

CALIFORNIA MARITIME ACADEMY FOUNDATION, INC.

VALLEJO, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
California Maritime Academy Foundation, Inc.
Vallejo, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of California Maritime Academy Foundation, Inc. as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise California Maritime Academy Foundation, Inc.'s basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of California Maritime Academy Foundation, Inc. as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows and the respective budgetary comparisons included as part of the basic financial statements thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited California Maritime Academy Foundation, Inc.'s 2016 financial statements, and expressed an unmodified audit opinion on those audited financial statements in our report dated August 4, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary data in schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2017 on our consideration of the California Maritime Academy Foundation, Inc.'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 California Maritime Academy Foundation, Inc.'s internal control over financial reporting and compliance.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
August 24, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of California Maritime Academy Foundation, Inc.'s (the Foundation) annual financial report presents management's overview and analysis of the financial activities of the Foundation for the fiscal year ended June 30, 2017. We encourage the reader to consider the information presented here in conjunction with the financial statements taken as a whole.

Introduction to the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Foundation's audited financial statements, which are comprised of the basic financial statements (pages 6-10) and the footnotes and supplemental schedules (pages 11-25). This annual report is prepared in accordance with the Governmental Accounting Standards Board Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. This is designed to improve the usefulness of the report to the primary users of these documents. The Business-Type Activity (BTA) reporting model used is best to represent the activities of the California Maritime Academy (the Academy) and its auxiliaries. The Foundation is one auxiliary of the Academy.

The required financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows. These statements are supported by notes to the financial statements, supplementary detail and/or statistical information, and this summary. All sections must be considered together to obtain a complete understanding of the financial picture of the Foundation.

Statement of Net Position:

This statement includes all assets and liabilities using the accrual basis of accounting as of the statement date. The difference between the two classifications is represented as "Net Position"; this section of the statement identifies major categories of restrictions on these assets and reflects the overall financial position of the Foundation as a whole.

Statement of Revenues, Expenses and Changes in Net Position:

This statement presents the revenues earned and the expenses incurred during the year using the accrual basis of accounting. Under the accrual basis, all increases or decreases in net position are reported as soon as the underlying events occur, regardless of the timing of the cash flow. Consequently revenues and/or expenses reported during this fiscal year may result in changes to cash flow in future periods.

Statement of Cash Flows:

This statement reflects inflows and outflows of cash, summarized by operating, capital, financing and investing activities. The direct method was used to prepare this information, which means that gross rather than net amounts were presented for the year's activities.

Statement of Revenues and Expenses – Budget to Actual:

This is supplementary information for analysis purposes only.

Notes to the Financial Statements:

This additional information is essential to a full understanding of the data reported in the basic financial statements.

Supplemental Information:

This is offered to support the required financial statements, to fulfill understanding of the operating units within the Foundation.

Reporting Entity

The financial statements of the California Maritime Academy will be separated between the Academy and its component units. The latter are separate I.R.C. 501(c)(3) non-profit auxiliary organizations whose financial information will be presented in a discrete column and in the footnotes of the Academy's financial statements. Consequently, these auxiliaries must comply with the same governmental rulings and must present their individual separate audited financial statements in the same format.

Analytical Overview

Summary

Total assets of the Foundation have increased this year by \$940,420. This classification is comprised of Current Assets (Cash and Cash Equivalents, Short-term Investments, Pledges Receivable, and Prepaid Expenses and Other Current Assets), which increased by \$93,758 and Non-current Assets (Restricted Cash and Cash Equivalents, Pledges Receivable, Endowment Investments, and Capital Assets), which increased by \$846,662. The latter category is presented net of accumulated amortization and accumulated depreciation. The increase in total assets is primarily due to donation of vessels of \$1,090,000.

Liabilities have decreased by \$194,113. The decrease is due primarily to a decrease in refundable boat deposits (other liabilities) by \$144,625.

The overall change to Net Position is an increase of \$1,134,533, primarily as a result of donation of vessels of \$1,090,000. The Net Position balance at June 30, 2017 and June 30, 2016 was \$12,655,640 and \$11,521,107, respectively.

Comparative Analysis of Current and Prior Year Activities and Balances

	June 30, 2017	June 30, 2016	Increase (Decrease)	
Operating revenue	\$ 2,505,450	\$ 3,925,936	\$ (1,420,486)	Note 1
Operating expense	1,924,863	1,901,193	23,670	Note 2
Net operating income (loss)	580,587	2,024,743	(1,444,156)	
Investment and endowment income (loss)	637,901	(68,382)	706,283	Note 3
Other revenue (expenses)	(83,955)	8,400	(92,355)	Note 4
Net income (loss)	\$ 1,134,533	\$ 1,964,761	\$ (830,228)	

Note 1: Operating revenue for the year decreased by 36% overall primarily due to donation of vessels of \$2,317,000 in 2016 compared to \$1,090,000 in 2017.

Note 2: Operating expenses for the year increased by 1% overall.

Note 3: Investment and endowment income increased this year by 1,033% overall primarily due to a better year in investment income.

Note 4: Other revenue represents the gain on the sale of boats in 2017 and 2016.

Restricted Resources

The Foundation received restricted resources in the form of donations with donor stipulations that limit the use of donated assets such as endowments for student scholarships and donations for other campus programs. All other funds are unrestricted.

Capital Assets and Long-Term Debt Obligations

Capital Assets

Capital assets as of June 30 are as follows:

	<u>Years</u>	<u>Balance 6/30/17</u>	<u>Balance 6/30/16</u>
Vessels	5	\$ 3,586,000	\$ 3,864,000
Equipment and software	5	<u>31,340</u>	<u>31,340</u>
Total		3,617,340	3,895,340
Accumulated depreciation		<u>(929,065)</u>	<u>(1,059,740)</u>
Capital assets, net		<u>\$ 2,688,275</u>	<u>\$ 2,835,600</u>

Depreciation expense was \$758,158 and \$551,650 for the years ended June 30, 2017 and June 30, 2016, respectively.

Long-Term Debt Obligations

The Foundation administers a charitable gift annuity which provides for the payment of distributions to designated beneficiaries over the beneficiary's lifetime. At the end of the term, the remaining assets are available for the Foundation's use. The portion of the annuity attributable to the present value of the future benefits to be received by the Foundation is recorded in the Statement of Revenues, Expenses and Changes in Net Position as a contribution. Assets held in the charitable gift annuity are reported at fair market value in the Statement of Net Position. The present value of the estimated future payments is calculated using the appropriate discount rate and applicable mortality tables.

Contingent payments for the annuity payable are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 2,386	\$ 2,028
2019	2,232	2,182
2020	2,088	2,325
2021	1,954	2,460
2022	1,828	2,586
2023 – 2027	7,515	14,553
2028 – 2032	3,178	11,028
2033 – 2037	2,065	10,753
2038 – 2042	1,514	11,304
2043 – 2047	<u>2,201</u>	<u>8,185</u>
Total	<u>\$ 26,961</u>	<u>\$ 67,404</u>

Contacting the Foundation's Financial Management

These basic financial statements are intended to provide students, taxpayers, investors, and creditors with a general overview of California Maritime Academy Foundation, Inc.'s finances. Questions about this report should be directed to the California Maritime Academy Foundation, Inc. at 200 Maritime Drive, Vallejo, California 94590.

California Maritime Academy Foundation, Inc.

STATEMENTS OF NET POSITION

June 30, 2017

(With Comparative Totals for June 30, 2016)

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 1,535,968	\$ 1,402,453
Short-term investments	119,401	110,800
Pledges receivable, net	116,745	154,902
Prepaid expenses and other current assets	<u>43,094</u>	<u>53,295</u>
Total current assets	<u>1,815,208</u>	<u>1,721,450</u>
Non-current assets:		
Restricted cash and cash equivalents	668,712	465,738
Pledges receivable, net	85,057	165,607
Endowment investments	7,443,676	6,572,113
Capital assets, net	<u>2,688,275</u>	<u>2,835,600</u>
Total non-current assets	<u>10,885,720</u>	<u>10,039,058</u>
Total assets	<u>12,700,928</u>	<u>11,760,508</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	9,343	10,912
Accounts payable - CMA	3,609	31,563
Long-term debt obligations - current portion	2,386	3,996
Other liabilities	<u>5,375</u>	<u>150,000</u>
Total current liabilities	<u>20,713</u>	<u>196,471</u>
Non-current liabilities:		
Long-term debt obligations - net of current portion	<u>24,575</u>	<u>42,930</u>
Total non-current liabilities	<u>24,575</u>	<u>42,930</u>
Total liabilities	<u>45,288</u>	<u>239,401</u>
<u>NET POSITION</u>		
Net investment in capital assets	2,688,275	2,835,600
Restricted for:		
Nonexpendable - endowments	8,152,623	7,113,901
Expendable:		
Capital campaign	120,621	110,800
Other	1,082,129	1,125,491
Unrestricted	<u>611,992</u>	<u>335,315</u>
Total net position	<u>\$ 12,655,640</u>	<u>\$ 11,521,107</u>

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended June 30, 2017

(With Comparative Totals for the Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
Revenues:		
Operating revenues:		
Other operating revenues	\$ 2,505,450	\$ 3,925,936
Total operating revenues	<u>2,505,450</u>	<u>3,925,936</u>
Expenses:		
Operating expenses:		
Student grants and scholarships	345,358	479,819
Auxiliary enterprise expenses	821,347	869,724
Depreciation and amortization	<u>758,158</u>	<u>551,650</u>
Total operating expenses	<u>1,924,863</u>	<u>1,901,193</u>
Operating income (loss)	<u>580,587</u>	<u>2,024,743</u>
Nonoperating revenues (expenses):		
Investment income (loss), net	441,525	(270,851)
Endowment income (loss), net	196,376	202,469
Other nonoperating revenues (expenses)	<u>(83,955)</u>	<u>8,400</u>
Net nonoperating revenues (expenses)	<u>553,946</u>	<u>(59,982)</u>
Increase (decrease) in net position	<u>1,134,533</u>	<u>1,964,761</u>
Net position:		
Net position at beginning of year	<u>11,521,107</u>	<u>9,556,346</u>
Net position at end of year	<u>\$ 12,655,640</u>	<u>\$ 11,521,107</u>

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

STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2017

(With Comparative Totals for the Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Payments to suppliers	#REF!	\$ (709,663)
Payments to employees	(214,626)	(170,704)
Payments to students	(345,358)	(479,819)
Other receipts	<u>1,389,532</u>	<u>1,734,321</u>
Net cash used in operating activities	<u>#REF!</u>	<u>374,135</u>
Cash flows from noncapital financing activities:		
Gifts and grants received (paid) for other than capital purposes	<u>(282,791)</u>	<u>176,469</u>
Net cash provided by noncapital financing activities	<u>(282,791)</u>	<u>176,469</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	395,212	34,400
Disposals of capital assets	479,167	26,000
Principal paid on capital debt and leases	<u>(19,965)</u>	<u>(2,592)</u>
Net cash used in capital and related financing activities	<u>854,414</u>	<u>57,808</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	2,515,391	2,349,883
Purchases of investments	(3,150,406)	(3,003,842)
Investment income received	<u>196,376</u>	<u>202,469</u>
Net cash used in investing activities	<u>(438,639)</u>	<u>(451,490)</u>
Net increase in cash and cash equivalents	#REF!	156,922
Cash and cash equivalents at beginning of year	<u>1,868,191</u>	<u>1,711,269</u>
Cash and cash equivalents at end of year	<u>#REF!</u>	<u>\$ 1,868,191</u>
Summary of cash and cash equivalents at end of year:		
Cash and cash equivalents	\$ 1,535,968	\$ 1,402,453
Restricted cash and cash equivalents	<u>668,712</u>	<u>465,738</u>
Total cash and cash equivalents at end of year	<u>\$ 2,204,680</u>	<u>\$ 1,868,191</u>

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

STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2017

(With Comparative Totals for the Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income to net cash used in operating activities:		
Operating income (loss)	\$ 580,587	\$ 2,024,743
Adjustments to reconcile operating income (loss) to net cash provided used in operating activities:		
In-kind contribution of assets	(1,090,000)	(2,317,000)
Depreciation and amortization	758,158	551,650
Changes in certain assets and liabilities:		
Pledges receivable, net	118,707	(24,615)
Prepaid expenses and other current assets	10,201	(24,784)
Accounts payable	(1,569)	7,961
Accounts payable - CMA	(27,954)	6,180
Other liabilities	<u>(144,625)</u>	<u>150,000</u>
Net cash used in operating activities	<u>\$ 203,505</u>	<u>\$ 374,135</u>
Supplemental disclosures of cash flow information:		
Noncash activities:		
Other in-kind contributions	<u>\$ 60,985</u>	<u>\$ 97,577</u>

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

California Maritime Academy Foundation, Inc.
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
For the Year Ended June 30, 2017

Exhibit D

	General Operating Fund*		
	Original and Final Budget	Actual	Variance with Final Budget
Revenues:			
Operating revenues:			
Other operating revenues	\$ 597,176	\$ 489,704	\$ (107,472)
Total operating revenues	597,176	489,704	(107,472)
Expenses:			
Operating expenses:			
Student grants and scholarships	-	-	-
Auxiliary enterprise expenses	486,303	418,171	68,132
Depreciation and amortization	-	-	-
Total operating expenses	486,303	418,171	68,132
Operating income (loss)	110,873	71,533	(39,340)
Nonoperating revenues (expenses):			
Investment income (loss), net	-	-	-
Endowment income (loss), net	-	-	-
Other nonoperating revenues (expenses)	-	-	-
Total nonoperating revenues (expenses)	-	-	-
Increase (decrease) in net position	\$ 110,873	\$ 71,533	\$ (39,340)

*The budget was prepared for the General Operating Fund only.

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

California Maritime Academy Foundation, Inc.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - GENERAL

The Foundation

The California Maritime Academy Foundation, Inc. (the Foundation) was established in 1972 as a non-profit, tax exempt, charitable and educational organization. The Foundation's mission is to support, with pride, the California Maritime Academy (the Academy) located in Vallejo, California, with resources to enhance the educational experience of its students.

Individuals, corporations, and organizations support the Foundation by donations given in many ways: gifts of sail and power boats, stocks, real estate, maritime training equipment, and other capital assets. Donations are made for endowments, scholarships, the sailing program, classroom/laboratory equipment, and for unrestricted use. Specific donations are applied according to the wishes of the donor. The Foundation also conducts an annual fund drive through which employers, alumni, and friends—both individual and corporate—contribute matching gifts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The basic financial statements present only the statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows of the Foundation.

The Foundation is one of the recognized California Maritime Academy auxiliary organizations. Auxiliary organizations are legally separate entities that provide services primarily to the University's students and faculty.

B. Basis of Presentation

The accompanying basic financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Financial statements required include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

The Foundation records revenue in part from fees and other charges for services to external users, and accordingly has chosen to present its financial statements using the reporting model for special-purpose governments engaged only in business-type activities. This model allows all financial information for the Foundation to be reported in a single column in each of the financial statements. In accordance with the business-type activities reporting model, the Foundation prepares its statement of cash flows using the direct method.

California Maritime Academy Foundation, Inc.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Election of Applicable FASB Statements

The Foundation uses all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The Foundation has elected not to adopt the pronouncements issued by FASB after November 30, 1989.

D. Classification of Current and Noncurrent Assets and Liabilities

The Foundation considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statement of net position date. Liabilities that reasonably can be expected, as part of normal business operations, to be liquidated within 12 months of the statement of net position date are considered to be current. All other assets and liabilities are considered to be noncurrent.

E. Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, cash and cash equivalents include cash on deposit with financial institutions.

F. Investments

Investments are recorded at fair market value. Realized and unrealized gains and losses are included in the accompanying statement of revenues, expenses, and changes in net position as investment income, net.

G. Allowances for Uncollectible Receivables

The Foundation has not accrued a loss for allowances for uncollectible receivables since it is the opinion of management that it is highly probable that all receivables will be collected.

H. Capital Assets

The aggregate cost of assets over \$5,000 is capitalized in the statement of net position. Property, plant and equipment, other than vessels held for charter, are stated at cost and depreciation is computed on the straight-line basis of accounting over the estimated useful lives of the assets.

I. Net Position

The Foundation's net position is classified into the following net position categories:

Net investments in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted: The Foundation receives restricted resources in the form of donations with donor stipulations that limit the use of donated assets such as endowments for student scholarships and donations for other campus programs.

California Maritime Academy Foundation, Inc.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Net Position (concluded)

Unrestricted: All other categories of net position. In addition, unrestricted net position may be designated for use by management of the Foundation.

J. Classification of Revenues and Expenses

The Foundation considers operating revenues and expenses in the statement of revenues, expenses, and changes in net position to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the Foundation's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services. Certain other transactions are reported as nonoperating revenues and expenses or capital contributions. These nonoperating activities include the Foundation's net investment income, endowments, and losses on sale of capital assets.

K. Use of Estimates

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

L. Risk Management

The Foundation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Foundation carries commercial insurance.

M. Concentrations of Risk

Financial instruments which potentially subject the Foundation to concentration of credit risk consist principally of cash. The Foundation places its cash and money market accounts with creditworthy, high-quality financial institutions. A significant portion of the funds, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts.

Financial instruments which potentially expose the Foundation to concentrations of investment risk consist primarily of marketable securities. The Foundation will often receive donations in the form of marketable securities. In order to limit the amount of risk exposure, the Foundation will sell the marketable securities within several days and invest the funds in low-risk mutual funds. As a result, management does not consider this risk a particular concern at this time.

N. In-kind

Values assigned to in-kind contributions and the related expenses are based on federal guidelines. In accordance with those guidelines, values are based upon estimated area-wide averages for purchased services, facilities, or supplies of a similar type. In-kind contributions and expenses are recorded when used in the program and are not carried forward.

California Maritime Academy Foundation, Inc.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

O. CSU Reporting Requirements for Auxiliary Organizations

The Foundation, as an auxiliary of the Academy, has prepared the following required information under the California State University (CSU) reporting requirements: the schedule of net position (Schedule 1), the schedule of revenues, expenses, and changes in net position (Schedule 2), and other information (Schedules 3-6).

P. Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through August 24, 2017, the date the financial statements were available to be issued.

NOTE 3 - INCOME TAXES

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is also exempt from California franchise taxes under Section 23701(d) of the Revenue and Taxation Code and, therefore, has made no provision for Federal or California income taxes. Contributors, donors and grantors may obtain tax benefits. In addition, the Foundation has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Code. The Foundation is subject to unrelated business income taxes on charter lease revenues received through the boat donation program.

The Foundation adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Foundation has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Foundation believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Foundation’s financial condition, results of operations or cash flows. Accordingly, the Foundation has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2017. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

California Maritime Academy Foundation, Inc.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 4 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

As of June 30, 2017 and June 30, 2016, cash and cash equivalents were \$2,204,680 and \$1,868,191, respectively. The corresponding bank balance was \$2,192,009 for 2017 and \$1,860,368 in 2016. The differences between the cash and cash equivalents balance and the bank balance are related to deposits in transit and outstanding checks. The bank insures \$250,000 by federal depository insurance. The balance is uninsured and held by the financial institutions in the Foundation's name. It is the opinion of management that the uninsured portion is not of particular concern at this time due to the solvency of the financial institutions.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of bank failure, the Foundation's deposits may not be returned to it. As of June 30, 2017 and June 30, 2016, \$1,942,009 and \$1,610,368, respectively, of the bank balances was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Foundation's name.

Restricted Cash and Cash Equivalents

The Foundation has restricted cash or cash equivalents in the amounts of \$668,712 and \$465,738 as of June 30, 2017 and June 30, 2016, respectively, in the Endowment Fund.

Cash balances as of June 30 are as follows:

	<u>2017</u>	<u>2016</u>
First Bank	\$ 1,535,968	\$ 1,402,453
First Bank (Restricted Cash)	271,864	139,150
UBS Financial Money Market (Restricted Cash)	<u>396,848</u>	<u>326,588</u>
Total	<u>\$ 2,204,680</u>	<u>\$ 1,868,191</u>

Investments

Investment Policy

The primary investment objectives are to preserve the purchasing power of the assets throughout time and to provide a stable flow of annual resources for the Foundation's scholarship program. The Investment Manager(s) must properly balance the following overall objectives: income, growth, liquidity, and safety. The pursuit of the foregoing objectives must be consistent with the Foundation's desire to obtain consistent returns through conservative investments with the acceptance of prudent investment risks and the rejection of those investment activities deemed to be too speculative in nature.

California Maritime Academy Foundation, Inc.
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2017

NOTE 4 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (concluded)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Foundation seeks to diversify investments among both equity and fixed-income securities so as to provide a balance sheet that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

Concentration of Credit Risk

The Foundation's investment policy contains a maximum and minimum range for each asset category as follows: Cash Equivalents 0%-75%; Fixed Income 25%-75%; and Equity 15%-75%.

The Foundation periodically receives donations of marketable securities. As detailed in note 2M, the Foundation takes several precautions to reduce risks related to investment activities. Marketable securities are recorded at current market value on the statement of net position.

Investments as of June 30 are as follows:

	<u>UBS</u>
Account balance as of 6/30/16	\$ 6,682,913
Purchases/transfers in/deposits	2,690,562
Total unrealized gains and (losses)	430,590
Realized capital gains and (losses), net of commissions and fees	78,027
Dividends and interest	196,376
Sales/transfers out/withdrawals	<u>(2,515,391)</u>
Investments as of 6/30/17	<u>\$ 7,563,077</u>
Equity securities	\$ 4,626,492
Mutual Funds	<u>2,936,585</u>
Total	<u>\$ 7,563,077</u>
At cost	<u>\$ 7,132,487</u>
Amount restricted for endowments	<u>\$ 7,443,676</u>

California Maritime Academy Foundation, Inc.
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2017

NOTE 5 - PLEDGES RECEIVABLE

The Foundation receives pledges receivable from multiple donors. Pledges receivable to give as of June 30 were as follows:

	2017	2016
Receivable in less than one year	\$ 116,745	\$ 154,902
Receivable in one to three years	20,000	50,000
Thereafter	65,057	115,607
Total pledges receivable	201,802	320,509
Less discounts to net present value	-*	-*
Total pledges receivable	\$ 201,802	\$ 320,509

The Foundation has not accrued a loss for allowances for doubtful accounts since it is the opinion of management that it is highly probable that all pledges receivable will be collected.

*The Foundation has not recorded the discount to net present value for the years ended June 30, 2017 and June 30, 2016 because the amounts were considered immaterial.

NOTE 6 - CAPITAL ASSETS

Capital assets as of June 30 are as follows:

		Balance				Balance
	Years	6/30/16	Additions	Retirements	Transfers	6/30/17
Depreciable capital assets:						
Vessels	2	\$3,864,000	\$ 1,090,000	\$ (1,368,000)	\$ -	\$ 3,586,000
Equipment and software	5	31,340	-	-	-	31,340
Total depreciable		3,895,340	1,090,000	(1,368,000)	-	3,617,340
Total capital assets		3,895,340	1,090,000	(1,368,000)	-	3,617,340
Less accumulated depreciation						
Vessels		(1,028,400)	(758,158)	888,833	-	(897,725)
Equipment and software		(31,340)	-	-	-	(31,340)
Total accum. depreciation		(1,059,740)	(758,158)	888,833	-	(929,065)
Capital assets, net		\$ 2,835,600	\$ 331,842	\$ (479,167)	\$ -	\$ 2,688,275

Depreciation expense was \$758,158 and \$551,650 for the years ended June 30, 2017 and June 30, 2016, respectively.

California Maritime Academy Foundation, Inc.
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2017

NOTE 7 - LONG-TERM DEBT OBLIGATIONS

The Foundation administers a charitable gift annuity which provides for the payment of distributions to designated beneficiaries over the beneficiary's lifetime. At the end of the term, the remaining assets are available for the Foundation's use. The portion of the annuity attributable to the present value of the future benefits to be received by the Foundation is recorded in the statement of revenues, expenses and changes in net position as a contribution. Assets held in the charitable gift annuity are reported at fair market value in the statement of net position. The present value of the estimated future payments is calculated using the appropriate discount rate and applicable mortality tables.

The charitable gift annuity receivable at June 30 is as follows:

	2017	2016
Annuity receivable	\$ 65,057	\$ 115,607
Less: current year contributions	(38,096)	(68,681)
Present value of the estimated future payments	26,961	46,926
Less: current portion	(2,386)	(3,996)
Annuity payable	\$ 24,575	\$ 42,930

Long-term debt obligations as of June 30 are as follows:

	<u>Balance</u> <u>6/30/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/17</u>	<u>Current</u> <u>Portion</u>
Long-term debt obligations	\$ 46,926	\$ -	\$ (19,965)	\$ 26,961	\$ 2,386

Contingent payments for the annuity payable are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Discount</u>
2018	\$ 2,386	\$ 2,028
2019	2,232	2,182
2020	2,088	2,325
2021	1,954	2,460
2022	1,828	2,586
2023 – 2027	7,515	14,553
2028 – 2032	3,178	11,028
2033 – 2037	2,065	10,753
2038 – 2042	1,514	11,304
2043 – 2047	2,201	8,185
Total	\$ 26,961	\$ 67,404

California Maritime Academy Foundation, Inc.
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2017

NOTE 8 - TRANSACTIONS WITH RELATED ENTITIES

The Foundation is an auxiliary organization of the Academy. The Foundation had the following transactions with the Academy as of and for the years ended June 30:

	2017	2016
Payments to University for other than salaries of University personnel	\$ 113,530	\$ 221,320
Gifts-in-kind to the University from discretely presented component units	56,847	59,645
Gifts (cash or assets) to the University from discretely presented component units	365,332	592,873
Accounts (payable to) University	(3,609)	(31,563)

NOTE 9 - CONTROLLED ENTITY – LIMITED LIABILITY COMPANY

In January 2017, the Foundation created a Limited Liability Company (LLC), Anticipation Beach LLC. The sole asset of the LLC was the motor vessel Anticipation. 100% of the LLC shares were sold to a buyer for the purchase of the LLC. The LLC was created for a variety of reasons including liability protection and to increase marketability. This resulted in the transaction for the sale of a vessel in the amount of \$380,000. This transaction has been included in the Foundation's financial statements.

SCHEDULE OF NET POSITION

All Program Services

June 30, 2017

	General Operating Fund	Marine Development Fund	Restricted Fund	Capital Campaign Fund	Endowment Fund	Total
<u>ASSETS</u>						
Current assets:						
Cash and cash equivalents	\$ 135,353	\$ 420,397	\$ 980,218	\$ -	\$ -	\$ 1,535,968
Short-term investments	-	-	(1,220)	120,621	-	119,401
Pledges receivable, net	31,475	-	45,035	-	40,235	116,745
Prepaid expenses and other current assets	42,480	614	-	-	-	43,094
Total current assets	209,308	421,011	1,024,033	120,621	40,235	1,815,208
Non-current assets:						
Restricted cash and cash equivalents	-	-	-	-	668,712	668,712
Pledges receivable, net	-	-	85,057	-	-	85,057
Endowment investments	-	-	-	-	7,443,676	7,443,676
Capital assets, net	-	2,688,275	-	-	-	2,688,275
Total non-current assets	-	2,688,275	85,057	-	8,112,388	10,885,720
Total assets	209,308	3,109,286	1,109,090	120,621	8,152,623	12,700,928
<u>LIABILITIES</u>						
Current liabilities:						
Accounts payable	406	8,937	-	-	-	9,343
Accounts payable - CMA	3,609	-	-	-	-	3,609
Long-term debt obligations - current portion	-	-	2,386	-	-	2,386
Other liabilities	-	5,375	-	-	-	5,375
Total current liabilities	4,015	14,312	2,386	-	-	20,713
Non-current liabilities:						
Long-term debt obligations - net of current portion	-	-	24,575	-	-	24,575
Total non-current liabilities	-	-	24,575	-	-	24,575
Total liabilities	4,015	14,312	26,961	-	-	45,288
<u>NET POSITION</u>						
Net investment in capital assets	-	2,688,275	-	-	-	2,688,275
Restricted for:						
Nonexpendable - endowments	-	-	-	-	8,152,623	8,152,623
Expendable:						
Capital projects	-	-	-	120,621	-	120,621
Other	-	-	1,082,129	-	-	1,082,129
Unrestricted	205,293	406,699	-	-	-	611,992
Total net position	\$ 205,293	\$ 3,094,974	\$ 1,082,129	\$ 120,621	\$ 8,152,623	\$ 12,655,640

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

All Program Services
For the Year Ended June 30, 2017

	General Operating Fund	Marine Development Fund	Restricted Fund	Capital Campaign Fund	Endowment Fund	Total
Revenues:						
Operating revenues:						
Other operating revenues	\$ 489,704	\$ 1,434,347	\$ 297,855	\$ -	\$ 283,544	\$ 2,505,450
Total operating revenues	489,704	1,434,347	297,855	-	283,544	2,505,450
Expenses:						
Operating expenses:						
Student grants and scholarships	-	-	310,633	-	34,725	345,358
Auxiliary enterprise expenses	418,171	291,229	110,846	-	1,101	821,347
Depreciation and amortization	-	758,158	-	-	-	758,158
Total operating expenses	418,171	1,049,387	421,479	-	35,826	1,924,863
Operating income (loss)	71,533	384,960	(123,624)	-	247,718	580,587
Nonoperating revenues (expenses):						
Investment income (loss), net	-	-	-	9,821	431,704	441,525
Endowment income (loss), net	-	-	-	-	196,376	196,376
Other nonoperating revenues (expenses)	-	(83,955)	-	-	-	(83,955)
Net nonoperating revenues (expenses)	-	(83,955)	-	9,821	628,080	553,946
Increase (decrease) in net position	71,533	301,005	(123,624)	9,821	875,798	1,134,533
Net position:						
Net position at beginning of year, as previously reported	146,946	3,023,969	1,125,491	110,800	7,113,901	11,521,107
Net position transfer	(13,186)	(230,000)	80,262	-	162,924	-
Net position at beginning of year, as restated	133,760	2,793,969	1,205,753	110,800	7,276,825	11,521,107
Net position at end of year	\$ 205,293	\$ 3,094,974	\$ 1,082,129	\$ 120,621	\$ 8,152,623	\$ 12,655,640

California Maritime Academy Foundation, Inc.
OTHER INFORMATION
 CSU Reporting Requirements for Auxiliary Organizations
 June 30, 2017

Schedule 3

NOTE 1 - RESTRICTED CASH AND CASH EQUIVALENTS AT JUNE 30, 2017

Portion of restricted cash and cash equivalents related to endowments	\$ 668,712
All other restricted cash and cash equivalents	-
Total restricted cash and cash equivalents	\$ 668,712

NOTE 2.1 - COMPOSITION OF INVESTMENTS AT JUNE 30, 2017

	Current Unrestricted	Current Restricted	Total Current	Noncurrent Unrestricted	Noncurrent Restricted	Total Noncurrent	Total
Mutual Funds	\$ -	\$ -	\$ -	\$ -	\$ 2,936,585	\$ 2,936,585	\$ 2,936,585
Equity securities	-	119,401	119,401	-	4,507,091	4,507,091	4,626,492
Total investments	-	119,401	119,401	-	7,443,676	7,443,676	7,563,077
Less endowment investments	-	-	-	-	(7,443,676)	(7,443,676)	(7,443,676)
Total investments	\$ -	\$ 119,401	\$ 119,401	\$ -	\$ -	\$ -	\$ 119,401

NOTE 2.2 - INVESTMENTS HELD BY THE UNIVERSITY UNDER CONTRACTUAL AGREEMENTS AT JUNE 30, 2017

None

NOTE 2.3 - RESTRICTED CURRENT INVESTMENTS AT JUNE 30, 2017 RELATED TO

	Amount
Capital Projects	\$ 120,621
Other	(1,220)
Total restricted current investments at June 30, 2017	\$ 119,401

NOTE 2.4 - RESTRICTED NONCURRENT INVESTMENTS AT JUNE 30, 2017 RELATED TO

	Amount
Endowment investment	\$ 7,443,676
Total restricted noncurrent investments at June 30, 2017	\$ 7,443,676

NOTE 2.5 - FAIR VALUE HIERARCHY IN INVESTMENTS AT JUNE 30, 2017

	Fair Value Measurements Using				
	Quoted Prices in Active Markets for Identical Assets Total	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)	
Mutual Funds	\$ 2,936,585	\$ 2,936,585	\$ -	\$ -	\$ -
Equity securities	4,626,492	4,626,492	-	-	-
Total investments	\$ 7,563,077	\$ 7,563,077	\$ -	\$ -	\$ -

OTHER INFORMATION

CSU Reporting Requirements for Auxiliary Organizations
June 30, 2017

NOTE 3.1 - COMPOSITION OF CAPITAL ASSETS AT JUNE 30, 2017

	Balance June 30, 2016	Additions	Reductions	Transfers of Completed CWIP	Balance June 30, 2017
Nondepreciable/nonamortizable capital assets:					
Construction work in progress (CWIP)	\$ -	\$ -	\$ -	\$ -	\$ -
Total nondepreciable/nonamortizable capital assets	-	-	-	-	-
Depreciable/amortizable capital assets:					
Vessels	3,864,000	1,090,000	(1,368,000)	-	3,586,000
Personal property:					
Equipment	31,340	-	-	-	31,340
Total depreciable/amortizable capital assets	3,895,340	1,090,000	(1,368,000)	-	3,617,340
Total capital assets	3,895,340	1,090,000	(1,368,000)	-	3,617,340
Less accumulated depreciation/amortization:					
Vessels	(1,028,400)	(758,158)	888,833	-	(897,725)
Personal property:					
Equipment	(31,340)	-	-	-	(31,340)
Total accumulated depreciation/amortization	(1,059,740)	(758,158)	888,833	-	(929,065)
Total capital assets, net	\$ 2,835,600	\$ 331,842	\$ (479,167)	\$ -	\$ 2,688,275

NOTE 3.2 - DETAIL OF DEPRECIATION AND AMORTIZATION EXPENSE FOR THE YEAR ENDED JUNE 30, 2017

Depreciation and amortization expense related to capital assets	\$ 758,158
Amortization expense related to other assets	-
Total depreciation and amortization	\$ 758,158

NOTE 4 - LONG-TERM LIABILITIES ACTIVITY SCHEDULE

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion	Long-term Portion
Long-term debt obligations:						
Other:						
Charity gift annuity payable	\$ 46,926	\$ -	\$ (19,965)	\$ 26,961	\$ 2,386	\$ 24,575
Total long-term debt obligation	46,926	-	(19,965)	26,961	2,386	24,575
Total long-term debt liabilities	\$ 46,926	\$ -	\$ (19,965)	\$ 26,961	\$ 2,386	\$ 24,575

NOTE 5 - FUTURE MINIMUM LEASE PAYMENTS - CAPITAL LEASE OBLIGATIONS

None

OTHER INFORMATION

CSU Reporting Requirements for Auxiliary Organizations
June 30, 2017

NOTE 6 - LONG-TERM DEBT OBLIGATION SCHEDULE

	All Other Long-Term Debt Obligations		
	Principal Only	Interest Only	Principal and Interest
Year ending June 30:			
2018	\$ 2,386	\$ 2,028	\$ 4,414
2019	2,232	2,182	4,414
2020	2,088	2,325	4,413
2021	1,954	2,460	4,414
2022	1,828	2,586	4,414
2023-2027	7,515	14,553	22,068
2028-2032	3,178	11,028	14,206
2033-2037	2,065	10,753	12,818
2038-2042	1,514	11,304	12,818
2043-2047	2,201	8,185	10,386
Total minimum payments	<u>\$ 26,961</u>	<u>\$ 67,404</u>	94,365
Less amounts representing interest			(67,404)
Present value of future minimum payments			26,961
Unamortized net premium (discount)			-
Total long-term debt obligations			26,961
Less: current portion			(2,386)
Long-term debt obligations, net of current portion			<u>\$ 24,575</u>

NOTE 7.1 - CALCULATION OF NET POSITION - NET INVESTMENT IN CAPITAL ASSETS

	Auxiliary Organizations		Total
	GASB	FASB	Auxiliaries
Capital assets, net of accumulated depreciation	\$ 2,688,275	\$ -	\$ 2,688,275
Net position - net investment in capital assets	<u>\$ 2,688,275</u>	<u>\$ -</u>	<u>\$ 2,688,275</u>

NOTE 7.2 - CALCULATION OF NET POSITION - RESTRICTED FOR NONEXPENDABLE - ENDOWMENTS

	Auxiliary Organizations		Total
	GASB	FASB	Auxiliaries
Portion of restricted cash and cash equivalents related to endowments	\$ 668,712	\$ -	\$ 668,712
Endowment investments	7,443,676	-	7,443,676
Other adjustments:			
Pledges receivable	40,235	-	40,235
Net position - Restricted for nonexpendable - endowments per SNP	<u>\$ 8,152,623</u>	<u>\$ -</u>	<u>\$ 8,152,623</u>

OTHER INFORMATION

CSU Reporting Requirements for Auxiliary Organizations

June 30, 2017

NOTE 8 - TRANSACTIONS WITH RELATED ENTITIES

	<u>Amount</u>
Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$ -
Payments to University for other than salaries of University personnel	113,530
Payments received from University for services, space, and programs	-
Gifts-in-kind to the University from discretely presented component units	56,847
Gifts (cash or assets) to the University from discretely presented component units	365,332
Accounts (payable to) University (enter as negative number)	(3,609)
Other amounts (payable to) University (enter as negative number)	-
Accounts receivable from University	-
Other amounts receivable from University	-

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS OBLIGATION (OPEB)

None

NOTE 10 - POLLUTION REMEDIATION LIABILITIES UNDER GASB STATEMENT NO. 49

None

NOTE 11 - THE NATURE AND AMOUNT OF THE PRIOR PERIOD ADJUSTMENT(S) RECORDED TO BEGINNING NET POSITION

None

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

Board of Directors
California Maritime Academy Foundation, Inc.
Vallejo, California

We have audited, in accordance with the 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 financial statements of the governmental activities and the major fund of California Maritime Academy Foundation, Inc. as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise California Maritime Academy Foundation, Inc.'s basic financial statements, and have issued our report thereon dated August 24, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered California Maritime Academy Foundation, Inc.'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 California Maritime Academy Foundation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of California Maritime Academy Foundation, Inc.'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether California Maritime Academy Foundation, Inc.'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 purpose.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
August 24, 2017