Cal Poly Corporation VEBA Trust

Financial Statements

Year Ended June 30, 2015 and Inception to June 30, 2014

Cal Poly Corporation VEBA Trust

Financial Statements

June 30, 2015 and June 30, 2014

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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, 2015 and 2014 and for the year ended June 30, 2015 and the period inception 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.

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.

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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, 2015 and 2014, and the change in financial position for the year ended June 30, 2015 and the period March 3, 2014 to June 30, 2014 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.

Glenn Burdette Attest Corporation

Glenn Burdette Attest Corporation
San Luis Obispo, California

September 28, 2015

Cal Poly Corporation VEBA Trust
Management's Discussion and Analysis
June 30, 2015 and 2014

The Cal Poly Corporation VEBA Trust (Trust) is a single employer voluntary employees' 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. 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 year ended June 30, 2015. 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 revenues 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.

Statements of Plan Net Position: The Statements of Plan 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 Plan Net Position: 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, 2015 and 2014

Analytical Overview

Summary

The following discussion highlights management's understanding of the key financial aspects of the Trust's financial activities for the fiscal year ended June 30, 2015 and for the period from inception to June 30, 2014. 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 Plan Net Position

	2015	2014
Assets		
Restricted cash and cash equivalents	$ 163,598	$ 208,868
Investments		
Equity	10,437,303	8,074,855
Fixed income	8,446,468	6,265,236
Commodities	596,947	433,830
All asset all authority	2,802,080	2,543,854
	22,282,798	17,317,775
Total assets	22,446,396	17,526,643
Liabilities		
Accounts payable	12,506	26,467
Net position restricted for other postemployment benefits	$ 22,433,890	$ 17,500,176

Net Position

As of June 30, 2015, assets exceeded liabilities by $22.4 million, resulting in an increase of $4.9 million in net position over the prior year. The increase in net position is primarily the result of $6.0 million in employer contributions offset by $968,000 in benefit payments in the current year. The VEBA Trust's net position of $17.5 million at June 30, 2014 was driven primarily by the transfer of $17.2 million in mutual funds and cash from the Corporation's Other Post-Employment Benefits (OPEB) investment pool.

Assets

Assets consist of one money market fund and various mutual funds. The money market fund is funded by the employer through the transfer of assets from the OPEB investment pool. Benefit payments are made out of the Trust money market account. Fifteen 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 benefits 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 July 1, 2015.

Cal Poly Corporation VEBA Trust
Management's Discussion and Analysis
June 30, 2015 and 2014

As of June 30, 2015, total assets increased $4.9 million over the prior year. The increase in total assets is primarily the result of $6.0 million in employer contributions offset by $968,000 in benefit payments in the current year.

Liabilities

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

Results of Operations

Condensed Statements of Changes in Plan Net Position
Year Ended June 30, 2015 and Inception to June 30, 2015

	June 30, 2015	Inception to June 30, 2014
Additions		
Contributions	$ 6,020,115	$ 17,236,982
Net investment income (loss)	(109,163)	592,497
Total additions	5,910,952	17,829,479
Deductions		
Benefit payments	967,719	314,636
Administration expenses	9,519	14,667
Total deductions	977,238	329,303
Change in net position	4,933,714	17,500,176
Net position - beginning of period	17,500,176	-
Net position - end of period	$ 22,433,890	$ 17,500,176

Additions consist of employer contributions and investment returns. Employer contributions decreased $11.2 million or 65% in the current year as compared to the prior year. Employer contributions of $17.2 million in the prior year represent initial funding of the VEBA Trust. Current year employer contributions of $6.0 million are the result of changes in the future healthcare benefit liabilities associated with current retirees and active vested employees as calculated in the most recent actuarial report dated July 1, 2015.

Net investment return decreased $702,000 or 118% from a positive return of $592,000 in the prior year to a loss of $109,000 in the current year. Market value losses of $547,000 in the current year drove the overall return down compared to gains of $506,000 in the prior year. Interest and dividend income increased $352,000 which is the result of a full year of activity in the current year as compared to approximately four months of activity in the prior year.

Deductions primarily consist of benefit payments, which totaled $968,000 in the current year as compared to $315,000 in the prior year. The increase is primarily the result of a full year of healthcare premiums paid in the current year as compared to approximately four months of activity in the prior year.

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 sufficient 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 Plan Net Position
June 30, 2015 and 2014

	2015	2014
Assets		
Restricted cash and cash equivalents	$ 163,598	$ 208,868
Investments		
Equity	10,437,303	8,074,855
Fixed income	8,446,468	6,265,236
Commodities	596,947	433,830
All asset all authority	2,802,080	2,543,854
	22,282,798	17,317,775
Total assets	22,446,396	17,526,643
Liabilities		
Accounts payable	12,506	26,467
Net position restricted for other postemployment benefits	$ 22,433,890	$ 17,500,176

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

Cal Poly Corporation VEBA Trust

Statements of Changes in Plan Net Position

Year Ended June 30, 2015 and Inception to June 30, 2014

	2015	Inception to June 30, 2014
Additions		
Contributions:		
Employer contributions	$ 6,020,115	$ 17,236,982
Total contributions	6,020,115	17,236,982
Investment income:		
Investment earnings and dividends, net of fees	438,074	86,329
Net appreciation (depreciation) in fair value of mutual fund investments	(547,237)	506,168
Total additions	5,910,952	17,829,479
Deductions		
Benefit payments	967,719	314,636
Administration expenses	9,519	14,667
Total deductions	977,238	329,303
Change in net position	4,933,714	17,500,176
Net position - beginning of period	17,500,176	-
Net position - end of period	$ 22,433,890	$ 17,500,176

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

Cal Poly Corporation VEBA Trust
Notes to Financial Statements
June 30, 2015 and 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 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 July 1, 2015. The Corporation continues to hold assets sufficient 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. 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. 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, 2015, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	120
Active vested and non-vested employees	243
Total membership	363

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. 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.

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.

Note 2: Summary of Significant Accounting Policies (Continued)

Administration

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

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 available for benefits reported in the statements of plan net position.

Income Tax Status

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

Subsequent Events

Events subsequent to June 30, 2015 have been evaluated by the Trust administrator through September 28, 2015, the date financial statements were available to be issued. Except as follows, the Trust administrator did not identify any subsequent events that required disclosure. On July 10, 2015, the Corporation contributed $266,767 to the Trust.

Note 3: Cash and Cash Equivalents

At June 30, 2015 and 2014, the Trust held $163,598 and $208,868, respectively, 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

Note 4: Investments (Continued)

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 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.

Note 4: Investments (Continued)

At June 30, 2015 and 2014, investments comprised the following:

	2015	2014
Mutual funds:		
Equity funds	$ 10,437,228	$ 8,074,835
Bond funds	8,446,468	6,265,236
Commodities	596,947	433,830
All asset all authority	2,802,080	2,543,854
Other investments:		
Cash and interest receivable pending investment	75	20
Total investments	$ 22,282,798	$ 17,317,775

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 $10,437,228, or 47%, of the total investments of the Trust at June 30, 2015. 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

Note 4: Investments (Continued)

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, 2015, 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	$ 1,969,838	AAA
Loomis Sayles Bond Fund - Institutional	1,317,280	BBB
PIMCO Total Return Fund - Institutional	2,902,803	AA
PIMCO Foreign Bond Fund - Institutional	1,766,561	AA
PIMCO High Yield Fund - Institutional	489,986	BB
Commodities:		
PIMCO Commodity Real Return - Institutional	596,947	AA
Tactical Strategy:		
PIMCO All Asset All Authority	2,802,080	A
Money market funds:		
US Bank	163,598	Unrated
Total fixed income and debt securities subject to credit risk	$ 12,009,093	

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, 2015, 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	$ 1,969,838	5.4
Loomis Sayles Bond Fund - Institutional	1,317,280	4.8
PIMCO Total Return Fund - Institutional	2,902,803	3.7
PIMCO Foreign Bond Fund - Institutional	1,766,561	7.6
PIMCO High Yield Fund - Institutional	489,986	4.1
Commodities:		
PIMCO Commodity Real Return - Institutional	596,947	1.4
Tactical Strategy:		
PIMCO All Asset All Authority	2,802,080	2.1
Money market funds		
US Bank	163,598	0.0
Total fixed income and debt securities subject to interest rate risk	$ 12,009,093	

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, 2015, the Trust's exposure to foreign currency risk was as follows:

	Fair Value
Euro	$ 812,955
British Pound	797,440
Japanese Yen	527,387
Swiss Francs	387,414
Canadian Dollar	313,540
Hong Kong Dollars	274,947
Mexican Peso	233,409
Chinese Yuan	229,939
Indian Rupee	214,459
Taiwanese Dollars	211,313
Australian Dollar	193,938
Korean Won	191,574
Brazilian Real	174,810
South African Rand	127,417
Malaysian Ringgit	96,197
Swedish Krona	92,358
Polish Zloty	80,209
Thai Baht	73,720
Indonesian Rupiah	71,545
Russian Ruble	63,939
Singapore Dollar	60,906
Turkish Lira	59,281
New Zealand Dollar	58,040
Other	177,660
Total investments subject to foreign currency risk	$ 5,524,397

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

At June 30, 2015, the foreign currency risk by investment type was as follows:

Equity mutual funds	$ 4,288,122
Bond mutual funds	1,236,275
Total investments subject to foreign currency risk	$ 5,524,397

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.

Note 5: Related-Party Transactions

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. The Corporation holds assets sufficient to cover future healthcare benefits associated with active, non-vested employees in its board designated OPEB investment pool.

For the year ended June 30, 2015 and for the period from inception to June 30, 2014, the Corporation contributed $6,020,115 and $17,236,982, respectively, to the Trust. 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 year ended June 30, 2015 and 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, 2015, the date of the most recent actuarial valuation, was as follows:

Actuarial Accrued liability (AAL)	$ 22,605,229
Actuarial value of assets *	22,446,396
Unfunded ALL (UAAL)	$ 158,833
Funded ratio	99.30%
Covered payroll	$ 11,444,107
UAAL as % of covered payroll	1.39%

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 recognize any unfunded actuarial liabilities.

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, 2015
Actuarial cost method:	Entry age normal cost
Actuarial assumptions:	
Investment rate of return	6.50%
Healthcare cost trend rate	4.50 - 7.25%
Projected annual salary increase	3.25%
Health plan participation	100%

Required Supplementary Information

Cal Poly Corporation VEBA Trust
Schedule of Funding Progress for OPEB Obligation
June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
7/1/2015	$ 22,446,396	$ 22,605,229	$ 158,833	99.30%	$ 11,444,107	1.39%
7/1/2013	$ 1,281,802	$ 21,362,644	$ 20,080,842	6.00%	$ 10,543,666	190.45%

Cal Poly Corporation VEBA Trust
Schedule of Employer Contributions for OPEB Obligation
June 30, 2015

Fiscal Year	Annual OPEB Cost	Actual Contributions	% of Annual OPEB Cost Contributed	Net OPEB Obligation
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)
6/30/2013	$ 3,071,329	$ 875,789	28.51%	$ 11,648,603

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 plan net position as of June 30, 2015 and 2014 and the related statement of changes in plan net position for the year ended June 30, 2015 and 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 September 28, 2015.

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

September 28, 2015