Cal Poly Corporation VEBA Trust

Audited Financial Statements

Years Ended June 30, 2022 and 2021

GLENN BURDETTE

Cal Poly Corporation VEBA Trust

Audited Financial Statements and

Supplementary Information

Years Ended June 30, 2022 and 2021

Table of Contents

Independent Auditors' Report

Cal Poly Corporation Benefits Committee
San Luis Obispo, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying the statements of fiduciary net position of Cal Poly Corporation VEBA Trust as of June 30, 2022 and 2021, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, which collectively comprise Cal Poly Corporation VEBA Trust's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cal Poly Corporation VEBA Trust as of June 30, 2022 and 2021, and the respective changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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*, issued by the Comptroller General of the Unites States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Cal Poly Corporation VEBA Trust and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Cal Poly Corporation VEBA Trust's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Cal Poly Corporation VEBA Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Cal Poly Corporation VEBA Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the net OPEB liability and related ratios, and the schedule of investment returns, be presented to supplement the basic 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 basic 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 April 6, 2023, 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

April 6, 2023

Cal Poly Corporation VEBA Trust
Management's Discussion and Analysis
June 30, 2022 and 2021

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, 2022 (2021-22), June 30, 2021 (2020-21), and June 30, 2020 (2019-20). 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 recorded 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, 2022 and 2021

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 2021-22, 2020-21, and 2019-20. 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, 2022	June 30, 2021	June 30, 2020
Assets			
Restricted cash and cash equivalents	$ 111,353	$ 220,435	$ 281,083
Investments			
Equity	14,608,166	17,366,246	14,275,941
Fixed income	11,269,467	13,031,151	11,110,467
	25,877,633	30,397,397	25,386,408
Accounts receivable	5	19,055	
Total assets	25,988,991	30,636,887	25,667,491
Liabilities			
Accounts payable	67,392	28,599	14,030
Net position restricted for other postemployment benefits	$ 25,921,599	$ 30,608,288	$ 25,653,461

Net Position

Net position may serve over time as an indicator of the Trust's financial position. As of June 30, 2022, assets exceeded liabilities by $25.9 million, resulting in a decrease of $4.7 million in net position from the prior year. The decrease in net position is primarily the result of a $3.7 million net investment loss, $392,000 in contributions to the Trust, and $1.4 million in benefit payments in the current year. For the year ended June 30, 2021, overall net position increased $5 million in net position over the prior year. The increase in net position was primarily the result of $5.9 million in net investment income combined with $479,000 in contributions to the Trust offset, by $1.4 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, 2022, the mutual funds in the Trust are allocated to an investment strategy of56% in equities and 44% 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 year to calculate this liability. The last actuarial report was as of June 30, 2022.

Cal Poly Corporation VEBA Trust
Management's Discussion and Analysis
June 30, 2022 and 2021

As of June 30, 2022, total assets decreased $4.7 million over the prior year. The decrease in total assets is primarily the result of a$3.7 million net investment loss, $392,000 in contributions to the Trust, and $1.4 million in benefit payments in the current year. For the year ended June 30, 2021, total assets increased $5 million over the prior year. The increase in total assets was primarily the result of $5.9 million in net investment income combined with $479,000 in contributions to the Trust offset by $1.4 million in benefit payments

Liabilities

Liabilities, or amounts owed or due within one year, consist of accrued operating expenses 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, 2022	June 30, 2021	June 30, 2020
Additions			
Contributions	$ 392,013	$ 478,753	$ 451,320
Net investment income (loss)	(3,670,246)	5,937,197	500,828
Total additions	(3,278,233)	6,415,950	952,148
Deductions			
Benefit payments	1,388,572	1,431,612	1,501,317
Administration expenses	19,884	29,511	9,054
Total deductions	1,408,456	1,461,123	1,510,371
Net increase (decrease) in net position	(4,686,689)	4,954,827	(558,223)
Net position - beginning of period	30,608,288	25,653,461	26,211,684
Net position - end of period	$ 25,921,599	$ 30,608,288	$ 25,653,461

Additions consist of employer contributions and investment returns. For the year ended June 30, 2022, Trust contributions decreased $87,000 or 18.1% as compared to the prior year. Trust contributions of $392,000 include $153,000 in employer contributions combined with an implicit rate subsidy of $239,000 transferred to the Trust. For the year ended June 30, 2021, employer contributions increased $27,000 or 6.1% as compared to 2019-20.Trust contributions of $479,000 include $223,000 in employer contributions combined with an implicit rate subsidy of $256,000 transferred to the Trust. Annual Trust 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.

Net investment return decreased $9.6 million from $5.9 million income in the prior year to a loss of $3.7 million in the current year, which consisted of market value losses of $4.3 million offset by interest and dividends of $597,000 in the current year. For the year ended June 30, 2021, net investment return increased $5.5 million from $500,000 in the prior year to $5.9 million, and consisted of market value gains of $5.4 million combined with interest and dividends of $543,000.

Deductions primarily consist of benefit payments, which decreased $43,000 in the current year as compared to the prior year. For the year ended June 30, 2022, benefit payments of $1.4 million includes an implicit rate subsidy of $239,000 transferred to the Trust. For the year ended June 30, 2021, benefit payments decreased $70,000 from the prior year to $1.4 million. Both decreases are primarily the result of a shift in healthcare plan choices.

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, 2022 and 2021

	2022	2021
Assets		
Restricted cash and cash equivalents	$ 111,353	$ 220,435
Investments		
Equity	14,608,166	17,366,246
Fixed income	11,269,467	13,031,151
	25,877,633	30,397,397
Accounts receivable	5	19,055
Total assets	25,988,991	30,636,887
Liabilities		
Accounts payable	67,392	28,599
Net position restricted for other postemployment benefits	$ 25,921,599	$ 30,608,288

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

Cal Poly Corporation VEBA Trust

Statements of Changes in Fiduciary Net Position

Years Ended June 30, 2022 and 2021

	2022	2021
Additions		
Contributions:		
Employer contributions	$ 392,013	$ 478,753
Total contributions	392,013	478,753
Investment income (loss):		
Investment earnings and dividends, net of fees	597,247	542,646
Net appreciation (depreciation) in fair value of mutual fund investments	(4,267,493)	5,394,551
Total additions	(3,278,233)	6,415,950
Deductions		
Benefit payments	1,388,572	1,431,612
Administration expenses	19,884	29,511
Total deductions	1,408,456	1,461,123
Net increase (decrease) in net position	(4,686,689)	4,954,827
Net position - beginning of period	30,608,288	25,653,461
Net position - end of period	$ 25,921,599	$ 30,608,288

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

Cal Poly Corporation VEBA Trust
Notes to Financial Statements
June 30, 2022 and 2021

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 year to calculate this liability. The last actuarial report was as of June 30, 2022. 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 the 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.

Plan Membership

At June 30, 2022, Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	142
Active plan members	210
Total membership	352

Note 1: Plan Description and Contribution Information (Continued)

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, 2022. 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.

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.

Note 2: Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

As defined in GASB Statement No. 72, *Fair Value Measurement and Application*, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The 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, 2022, 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.

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, 2022 and 2021, the Trust held $32,249 and $185,674, respectively, in a USBNA checking account. In addition, at June 30, 2022 and 2021, the Trust held $79,104 and $34,761, 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 its 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 the 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.

Trust assets at June 30, 2022 are invested based upon a strategic asset allocation of 56% in equities and 44% in fixed income. The following was the Board's adopted asset allocation policy as of June 30, 2022:

	Target Allocation
Domestic Large Cap	22.0%
Domestic Small Cap	3.5%
Intl Large Cap	11.0%
Intl Small Cap	1.5%
Emerging Markets	4.0%
Domestic REITs	10.0%
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%

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

Note 4: Investments (Continued)

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.

At June 30, 2022 and 2021, investments comprised the following:

	2022	2021
Mutual funds:		
Equity funds	$ 14,608,166	$ 17,366,246
Bond funds	11,269,467	13,031,151
Total investments	$ 25,877,633	$ 30,397,397

Rate of Return

For the year ended June 30, 2022, the annual money-weighted rate of return on investments, net of investment expense, was negative 12.40 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.

Note 4: Investments (Continued)

Equity Securities Risk:

Equity securities held by the Trust through mutual funds comprised $14,608,166, or 56%, of the total investments of the Trust at June 30, 2022. 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.

At June 30, 2022, 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	$ 2,665,799	AAA
Loomis Sayles Bond Fund - Institutional	1,746,678	BBB
PIMCO Total Return Fund - Institutional	3,872,294	A
PIMCO Foreign Bond Fund - Institutional	2,348,550	A
PIMCO High Yield Fund - Institutional	636,146	BB
Money market funds:		
US Bank	79,104	Unrated
Total fixed income and debt securities subject to credit risk	$ 11,348,571	

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.

Note 4: Investments (Continued)

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.

At June 30, 2022, 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	$ 2,665,799	6.9
Loomis Sayles Bond Fund - Institutional	1,746,678	4.2
PIMCO Total Return Fund - Institutional	3,872,294	5.5
PIMCO Foreign Bond Fund - Institutional	2,348,550	7.4
PIMCO High Yield Fund - Institutional	636,146	3.6
Money market funds		
US Bank	79,104	0.0
Total fixed income and debt securities subject to interest rate risk	$ 11,348,571	

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, 2022, the Trust's exposure to foreign currency risk was as follows:

	Fair Value
Euro	$ 1,114,353
Japanese Yen	878,371
British Pounds	840,548
Chinese Yen	282,680
Hong Kong Dollars	277,472
Canadian Dollar	265,076
Swiss Francs	224,854
Australian Dollar	204,848
New Taiwan Dollar	196,610
Singapore Dollar	162,562
Indian Rupee	160,072
Swedish Krona	138,480
South Korean Won	134,491
Danish Krone	107,323
Brazilian Reals	76,482
Other	294,929
Total investments subject to foreign currency risk	$ 5,359,151

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

At June 30, 2022, the foreign currency risk by investment type was as follows:

Equity mutual funds	$ 5,424,537
Bond mutual funds	(65,386)
Total investments subject to foreign currency risk	$ 5,359,151

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. 54, *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 4: Investments (Continued)

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, 2022 and 2021, the Corporation contributed $392,013 and $478,753, 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, 2022, the date of the most recent actuarial report, was as follows:

OPEB liability - active vested employees	$	4,146,936
OPEB liability - retirees		16,764,776
OPEB liability - active vested employees and retirees		20,911,712
Trust fiduciary net position		25,921,599
Amount over / (under) funded	$	5,009,887
Trust fiduciary net position as a percentage of OPEB liability for active vested employees and retirees		123.96%

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, 2022, were as follows:

OPEB liability - active non-vested employees	$	6,123,495
OPEB liability - active vested employees and retirees		20,911,712
Total Plan OPEB liability		27,035,207
Plan fiduciary net position		25,921,599
Plan net OPEB liability / (asset)	$	1,113,608
Plan fiduciary net position as a percentage of total Plan OPEB liability		95.88%

Actuarial Assumptions:

The total OPEB liability was determined by an actuarial report as of June 30, 2022 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.26 percent
Payroll increases	2.8 percent
Investment rate of return	6.50 percent
Healthcare cost trend rates	6.2 percent for 2023, decreasing 0.2 percent per year to an ultimate rate of 4.8 percent for 2030 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 2021 Mortality pre-retirement and post-retirement with Scale MP-2021).

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, 2022, 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%

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%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net OPEB liability (asset)	$ 5,212,563	$ 1,113,608	$ (2,187,963)

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)	$ (1,418,685)	$ 1,113,608	$ 4,009,661

Note 7: Subsequent Events

Events subsequent to June 30, 2022 have been evaluated by the Trust Administrator through April 6, 2023, the date financial statements were available to be issued. The Trust Administrator did not identify any subsequent events requiring disclosure in the financial statements.

Required Supplementary Information

Cal Poly Corporation VEBA Trust
Schedule of Changes in the Net OPEB Liability and Related Ratios
Last 10 Fiscal Years*

	2022	2021	2020	2019	2018	2017
Total OPEB liability						
Service cost	$ 1,009,391	$ 961,325	$ 1,005,266	$ 957,397	$ 1,141,018	$ 1,086,684
Interest	2,013,419	1,918,690	1,966,797	1,876,206	2,032,225	1,923,754
Differences between expected and actual experience	(1,453,342)	(60,281)	(226,327)	24,239	(1,012,510)	(269,900)
Changes in assumptions	(3,795,339)		(1,974,894)		(2,904,595)	
Benefit payments	(1,388,572)	(1,431,612)	(1,501,317)	(1,522,318)	(1,424,857)	(1,119,651)
Net change in total OPEB liability	(3,614,443)	1,388,122	(730,475)	1,335,524	(2,168,719)	1,620,887
Total OPEB liability - beginning	30,649,650	29,261,528	29,992,003	28,656,479	30,825,198	29,204,311
Total OPEB liability - ending (a)	$ 27,035,207	$ 30,649,650	$ 29,261,528	$ 29,992,003	$ 28,656,479	$ 30,825,198
Plan fiduciary net position						
Contributions - employer	$ 392,013	$ 478,753	$ 451,320	$ 594,645	$ 492,280	$ 296,314
Net investment income (loss)	(3,686,763)	5,937,894	514,291	1,486,548	1,469,561	2,405,355
Benefit payments	(1,388,572)	(1,431,612)	(1,501,317)	(1,522,318)	(1,424,857)	(1,119,651)
Administrative expense	(31,966)	(15,639)	(8,902)	(12,540)	(12,965)	(12,743)
Net change in plan fiduciary net position	(4,715,288)	4,969,396	(544,608)	546,335	524,019	1,569,275
Plan fiduciary net position - beginning	30,636,887	25,667,491	26,212,099	25,665,764	25,141,745	23,572,470
Plan fiduciary net position - ending (b)	$ 25,921,599	$ 30,636,887	$ 25,667,491	$ 26,212,099	$ 25,665,764	$ 25,141,745
Net OPEB liability - ending (a)-(b)	$ 1,113,608	$ 12,763	$ 3,594,037	$ 3,779,904	$ 2,990,715	$ 5,683,453
Plan fiduciary net position as a percentage of the total OPEB liability.	95.88%	99.96%	87.72%	87.40%	89.56%	81.56%
Covered employee payroll	$ 12,757,999	$ 12,302,135	$ 13,055,768	$ 12,615,771	$ 11,941,343	$ 12,085,567
Net OPEB liability as a percentage of covered employee payroll	8.73%	0.10%	27.53%	29.96%	25.05%	47.03%

* Fiscal year 2017 was the first year of implementation, therefore only six years are shown.

See independent auditors' report.

Cal Poly Corporation VEBA Trust

Schedule of Changes in the Net OPEB Liability and Related Ratios (Continued)

Last 10 Fiscal Years*

Notes to Schedule:

Benefit Changes: There have been no changes to benefit terms since June 30, 2017.

Changes of Assumptions: The mortality, retirement, and withdrawal rates were updated to reflect the most recent experience study published by CalPERS. The per capita claims cost (or baseline cost) is based on current premiums and plan selection. The plan selection was updated to reflect experience in the 2022 census and the premiums were updated to reflect experience through 2023. The trend rates were revised to reflect lower expectations of future healthcare cost inflation. There have been no other changes in the assumptions since the last measurement date of June 30, 2022.

See independent auditors' report.

Cal Poly Corporation VEBA Trust

Schedule of Investment Returns

Last 10 Fiscal Years*

	2022	2021	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	-12.40%	23.80%	1.40%	6.30%	5.90%	10.20%

* Fiscal year 2017 was the first year of implementation, therefore only six years are 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, 2022 and 2021, and the related statements of changes in fiduciary net position for the years then ended of Cal Poly Corporation VEBA Trust (the 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 April 6, 2023.

Report on 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

Report on 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

April 6, 2023