asset)	$5,683,453
Plan fiduciary net position as a percentage of total Plan OPEB liability	81.56%

Actuarial Assumptions:

The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.0 percent
Salary increases	N/A
Investment rate of return	6.5 percent
Healthcare cost trend rates (pre-65)	8.0 percent for 2017, decreasing 0.25 percent per year to an ultimate rate of 4.5 percent for 2031 and later years
Healthcare cost trend rates (post-65)	5.5 percent for 2017, decreasing 0.25 percent per year to an ultimate rate of 4.5 percent for 2031 and later years

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. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Mortality rates used in the valuation are those used in the most recent CalPERS valuations (CalPERS 2014 Mortality pre-retirement and post-retirement with Scale MP-2014).

The long-term expected rate of return on Trust investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for hypothetical investment portfolio allocation of 50% equity, and 50% fixed income. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Note 6: Net OPEB Liability of the Trust (Continued)

As of June 30, 2017, the best estimates of long-term expected rates of return for each major investment class in the Trust's portfolio are as follows:

Asset Class	Long-Term Expected Real Rate of Return
Domestic Large Cap	9.8%
Domestic Small Cap	10.8%
Intl Large Cap	9.8%
Intl Small Cap	10.8%
Emerging Markets	11.3%
Domestic REITs	9.8%
Intl REITs	9.8%
Domestic Fixed Income - High Quality	1.8%
Domestic Fixed Income - Investment Grade	2.4%
Intl Fixed Income	1.0%
High Yield Bonds	4.8%
Cash	0.0%

Discount Rate:

The discount rate used to measure the total OPEB liability was 6.5 percent. This single discount rate was based on the long-term expected real rate of return of assets.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate:

The following presents the net OPEB liability of the Trust, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5 percent) or 1-percentage-point higher (7.5 percent) than the current discount rate:

	1% Decrease (5.5%)	Discount Rate (6.5%)	1% Increase (7.5%)
Net OPEB liability (asset)	\$10,368,419	\$5,683,453	\$1,926,362

Note 6: Net OPEB Liability of the Trust (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates:
The following presents the net OPEB liability of the Trust, as well as what the Trust's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB liability (asset)	$1,381,723	$5,683,453	$10,955,150

Note 7: Subsequent Events

Events subsequent to June 30, 2017 have been evaluated by the Trust Administrator through May 3, 2018, the date financial statements were available to be issued.

Subsequent to the end of the fiscal year, the Investment Advisory Committee and Trust Administrator removed all tactical strategies from the investment portfolio.

The Trust Administrator did not identify any additional subsequent events that required disclosure.

Required Supplementary Information

Cal Poly Corporation VEBA Trust

Schedule of Changes in the Net OPEB Liability and Related Ratios

Last 10 Fiscal Years*

	2017
Total OPEB liability	
Service cost	$ 1,086,684
Interest	1,923,754
Changes in benefit terms	-
Differences between expected and actual experience	(269,900)
Changes in assumptions	-
Benefit payments	(1,119,651)
Net change in total OPEB liability	1,620,887
Total OPEB liability - beginning	29,204,311
Total OPEB liability - ending (a)	$ 30,825,198
Plan fiduciary net position	
Contributions - employer	$ 296,314
Net investment income	2,405,355
Benefit payments	(1,119,651)
Administrative expense	(12,743)
Net change in plan fiduciary net position	1,569,275
Plan fiduciary net position - beginning	23,572,470
Plan fiduciary net position - ending (b)	$ 25,141,745
Net OPEB liability - ending (a)-(b)	$ 5,683,453
Plan fiduciary net position as a percentage of the total pension liability	81.56%
Covered employee payroll	12,085,567
Net OPEB liability as a percentage of covered employee payroll	47.03%

* Fiscal year 2017 was the first year of implementation, therefore only one year is shown.

Notes to Schedule:

Benefit Changes: There have been no changes to benefit terms since June 30, 2016.

Changes of Assumptions: There have been no changes of assumptions since June 30, 2016.

See independent auditors' report.

Cal Poly Corporation VEBA Trust

Schedule of Investment Returns

Last 10 Fiscal Years*

	2017
Annual money-weighted rate of return, net of investment expense	10.20%

* Fiscal year 2017 was the first year of implementation, therefore only one year is shown.

See independent auditors' report.

GLENN BURDETTE
CERTIFIED PUBLIC ACCOUNTANTS

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 statements of Fiduciary net position as of June 30, 2017 and 2016, and the related statement of changes in Fiduciary net position for the years ended June 30, 2017 and 2016 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 May 3, 2018.

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.

SAN LUIS OBISPO
1150 Palm Street
San Luis Obispo, CA 93401
p 805 544 1441
f 805 544 4351

PASO ROBLES
102 South Vine Street, Ste. A
Paso Robles, CA 93446
p 805 237 3995
f 805 239 9332

SANTA MARIA
2222 South Broadway, Ste. A
Santa Maria, CA 93454
p 805 922 4010
f 805 922 4286

GLENNBURDETTE.COM

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

May 3, 2018