

AGENDA

COMMITTEE ON AUDIT

Meeting: 1:45 p.m., Tuesday, January 31, 2017
Glenn S. Dumke Auditorium

Douglas Faigin, Chair
John Nilon, Vice Chair
Lillian Kimbell
Hugo N. Morales
Lateefah Simon

Consent Items

Approval of Minutes of the Meeting of November 15, 2016

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*

Discussion Items

2. Calendar Year 2017 Plan for Audits, Advisory Services, and Investigations, *Action*
3. Report of the Systemwide Financial Statements Including the Report to Management, *Information*
4. Single Audit Reports of Federal Funds, *Information*

**MINUTES OF THE MEETING OF
COMMITTEE ON AUDIT**

**Trustees of the California State University
Office of the Chancellor
Glenn S. Dumke Conference Center
401 Golden Shore
Long Beach, California**

November 15, 2016

Members Present

Douglas Faigin, Chair
John Nilon, Vice Chair
Lillian Kimbell
Hugo N. Morales
Lateefah Simon
Rebecca Eisen, Chair of the Board
Timothy P. White, Chancellor

Trustee Faigin called the meeting to order.

Approval of Minutes

The minutes of September 20, 2016, were approved as submitted.

Status Report on Current and Follow-up Internal Audit Assignments

With the concurrence of the committee, Trustee Faigin presented agenda item 1 as a consent information item.

Report on the new organizational structure of the Office of Audit and Advisory Services

Mr. Larry Mandel, vice chancellor and chief audit officer, provided information regarding the new organizational structure of the Office of Audit and Advisory Services.

Trustee Day inquired as to whether or not there will be a change in where the auditors are physically located and whom they report to. Mr. Mandel responded that the auditors will still be centrally housed in the Chancellor's Office. Mr. Mandel also stated that risk assessments will be completed for each individual campus rather than based on risk to the system. Trustee Day further inquired as to whom the auditors will report to. Mr. Mandel responded that the auditors will continue to report centrally to him.

Trustee Faigin congratulated Mr. Mandel and the audit staff for their work on the reorganization and stated that the reorganization will be very effective. Trustee Faigin noted that audit reports are available to be viewed on the CSU website and provided the web address (<http://www.calstate.edu/audit/>). Trustee Faigin shared that the audit website will also be improved under the new plan.

Trustee Faigin adjourned the Committee on Audit.

COMMITTEE ON AUDIT

Status Report on Current and Follow-up Internal Audit Assignments

Presentation By

Larry Mandel
Vice Chancellor and Chief Audit Officer
Office of Audit and Advisory Services

Summary

This item includes both a status report on the 2016 audit plan and follow-up on past assignments. For the 2016 year, assignments were made to conduct reviews of Auxiliary Organizations, Delegations of Authority, Academic Departments, Emergency Management, International Activities, Construction, Student Activities, Information Security, Cloud Computing, and Information Technology (IT) Disaster Recovery Planning. In addition, follow-up on current/past assignments (Auxiliary Organizations, Information Security, Student Activities, Academic Departments, Delegations of Authority, Cloud Computing, Emergency Management, and International Activities) was being conducted on approximately 35 prior campus/auxiliary reviews. Attachment A summarizes the reviews in tabular form.

Status Report on Current and Follow-up Internal Audit Assignments

Auxiliary Organizations

The initial audit plan indicated that approximately 267 staff weeks of activity (26.1 percent of the plan) would be devoted to auditing internal compliance/internal control at eight campuses/29 auxiliaries. In preparation for implementation of the new organization structure in calendar year 2017, an internal compliance/internal control review will not be completed at one campus/five auxiliaries. Six campus/20 auxiliary reports have been completed, and one campus/four auxiliary reports are awaiting a campus response prior to finalization.

Delegations of Authority

The initial audit plan indicated that approximately 48 staff weeks of activity (4.7 percent of the plan) would be devoted to a review of the management of processes for administration of purchasing and contracting activities, motor vehicle inspections, and real and personal property transactions. Six campuses will be reviewed. Six campus reports have been completed.

Operational/Financial Reviews

Academic Department Fiscal Review

The initial audit plan indicated that approximately 47 staff weeks of activity (4.7 percent of the plan) would be devoted to a review of college/department administrative and financial controls. Six campuses will be reviewed. Five campus reports have been completed, and one report is awaiting a campus response prior to finalization.

Emergency Management

The initial audit plan indicated that approximately 50 staff weeks of activity (4.8 percent of the plan) would be devoted to a review of campus emergency management policies and procedures to ensure compliance with CSU and state and federal compliance requirements. Six campuses will be reviewed. Three campus reports have been completed, report writing is being completed for two campuses, and one report is awaiting a campus response prior to finalization.

International Activities

The initial audit plan indicated that approximately 50 staff weeks of activity (4.8 percent of the plan) would be devoted to a review of campus international programs and activities to ensure compliance with CSU policies and other regulatory requirements. Six campuses will be reviewed. In preparation for implementation of the new organization structure in calendar year 2017, an additional campus will be reviewed to provide staff adequate training. Three campus reports have been completed, report writing is being completed for one campus, and three reports are awaiting a campus response prior to finalization.

Construction

The initial audit plan indicated that approximately 47 staff weeks of activity (4.6 percent of the plan) would be devoted to a review of design budgets and costs; the bid process; invoice processing and change orders; project management, architectural, and engineering services; contractor compliance; cost verification of major equipment and construction components; the closeout process and liquidated damages; and overall project accounting and reporting. Six projects will be reviewed. Four campus reports have been completed, one report is awaiting a campus response prior to finalization, and report writing is being completed for one project.

Student Activities

Due to resource constraints, we were unable to complete three Student Activities audits in 2015. The 2016 audit plan indicated that approximately 25 staff weeks of activity (2.5 percent of the plan) would be devoted to completion of these reviews that ensure compliance with CSU policies and other regulatory requirements. Three campuses will be reviewed. Three campus reports have been completed.

Information Technology Reviews and Support

Information Security

The initial audit plan indicated that approximately 46 staff weeks of activity (4.5 percent of the plan) would be devoted to a review of the activities and measures undertaken to protect the confidentiality, integrity, access to, and availability of information. Six campuses will be reviewed. Four campus reports have been completed, one campus report is awaiting a campus response prior to finalization, and report writing is being completed for one campus.

Cloud Computing

The initial audit plan indicated that approximately 26 staff weeks of activity (2.5 percent of the plan) would be devoted to a review of activities pertaining to the use of third-party cloud computing/internet service providers, including a review of contractual provisions related to service availability, data ownership, backup and recovery, and protection of sensitive and/or proprietary information. Four campuses will be reviewed. Four campus reports have been completed.

Information Technology Disaster Recovery Planning

The initial audit plan indicated that approximately 26 staff weeks of activity (2.6 percent of the plan) would be devoted to a review of program and facility readiness and resource planning for the recovery of data processing services following a catastrophic event. Four campuses will be reviewed. Three reports are awaiting a campus response prior to finalization, and report writing is being completed for one campus.

Technology Support

The initial audit plan indicated that approximately 17 staff weeks of activity (1.6 percent of the plan) would be devoted to technology support for non-information technology specific audits and advisory services reviews. The provision of support is ongoing.

Advisory Services

The initial audit plan indicated that approximately 220 staff weeks of activity (21.6 percent of the plan) would be devoted to partnering with management to identify solutions for business issues, offering opportunities to improve the efficiency and effectiveness of operating areas, and assisting with special requests, while ensuring the consideration of related internal control issues. Reviews are ongoing.

Investigations

The Office of Audit and Advisory Services is periodically called upon to provide investigative reviews, which are often the result of alleged defalcations or conflicts of interest. In addition, whistleblower investigations are being performed on an ongoing basis, both by referral from the state auditor and directly from the CSU Chancellor's Office. Forty-three staff weeks have been set aside for this purpose, representing approximately 4.2 percent of the audit plan.

Committees/Special Projects

The Office of Audit and Advisory Services is periodically called upon to provide consultation to the campuses and/or to participate on committees such as those related to information systems implementation and policy development, and to perform special projects. Thirty-eight weeks have been set aside for this purpose, representing approximately 3.8 percent of the audit plan.

Audit Support

Audit Follow-up

The audit plan indicated that approximately 16 staff weeks of activity (1.6 percent of the plan) would be devoted to follow-up on prior audit recommendations. The Office of Audit and Advisory Services is currently tracking approximately 35 current/past assignments (Auxiliary Organizations, Information Security, Student Activities, Academic Departments, Delegations of Authority, Cloud Computing, Emergency Management, and International Activities) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

Annual Risk Assessment

The Office of Audit and Advisory Services annually conducts a risk assessment to determine the areas of highest risk to the system. Eleven staff weeks have been set aside for this purpose, representing approximately 1.1 percent of the audit plan.

Administration

Day-to-day administration of the Office of Audit and Advisory Services represents approximately 4.3 percent of the audit plan.

2016 ASSIGNMENTS												FOLLOW-UP PAST/CURRENT ASSIGNMENTS			
Aux Orgs	Info Security	Student Activities	Acad Dept Fiscal Review	Deleg of Auth	Cloud Comptg	Emerg Mgmt	IT Dis Recov	Intl Activities	Auxiliary Organizations	Information Security	*No.	*Recs	**Mo.	*Recs	**Mo.
BAK		AC					AI	RW			4	35/35	-	10/10	-
CHI					AC			AC			3	32/32	-	21/21	-
CI	AC	AC		AC							3	32/32	-	0/17	2
DH			AC			AC					3	36/36	-		
EB	AC					RW					3	31/31	-	7/9	4
FRE			AC				AI				6	36/36	-	11/11	-
FUL					AC	RW					4	30/30	-		
HUM	AC					AI					4	0/14	4	4/4	-
LB			AC								4	18/18	-	6/6	-
LA	AI	AC									4			0/13	2
MA				AC							2	13/13	-	7/7	-
MB	AI							AC			2	23/23	-		
NOR	AC							AC			5	19/19	-	0/8	4
POM	AC	AC						AI			2	20/20	-		
SAC				AC							5	41/41	-		
SB								AC			4	23/23	-	10/10	-
SD	AC							AC			4	10/15	5	6/7	9
SF				AC	AC						3	17/17	-	9/9	-
SJ						AC					5	26/26	-	17/17	-
SLO		RW				AC					3	11/11	-		
SM	AC		AI		AC						4	17/17	-		
SON			AC	AC							3	4/4	-		
STA	AC		AC				AI				4	0/14	2	21/21	-
CO	AC			AC			RW				2	1/1	-		
SYS															

* The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report.
 ** The number of months recommendations have been outstanding from date of report.
 • The number of auxiliary organizations reviewed.
Numbers/letters in green are updates since the agenda mailout.

FW = Field Work In Progress
 RW = Report Writing in Progress
 AI = Audit Incomplete (awaiting formal exit conference and/or campus response)
 AC = Audit Complete

FOLLOW-UP PAST/CURRENT ASSIGNMENTS												
	Student Activities		Academic Dept. Fiscal Review		Delegations of Authority		Cloud Computing		Emergency Management		International Activities	
	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK	3/4	6										
CHI							3/4	5			0/0	-
CI	2/2	-			3/6	2						
DH			8/11	7					0/4	5		
EB												
FRE			7/7	-								
FUL	5/5	-					4/4	-				
HUM												
LB			2/4	8								
LA												
MA					2/6	1						
MB											0/5	2
NOR											1/4	1
POM	3/3	-										
SAC	1/1	-			1/3	1						
SB											0/4	1
SD											0/2	2
SF					3/4	5	0/5	3				
SJ									0/6	1		
SLO									0/3	4		
SM	2/2	-					0/3	2				
SON			5/5	-	0/1	1						
STA			6/6	-								
CO					4/4	-						
SYS												

* The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report.

** The number of months recommendations have been outstanding from date of report.

● The number of auxiliary organizations reviewed.

Numbers/letters in green are updates since the agenda mailout.

COMMITTEE ON AUDIT

Calendar Year 2017 Plan for Audits, Advisory Services, and Investigations

Presentation By

Larry Mandel
Vice Chancellor and Chief Audit Officer
Office of Audit and Advisory Services

Summary

The Office of Audit and Advisory Services presents its audit plan for the calendar year at the January meeting of the Board of Trustees, Committee on Audit. At the November 2016 meeting of the Committee on Audit, the Office of Audit and Advisory Services described its new organization structure to be phased in over a four-year period. The following is an audit plan for calendar year 2017, which includes phase-in of the new organization structure.

AUDITS - 71% of Plan

Campus Audits (53%)

The new organization structure provides for individual campus audit plans that are better aligned with campus and auxiliary organization risks. As such, resources will be initially directed towards gathering campus information and identifying campus specific/unique topics to be reviewed. Once the campus audit plans are developed, audit programs will be developed and executed.

Information Technology Audits (10%)

The audit plan includes reviews of Information Security, Logical Access and Security, Information Technology Disaster Recovery and General Computer Controls. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues and will be performed at those campuses where a greater degree of risk was perceived for each of these areas.

Sponsored Programs (4%)

The audit plan includes reviews of post award activities based on recent changes in federal regulations, as well as a systemwide review of campus policies, procedures, and practices relating to indirect cost recovery. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues relating to sponsored programs activities.

Construction (4%)

The audit plan includes reviews of recently completed construction projects, including activities performed by the campus, general contractor, and selected subcontractors. Areas to be reviewed include approval of project design, budget and funding; administration of the bid and award process; the closeout process; and overall project accounting and reporting.

ADVISORY SERVICES - 12% of Plan

The Office of Audit and Advisory Services will partner with management to identify solutions for business issues, offer opportunities to improve the efficiency and effectiveness of operating areas, and assist with special requests, while ensuring the consideration of related internal control issues. Advisory services are more consultative in nature than traditional audits and are performed in response to requests from campus management. The goal is to enhance awareness of risk, control and compliance issues and to provide a proactive independent review and appraisal of specifically identified concerns.

INVESTIGATIONS - 7% of Plan

The Office of Audit and Advisory Services is periodically called upon to provide investigative reviews which are often the result of alleged misappropriations or conflicts of interest. In addition, whistleblower investigations are being performed on an ongoing basis, both by referral from the state auditor and directly from the chancellor's office.

COMMITTEES/SPECIAL PROJECTS - 1% of Plan

The Office of Audit and Advisory Services is periodically called upon to participate on committees and to perform special projects.

AUDIT SUPPORT - 9% of Plan

Annual Risk Assessment

The Office of Audit and Advisory Services annually conducts a risk assessment to determine the areas of highest risk to the system, as well as campus-specific risks.

Administration

Day-to-day administration of the Office of Audit and Advisory Services includes such tasks as scheduling, personnel administration, maintenance of department standards and protocols, administration of the department's automated workpaper system and SharePoint website, and department quality assurance and improvement.

The following resolution is recommended for approval:

RESOLVED, By the Committee on Audit of the California State University Board of Trustees that the Calendar Year 2017 Plan for Audits, Advisory Services, and Investigations, as detailed in Agenda Item 1 of the Committee on Audit at the January 31-February 1, 2017 meeting, be approved.

COMMITTEE ON AUDIT

Report of the Systemwide Financial Statements Including the Report to Management

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Mary Ek
Assistant Vice Chancellor/Controller
Financial Services

Summary

Annually, financial statement audits are performed for the California State University system as a whole, and also for discretely presented component units (i.e., auxiliary organizations) that separately issue stand-alone audited financial statements. As of the June 2016 reporting period, information on the CSU Systemwide Revenue Bond program is included in the supplementary schedules of the CSU systemwide financial statements, rather than in its own separately issued financial statements. Financial statement audits covering the University and component units are performed by more than 20 certified public accounting firms.

The CSU systemwide financial statements for the fiscal year ended June 30, 2016 were issued with an unmodified opinion on December 1, 2016, and are included as Attachment A to this item.

There were no audit findings relating to the CSU systemwide financial statements. Highlights of the CSU systemwide financial statements will be presented including any significant changes from last year. There were audit findings relating to some of the separately issued auxiliary organization financial statements, and the Chancellor's Office is following up on those auxiliary organizations' audit findings to ensure appropriate corrective actions are taken.

CALIFORNIA STATE UNIVERSITY
Financial Statements and Supplementary Information
June 30, 2016
(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY

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LETTER FROM THE EXECUTIVE VICE CHANCELLOR CHIEF FINANCIAL OFFICER

The California State University is an extraordinary system of 23 campuses providing an outstanding education to over 474,000 students in the academic year 2015-16. The University is dedicated to providing opportunities and opening doors for our students to learn and grow. As the nation's largest and most diverse university, it has become the economic engine for California; creating jobs, companies, and innovation. With more than three million degrees awarded since inception, the majority of California's leaders and policymakers received their degrees from one of the 23 campuses of the California State University.

The investment of tax dollars into the California State University is the best investment Californians can make in their future. For every \$1 invested in the California State University, \$5.43 is invested by the University back into California's economy. This investment helps ensure an educated and successful California populace that leads to economic and social prosperity.

The University has embarked on an ambitious goal to significantly decrease the time it takes for our students to earn their degree. As part of this initiative, we will double the number of students earning a degree in four years, and more importantly, decrease the time it takes for all students to earn a degree. Additional investments in the California State University by the State will ensure our success in this transformational initiative.

I am happy to say that the California State University's financial position is very strong, and the new financial authority granted to the University by the State will allow us to optimally use our resources for our highest priorities. While we continue to increase our enrollment capacity, the demand for admission to our campuses continues to increase at a much higher rate.

The campuses and University system are working hard to improve and streamline our operations so that we can best serve our students. We are investing in innovative new ways to provide students with tools to shorten the time it takes to get their degree, and provide faculty with the resources they need to be successful.

Our commitment to the people of California is to build on the foundation of a great University; to increase access to a high-quality education, and to help solve the State's greatest challenges in the years ahead.



STEVE RELYEA
EXECUTIVE VICE CHANCELLOR, CFO
THE CALIFORNIA STATE UNIVERSITY



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20 Pacifica
Irvine, CA 92618-3391

ATTACHMENT A
Aud Item 3
January 31-February 1, 2017
Page 4 of 75

Independent Auditors' Report

The Board of Trustees
California State University:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the California State University (the University), an agency of the State of California (the State), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University'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 financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of 88 of the 90 aggregate discretely presented component units, which reflect total assets constituting 95% and total revenues constituting 94% of the aggregate discretely presented component units totals. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the 88 discretely presented component units, is based solely on the reports of the other auditors. 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. The financial statements of 46 discretely presented component units are not audited in accordance with *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 auditors' 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, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the California State University, as of June 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

Adoption of New Accounting Pronouncement

As discussed in note 2 to the financial statements, in fiscal year 2016, the California State University and its discretely presented component units adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 5–22, and the schedules of University's proportionate share of the net pension liability and employer contributions in Schedules 1 and 2, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The supplementary information included in Schedules 3 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Schedule 3 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, Schedule 3 is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Schedules 4 through 6 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2016 on our consideration of the University'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 the University's internal control over financial reporting and compliance.

KPMG LLP

Irvine, California
December 1, 2016

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2016

(Unaudited)

The following discussion and analysis provides an overview of the financial position and performance of the California State University as of and for the year ended June 30, 2016, including 23 campuses and the Office of the Chancellor (together referred to as the University), and 90 discretely presented component units (primarily recognized auxiliary organizations). The discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. Separate financial statements are issued for each of the discretely presented component units and may be obtained from the individual campuses.

The financial statements of the University as of and for the year ended June 30, 2016 have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. For reporting purposes, the University is considered a special-purpose government engaged in business-type activities.

Financial Statements

This discussion and analysis is intended to serve as an introduction to the University's financial statements: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The financial statements are designed to provide readers with a broad overview of the University's finances from all sources of revenue, in a manner similar to the private sector. The University's discretely presented component units are presented in a separate column to enable the reader to distinguish between the University and these separate but related not-for-profit organizations.

The Statement of Net Position is the University's balance sheet. It presents information on all of the University's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between these four reported as net position (equity). Assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally reported at book value, except investments, which are reported at fair value. Over time, increases or decreases in net position may serve as a useful indicator of the financial position of the University.

The University's net position is classified into three categories:

- Net investment in capital assets
- Restricted
- Unrestricted

Changes from one year to the next in total net position as presented on the Statement of Net Position are based on the activity presented on the Statement of Revenues, Expenses, and Changes in Net Position.

The Statement of Revenues, Expenses, and Changes in Net Position is the University's income statement. Revenues earned and expenses incurred during the fiscal year on an accrual basis are classified as either operating or nonoperating. This distinction results in operating deficits, as the GASB Statement No. 35 reporting model requires classification of state appropriations, a significant revenue stream to fund current operations, as nonoperating revenue.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2016

(Unaudited)

The Statement of Cash Flows presents the changes in the University's cash and cash equivalents during the most recent fiscal year. This Statement is prepared using the direct and indirect methods of cash flows. The Statement breaks out the sources and uses of the University's cash and cash equivalents into four categories:

- Operating activities
- Noncapital financing activities
- Capital and related financing activities
- Investing activities

The University's routine activities appear in the operating and noncapital financing categories. Noncapital financing activities include borrowing money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest. The proceeds from the issuance of Systemwide Revenue Bond (SRB) that will be passed through to the discretely presented component units for capital purposes are reported as noncapital financing activities.

Capital and related financing sources include debt proceeds, state capital appropriations, capital grants and gifts, proceeds from sale of capital assets, and principal and interest payments received on capital leases. Within the capital and related financing activities, uses of funds consist of acquisition of capital assets, and debt repayments. Sales and purchases of investments are part of investing activities.

The Statement of Cash Flows for the discretely presented component units is not included in the University's financial statements.

Financial Highlights

Effective July 1, 2014, the University changed its pension accounting policies with the implementation of new accounting standards, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (amendment of GASB Statement No. 68)*. Changes in accounting policies for pensions are designed to improve transparency regarding pension liability by requiring recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position for the University's defined-benefit plans. This standard requires recognition of pension expense using systematic method, designed to match the cost of pension benefits with service periods for eligible employees.

The net pension liability was \$6.58 billion as of June 30, 2016. The pension related deferred outflows of resources and deferred inflows of resources were \$811.33 million and \$143.17 million, respectively.

In July 2014, the State Legislature passed Senate Bill 860 (SB 860), which changed the State of California's (the State) approach to funding non-revenue generating capital facilities at the University, such as campus infrastructure projects, academic and administrative buildings, and other capital facilities that are essential to the University's operations (collectively Academic Facilities). Historically, the State has funded Academic Facilities with proceeds of State Public Works Board (SPWB) lease revenue bonds and State general obligation bonds for which, in each case, the State made all debt service payments directly or through appropriations to the University.

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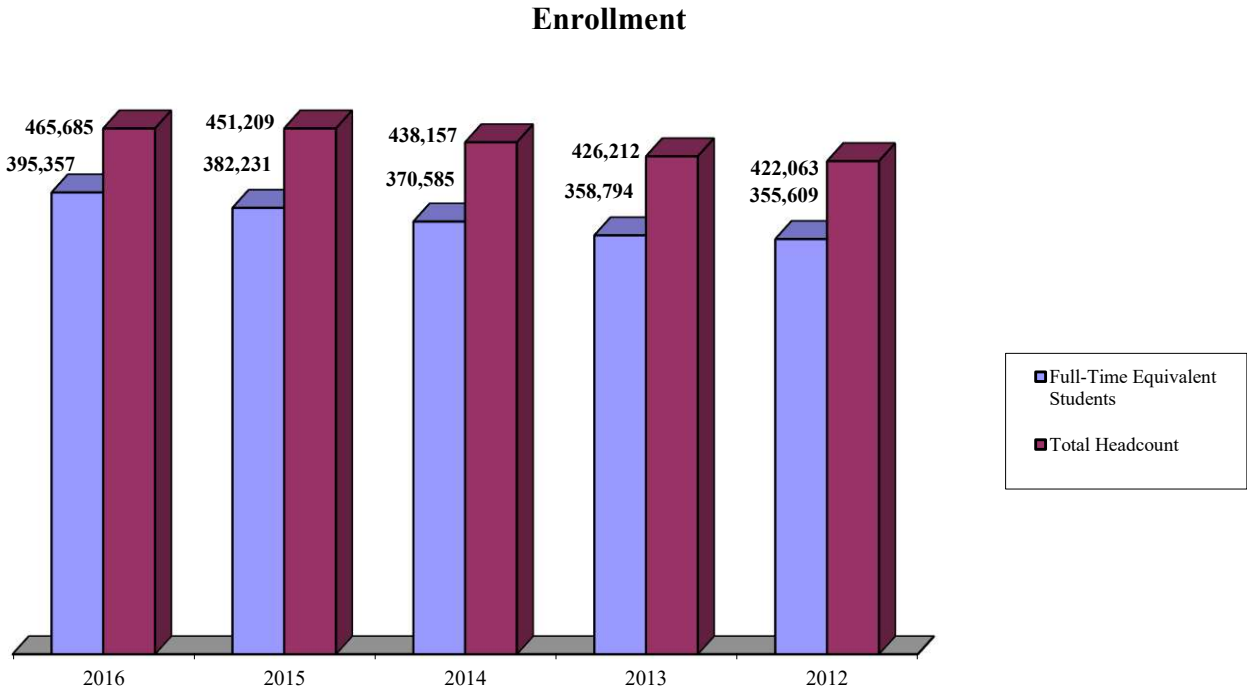
SB 860 provided the University with statutory authority to issue bonds to finance Academic Facilities, as well as providing the University with the ability to pledge additional revenues to support its debt obligations, including but not limited to student tuition fees.

Effective April 2016, upon the issuance of SRB Series 2016A and 2016B bonds, the student tuition fees were added to the gross revenues pledged to secure all SRB bonds (including bonds issued prior to this Series).

The noncapital state appropriation for the University in fiscal year 2016 was \$3.01 billion, \$245.52 million higher than in fiscal year 2015. This increase consists of \$65.53 million to pay employee compensation increases, \$58.91 million to fund student enrollment growth, \$49.15 million to fund Systemwide Initiatives and Performance Program, \$27.47 million for retirement costs adjustments, \$20.00 million to fund Student Success and Completion Program, \$11.04 million for employer-paid Health Care Premiums, \$7.63 million to pay SPWB capital lease obligation debt service, \$5.04 million for operations and maintenance of new space, and \$0.75 million for other items.

The student tuition and fees revenue increased by \$55.15 million in fiscal year 2016, mainly due to student enrollment growth. Headcount enrollment increased from 451,209 in fiscal year 2015 to 465,685 in fiscal year 2016, as reflected in the following chart. At the same time, Full-Time Equivalent Students increased from 382,231 in fiscal year 2015 to 395,357 in fiscal year 2016.

The following chart displays the University’s historical enrollment data by fiscal year:



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Financial Analysis

The following sections provide additional details on the University's financial position and activities for fiscal years 2016 and 2015:

- I. Condensed Schedules of Net Position
- II. Condensed Schedules of Revenues, Expenses, and Changes in Net Position

I. Condensed Schedules of Net Position

	University		Discretely presented component units	
	2016	2015	2016	2015
	(In thousands)			
Current assets	\$ 3,412,561	3,212,249	1,197,643	1,248,946
Capital assets, net	8,307,666	8,046,000	815,871	813,195
Other noncurrent assets	1,755,095	1,515,826	2,060,350	2,098,681
Total assets	<u>13,475,322</u>	<u>12,774,075</u>	<u>4,073,864</u>	<u>4,160,822</u>
Deferred outflows of resources	922,449	648,757	19,721	10,091
Current liabilities	1,271,242	1,384,897	320,475	489,131
Noncurrent liabilities	12,942,137	11,126,911	1,005,036	1,011,072
Total liabilities	<u>14,213,379</u>	<u>12,511,808</u>	<u>1,325,511</u>	<u>1,500,203</u>
Deferred inflows of resources	143,167	1,086,744	16,263	15,898
Net position:				
Net investment in capital assets	3,522,905	3,614,410	227,166	191,711
Restricted:				
Nonexpendable	8,653	13,448	1,057,270	981,900
Expendable	119,896	82,280	893,104	914,518
Unrestricted	(3,610,229)	(3,885,858)	574,271	566,683
Total net position	<u>\$ 41,225</u>	<u>(175,720)</u>	<u>2,751,811</u>	<u>2,654,812</u>

Current and Other Noncurrent Assets

Current and other noncurrent assets are assets that are not capital assets and are used to meet current and noncurrent obligations. These assets consist of cash and cash equivalents, restricted cash and cash equivalents, investments, accounts receivable, notes receivable, leases receivable, student loans receivable, pledges receivable, prepaid expenses, and other assets.

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The total current and other noncurrent assets of \$5.17 billion for the University represents an increase of \$439.58 million compared to \$4.73 billion in fiscal year 2015. Investments represent 78.85% of the total current and other noncurrent assets. The University invests its funds mainly through the California State University (CSU) Consolidated Investment Pool whose objective is to maximize current income while preserving and prioritizing asset safety and liquidity. In addition, funds are invested in Surplus Money Investment Fund (SMIF), which is managed by the State Treasurer to invest funds in a short-term pool.

Total investments increased by \$530.19 million due to an overall increase in operating resources provided by the State through noncapital appropriation as previously discussed and proceeds from the issuance of SRB Series 2015A and 2015B for new capital projects. In addition, increase in cash and cash equivalents of \$5.53 million, and a net increase of \$0.08 million in other items contributed to the increase in total current and other noncurrent assets.

This increase is offset by the decrease of \$40.14 million in other assets, which is mainly due to the release of the construction reserves for SPWB capital leases, \$29.44 million decrease in accounts receivable, which is mainly due to the collection of funds from the State utilized for operations and capital-related projects (including those under the SPWB Lease Revenue Bonds program), a \$22.50 million net collection of leases receivable, and a \$4.14 million net collection of student loans receivable.

Current and other noncurrent assets for the discretely presented component units decreased by \$89.63 million mainly due to the net collection of Bond Anticipation Notes (BANs) issued by the California State University Institute amounting to \$148.48 million, decrease in other assets of \$20.32 million, and decrease in endowment investments of \$11.02 million. This is offset by a \$48.78 million increase in pledges receivable, \$29.23 million increase in nonendowment investments, and an increase in other items of \$12.18 million.

Capital Assets, Net

The University's capital assets, net of accumulated depreciation and amortization, as of June 30, 2016 and 2015, comprise the following:

	<u>2016</u>	<u>2015</u>
	(In thousands)	
Land and land improvements	\$ 268,821	271,059
Buildings and building improvements	6,052,778	6,050,976
Improvements other than buildings	181,290	170,916
Infrastructure	633,175	596,876
Equipment	228,774	223,108
Library books and materials	34,422	35,997
Works of art and historical treasures	38,833	33,719
Intangible assets	39,272	31,210
Construction work in progress	830,301	632,139
Total	<u>\$ 8,307,666</u>	<u>8,046,000</u>

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Total capital assets, net of accumulated depreciation and amortization, increased by \$261.67 million during fiscal year 2016 as a result of additions on various capital projects including the following:

- Completion of the \$63.80 million San Jose Spartan Complex Renovation
- Completion of the \$55.69 million Chico Taylor II Replacement Building
- Completion of the \$53.29 million San Diego Zura Hall Renovation
- Construction in progress on the \$142.70 million San Diego South Campus Plaza
- Construction in progress on the \$126.19 million San Jose Campus Village, Phase 2
- Construction in progress on the \$90.55 million San Jose Student Union Expansion and Renovation
- Construction in progress on the \$80.49 million San Francisco Recreation Wellness Center
- Construction in progress on the \$76.55 million Pomona Administration Replacement Facility (Seismic)
- Construction in progress on the \$74.86 million San Diego Engineering and Interdisciplinary Sciences Complex

Deferred Outflows of Resources

Deferred outflows of resources are consumption of net assets that is applicable to a future reporting period, which has a positive effect on the net position. The University's deferred outflows of resources consist of unamortized loss on debt refunding, the changes in net pension liability as a result of difference between expected and actual experience, and the pension contributions made by the University subsequent to the measurement date of the net pension liability.

The deferred outflows of resources increased by \$273.69 million from fiscal year 2015. The increase is due mainly to the following:

- Increase in University's retirement contributions subsequent to the measurement date of the net pension liability of \$56.33 million, from \$603.00 million as of June 30, 2015 to \$659.33 million as of June 30, 2016.
- Increase of \$120.34 million arising from the differences between expected and actual experience in calculating net pension liability.
- Increase of \$31.67 million arising from the change in the University's proportionate share in net pension liability and deferred inflows of resources.
- The unamortized loss on debt refunding increased by \$73.83 million resulting from refunding of SRB Series 2005A, 2005B, 2005C, and 2007A, through the issuance of SRB Series 2015A in August 2015 and refunding of SRB Series 2008A and 2009A through the issuance of SRB Series 2016A in April 2016, offset by the current year amortization of \$8.48 million.

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Current and Noncurrent Liabilities

Current liabilities (liabilities due within one year) and noncurrent liabilities (liabilities due in more than one year) include accounts payable, accrued salaries and benefits, accrued compensated absences, unearned revenues, grants refundable, capitalized lease obligations, long-term debt obligations, claims liability for losses and loss adjustment expenses, depository accounts, other postemployment benefits obligations, net pension liability, and other liabilities.

Current and noncurrent liabilities of \$14.21 billion for the University represent an increase of \$1.70 billion compared to \$12.51 billion in fiscal year 2015. This is mainly due to the \$1.34 billion increase in long-term debt obligations as further discussed in the following page and \$1.06 billion increase in net pension liability recognized.

The net pension liability increased by \$1.06 billion due to additional employee service costs of \$2.01 billion, experience losses of \$161.58 million, and increase in proportionate share of \$35.13 million. The increase is offset by retirement contribution of \$608.37 million, actual earnings from investments in pension plan of \$350.15 million, and employees contribution of \$180.11 million.

The other major factors include \$55.44 million increase in other postemployment benefits obligations, \$39.49 million combined increase in accrued salaries and benefits and accrued compensated balance due to an increase in salary and benefit rates, \$19.82 million increase in accounts payable, and \$7.83 million increase in other items. Capitalized lease obligations for the University decreased by \$821.02 million in fiscal year 2016 due to termination of capital leases related to SPWB of \$800.56 million, current year repayments of \$85.44 million, and amortization of net premiums of \$2.00 million offset by capital lease obligations reclassified from long-term debt obligations of \$57.67 million, and new capital lease obligations of \$9.30 million.

Current and other noncurrent liabilities for the discretely presented component units decreased by \$174.69 million mainly due to \$169.55 million decrease in long-term debt obligations, \$13.00 million decrease in claims liability for losses and loss adjustment expense, \$8.70 million decrease in net pension liability, and \$6.95 million decrease in capitalized lease obligations. These are offset by an increase in other postemployment benefits obligation of \$15.77 million, and \$7.74 million increase in other items.

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Long-Term Debt Obligations

The University's long-term debt obligations are summarized as follows:

	<u>2016</u>	<u>2015</u>
	(In thousands)	
Systemwide Revenue Bonds (SRB)	\$ 4,944,168	3,687,508
Bond Anticipation Notes (BANs)	4,640	149,285
Others	6,180	65,988
	<u>4,954,988</u>	<u>3,902,781</u>
Total		
Unamortized net bond premium	506,760	223,491
	<u>5,461,748</u>	<u>4,126,272</u>
Total long-term debt obligations		
Less current portion	(112,404)	(259,535)
	<u>(112,404)</u>	<u>(259,535)</u>
Long-term debt obligations, net of current portion	<u>\$ 5,349,344</u>	<u>3,866,737</u>

In August 2015, the University issued its SRB Series 2015A (Tax-Exempt) and Series 2015B (Taxable). The proceeds were used to refund certain maturities of SRB Series 2005A, 2005B, 2005C, and 2007A, fund new capital projects, payment of BANs, refund outstanding bond indebtedness issued by the discretely presented component units, for capitalized interest, and payment of cost of issuance.

In April 2016, the University issued its SRB Series 2016A, 2016B-1, 2016B-2, and 2016B-3 (collectively referred as SRB Series 2016 bonds). The proceeds were used to refund certain maturities of SRB Series 2008A, and 2009A, refund SPWB Lease Revenue Bonds (including Series 1993A, 1997C, 1998A, 2006B, 2006G, 2009D, 2009J, 2011B, 2012D, 2012E, and 2013H), and for payment of cost of issuance. For the SRB debt, revenues pledged generally include student housing fees, parking fees, student union fees, health center facilities fees, and continuing education fees, as well as other revenues designated by the Trustees of California State University (Trustees) for inclusion in the SRB program. Effective as of the date of issuance of the SRB Series 2016 bonds, student tuition fees were added to the revenues pledged to secure the payment of the debt obligations.

The University's total long-term debt obligations increased by \$1.34 billion in fiscal year 2016, mainly due to the issuance of SRB Series 2015A and 2015B of \$1.17 billion (including a bond premium of \$104.93 million, net of \$15.17 million bond premium recorded by certain discretely presented component units), issuance of SRB Series 2016A and 2016B of \$1.59 billion (including a bond premium of \$210.34 million, net of \$5.15 million bond premium recorded by certain discretely presented component units), issuance of BANs of \$3.59 million to finance capital-related projects, and new debt of \$1.50 million, which were offset by the \$1.10 billion (including \$10.45 million unamortized bond premium) debt refunding of SRB Series 2005A, 2005B, 2005C, 2007A, 2008A, 2009A, \$256.55 million debt repayment, \$57.67 million long-term debt reclassified to capital lease obligations, and \$21.56 million amortization of net bond premium.

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Moody's Investors Service currently provides an intrinsic rating of Aa2, with a stable outlook, for the SRB. Standard & Poor's Ratings Services currently provides an intrinsic rating of AA-, with a stable outlook, for the SRB. All maturities in SRB Series 2007A, 2007B, 2007C, and 2007D and certain maturities in 2008A and 2009A were insured. Since the middle of fiscal year 2008, some providers of insurance for SRB have been downgraded to ratings below Aaa/AAA. Those bonds that are uninsured bear the intrinsic ratings of the SRB, which are Aa2 from the Moody's Investors Service and AA- from the Standard & Poor's Ratings Services.

In addition, the State's General Obligation Bond program has provided capital funding for various projects of the University. The debt related to these projects is not allocated to the University by the State and thus is not recorded in the University's financial statements. The total General Obligation Bond debt carried by the State related to University projects at June 30, 2016 and 2015 is approximately \$2.46 billion and \$2.53 billion, respectively.

Deferred Inflows of Resources

Deferred inflows of resources in fiscal year 2016 decreased by \$846.28 million due to lower than expected earnings on pension plan investments and amortization of \$104.14 million. This is offset by an increase in the University's proportionate share in the pension plan resulting to an increase in deferred inflows of resources of \$6.84 million.

Net Position

As noted earlier, net position may serve over time as a useful indicator of the University's financial position. Net position represents the residual interest in the University's assets and deferred outflows of resources after all liabilities and deferred inflows of resources are deducted. As of June 30, 2016, the net position is \$41.23 million.

**University Net Position
 June 30, 2016
 (in thousands)**

Net investment in capital assets	\$3,522,905
Restricted nonexpendable	\$8,653
Restricted expendable	\$119,896
(\$3,610,229) Unrestricted	

Total Net Position: \$41,225,000

Net Investment in Capital Assets

The net position category "Net investment in capital assets" represents the University's capital assets, net of accumulated depreciation and amortization, and also net of outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets and any related deferred outflows of resources. The University uses these capital assets in its day-to-day operations. This category is the largest portion of the

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University's net position year-over-year. The net investment in capital assets decreased by \$91.51 million as a result of depreciation of capital assets at a faster rate than repayment of the long-term debt.

Restricted

Restricted net position has constraints on its use that are either externally imposed by creditors or imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes a government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for specific purposes. Such restrictions are primarily related to endowments, scholarships, capital projects, loans, and debt service funds. The restricted net position category consists of two subcategories: "Restricted nonexpendable" and "Restricted expendable."

i. Restricted nonexpendable

The restricted nonexpendable net position is made up of the permanent endowment funds, the corpus of which may not be expendable. Generally speaking, the University's foundations, which are discretely presented component units, hold the significant majority of the University-related endowments. In the current year, there was no significant change in the University's restricted nonexpendable net position.

ii. Restricted expendable

Restricted expendable net position represents resources that are subject to external restrictions on how they may be used. Such restrictions are primarily related to scholarships, capital projects, loans, and debt service funds. In the current year, there was no significant change in the University's restricted expendable net position.

Unrestricted

The unrestricted net position represents all other net resources available to the University for general and educational obligations. Under U.S. generally accepted accounting principles, net position that is not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although unrestricted net position is not subject to externally imposed restrictions per accounting definitions, the predominant portions of the unrestricted net position are designated for specific programs or projects related to certain revenue sources, as further explained in the following paragraphs.

As of June 30, 2016, the unrestricted net position is in a deficit position of \$3.61 billion, mainly due to the recognition of the University's net pension liability.

The unrestricted net position consists of \$1.27 billion designated resources from various funds and a deficit of \$4.88 billion in undesignated resources mainly from the operating fund. The undesignated resources would generally provide a prudent reserve for contingencies, such as the uncertain direction of future state appropriations, as well as the effects of an uncertain economic environment. However, the net undesignated resources is in a deficit position due mainly to the recognition of the University's net pension liability.

Within the unrestricted net position category, the designated resources are derived from fee collections and other activities that are designated for very specific purposes and are not to be repurposed and spent for other activities.

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For example, students pay fees including Housing and Parking fees, campus activities fees, all of which are to be used for specific designated purposes as described in the Education Code. The University also has certain designated resources that represent amounts pledged to support the SRB program.

Of the \$1.27 billion in designated unrestricted net position, approximately 56.38% was designated for supporting enterprise activities (i.e., Continuing Education, Housing, Parking, and Student Union), 6.64% was designated for campus-based projects or programs, and 20.45% was designated for special capital projects. The remaining 16.53% was designated for supporting activities related to education, financial aid, and other programs.

II. Condensed Schedules of Revenues, Expenses, and Changes in Net Position

	<u>University</u>		<u>Discretely presented component units</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(In thousands)			
Operating revenues:				
Student tuition and fees, net	\$ 2,204,940	2,149,786	194,337	179,383
Grants and contracts, noncapital	73,161	99,545	514,867	477,309
Sales and services of educational activities	48,869	41,797	41,907	32,802
Sales and services of auxiliary enterprises, net	485,090	451,993	500,000	504,282
Other operating revenues	200,497	194,216	243,049	241,490
Total operating revenues	<u>3,012,557</u>	<u>2,937,337</u>	<u>1,494,160</u>	<u>1,435,266</u>
Operating expenses	<u>7,328,256</u>	<u>6,868,506</u>	<u>1,621,855</u>	<u>1,570,435</u>
Operating loss	<u>(4,315,699)</u>	<u>(3,931,169)</u>	<u>(127,695)</u>	<u>(135,169)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	3,007,533	2,762,018	—	—
Federal financial aid grants, noncapital	994,954	953,931	1,221	1,167
State financial aid grants, noncapital	668,871	627,321	908	1,185
Local financial aid grants, noncapital	—	—	104	89
Nongovernmental and other financial aid grants, noncapital	35,826	30,605	300	486
Other federal nonoperating grants, noncapital	4,304	3,944	1,043	—

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	University		Discretely presented component units	
	2016	2015	2016	2015
	(In thousands)			
Gifts, noncapital	\$ 68,010	48,060	190,390	167,918
Investment income, net	65,962	42,851	3,298	15,338
Endowment income, net	58	61	(24,785)	1,006
Interest expense	(229,573)	(223,034)	(23,694)	(24,579)
Other nonoperating expenses, net	(168,114)	(105,944)	(32,380)	(35,001)
Net nonoperating revenues	<u>4,447,831</u>	<u>4,139,813</u>	<u>116,405</u>	<u>127,609</u>
Income before other revenues and (expenses)	132,132	208,644	(11,290)	(7,560)
State appropriations, capital	25,757	5,766	—	—
Grants and gifts, capital	61,007	50,492	28,540	38,216
Additions (reductions) to permanent endowments	(1,951)	(1,996)	79,749	51,646
Change in net position	216,945	262,906	96,999	82,302
Net position – beginning of year, as restated	<u>(175,720)</u>	<u>(438,626)</u>	<u>2,654,812</u>	<u>2,572,510</u>
Net position – end of year	<u>\$ 41,225</u>	<u>(175,720)</u>	<u>2,751,811</u>	<u>2,654,812</u>

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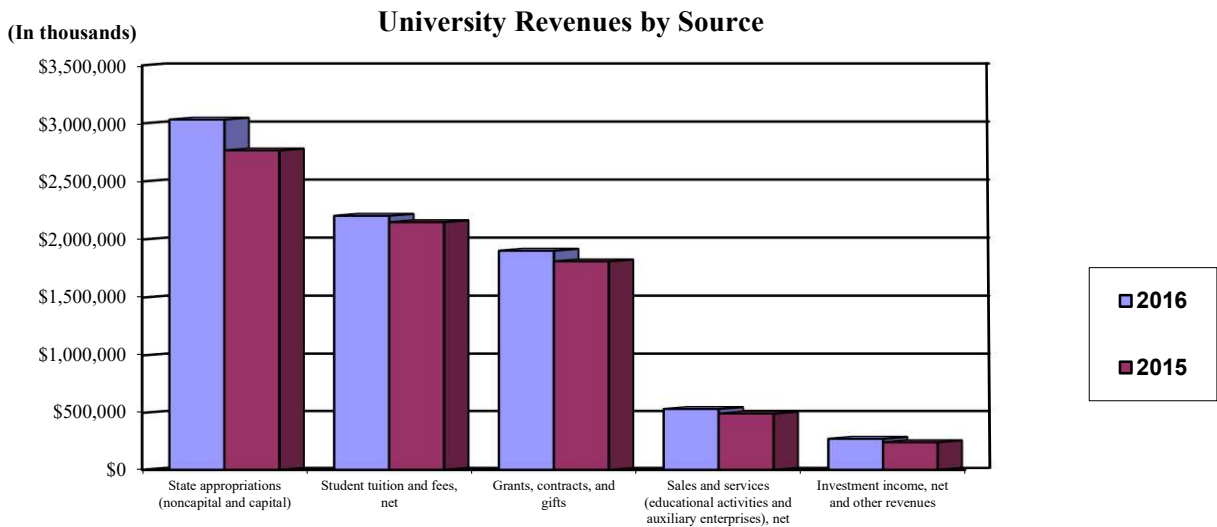
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Revenues (Operating and Nonoperating)

The following chart displays the components of the University's revenues for fiscal years 2016 and 2015:



	2016 (In thousands)	Percentage of total	2015 (In thousands)	Percentage of total
State appropriations (noncapital and capital)	\$ 3,033,290	38.19%	\$ 2,767,784	37.10%
Student tuition and fees, net	2,204,940	27.76	2,149,786	28.82
Grants, contracts, and gifts	1,904,182	23.97	1,811,902	24.29
Sales and services (educational activities and auxiliary enterprises), net	533,959	6.72	493,790	6.62
Investment income, net and other revenues	266,517	3.36	237,128	3.17
Total revenues (operating and nonoperating)	\$ 7,942,888	100.00%	\$ 7,460,390	100.00%

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The two largest components of revenues are state appropriations and student tuition and fees, net, which accounted for a combined 65.95% of the University's revenues in fiscal year 2016. State appropriations are received for both noncapital and capital purposes. The noncapital state appropriation for the University in fiscal year 2016 was \$3.01 billion, \$245.52 million higher than in fiscal year 2015. This increase consists of \$65.53 million to pay employee compensation increases, \$58.91 million for funded student enrollment growth, \$49.15 million to fund Systemwide Initiatives and Performance Program, \$27.47 million for retirement costs adjustments, \$20.00 million to fund Student Success and Completion Program, \$11.04 million for employer-paid Health Care Premiums, \$7.63 million to pay SPWB capital lease obligation debt service, \$5.04 million for operations and maintenance of new space, and \$0.75 million for other items. Capital appropriations increased by \$19.99 million in the current year. The student tuition and fees (net of scholarship and allowances), increased by \$55.15 million, or 2.56%, mainly due to growth in overall student enrollment.

The University's grants, contracts, and gifts revenues of \$1.90 billion is approximately 69.97% of the total reporting entity's grants, contracts and gifts revenues (before elimination) of \$2.72 billion. The overall increase in the total reporting entity's grants, contracts, and gifts revenues is \$171.39 million or 6.72%. Of this increase, \$92.28 million is attributable to the University and \$79.11 million is for the discretely presented component units.

The increase of \$92.28 million in the University's grants, contracts, and gifts revenue is a result of \$87.79 million increase in Federal, State and nongovernmental student financial aid grants, mainly under the Federal Pell Grant Program and the Cal Grant Program due to growth in eligible students. In addition, nonfinancial aid grants and gifts increased by \$4.49 million in the current fiscal year.

Auxiliary enterprise operations such as student housing may be run by the University or by the discretely presented component units depending on the campus, whereas student unions are run by the discretely presented component units. The sales and services of auxiliary enterprises revenue for the total reporting entity (either the University or the discretely presented component units) in the current fiscal year increased by \$28.82 million, mainly due to growth in overall student enrollment.

Investment income, net and other revenues for the University increased by \$29.39 million in the current fiscal year due to an increase in the investment portfolio.

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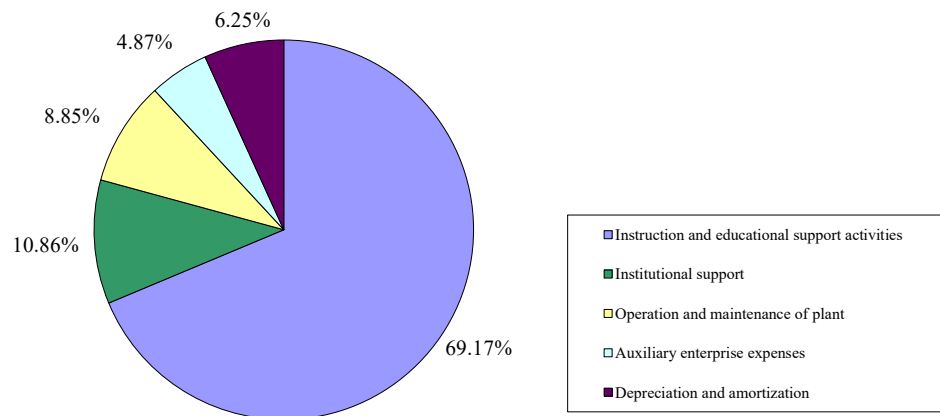
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Operating Expenses

When the mission-critical educational support activities of student services, academic support, student grants and scholarships, public service, and research are added to direct classroom instruction, then total instruction, and educational support activities account for 69.17% of the total operating expenses of the University as shown below:

	2016	Percentage
	(In thousands)	of total
Instruction	\$ 2,503,564	34.16%
Research	51,691	0.71
Public service	57,376	0.78
Academic support	762,920	10.41
Student services	812,010	11.08
Student grants and scholarships	881,578	12.03
Total instruction and educational support activities	5,069,139	69.17
Institutional support	795,550	10.86
Operation and maintenance of plant	648,618	8.85
Auxiliary enterprise expenses	357,030	4.87
Depreciation and amortization	457,919	6.25
Total operating expenses	\$ 7,328,256	100.00%



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Total operating expenses for the University increased by \$459.75 million. The expenses related to instruction and educational support activities increased by \$154.87 million in instruction, \$80.18 million in student services, \$53.28 million in academic support, and offset by a decrease of \$6.98 million in student grants and scholarships.

Other factors include increases of \$68.28 million in institutional support, \$53.62 million in maintenance and repair expenses, \$30.76 million in auxiliary enterprise expenses due to housing and parking lot maintenance, \$19.59 million increase in depreciation and amortization, and \$6.16 million net increase in other items.

The salaries and benefits expenses increased by \$377.75 million (including \$153.22 million in pension expense) due to the higher employee headcount, general salary rates, health benefit costs and other postretirement benefits costs. Of the increase in salaries and benefits, \$268.86 million or 71.17% were incurred for instruction and education support activities.

The pension expense, included in benefits expense, increased from \$418.73 million to \$571.95 million. The increase of \$153.22 million is due to the net effect of higher employee service costs and interest in pension liability of \$101.90 million, increase in net amortization of deferred outflows and inflows of resources of \$219.10 million, offset by higher projected earnings on pension plan investments of \$157.79 million, difference in proportionate share and actual retirement contribution during measurement date of \$5.38 million, higher employee contributions of \$2.46 million, and lower administrative expenses of \$2.15 million.

The supplies and other services also increased by \$69.39 million, of which the increase were in instructions and education support activities of \$25.63 million or 36.93%, in maintenance and repairs of plant of \$20.60 million, in institutional support of \$12.07 million and in auxiliary enterprise expenses of \$11.09 million. The depreciation and amortization increased by \$19.59 million due to full year of depreciation of completed capital projects in prior fiscal year.

CALIFORNIA STATE UNIVERSITY

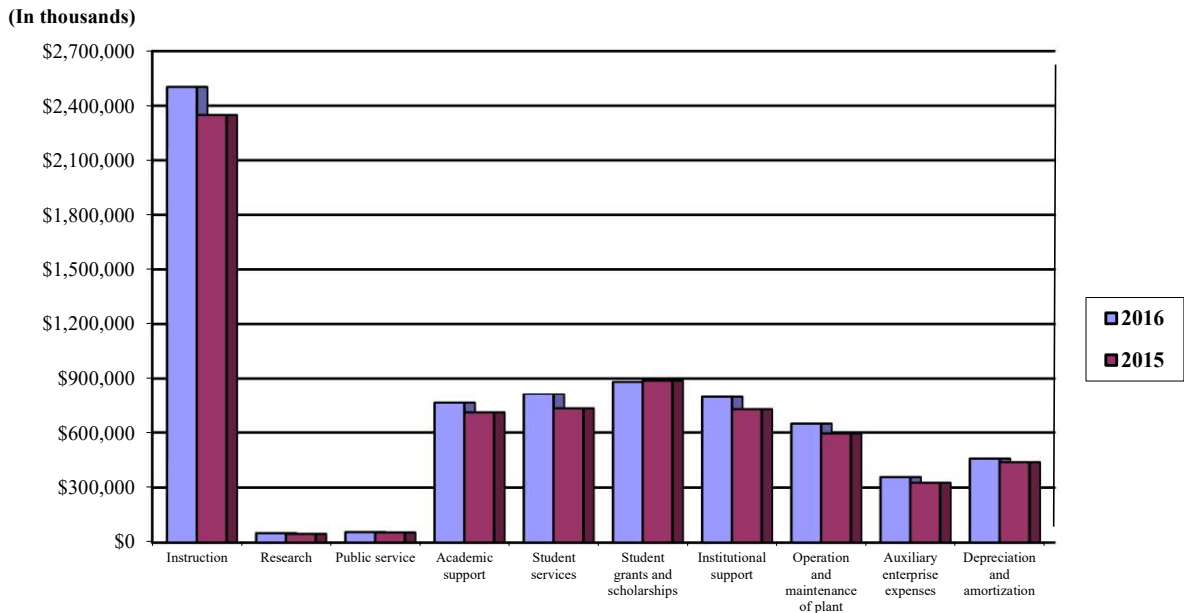
Management's Discussion and Analysis

June 30, 2016

(Unaudited)

The following chart displays the University's operating expenses by program for fiscal years 2016 and 2015.

University Operating Expenses by Program



Factors Impacting Future Periods

State Budget Act for Fiscal Year 2017

The State Budget Act for fiscal year 2017, approved by the Governor on June 27, 2016, resulted in noncapital state appropriation of \$3.17 billion, which represents an increase of \$161.89 million over the fiscal year 2016 enacted budget. This increase consists of \$69.55 million to pay employee compensation increases, \$35.08 million for employer-paid health care premiums, \$30.17 million to fund student enrollment growth, \$10.21 million to fund Student Success and Completion Program, \$7.87 million to pay SPWB capital lease obligation debt service, \$7.00 million for retirement costs adjustments, \$1.10 million for Education Insights CSU Student Success Network, \$0.89 million for operations and maintenance of new space, and \$0.02 million for Center for California Studies.

Subsequent Events

The University issued \$199.22 million of BANs subsequent to June 30, 2016. These BANs are issued to fund capital projects at various campuses.

In September 2016, the University deposited cash and certain investment securities in an irrevocable escrow with the Treasurer of the State of California, as security per the partial refunding of SRB Series 2007A bonds with par amount of \$70.30 million.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2016

(Unaudited)

In September 2016, the State Legislature passed SB 1412, which allows the University to invest in mutual funds including equity mutual funds, subject to registration by, and under the regulatory authority of the United States Securities and Exchange Commission, or in United States registered real estate investment trusts, effective January 1, 2017. Prior to SB 1412, the University is restricted to investing in fixed income securities.

Under SB 1412, the University is required to create an investment advisory committee reporting to the Board of Trustees. The total amount invested under the new authority shall not exceed \$200.00 million in fiscal year ending June 30, 2017; \$400.00 million in fiscal year ending June 30, 2018; \$600.00 million in fiscal year ending June 30, 2019; and in fiscal year ending June 30, 2020, and each fiscal year thereafter, 30.00% of total investments of the University. All earnings from investment under the new authority shall be used only for capital outlay or maintenance, and shall not be used for ongoing operations.

CALIFORNIA STATE UNIVERSITY
 Statement of Net Position
 June 30, 2016

Assets	University	Discretely presented component units	Total
Current assets:			
Cash and cash equivalents	\$ 9,107,000	228,550,000	237,657,000
Short-term investments	3,174,573,000	657,836,000	3,832,409,000
Accounts receivable, net	153,631,000	193,404,000	347,035,000
Capital lease receivable, current portion	12,356,000	1,815,000	14,171,000
Notes receivable, current portion	9,805,000	8,162,000	17,967,000
Pledges receivable, net	240,000	68,632,000	68,872,000
Prepaid expenses and other current assets	52,849,000	39,244,000	92,093,000
Total current assets	<u>3,412,561,000</u>	<u>1,197,643,000</u>	<u>4,610,204,000</u>
Noncurrent assets:			
Restricted cash and cash equivalents	81,000	25,588,000	25,669,000
Accounts receivable, net	127,333,000	19,440,000	146,773,000
Capital lease receivable, net of current portion	329,822,000	64,851,000	394,673,000
Notes receivable, net of current portion	281,702,000	24,357,000	306,059,000
Student loans receivable, net	81,246,000	977,000	82,223,000
Pledges receivable, net	480,000	117,242,000	117,722,000
Endowment investments	8,653,000	1,304,151,000	1,312,804,000
Other long-term investments	891,399,000	467,399,000	1,358,798,000
Capital assets, net	8,307,666,000	815,871,000	9,123,537,000
Other assets	34,379,000	36,345,000	70,724,000
Total noncurrent assets	<u>10,062,761,000</u>	<u>2,876,221,000</u>	<u>12,938,982,000</u>
Total assets	<u>13,475,322,000</u>	<u>4,073,864,000</u>	<u>17,549,186,000</u>
Deferred Outflows of Resources			
Deferred outflows of resources	922,449,000	19,721,000	942,170,000
Liabilities			
Current liabilities:			
Accounts payable	230,504,000	86,503,000	317,007,000
Accrued salaries and benefits	352,243,000	25,649,000	377,892,000
Accrued compensated absences, current portion	133,773,000	14,147,000	147,920,000
Unearned revenue	289,763,000	65,349,000	355,112,000
Capitalized lease obligations, current portion	43,818,000	12,490,000	56,308,000
Long-term debt obligations, current portion	112,404,000	19,154,000	131,558,000
Claims liability for losses and loss adjustment expenses, current portion	—	24,750,000	24,750,000
Depository accounts	10,143,000	13,288,000	23,431,000
Other liabilities	98,594,000	59,145,000	157,739,000
Total current liabilities	<u>1,271,242,000</u>	<u>320,475,000</u>	<u>1,591,717,000</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	109,589,000	5,629,000	115,218,000
Unearned revenue	14,271,000	6,626,000	20,897,000
Grants refundable	84,778,000	9,205,000	93,983,000
Capitalized lease obligations, net of current portion	345,567,000	348,342,000	693,909,000
Long-term debt obligations, net of current portion	5,349,344,000	346,707,000	5,696,051,000
Claims liability for losses and loss adjustment expenses, net of current portion	—	57,369,000	57,369,000
Depository accounts	2,026,000	15,792,000	17,818,000
Other postemployment benefits obligations	368,803,000	100,764,000	469,567,000
Net pension liability	6,578,194,000	62,432,000	6,640,626,000
Other liabilities	89,565,000	52,170,000	141,735,000
Total noncurrent liabilities	<u>12,942,137,000</u>	<u>1,005,036,000</u>	<u>13,947,173,000</u>
Total liabilities	<u>14,213,379,000</u>	<u>1,325,511,000</u>	<u>15,538,890,000</u>
Deferred Inflows of Resources			
Deferred inflows of resources	143,167,000	16,263,000	159,430,000

CALIFORNIA STATE UNIVERSITY
 Statement of Net Position
 June 30, 2016

Net Position	University	Discretely presented component units	Total
Net position:			
Net investment in capital assets	\$ 3,522,905,000	227,166,000	3,750,071,000
Restricted for:			
Nonexpendable – endowments	8,653,000	1,057,270,000	1,065,923,000
Expendable:			
Scholarships and fellowships	13,600,000	195,724,000	209,324,000
Research	4,000	25,955,000	25,959,000
Loans	15,857,000	1,942,000	17,799,000
Capital projects	23,025,000	90,276,000	113,301,000
Debt service	46,769,000	18,371,000	65,140,000
Others	20,641,000	560,836,000	581,477,000
Unrestricted	(3,610,229,000)	574,271,000	(3,035,958,000)
Total net position	<u>\$ 41,225,000</u>	<u>2,751,811,000</u>	<u>2,793,036,000</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY
Statement of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2016

	University	Discretely presented component units	Eliminations	Total
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$1,479,477,000)	\$ 2,204,940,000	194,337,000	(18,248,000)	2,381,029,000
Grants and contracts, noncapital:				
Federal	38,187,000	341,899,000	(132,000)	379,954,000
State	16,854,000	88,463,000	—	105,317,000
Local	4,569,000	15,367,000	—	19,936,000
Nongovernmental	13,551,000	69,138,000	(3,255,000)	79,434,000
Sales and services of educational activities	48,869,000	41,907,000	(205,000)	90,571,000
Sales and services of auxiliary enterprises (net of scholarship allowances of \$86,818,000)	485,090,000	500,000,000	(3,401,000)	981,689,000
Other operating revenues	200,497,000	243,049,000	(1,440,000)	442,106,000
Total operating revenues	3,012,557,000	1,494,160,000	(26,681,000)	4,480,036,000
Expenses:				
Operating expenses:				
Instruction	2,503,564,000	168,074,000	(4,354,000)	2,667,284,000
Research	51,691,000	201,599,000	—	253,290,000
Public service	57,376,000	168,037,000	(2,964,000)	222,449,000
Academic support	762,920,000	79,644,000	(3,666,000)	838,898,000
Student services	812,010,000	172,778,000	(24,082,000)	960,706,000
Institutional support	795,550,000	214,101,000	(24,918,000)	984,733,000
Operation and maintenance of plant	648,618,000	39,180,000	(416,000)	687,382,000
Student grants and scholarships	881,578,000	55,386,000	(32,523,000)	904,441,000
Auxiliary enterprise expenses	357,030,000	471,496,000	(32,882,000)	795,644,000
Depreciation and amortization	457,919,000	51,560,000	—	509,479,000
Total operating expenses	7,328,256,000	1,621,855,000	(125,805,000)	8,824,306,000
Operating loss	(4,315,699,000)	(127,695,000)	99,124,000	(4,344,270,000)
Nonoperating revenues (expenses):				
State appropriations, noncapital	3,007,533,000	—	—	3,007,533,000
Federal financial aid grants, noncapital	994,954,000	1,221,000	—	996,175,000
State financial aid grants, noncapital	668,871,000	908,000	—	669,779,000
Local financial aid grants, noncapital	—	104,000	—	104,000
Nongovernmental and other financial aid grants, noncapital	35,826,000	300,000	(26,037,000)	10,089,000
Other federal nonoperating grants, noncapital	4,304,000	1,043,000	—	5,347,000
Gifts, noncapital	68,010,000	190,390,000	(41,388,000)	217,012,000
Investment income, net	65,962,000	3,298,000	—	69,260,000
Endowment income (loss)	58,000	(24,785,000)	—	(24,727,000)
Interest expense	(229,573,000)	(23,694,000)	—	(253,267,000)
Other nonoperating expenses	(168,114,000)	(32,380,000)	11,561,000	(188,933,000)
Net nonoperating revenues	4,447,831,000	116,405,000	(55,864,000)	4,508,372,000
Income (loss) before other revenues (expenses)	132,132,000	(11,290,000)	43,260,000	164,102,000
State appropriations, capital	25,757,000	—	—	25,757,000
Grants and gifts, capital	61,007,000	28,540,000	(43,809,000)	45,738,000
Additions (reductions) to permanent endowments	(1,951,000)	79,749,000	549,000	78,347,000
Increase in net position	216,945,000	96,999,000	—	313,944,000
Net position:				
Net position at beginning of year	(175,720,000)	2,654,812,000	—	2,479,092,000
Net position at end of year	\$ 41,225,000	2,751,811,000	—	2,793,036,000

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2016

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 2,209,323,000
Federal grants and contracts	39,984,000
State grants and contracts	12,972,000
Local grants and contracts	5,820,000
Nongovernmental grants and contracts	15,103,000
Payments to suppliers	(1,404,787,000)
Payments to employees	(4,568,669,000)
Payments to students	(882,020,000)
Collections of student loans	2,777,000
Sales and services of educational activities	49,547,000
Sales and services of auxiliary enterprises	478,198,000
Other receipts	210,289,000
	<u>(3,831,463,000)</u>
Net cash used in operating activities	
Cash flows from noncapital financing activities:	
State appropriations	3,007,319,000
Federal financial aid grants	994,424,000
State financial aid grants	667,068,000
Nongovernmental and other financial aid grants	35,803,000
Other federal nonoperating grants	4,484,000
Gifts and grants received for other than capital purposes	67,014,000
Federal loan program receipts	1,304,206,000
Federal loan program disbursements	(1,308,207,000)
Monies received on behalf of others	131,874,000
Monies disbursed on behalf of others	(131,856,000)
Transfers to escrow agent	(151,871,000)
Proceeds from long-term debt	137,022,000
Principal paid on long-term debt	(32,560,000)
Interest paid on long-term debt	(26,992,000)
Issuance of notes receivable	(26,925,000)
Issuance of capital leases receivable	(94,000)
Principal collections on capital leases	11,911,000
Interest collections on capital leases	14,644,000
Principal collections on notes receivable	27,908,000
Interest collections on notes receivable	14,027,000
Other noncapital financing activities	(104,000,000)
	<u>4,635,199,000</u>
Net cash provided by noncapital financing activities	
Cash flows from capital and related financing activities:	
Proceeds from capital debt	1,800,957,000
State appropriations	23,308,000
State appropriations – SPWB Lease Revenue Bond program	46,361,000
Capital grants and gifts	22,814,000
Proceeds from sale of capital assets	3,276,000
Acquisition of capital assets	(648,025,000)
Transfers to escrow agent	(1,040,256,000)
Principal paid on capital debt and leases	(305,727,000)
Interest paid on capital debt and leases	(220,454,000)
Principal collection on capital leases	970,000
Interest collection on capital leases	95,000
	<u>(316,681,000)</u>
Net cash used in capital and related financing activities	

CALIFORNIA STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2016

	<u>University</u>
Cash flows from investing activities:	
Proceeds from sales of investments	\$ 9,002,378,000
Purchases of investments	(9,522,788,000)
Investment income proceeds	38,867,000
Net cash used in investing activities	<u>(481,543,000)</u>
Net increase in cash and cash equivalents	5,512,000
Cash and cash equivalents at beginning of year	<u>3,676,000</u>
Cash and cash equivalents at end of year	<u>\$ 9,188,000</u>
Summary of cash and cash equivalents at end of year:	
Cash and cash equivalents	\$ 9,107,000
Restricted cash and cash equivalents	<u>81,000</u>
Total cash and cash equivalents at end of year	<u>\$ 9,188,000</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (4,315,699,000)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	457,919,000
Change in assets and liabilities:	
Accounts receivable, net	1,753,000
Student loans receivable, net	(81,000)
Prepaid expenses and other current assets	(7,567,000)
Other assets	(99,000)
Deferred outflows of resources	(208,337,000)
Accounts payable	15,619,000
Accrued salaries and benefits	27,315,000
Accrued compensated absences	12,176,000
Unearned revenue	6,729,000
Other postemployment benefits obligations	55,443,000
Net pension liability	1,064,539,000
Other liabilities	2,404,000
Deferred inflows of resources	<u>(943,577,000)</u>
Net cash used in operating activities	<u>\$ (3,831,463,000)</u>
Supplemental schedule of noncash transactions:	
Issuance of long-term debt to terminate SPWB capitalized lease obligations	\$ 831,538,000
Termination of SPWB capitalized lease obligations	800,558,000
Reclassification of long term debt to capitalized lease obligations	57,672,000
Other assets used to terminate SPWB capitalized lease obligations	38,298,000
Contributed capital assets	37,240,000
Amortization of net bond premium	23,565,000
Acquisition of capital assets through capitalized lease obligations	8,188,000
Additional construction reserves held by the State	7,516,000
Change in accrued capital asset purchases	4,959,000
Amortization of loss on debt refundings	4,746,000
Gifts in kind	1,257,000

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2016

(1) Organization

California State University (the University) was established under the State of California Education Code as a public university to offer undergraduate and graduate instruction for professional and occupational goals emphasizing a broad liberal arts education. As an agency of the State of California (the State), the University is also included in the State's financial statements. Responsibility for the University is vested in the Trustees of California State University (the Trustees) who, in turn, appoint the Chancellor, the chief executive officer of the University, the University presidents, and the chief executive officers of the respective campuses. In addition to the Office of the Chancellor, the following 23 campuses comprise the California State University at June 30, 2016:

- California State University, Bakersfield
- California State University Channel Islands
- California State University, Chico
- California State University, Dominguez Hills
- California State University, East Bay
- California State University, Fresno
- California State University, Fullerton
- Humboldt State University
- California State University, Long Beach
- California State University, Los Angeles
- California State University Maritime Academy
- California State University, Monterey Bay
- California State University, Northridge
- California State Polytechnic University, Pomona
- California State University, Sacramento
- California State University, San Bernardino
- San Diego State University
- San Francisco State University
- San José State University
- California Polytechnic State University, San Luis Obispo
- California State University San Marcos
- Sonoma State University
- California State University, Stanislaus

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2016

The University provides instruction for baccalaureate, masters', doctorate, and certificate programs, and operates various auxiliary enterprises, such as student housing and parking facilities. In addition, the University administers a variety of financial aid programs that are funded primarily through state and federal programs.

(2) Summary of Significant Accounting Policies

(a) *Financial Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34*, the accompanying financial statements present the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows of the 23 campuses and the Office of the Chancellor of the University.

In addition, the accompanying financial statements include the accounts of the 90 discretely presented component units, which are primarily University-related recognized auxiliary organizations. These discretely presented component units are legally separate entities that provide services primarily to the University and its students. Recognized auxiliary organizations include foundations, associated students, student unions, food service entities, bookstores, and similar organizations. Foundations, whose net position comprises approximately 78.69% of the discretely presented component unit totals, carry out a variety of campus-related activities. Such activities consist primarily of administering grants from governmental and private agencies for research, as well as soliciting and accepting donations, gifts, and bequests for University-related use. Separate financial statements are issued for each of the discretely presented component units and may be obtained from the individual campuses.

The recognized discretely presented component units are as follows:

- California State University, Bakersfield, Foundation
- Associated Students, California State University, Bakersfield, Inc.
- California State University, Bakersfield Student Union
- California State University, Bakersfield, Auxiliary for Sponsored Programs Administration
- California State University Institute
- California State University Foundation
- California State University Risk Management Authority
- California State University, Channel Islands Foundation
- Associated Students of California State University, Channel Islands, Inc.
- California State University Channel Islands Financing Authority
- California State University Channel Islands Site Authority

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2016

- California State University Channel Islands University Glen Corporation
- The CSU, Chico Research Foundation
- The University Foundation, California State University, Chico
- Associated Students of California State University, Chico
- California State University Dominguez Hills Foundation
- Associated Students, Inc., California State University, Dominguez Hills
- The Donald P. and Katherine B. Loker University Student Union, Inc., California State University, Dominguez Hills
- California State University Dominguez Hills Philanthropic Foundation
- California State University, East Bay Foundation, Inc.
- Associated Students, Inc. of California State University, East Bay
- Cal State East Bay Educational Foundation, Inc.
- California State University, Fresno Foundation
- Associated Students, Inc. of California State University, Fresno
- California State University, Fresno Association, Inc.
- The Agricultural Foundation of California State University, Fresno
- California State University, Fresno Athletic Corporation
- The Bulldog Foundation (Fresno)
- Fresno State Programs for Children, Inc.
- Cal State Fullerton Philanthropic Foundation
- Associated Students, California State University, Fullerton, Inc. (including Titan Student Centers)
- CSU Fullerton Auxiliary Services Corporation
- Humboldt State University Sponsored Programs Foundation
- Associated Students of Humboldt State University
- Humboldt State University Center Board of Directors
- Humboldt State University Advancement Foundation
- California State University, Long Beach Research Foundation
- CSULB 49er Foundation
- Associated Students, Inc., California State University, Long Beach

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2016

- Forty-Niner Shops, Inc. (Long Beach)
- Cal State L.A. University Auxiliary Services, Inc.
- California State University, Los Angeles Foundation
- Associated Students of California State University, Los Angeles, Inc.
- University – Student Union at California State University, Los Angeles
- California Maritime Academy Foundation, Inc.
- Associated Students of the California Maritime Academy
- University Corporation at Monterey Bay
- Foundation of California State University, Monterey Bay
- California State University, Northridge Foundation
- Associated Students, Inc., California State University, Northridge
- University Student Union, California State University, Northridge
- North Campus – University Park Development Corporation (Northridge)
- The University Corporation (Northridge)
- Cal Poly Pomona Foundation, Inc.
- Associated Students, Inc., California State Polytechnic University, Pomona
- The University Foundation at Sacramento State
- University Enterprises, Inc. (Sacramento)
- Associated Students of California State University, Sacramento
- University Union Operation of California State University, Sacramento
- Capital Public Radio, Inc. (Sacramento)
- Santos Manuel Student Union of California State University, San Bernardino
- Associated Students, Incorporated, California State University, San Bernardino
- CSUSB Philanthropic Foundation
- University Enterprises Corporation at CSUSB
- San Diego State University Research Foundation
- The Campanile Foundation (San Diego)
- Associated Students of San Diego State University
- Aztec Shops, Ltd. (San Diego)

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2016

- The University Corporation, San Francisco State
- Associated Students of San Francisco State University
- San Francisco State University Foundation
- Associated Students of San Jose State University
- The Student Union of San Jose State University
- The Tower Foundation of San Jose State University
- San Jose State University Research Foundation
- Spartan Shops, Inc. (San Jose)
- California Polytechnic State University Foundation (San Luis Obispo)
- Cal Poly Corporation (San Luis Obispo)
- Associated Students, Inc. (California Polytechnic State University, San Luis Obispo)
- University Auxiliary and Research Services Corporation (San Marcos)
- Associated Students, Inc. of California State University, San Marcos
- San Marcos University Corporation
- California State University San Marcos Foundation
- Sonoma State University Academic Foundation, Inc.
- Associated Students of Sonoma State University
- Sonoma State Enterprises, Inc.
- California State University, Stanislaus Foundation
- Associated Students Incorporated of California State University, Stanislaus
- University Student Union of California State University, Stanislaus
- California State University, Stanislaus Auxiliary and Business Services

These component units are presented in the accompanying financial statements as discretely presented component units of the University due to the nature and significance of their relationship with the University. The relationships are such that exclusion of these organizations from the reporting entity would render the financial statements incomplete, primarily due to their close affiliation with the University. These organizations are discretely presented to allow the financial statement users to distinguish between the University and the component units. None of the component units are considered individually significant to the total discretely presented component units.

All significant nonexchange transactions have been eliminated.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2016

The accompanying financial statements also include the Stockton Center Site Authority, and Fullerton Arboretum, which are included as blended component units. These organizations primarily provide services to the University in the areas of asset management and student support. The University is financially accountable for these organizations.

(b) Basis of Presentation

The accompanying 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. 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.

As a public institution, the University is considered a special-purpose government under the provisions of GASB Statements Nos. 34 and 35. The University records revenue in part from fees and other charges for services to external users and, accordingly, has chosen to present financial statements using the reporting model for special-purpose governments engaged in business-type activities. This model allows all financial information for the University to be reported in a single column in each of the financial statements, accompanied by aggregated financial information for the discretely presented component units, as discussed above. The effects of internal activities between funds or groups of funds have been eliminated from these financial statements.

(c) New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for the University's fiscal year beginning July 1, 2015. This Statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. For disclosures on fair value measurement and hierarchy, refer to note 3(b).

In June 2015, the GASB issued Statement No. 75, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for the University's fiscal year beginning July 1, 2017. This Statement establishes how government employers should measure, recognize, display, and disclose the long-term obligations and annual costs arising from their promises to provide other postemployment benefits to their retired employees. The University has not yet determined the impact of GASB Statement No. 75 on the University's financial statements.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, effective for the University's fiscal year beginning July 1, 2016. This Statement amends the blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The University has not yet determined the impact of GASB Statement No. 80 on the University's financial statements.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for the University's fiscal year beginning July 1, 2017. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires

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that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The University has not yet determined the impact of GASB Statement No. 81 on the University's financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the University's fiscal year beginning July 1, 2016. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contribution requirements. The University has not yet determined the impact of GASB Statement No. 82 on the University's financial statements.

(d) *Classification of Current and Noncurrent Assets (Other than Investments) and Liabilities*

The University 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 University 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 noncurrent. For classification of current and noncurrent investments, refer to note 2(f).

(e) *Cash and Cash Equivalents and Statement of Cash Flows*

The University considers highly liquid investments with an original maturity date of three months or less to be cash and cash equivalents. The University considers amounts included in the California State University (CSU) Consolidated Investment Pool to be investments. The Statement of Cash Flows does not include the cash flows of the discretely presented component units. Certain discretely presented component units are also participants in the CSU Consolidated Investment Pool. The University considers changes in the equity in the CSU Consolidated Investment Pool as investing cash flows of the University in the accompanying Statement of Cash Flows.

(f) *Investments*

Investments are reflected at fair value using quoted market prices. Realized and unrealized gains and losses are included in the accompanying Statement of Revenues, Expenses, and Changes in Net Position as a component of net investment income.

Investments that are used for current operations are classified as short-term investments. Investments that are restricted from withdrawal or use for other than current operations, designated or restricted for the acquisition or construction of noncurrent assets, designated or restricted for the liquidation of the noncurrent portion of long-term debt, and restricted as to the liquidity of the investments are classified as other long-term investments.

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The University invests in the Surplus Money Investment Fund (SMIF), an external investment pool. The State Treasurer invests the SMIF funds through the Pooled Money Investment Account (PMIA). PMIA policy sets as primary investment objectives safety, liquidity, and yield. The Investment Division of the State Treasurer's Office manages the PMIA under statutory authority granted by California Government Code Sections 16430 and 16480.4. The Pooled Money Investment Board (Board) governs the PMIA. The State Treasurer chairs the Board, which also includes the State Controller and the State Director of Finance.

(g) *Accounts Receivable*

The University maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable based on type of receivables and expectations of repayment. In establishing the required allowance, management considers one or more of the following: type of receivable, state guidelines, historical losses adjusted to take into account current market conditions, the amount of receivable in dispute, the current receivable aging, and current payment patterns. The University reviews its allowance for doubtful accounts annually. Past-due balances over 90 days and over a specified amount are reviewed individually for collectibility.

(h) *Capital Assets*

Capital assets are stated at cost or estimated historical cost if purchased, or, if donated, at estimated acquisition value (an entry price) at date of donation. Capital assets, including infrastructure and intangible assets, with an original value of \$5,000 or more and with a useful life of one year or more, are capitalized. Such cost includes, where applicable, interest capitalized as part of the cost of constructed capital assets. Title to all University assets, whether purchased, constructed, or donated, is held by the State. Although title is not with the University for land and buildings, the University has exclusive use of these assets and is responsible for the maintenance of these assets and thus has recorded the cost of these assets in the accompanying financial statements. Capital assets, with the exception of land and land improvements, works of art and historical treasures, construction work in progress, and certain intangible assets, are depreciated or amortized on a straight-line basis over their estimated useful lives, which ranges from 3 to 45 years. Library books, unless considered rare collections, are capitalized and depreciated over a 10-year period. Periodicals and subscriptions are expensed as purchased. Works of art and historical treasures are valued at cost, if purchased, or the acquisition value (an entry price) at the date of donation, if contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

Depreciation and amortization expense is shown separately in the Statement of Revenues, Expenses, and Changes in Net Position rather than being allocated among other categories of operating expenses.

(i) *Unearned Revenue*

Unearned revenue consists primarily of fees collected in advance for summer and fall terms and continuing education programs.

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(j) *Compensated Absences*

Compensated absences are recognized when the right to receive the compensation is earned by the employees. Vacation is accrued on a monthly basis. The University uses an employee's current pay rate as of July 1, 2016 to calculate the liability for accrued compensated absences. The University provides vacation based on length of service and job classifications.

(k) *Grants Refundable*

The University periodically receives contributions from the federal government in support of its operation of the Federal Perkins and Nursing Loan programs, both Title IV Loan programs. The federal government has the ability to terminate its support of these programs at any time and to request that the University return those contributions on a cumulative basis. Accordingly, the federal contributions received and retained by the University at year-end are considered liabilities of the University and are reflected as such in the accompanying Statement of Net Position. During the year ending June 30, 2016, the Federal Perkins Loan program expired.

(l) *Claims Liability for Losses and Loss Adjustment Expenses*

The claims liability for losses and loss adjustment expenses included in the aggregate discretely presented component units column of the financial statements includes California State University Risk Management Authority's (CSURMA) estimated ultimate cost of settling claims relating to events that have occurred on or before June 30, 2016. The liability includes the estimated amount that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not been reported. The liability is also reduced by estimated amounts recoverable from the reinsurance that is related to the liabilities for unpaid claims and claim adjustment expenses. The liability is estimated through an actuarial calculation using individual case basis valuations and statistical analyses. The liability is not discounted.

Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claim liabilities are charged or credited to expense in the periods in which they are made.

In the estimate of the unpaid losses and loss adjustment expenses, CSURMA and its consulting actuary have employed methods and assumptions they considered reasonable and appropriate given the information currently available. Given the inherent uncertainty in the nature of such estimates, future losses may deviate from those estimates.

(m) *Deferred Outflows of Resources and Deferred Inflows of Resources*

The University classifies losses on debt refundings as deferred outflows of resources and amortizes it as a component of interest expense over the remaining life of the old debt or the new debt, whichever is shorter.

Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources. Deferred outflows and

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inflows of resources related to differences between expected and actual experience and related to change in the University's proportionate share of pensionable compensation made subsequent to the measurement date are amortized over a closed period equal to the average employees' remaining service lives. The deferred outflows and inflows of resources related to differences between projected and actual earnings on pension plan investments are netted and amortized over a closed 5-year period.

(n) Net Position

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

- Net Investment 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 and any related deferred outflows of resources.
- Restricted:
 - Nonexpendable: Net position subject to externally imposed conditions that the University retains in perpetuity. Net position in this category consists of endowments held by the University or its related discretely presented component units.
 - Expendable: Net position subject to externally imposed conditions that can be fulfilled by the actions of the University or by the passage of time.
- Unrestricted: All other categories of net position. In addition, unrestricted net position may have legislative or bond indenture requirements associated with their use or may be designated for use by management of the University. These requirements limit the area of operations for which expenditures of net position may be made and require that unrestricted net position be designated to support future operations in these areas. University housing programs are a primary example of operations that have unrestricted net position with designated uses.

(o) Classification of Revenues and Expenses

The University 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 and from other activities that are connected directly to the University'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 in accordance with GASB Statement No. 35. These nonoperating activities include the University's capital and noncapital appropriations from the State, financial aid, net investment income, noncapital gifts, interest expense, and capital grants and gifts.

The State appropriates funds to the University on an annual basis. The appropriations are, in turn, allocated among the campuses by the Office of the Chancellor. Appropriations are recognized as revenue in general when authorization is received and are reported as either noncapital appropriations when used to support general operations or capital appropriations when used for capital projects.

Student tuition and fees revenue, and sales and services of auxiliary enterprises, including revenues from student housing programs, are presented net of scholarships and fellowships applied to student

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accounts. Certain other scholarship amounts are paid directly to, or refunded to, the student and are reflected as operating expenses.

(p) Other Postemployment Benefits Obligations

The University's other postemployment benefits obligations included in the accompanying financial statements reflects the University's estimated funding liability of the State administered and sponsored plan as of the fiscal year ended. The State's actuary has employed methods and assumptions considered reasonable and appropriate given the information currently available. Given the inherent uncertainty in the nature of such estimates, future amounts may deviate from those estimates.

(q) Net Pension Liability

The University records pension liability equal to the net pension liability for its cost sharing defined-benefit plans with the State of California's Miscellaneous Plan and Peace Officers and Firefighters Plan (Agent Multiple-Employer Defined-Benefit Pension Plans). The net pension liability is measured as the University's proportionate share of the State's total pension liability, less the University's proportionate share of the pension plan's fiduciary net position. The fiduciary net position and changes in net position of the cost sharing defined-benefit plans has been measured consistent with the accounting policies used by the plans.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension expense, information about the fiduciary net position of the pension plan, and additions to/deductions from the pension plans' fiduciary net position have been determined on the same basis as they are reported by the California Public Employees' Retirement System (CalPERS) Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

(r) Grant Revenues and Expenses

The University records grant revenue when all applicable grant eligibility requirements are met. Expenses are recorded as expenditures are incurred. Expenditure-driven grant revenue is recorded as the expenditures are incurred, in amounts equal to the expenditures.

(s) Internal Services Activities

Certain institutional internal service providers offer goods and services to University departments, as well as to their external customers. These include activities such as copy centers, postal services, and telecommunications. All internal service activities to University departments have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the internal service sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the fiscal year.

(t) Income Taxes

The University is an agency of the State and is treated as a governmental entity for tax purposes. As such, the University is generally not subject to federal or state income taxes pursuant to Internal Revenue Code (IRC) §115. The component units are either governmental entities exempt pursuant to

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IRC §115 or not-for-profit organizations exempt under IRC Section 501(c)(3). However, the University and its component units remain subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded. If there is net income from any unrelated trade or business, such provision, in the opinion of management, is not material to the financial statements taken as a whole.

(u) Eliminations

All significant nonexchange transactions between the University and the discretely presented component units have been eliminated from the total column and are separately presented in the eliminations column in the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

(v) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the accompanying financial statements. Actual results could differ from those estimates.

(3) Cash, Cash Equivalents, and Investments

The University's cash, cash equivalents, and investments as of June 30, 2016 are classified in the accompanying Statement of Net Position as follows:

Cash and cash equivalents	\$ 9,107,000
Restricted cash and cash equivalents	81,000
	<hr/>
Total cash and cash equivalents	9,188,000
	<hr/>
Short-term investments	3,174,573,000
Endowment investments	8,653,000
Other long-term investments	891,399,000
	<hr/>
Total investments	4,074,625,000
	<hr/>
Total cash, cash equivalents, and investments	\$ 4,083,813,000
	<hr/> <hr/>

(a) Cash and Cash Equivalents

At June 30, 2016, cash and cash equivalents consist of demand deposits held at the State Treasury, commercial banks, and petty cash. Total cash and cash equivalents of \$9,188,000 had a corresponding carrying balance with the State Treasury and commercial banks of \$14,395,000 at June 30, 2016. The difference was primarily related to deposits in transit and outstanding checks.

Cash in demand deposit accounts is minimized by sweeping available cash balances into the CSU Consolidated Investment Pool on a daily basis.

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Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that in the event of the failure of the custodian, the deposits may not be returned to the University. The University deposits are maintained at financial institution that are Federal Deposit Insurance Corporation (FDIC) secured. As a result, custodial credit risk for deposits is remote.

(b) Investments

At June 30, 2016, the University's investment portfolio consists primarily of investments in the CSU Consolidated Investment Pool and SMIF. Separate accounting is maintained as to the amounts allocable to the various University funds and programs.

Investment Policy

State law and regulations require that surplus monies of the University must be invested. The primary objective of the University's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the University. The third objective is to return an acceptable yield.

The University's investment policy authorizes funds held in local trust accounts under Education Code Sections 89721 and 89724 to be invested in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, subject to certain limitations. In general, the University's investment policy permits investments in obligations of the Federal and California state governments, certificates of deposit, high-quality domestic corporate and fixed income securities, and certain other investment instruments.

Interest Rate Risk

Interest rate risk is the risk that fluctuations 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 University's investment guidelines manage its interest rate risk by limiting an eligible investment to maximum effective maturity and by limiting the average duration of the portfolio. The effective maturity date reflects a bond with embedded options such as a call, put or reset date, and prepayment speed resulting in the maturity of a bond being less than the final maturity date. Duration is a measure of the sensitivity of the price of an investment relative to fluctuations in market interest rates. Durations of the University's investment portfolio for each investment type, except for SMIF in which weighted average life is used, as of June 30, 2016 are presented in the following table.

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<u>Investment type</u>	<u>Fair value</u>	<u>Duration</u>
Money market funds	\$ 27,192,000	—
Repurchase agreements	19,774,000	0.00272
Certificates of deposit	261,896,000	0.22407
U.S. agency securities	1,096,461,000	1.35711
U.S. Treasury securities	756,276,000	1.76091
Municipal bonds	34,913,000	0.13505
Corporate bonds	1,030,765,000	1.12292
Asset-backed securities	211,887,000	1.00332
Mortgage-backed securities	689,000	1.16662
Commercial paper	9,714,000	0.32250
SMIF	625,058,000	0.45753
Total	<u>\$ 4,074,625,000</u>	

Another way the University manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

By law, the University invests in low credit risk securities such as: U.S. government securities, securities of federally sponsored agencies, highly rated domestic corporate bonds, prime-rated commercial paper, repurchase and reverse repurchase agreements, banker's acceptance, and negotiable certificates of deposit. Therefore, the occurrence of credit risk is remote. Ratings of the University's investment portfolio for each investment type as of June 30, 2016 are presented in the following table.

<u>Investment type</u>	<u>Fair value</u>	<u>Rating as of year-end</u>			
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Not rated</u>
Money market funds	\$ 27,192,000	11,102,000	103,000	2,871,000	13,116,000
Repurchase agreements	19,774,000	—	—	4,755,000	15,019,000
Certificates of deposit	261,896,000	—	34,117,000	227,779,000	—
U.S. agency securities	1,096,461,000	—	1,063,806,000	32,655,000	—
U.S. Treasury securities	756,276,000	—	—	—	756,276,000
Municipal bonds	34,913,000	—	34,913,000	—	—
Corporate bonds	1,030,765,000	2,521,000	225,096,000	803,148,000	—
Asset-backed securities	211,887,000	211,887,000	—	—	—
Mortgage-backed securities	689,000	—	689,000	—	—
Commercial paper	9,714,000	—	—	9,714,000	—
SMIF	625,058,000	—	—	—	625,058,000
Total	<u>\$ 4,074,625,000</u>	<u>225,510,000</u>	<u>1,358,724,000</u>	<u>1,080,922,000</u>	<u>1,409,469,000</u>

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By law, the SMIF only invests in: U.S. government securities, securities of federally sponsored agencies, domestic corporate bonds, interest-bearing time deposits in California banks, savings and loan associations and credit unions, prime-rated commercial paper, repurchase and reverse repurchase agreements, security loans, banker's acceptances, negotiable certificates of deposit, and loans to various bond funds.

Concentration Risk

Concentration risk rises as investments become concentrated relative to a portfolio characteristic such as issuance, issuer, market sector, counterparty, or sovereign nation and is best mitigated by diversification. The University's investment policy has concentration limits that provide sufficient diversification. As such, the concentration risk is remote.

As of June 30, 2016, the following investments (excluding U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolio: Federal Home Loan Banks (\$339,466,000 or 9.84%), Federal National Mortgage Association, Inc. (\$267,152,000 or 7.74%), Federal Farm Credit Banks Funding Corporation (\$248,519,000 or 7.20%), and Federal Home Loan Mortgage Corporation (\$241,733,000 or 7.01%).

Risk and Uncertainties

The University may invest in various types of 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 the changes could materially affect the amounts reported in the Statement of Net Position.

The University, through the CSU Consolidated Investment Pool, invests in securities with contractual cash flows, such as asset-backed securities and mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate values, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

Custodial Credit Risk for Investments

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned to the University. Substantially all of the University's securities are registered in the University's name by the custodial bank as an agent for the University. As a result, custodial credit risk for such investments is remote.

Fair Value Measurements

The University uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine the fair value disclosures. The fair value of a financial instrument 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. Fair value is best determined based upon quoted market prices. However, in certain instances, where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are

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significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The University groups its assets and liabilities measured at fair value in three levels, based on markets in which the asset and liabilities are traded and the reliability of the assumptions used to determine fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the University has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset and liability. This valuation is accomplished using management's best estimate of fair value, with inputs into the determination of fair value that require significant management judgment or estimation. The level in the fair value hierarchy with which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents investments that are measured at fair value on a recurring basis at June 30, 2016:

<u>Investment type</u>	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>
Money market funds	\$ 27,192,000	27,192,000	—
Repurchase agreements	19,774,000	—	19,774,000
Certificates of deposit	261,896,000	—	261,896,000
U.S. agency securities	1,096,461,000	—	1,096,461,000
U.S. Treasury securities	756,276,000	756,276,000	—
Municipal bonds	34,913,000	—	34,913,000
Corporate bonds	1,030,765,000	—	1,030,765,000
Asset-backed securities	211,887,000	—	211,887,000
Mortgage-backed securities	689,000	—	689,000
Commercial paper	9,714,000	—	9,714,000
	3,449,567,000	783,468,000	2,666,099,000
SMIF	625,058,000		
Total	\$ 4,074,625,000		

The following discussions describe the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair value are affected by the assumptions used.

Securities such as asset-backed, mortgaged-backed, U.S. agency and U.S. Treasury are valued at the last sale price on the last business day of the current fiscal year, as quoted on a recognized exchange or an industry standard pricing, when available. Securities for which no sale was reported as of the close of the last business day of the current fiscal year are valued at the quoted bid price provided by the University's external investment managers or their custodians.

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For investments that include money market funds, municipal bonds, repurchase agreements, and corporate bonds, the carrying value is similarly calculated using valuations that include observable market quoted prices. However, observable inputs other than quoted prices such as price services or indexes, estimates, appraisals, assumptions, and other methods that are reviewed by management. Change in market conditions and economic environments may impact the net asset value of the funds and consequently the fair value of the University's interests in the funds.

Securities such as certificates of deposit and commercial paper with short maturities and infrequent secondary market trades are typically priced via mathematical calculations.

There were no assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during fiscal year 2016.

Discretely Presented Component Units' Investments

Investments of the discretely presented component units at fair value consisted of the following at June 30, 2016:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Money market funds	\$ 27,147,000	4,694,000	31,841,000
Repurchase agreements	524,000	7,000	531,000
Certificates of deposit	22,894,000	35,693,000	58,587,000
U.S. agency securities	38,881,000	21,129,000	60,010,000
U.S. Treasury securities	29,586,000	104,336,000	133,922,000
Municipal bonds	1,127,000	5,114,000	6,241,000
Corporate bonds	61,227,000	87,148,000	148,375,000
Asset-backed securities	5,686,000	10,160,000	15,846,000
Mortgage-backed securities	2,127,000	14,260,000	16,387,000
Commercial paper	257,000	3,000	260,000
State of California Local Agency Investment Fund (LAIF)	175,390,000	5,555,000	180,945,000
State of California Surplus Money Investment Fund (SMIF)	1,000	—	1,000
Mutual funds	214,433,000	924,070,000	1,138,503,000
Exchange traded funds	7,644,000	52,672,000	60,316,000
Equity securities	55,707,000	277,129,000	332,836,000
Alternative investments:			
Private equity (including limited partnerships)	7,835,000	49,042,000	56,877,000
Hedge funds	2,584,000	56,220,000	58,804,000
Real estate investments (including Real Estate Investment Trust)	1,811,000	32,457,000	34,268,000
Commodities	479,000	10,615,000	11,094,000
Other alternative investments	2,312,000	24,741,000	27,053,000
Other external investment pools	92,000	19,791,000	19,883,000
Other investments	92,000	36,714,000	36,806,000
	<u>\$ 657,836,000</u>	<u>1,771,550,000</u>	<u>2,429,386,000</u>

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The following table presents investments of the discretely presented component units that are measured at fair value on a recurring basis at June 30, 2016:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Net Asset Value (NAV)</u>
Money market funds	\$ 31,841,000	29,265,000	2,512,000	—	64,000
Repurchase agreements	531,000	19,000	512,000	—	—
Certificates of deposit	58,587,000	26,385,000	32,202,000	—	—
U.S. agency securities	60,010,000	4,302,000	55,708,000	—	—
U.S. Treasury securities	133,922,000	125,935,000	7,987,000	—	—
Municipal bonds	6,241,000	756,000	5,485,000	—	—
Corporate bonds	148,375,000	80,028,000	68,345,000	2,000	—
Asset-backed securities	15,846,000	314,000	15,532,000	—	—
Mortgage-backed securities	16,387,000	6,367,000	10,020,000	—	—
Commercial paper	260,000	8,000	252,000	—	—
Mutual funds	1,138,503,000	1,065,404,000	73,099,000	—	—
Exchange traded funds	60,316,000	60,316,000	—	—	—
Equity securities	332,836,000	317,053,000	12,791,000	821,000	2,171,000
Alternative investments:					
Private equity (including limited partnerships)	56,877,000	3,318,000	453,000	41,705,000	11,401,000
Hedge funds	58,804,000	—	10,914,000	15,993,000	31,897,000
Real estate investments (including Real Estate Investment Trust)	34,268,000	7,887,000	1,397,000	24,984,000	—
Commodities	11,094,000	4,531,000	—	6,563,000	—
Other alternative investments	27,053,000	19,503,000	500,000	2,175,000	4,875,000
Other external investment pools	19,883,000	92,000	4,435,000	15,356,000	—
Other investments	36,806,000	30,964,000	1,594,000	4,229,000	19,000
	<u>2,248,440,000</u>	<u>1,782,447,000</u>	<u>303,738,000</u>	<u>111,828,000</u>	<u>50,427,000</u>
LAIF	180,945,000				
SMIF	<u>1,000</u>				
	<u>\$ 2,429,386,000</u>				

For additional information regarding the investments of the individual discretely presented component units, refer to their separately issued financial statements.

Investments reported by the University of \$54,043,000 are invested under contractual agreements on behalf of the discretely presented component units of the University.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2016

(4) Accounts Receivable

Accounts receivable of the University at June 30, 2016 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 4,401,000	29,555,000	33,956,000
State appropriations – SPWB Lease			
Revenue Bond program	—	90,922,000	90,922,000
Discretely presented component units	38,893,000	1,429,000	40,322,000
Student accounts	53,411,000	—	53,411,000
Government grants and contracts	20,596,000	—	20,596,000
Others	43,063,000	5,427,000	48,490,000
	<u>160,364,000</u>	<u>127,333,000</u>	<u>287,697,000</u>
Less allowance for doubtful accounts	<u>(6,733,000)</u>	<u>—</u>	<u>(6,733,000)</u>
Total	<u>\$ 153,631,000</u>	<u>127,333,000</u>	<u>280,964,000</u>

(5) Capital Lease Receivable

The University has entered into capital lease agreements with certain discretely presented component units using proceeds from issuance of SRB bonds and BANs to lease existing and newly constructed facilities to the discretely presented component units amounting to \$333,710,000. Interest rates range from 1.50% to 5.55%. Lease payments are due twice a year on May 1 and November 1.

Under the lease agreements, payments are due to the University as follows:

Fiscal year ending June 30:		
2017		\$ 30,433,000
2018		26,714,000
2019		26,741,000
2020		26,995,000
2021		27,281,000
2022–2026		160,755,000
2027–2031		131,348,000
2032–2036		74,898,000
2037–2041		28,647,000
2042–2046		17,971,000
Total minimum lease payments to be received		<u>551,783,000</u>
Less amounts representing interest		<u>(209,605,000)</u>
Present value of future minimum lease payments to be received		342,178,000
Less current portion		<u>(12,356,000)</u>
Capital lease receivable, net of current portion		<u>\$ 329,822,000</u>

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2016

(6) Notes Receivable

The University has entered into note agreements with certain discretely presented component units to finance existing and newly constructed facilities for the discretely presented component units amounting to \$290,910,000. Interest rates range from 1.50% to 6.48%. Note payments are due twice a year, on May 1 and November 1.

Under the agreements, payments are due to the University as follows:

Fiscal year ending June 30:	
2017	\$ 23,886,000
2018	23,917,000
2019	23,863,000
2020	23,567,000
2021	23,213,000
2022–2026	113,278,000
2027–2031	105,797,000
2032–2036	78,674,000
2037–2041	43,739,000
2042–2046	<u>13,788,000</u>
Total minimum note payments to be received	473,722,000
Less amounts representing interest	<u>(182,215,000)</u>
Present value of future minimum note payments to be received	291,507,000
Less current portion	<u>(9,805,000)</u>
Notes receivable, net of current portion	<u><u>\$ 281,702,000</u></u>

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2016

(7) Capital Assets

Capital assets activity for the University for the year ended June 30, 2016 consisted of the following:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending balance</u>
Nondepreciable/nonamortizable capital assets:					
Land and land improvements	\$ 271,059,000	322,000	(2,560,000)	—	268,821,000
Works of art and historical treasures	33,719,000	5,125,000	(11,000)	—	38,833,000
Construction work in progress	632,139,000	576,999,000	(813,000)	(378,024,000)	830,301,000
Intangible assets	14,053,000	5,786,000	(36,000)	(1,233,000)	18,570,000
Total nondepreciable/ nonamortizable capital assets	<u>950,970,000</u>	<u>588,232,000</u>	<u>(3,420,000)</u>	<u>(379,257,000)</u>	<u>1,156,525,000</u>
Depreciable/amortizable capital assets:					
Buildings and building improvements	10,914,827,000	33,764,000	(1,749,000)	297,318,000	11,244,160,000
Improvements other than buildings	597,691,000	15,323,000	(956,000)	24,421,000	636,479,000
Infrastructure	1,041,706,000	20,623,000	(2,127,000)	50,312,000	1,110,514,000
Personal property:					
Equipment	785,947,000	54,352,000	(31,609,000)	5,603,000	814,293,000
Library books and materials	392,006,000	6,121,000	(4,428,000)	—	393,699,000
Intangible assets	313,400,000	11,742,000	(65,065,000)	1,603,000	261,680,000
Total depreciable/ amortizable capital assets	<u>14,045,577,000</u>	<u>141,925,000</u>	<u>(105,934,000)</u>	<u>379,257,000</u>	<u>14,460,825,000</u>
Total cost	<u>14,996,547,000</u>	<u>730,157,000</u>	<u>(109,354,000)</u>	<u>—</u>	<u>15,617,350,000</u>
Less accumulated depreciation/ amortization:					
Buildings and building improvements	(4,863,851,000)	(328,869,000)	1,338,000	—	(5,191,382,000)
Improvements other than buildings	(426,775,000)	(28,977,000)	563,000	—	(455,189,000)
Infrastructure	(444,830,000)	(34,707,000)	2,198,000	—	(477,339,000)
Personal property:					
Equipment	(562,839,000)	(48,569,000)	25,889,000	—	(585,519,000)
Library books and materials	(356,009,000)	(7,744,000)	4,476,000	—	(359,277,000)
Intangible assets	(296,243,000)	(9,053,000)	64,318,000	—	(240,978,000)
Total accumulated depreciation/ amortization	<u>(6,950,547,000)</u>	<u>(457,919,000)</u>	<u>98,782,000</u>	<u>—</u>	<u>(7,309,684,000)</u>
Net capital assets	<u>\$ 8,046,000,000</u>	<u>272,238,000</u>	<u>(10,572,000)</u>	<u>—</u>	<u>8,307,666,000</u>

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2016

Capital assets activity of the discretely presented component units of the University for the year ended June 30, 2016 consisted of the following:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending balance</u>
Nondepreciable/nonamortizable capital assets:					
Land and land improvements	\$ 125,188,000	2,052,000	(935,000)	—	126,305,000
Works of art and historical treasures	9,959,000	343,000	(2,000)	—	10,300,000
Construction work in progress	16,232,000	33,976,000	(11,307,000)	(18,217,000)	20,684,000
Intangible assets	<u>5,098,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,098,000</u>
Total nondepreciable/ nonamortizable capital assets	<u>156,477,000</u>	<u>36,371,000</u>	<u>(12,244,000)</u>	<u>(18,217,000)</u>	<u>162,387,000</u>
Depreciable/amortizable capital assets:					
Buildings and building improvements	785,994,000	14,042,000	(4,024,000)	7,876,000	803,888,000
Improvements other than buildings	120,888,000	2,584,000	(1,102,000)	6,013,000	128,383,000
Infrastructure	67,573,000	120,000	—	—	67,693,000
Personal property:					
Equipment	197,303,000	18,222,000	(11,900,000)	4,284,000	207,909,000
Intangible assets	<u>9,260,000</u>	<u>128,000</u>	<u>(96,000)</u>	<u>44,000</u>	<u>9,336,000</u>
Total depreciable/ amortizable capital assets	<u>1,181,018,000</u>	<u>35,096,000</u>	<u>(17,122,000)</u>	<u>18,217,000</u>	<u>1,217,209,000</u>
Total cost	<u>1,337,495,000</u>	<u>71,467,000</u>	<u>(29,366,000)</u>	<u>—</u>	<u>1,379,596,000</u>
Less accumulated depreciation/ amortization:					
Buildings and building improvements	(292,985,000)	(26,849,000)	838,000	—	(318,996,000)
Improvements other than buildings	(57,751,000)	(8,171,000)	1,310,000	—	(64,612,000)
Infrastructure	(17,445,000)	(1,692,000)	—	—	(19,137,000)
Personal property:					
Equipment	(149,097,000)	(15,027,000)	10,665,000	—	(153,459,000)
Intangible assets	<u>(7,022,000)</u>	<u>(591,000)</u>	<u>92,000</u>	<u>—</u>	<u>(7,521,000)</u>
Total accumulated depreciation/ amortization	<u>(524,300,000)</u>	<u>(52,330,000)</u>	<u>12,905,000</u>	<u>—</u>	<u>(563,725,000)</u>
Net capital assets	<u>\$ 813,195,000</u>	<u>19,137,000</u>	<u>(16,461,000)</u>	<u>—</u>	<u>815,871,000</u>

For additional information regarding the capital assets of the individual discretely presented component units of the University, refer to their separately issued financial statements.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2016

(8) Lease Obligations

The University is obligated under various capital and operating leases and installment purchase agreements for the acquisition of equipment and facility rentals. A substantial amount of the capital leases are a result of the University's participation with the State in the State Public Works Board (SPWB) Lease Revenue Bond program. The University has participated in this program since 1986 in connection with the construction of campus facilities and related equipment. Current California law permits the SPWB to authorize the sale of bonds to construct certain state facilities if there is a revenue stream that can be pledged to repay the obligations. The process in general is described in brief as follows:

- The University and the State of California Department of Finance agree to the construction of one or more facilities to be funded by SPWB bonds. The projects are approved as part of the University's capital outlay budget.
- The SPWB approves the sale of bonds for the project(s) and the University agrees to execute certain legal documents in connection with the financing, including a site lease to the SPWB, a construction agreement to construct the facility for the SPWB, and a facility lease to lease the completed facility from the SPWB for annual rental payments.
- Prior to the execution of the facility lease, the University receives a short-term loan from the State of California Pooled Money Investment Board to provide working capital for initial phases of the construction and in some cases the entire construction.
- Generally, during the construction phase of the project, the bonds are sold by the SPWB, the construction loan is repaid, and site leases and facility leases are executed requiring semiannual lease payments, beginning upon completion of the facilities, by the Trustees that are used to pay principal and interest on the bonds.
- As part of the annual budget process, the State of California Department of Finance augments the University's operating budget to provide additional funds for the required lease payments.

The capitalized lease obligation related to the SPWB Lease Revenue Bond program amounted to \$207,557,000. The University also enters into capital leases with financial institutions and via commercial paper issued by the California State University Institute (the Institute), a discretely presented component unit of the University.

Overall capital leases consist primarily of leases of campus facilities, but also include certain computer, energy efficiency, and telecommunications equipment. Total assets related to capital leases have a carrying value of \$466,733,000 at June 30, 2016. The leases bear interest at rates ranging from 1.39% to 35.64% and have terms expiring in various years through fiscal year 2041.

Operating leases consist primarily of leases for the use of real property. The University's operating leases expire in various years through fiscal year 2099. The leases can be canceled if the State does not provide adequate funding. Some of these leases are with discretely presented component units for the rental of office space used in the operations of the University. Total operating lease expenditures for the year ended June 30, 2016 were \$25,757,000 of which \$13,995,000 was paid to related discretely presented component units.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2016

Future minimum lease payments under capital and operating leases having remaining terms in excess of one year as of June 30, 2016 are as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2017	\$ 63,683,000	24,052,000
2018	61,232,000	18,612,000
2019	34,614,000	15,456,000
2020	33,229,000	13,940,000
2021	32,476,000	14,841,000
2022–2026	144,813,000	29,785,000
2027–2031	127,436,000	15,920,000
2032–2036	91,829,000	5,198,000
2037–2041	13,005,000	2,603,000
2042–2046	—	397,000
2047–2051	—	324,000
2052–2056	—	33,000
2057–2061	—	33,000
2062-2099	—	211,000
Total minimum lease payments	602,317,000	\$ <u>141,405,000</u>
Less amount representing interest	<u>(214,744,000)</u>	
Present value of future minimum lease payments	387,573,000	
Unamortized net premium	<u>1,812,000</u>	
Total capitalized lease obligations	389,385,000	
Less current portion	<u>(43,818,000)</u>	
Capitalized lease obligations, net of current portion	<u>\$ 345,567,000</u>	

(9) Long-Term Debt Obligations

(a) State's General Obligation Bond Program

The General Obligation Bond program of the State has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds, which is allocated on a project-by-project basis among the University, the University of California, and the Community Colleges. Financing provided to the University through State's General Obligation Bonds is not allocated to the University by the State. This debt remains the obligation of the State and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. The total General Obligation Bonds carried by the State related to the University projects is approximately \$2,457,142,000 as of June 30, 2016.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2016

(b) Revenue Bond Program

The State University Revenue Bond Act of 1947, Sections 90010 through 90091 of the Education Code of the State of California (the Bond Act) authorizes the Trustee to issue revenue bonds to finance projects that support the University's educational mission. The University's financing program, referred to as the Systemwide Revenue Bond (SRB) Program, is designed to provide lower cost debt and greater flexibility to finance projects at the University than would be possible if projects were financed separately. Rather than relying on specific pledged revenues to support specific debt obligations, the SRB program pools several sources of revenue as the security for the debt. The University's total outstanding balance of revenue bond indebtedness under the SRB program was \$4,944,168,000 at June 30, 2016.

Under the Bond Act authority, the University has constructed or acquired facilities located at its 23 campuses and the Office of the Chancellor.

In 2014, the State enacted legislation that granted additional capital financing authorities to the University, leading to the SRB program expanding to allow the financing of academic facilities and energy conservation projects. Allowable academic projects include construction and equipping of new and existing academic facilities; infrastructure; deferred maintenance; and refunding of SPWB lease revenue bonds (which funded the construction of certain academic facilities of the University; see note 8, Lease Obligation).

Systemwide Revenue Bonds are not secured by mortgages on the facilities constructed or acquired and therefore the facilities do not act as security for the debt. Revenues pledged under the SRB program include program fees from continuing education, health center facilities, housing, parking, and student union; student tuition fees (effective in fiscal year 2016); and designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$5,989,163,000 in Systemwide Revenue Bonds issued through fiscal year 2016.

(c) Bond Anticipation Notes (BANs)

The Trustees have authorized the issuance of BANs to provide short-term financing to the University for certain projects. The BANs are purchased by the Institute with proceeds from the commercial paper issued by the Institute. The BANs are generally issued for periods of up to three years in anticipation of issuing permanent revenue bonds at a future date. State law was amended in fiscal year 2008 to allow BAN maturities to extend beyond three years and the maturity date for the issuance of BANs to be determined by the Trustees. In fiscal year 2010, the Trustees authorized three projects for financing with maturities beyond three years and they will remain in BANs until the debt is retired. BAN interest is variable and changes based upon the cost of the Institute's commercial paper program. The maximum and minimum weighted average interest rates for the year ended June 30, 2016 were 0.18% and 0.05%, respectively. The University's BANs totaled \$4,640,000 at June 30, 2016. The not-to-exceed amounts related to the outstanding amounts totaled \$20,655,000 of which \$1,400,000 has not been issued and \$14,615,000 has been issued and paid back.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2016

Long-term debt obligations of the University as of June 30, 2016 consisted of the following:

Description	Interest rate percentage	Final maturity date	Original issue amount	Amount outstanding
Systemwide Revenue Bonds,				
Housing Series J – K	3.00%	2019/20	\$ 8,558,000	1,398,000
Housing Series L – M	3.00	2020/21	5,510,000	1,130,000
Housing Series N, P & Q	3.00	2021/22	6,695,000	1,615,000
Series 2007A	4.50–5.00	2044/45	245,405,000	153,785,000
Series 2007B	5.27–5.55	2037/38	13,165,000	10,640,000
Series 2007C	5.00	2028/29	63,275,000	43,410,000
Series 2007D	4.00–5.00	2037/38	80,360,000	70,040,000
Series 2008A	3.50–5.00	2039/40	375,160,000	28,645,000
Series 2009A	3.50–5.00	2018/19	454,240,000	28,055,000
Series 2010A	3.00–5.00	2031/32	146,950,000	111,590,000
Series 2010B	5.45–6.48	2041/42	205,145,000	205,145,000
Series 2011A	2.50–5.25	2042/43	429,855,000	380,835,000
Series 2012A	3.00–5.00	2042/43	436,220,000	425,030,000
Series 2012B	2.79–4.17	2036/37	16,700,000	15,620,000
Series 2013A	1.50–5.00	2026/27	308,855,000	296,595,000
Series 2014A	3.00–5.00	2044/45	747,740,000	740,950,000
Series 2015A	2.00–5.00	2047/48	1,032,920,000	1,017,275,000
Series 2015B	0.65–4.41	2035/36	29,305,000	29,305,000
Series 2016A	2.00–5.00	2045/46	1,133,105,000	1,133,105,000
Series 2016B-1	Variable	2047/48	50,000,000	50,000,000
Series 2016B-2	Variable	2049/50	100,000,000	100,000,000
Series 2016B-3	Variable	2051/52	100,000,000	100,000,000
			\$ 5,989,163,000	4,944,168,000
Bond Anticipation Notes	Variable			4,640,000
Others	Various			6,180,000
Total				4,954,988,000
Unamortized net bond premium				506,760,000
Total long-term debt				5,461,748,000
Less current portion				(112,404,000)
Long-term debt, net of current portion				\$ 5,349,344,000

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Notes to Financial Statements

June 30, 2016

Long-term debt principal and interest are payable in the following fiscal years:

Year ending June 30:	<u>Principal</u>	<u>Interest</u>
2017	\$ 112,404,000	232,009,000
2018	127,355,000	225,365,000
2019	130,315,000	219,794,000
2020	135,417,000	213,600,000
2021	139,584,000	207,218,000
2022–2026	765,132,000	927,225,000
2027–2031	977,010,000	718,253,000
2032–2036	1,008,660,000	474,346,000
2037–2041	777,130,000	261,879,000
2042–2046	478,875,000	109,119,000
2047–2051	258,691,000	28,189,000
2052–2056	44,415,000	777,000
	<u>\$ 4,954,988,000</u>	<u>3,617,774,000</u>

Long-term debt obligations of the individual discretely presented component units have been issued to purchase or construct facilities for University-related uses. For additional information regarding long-term debt obligations of the individual discretely presented component units, refer to their separately issued financial statements.

(10) Long-Term Debt Refunding

Current Year Refunding

In August 2015, the University issued its SRB Series 2015A (Tax-Exempt) to refund certain maturities of SRB Series 2005A, 2005B, 2005C, and 2007A. In April 2016, the University issued its SRB Series 2016A. The proceeds were used to refund certain maturities of SRB Series 2008A and 2009A.

A portion of the proceeds from the issuance of the SRB Series 2015A and 2016A refunding bonds are in an irrevocable trust to provide for all future debt service payments on the refunded bonds. The proceeds from the Series 2015A and 2016A refunding bonds were used to purchase U.S. federal, state, and local government securities that were placed in escrow accounts. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matured. These transactions will reduce the University's total financing cost by approximately \$210,339,000 over the life of the refunded bonds. The economic gain (difference between net present values of the debt service payments on the old debt and new debt) from these transactions was approximately \$154,344,000. Accordingly, the refunded bonds have been considered defeased and, therefore, removed as a liability from the accompanying financial statements. The total par amount of bonds outstanding as of date of refunding totaled \$1,085,455,000, of which \$766,225,000 is still outstanding as of June 30, 2016.

The University recognized a loss on the debt refunding for SRB Series 2015A and 2016A of \$73,827,000 as of date of refunding. The loss on debt refunding is the difference between the reacquisition price and the net carrying amount of the old debt, together with any unamortized difference from the prior refunding. The loss on debt refunding is deferred and amortized over the shorter of the old debt (or original amortization period

CALIFORNIA STATE UNIVERSITY

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June 30, 2016

remaining in the prior refunding) or the life of the latest refunding debt. The unamortized loss on debt refunding, for SRB Series 2015A and 2016A, included in deferred outflows of resources in the Statement of Net Position, amounted to \$73,304,000 as of June 30, 2016.

(11) Long-Term Liabilities Activity

Long-term liabilities activity of the University for the year ended June 30, 2016 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Current portion
Accrued compensated absences	\$ 231,188,000	144,418,000	(132,244,000)	243,362,000	133,773,000
Capitalized lease obligations (note 8)	1,210,409,000	66,972,000	(887,996,000)	389,385,000	43,818,000
Long-term debt obligations (note 9):					
Systemwide Revenue					
Bonds	3,687,508,000	2,446,780,000	(1,190,120,000)	4,944,168,000	110,345,000
Bond Anticipation Notes	149,285,000	3,595,000	(148,240,000)	4,640,000	400,000
Others	65,988,000	1,506,000	(61,314,000)	6,180,000	1,659,000
	<u>3,902,781,000</u>	<u>2,451,881,000</u>	<u>(1,399,674,000)</u>	<u>4,954,988,000</u>	<u>112,404,000</u>
Unamortized net bond premium	<u>223,491,000</u>	<u>315,276,000</u>	<u>(32,007,000)</u>	<u>506,760,000</u>	<u>—</u>
Total long-term debt obligations	<u>4,126,272,000</u>	<u>2,767,157,000</u>	<u>(1,431,681,000)</u>	<u>5,461,748,000</u>	<u>112,404,000</u>
Total long-term liabilities	<u>\$ 5,567,869,000</u>	<u>2,978,547,000</u>	<u>(2,451,921,000)</u>	<u>6,094,495,000</u>	<u>289,995,000</u>

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Long-term liabilities activity of the aggregated discretely presented component units of the University for the year ended June 30, 2016 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 18,361,000	13,853,000	(12,438,000)	19,776,000	14,147,000
Claims liability for losses and loss adjustment expenses	95,115,000	19,066,000	(32,062,000)	82,119,000	24,750,000
Capitalized lease obligations	367,786,000	113,911,000	(120,865,000)	360,832,000	12,490,000
Long-term debt obligations:					
Revenue bonds	39,090,000	—	(16,670,000)	22,420,000	835,000
Commercial paper	154,439,000	18,863,000	(167,338,000)	5,964,000	5,264,000
Notes payable	233,840,000	49,771,000	(49,011,000)	234,600,000	8,400,000
Others	93,530,000	1,190,000	(13,694,000)	81,026,000	4,655,000
	<u>520,899,000</u>	<u>69,824,000</u>	<u>(246,713,000)</u>	<u>344,010,000</u>	<u>19,154,000</u>
Unamortized net bond premium	<u>14,515,000</u>	<u>8,240,000</u>	<u>(904,000)</u>	<u>21,851,000</u>	<u>—</u>
Total long-term debt obligations	<u>535,414,000</u>	<u>78,064,000</u>	<u>(247,617,000)</u>	<u>365,861,000</u>	<u>19,154,000</u>
Total long-term liabilities	<u>\$ 1,016,676,000</u>	<u>224,894,000</u>	<u>(412,982,000)</u>	<u>828,588,000</u>	<u>70,541,000</u>

The University has entered into note agreements with certain discretely presented component units to finance existing and newly constructed facilities, using proceeds from issuance of SRB bonds, for the discretely presented component units amounting to \$234,600,000 included in notes payable and \$56,310,000 in other long-term debt obligations as of June 30, 2016.

The University has also entered into capital lease agreements with certain discretely presented component units using proceeds from issuance of SRB bonds and BANs to lease existing and newly constructed facilities to the discretely presented component units amounting to \$332,332,000 as of June 30, 2016.

For additional information regarding the long-term liabilities of the individual discretely presented component units of the University, refer to their separately issued financial statements.

(12) Pension Plan and Postretirement Benefits

(a) Pension Plan

Plan Description

The University, as an agency of the State, contributes to CalPERS. The State's plan with CalPERS is an agent multiple-employer defined-benefit pension plan and CalPERS functions as an investment and administrative agent for its members. For the University, the plan acts as a cost sharing multiple-employer defined-benefit pension plan, which provides a defined-benefit pension and postretirement program for substantially all eligible University employees. The plan also provides

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survivor, death, and disability benefits. Eligible employees are covered by the Public Employees' Medical and Hospital Care Act (PEMHCA) for medical benefits.

A full description of the pension plan regarding numbers of employees covered, benefit provision, assumptions, and membership information are listed in the June 30, 2014 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report.

CalPERS issues a publicly available Actuarial Valuation Report and Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. Copies of the CalPERS Actuarial Valuation Report CAFR may be obtained from the California Public Employees' Retirement System Executive Office, 400 P Street, Sacramento, CA 95814.

Pensionable Compensation

The schedule of pensionable compensation is prepared by the State to provide the total pensionable compensation. This amount was used to calculate the University's proportionate share of pension amounts. The schedule of pensionable compensation and the schedule of pension amounts have the same measurement period of July 1, 2014 through June 30, 2015.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015, the average active employee contribution rates for State Miscellaneous and Peace Officer and Firefighters Plans are 6.587% and 11.498% of annual pay, respectively. The State's contribution rates for State Miscellaneous and Peace Officer and Firefighters Plans are 24.265% and 36.780% of annual payroll, respectively.

State Miscellaneous Plan members of the University are required to contribute 5.00% of their annual earnings in excess of \$513 per month to CalPERS. Effective January 1, 2013, all new employees that are considered "new members" to CalPERS are required to contribute 50.00% of the normal cost for their category (e.g., State Miscellaneous Plan member is 6.00% of their annual earnings per month to CalPERS). The University is required to contribute at an actuarially determined rate; the current rate for State Miscellaneous is approximately 25.15% of annual covered payroll.

State Peace Officers and Firefighters Plan members of the University are required to contribute 8.00% of their annual earnings in excess of \$238 per month to CalPERS. Effective January 1, 2013, all new employees that are considered "new members" to CalPERS are required to contribute 50.00% of the normal cost for their category (e.g., State Peace Officers and Firefighters Plan members is 11.00% of their annual earnings per month to CalPERS). The University is required to contribute at an actuarially

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determined rate; the current rate for State Peace Officers and Firefighters Plan is approximately 38.99% of annual covered payroll.

The contribution requirements of the plan members are established and may be amended by CalPERS. The contractual maximum contribution required for the University is determined by the annual CalPERS compensation limit(s), which are based on provisions of Assembly Bill (AB) 340 and the IRC 401 (a) 17 limits.

The University's contributions to CalPERS for the most recent three fiscal years were equal to the required contributions and were as follows:

2014	\$ 493,922,000
2015	602,995,000
2016	659,326,000

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2016, the University reported a liability of \$6,578,194,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined based on an actuarial valuation as of June 30, 2014 rolled forward to the measurement date. The University's proportion of the State's net pension liability was calculated based on its proportionate share of pensionable compensation. The State considered this a practical, systematic, and a rational approach. At June 30, 2015, the University's proportionate share of the total State net pension liability for the Miscellaneous Plan and Peace Officers and Firefighters Plan (collectively the Plans) were 22.84970% and 1.07094%, respectively.

For the year ended June 30, 2016, the University recognized pension expense of \$571,952,000, which was reported as benefits expense.

The following table presents deferred outflows and inflows of resources as of June 30, 2016. Deferred outflows of resources are recognized for the University's retirement contributions made subsequent to the measurement date, the difference between expected and actual experience, and changes in the University's proportionate share of pensionable compensation. Net deferred inflows of resources are recognized for the aggregate difference between projected and actual earnings on pension plan investments arising in different measurement periods.

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	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
University retirement contribution subsequent to the measurement date	\$ 659,326,000	—
Difference between expected and actual experience	120,339,000	—
Difference due to change in proportionate share	31,667,000	—
Net difference between projected and actual earnings on pension plan investments	—	143,167,000
Total	<u>\$ 811,332,000</u>	<u>143,167,000</u>

The \$659,326,000 of deferred outflows of resources related to pension resulting from the University's contributions subsequent to the measurement date of June 30, 2015 will be recognized as a reduction of the net pension liability as of the measurement date of June 30, 2016.

The deferred outflows of resources due to the change in the University's proportionate share and difference in the expected and actual experience will be recognized as pension expense as follows:

Schedule of Differences between Expected and Actual Experience

Measurement period ended June 30:	Initial Differences	Remaining period (Years)	Increase in pension expense arising from the recognition of the differences between expected and actual experience (measurement dates)				
			2016	2017	2018	2019	Total
Miscellaneous Plan: 2015	\$ 158,494,000	3.9	\$ 40,640,000	40,640,000	36,574,000	—	117,854,000
Peace Officers and Firefighters Plan: 2015	\$ 3,091,000	5.1	606,000	606,000	606,000	667,000	2,485,000
Increase in pension expense			<u>\$ 41,246,000</u>	<u>41,246,000</u>	<u>37,180,000</u>	<u>667,000</u>	<u>120,339,000</u>

Schedule of Change in Proportionate Share

Measurement period ended June 30:	Initial differences	Remaining period (Years)	Increase in pension expense arising from the change in proportionate share in pensionable compensation (measurement dates)				
			2016	2017	2018	2019	Total
Miscellaneous Plan: 2015	\$ 34,438,000	3.9	\$ 8,830,000	8,830,000	7,948,000	—	25,608,000
Peace Officers and Firefighters Plan: 2015	\$ 7,537,000	5.1	1,478,000	1,478,000	1,478,000	1,625,000	6,059,000
Increase in pension expense			<u>\$ 10,308,000</u>	<u>10,308,000</u>	<u>9,426,000</u>	<u>1,625,000</u>	<u>31,667,000</u>

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The deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

Schedule of Differences between Projected and Actual Earnings on Pension Plan Investments

Measurement period ended June 30:	Initial differences *	Remaining period (Years)	Increase (decrease) in pension expense arising from the recognition of the differences between projected and actual earnings on pension plan investments (measurement dates)				Total
			2016	2017	2018	2019	
Miscellaneous Plan:							
2014	\$ (1,342,919,000)	4.0	\$ (268,584,000)	(268,584,000)	(268,583,000)	—	(805,751,000)
2015	\$ 831,102,000	5.0	166,220,000	166,220,000	166,220,000	166,222,000	664,882,000
Peace Officers and Firefighters Plan:							
2014	\$ (24,064,000)	4.0	(4,813,000)	(4,813,000)	(4,813,000)	—	(14,439,000)
2015	\$ 15,176,000	5.0	3,035,000	3,035,000	3,035,000	3,036,000	12,141,000
Net increase (decrease) in pension expense			\$ (104,142,000)	(104,142,000)	(104,141,000)	169,258,000	(143,167,000)

* Adjusted for any changes in University's proportionate share

Actuarial Assumptions

For the measurement period ended June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and 2015 total pension liability were based on the following actuarial methods and assumptions:

Actuarial cost method	Entry age normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.65%, net of pension plan investment expense but without reduction for administrative expenses including inflation
Mortality rate of return	Derived using CalPERS' membership data for all funds
Postretirement benefit increase	Contract cost of living allowance up to 2.75% until purchasing power protection allowance floor on purchasing power applies; 2.75% thereafter

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 CalPERS Experience Study and Review of Actuarial Assumptions report (Experience Study).

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study report can be obtained from CalPERS' website.

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Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, the plans do not exhaust assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund. The stress test result is presented in the GASB Crossover Testing Report, which may be obtained from CalPERS' website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense but without reduction for administrative expenses, and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11–60 years) using a building-block approach. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS's Board of Administration effective on July 1, 2014.

<u>Asset class</u>	<u>Current target allocation</u>	<u>Real return years 1–10¹</u>	<u>Real return years 11+²</u>
Global equity	51.00%	5.25%	5.71%
Global fixed income	19.00	0.99	2.43
Inflation sensitive	6.00	0.45	3.36
Private equity	10.00	6.83	6.95
Real estate	10.00	4.50	5.13
Infrastructure and Forestland	2.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

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Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the University's proportionate share of net pension liability of the Plans as of the measurement date, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.65%) or one-percentage point higher (8.65%) than the current rate:

<u>Plan</u>	<u>Discount rate -1% (6.65%)</u>	<u>Current discount rate (7.65%)</u>	<u>Discount rate +1% (8.65%)</u>
Miscellaneous Plan	\$ 9,114,262,000	6,453,200,000	4,220,570,000
Peace Officers and Firefighters Plan	182,619,000	124,994,000	77,734,000
Net pension liability	<u>\$ 9,296,881,000</u>	<u>6,578,194,000</u>	<u>4,298,304,000</u>

Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance, and OPEB expense included as assets. These amounts are excluded for rate setting purposes in your funding actuarial valuation. In addition, differences may result from early CAFR closing and final reconciled reserves.

(b) Postretirement Healthcare Plan

Plan Description

The State provides retiree healthcare benefits to statewide employees, including the University employees, through the programs administered by CalPERS. The State's plan represents a substantive single-employer defined-benefit OPEB Plan, which includes medical and prescription drug benefits (collectively, healthcare benefits) to the retired University employees. The University provides dental benefits to eligible University's retirees. Eligible retirees receive healthcare and dental benefits upon retirement at age 50 with five years of service credit.

For healthcare benefits, CalPERS offers Preferred Provider Organizations (PPOs), Health Maintenance Organizations (HMOs), and Exclusive Provider Organizations (EPOs) (limited to members in certain California counties); for dental benefits, a Dental Maintenance Organization (DMO) and dental indemnity plans to the University's retirees. Health plans offered, covered benefits, monthly rates, and copayments are determined by the CalPERS Board, which reviews health plan contracts annually.

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The contribution requirements of retirees and the State are established and may be amended by the State legislature. For healthcare benefits, the State makes a contribution toward the retiree's monthly health premiums, with the retirees covering the difference between the State's contribution and the actual healthcare premium amount. The State contribution is normally established through collective bargaining agreements. No retiree contribution is required for dental benefits.

The State contributes to the California Employers' Retiree Benefit Trust Fund (CERBTF). The CERBTF is a self-funded trust fund for the prefunding of health, dental, and other nonpension benefits. CalPERS reports on the CERBTF as part of its separately issued annual financial statements, which can be obtained from CalPERS on its website at www.CalPERS.ca.gov.

Funding Policy

For healthcare benefits, responsibility for funding the cost of the employer share of premiums is apportioned between the State and the University based on "billable" and "nonbillable" accounts. Billable accounts have special revenue sources such as fees, licenses, penalties, assessments, and interest, which offset the costs incurred by a State department during the year. The University reimburses the State for retiree's health benefit costs allocated to billable accounts but not for costs allocated to nonbillable accounts. The University is responsible for funding the costs of the billable accounts on a pay-as-you-go basis as part of the statewide general administrative costs charged to the University. The State is responsible for funding the cost of the employer share of healthcare premiums of retirees for all nonbillable accounts.

The University is responsible for paying the cost of dental benefits for all University retirees using funds provided by the State through general fund appropriations. The University makes payments directly to Delta Dental for the retiree's monthly dental premiums. The University is paying these benefits on a pay-as-you-go basis.

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Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the total annual required contribution (ARC) for the University's allocated portion of the postretirement healthcare plan, the amount contributed to the plan by the University, and changes in the University's net OPEB obligation (NOO) for the fiscal years ended 2016, 2015, and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual required contribution (ARC):			
Billable accounts	\$ 50,349,000	40,931,000	38,942,000
Nonbillable accounts (dental only)	40,862,000	38,765,000	40,057,000
Total ARC	<u>91,211,000</u>	<u>79,696,000</u>	<u>78,999,000</u>
Contributions:			
Billable accounts	(18,665,000)	(16,293,000)	(14,584,000)
Nonbillable accounts (dental only)	(17,103,000)	(17,056,000)	(16,420,000)
Total contributions	<u>(35,768,000)</u>	<u>(33,349,000)</u>	<u>(31,004,000)</u>
Increase in net OPEB obligation (NOO)	55,443,000	46,347,000	47,995,000
NOO – beginning of year	313,360,000	267,013,000	219,018,000
NOO – end of year:			
Billable accounts	183,630,000	151,946,000	127,308,000
Nonbillable accounts (dental only)	185,173,000	161,414,000	139,705,000
Total NOO	<u>\$ 368,803,000</u>	<u>313,360,000</u>	<u>267,013,000</u>
Percentage of annual OPEB cost contributed during the years ended June 30, 2016, 2015, and 2014	39.21%	41.85%	39.25%

Actuarial Methods and Assumptions and Plan Funding Information

As an agency of the State, the University was included in the State's OPEB actuarial study. The analysis of the statewide ARC by accounts is performed by the State Controller's Office (SCO) and a portion related to billable accounts is allocated to the University. Since the ARC allocated by the SCO does not provide a breakdown of the ARC for health and dental benefits separately, the ARC for the nonbillable accounts, which related only to dental benefits, was estimated based on dental contributions as a percentage of the total OPEB contributions.

Projections of benefits for financial statement reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the State and the plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective. In the June 30, 2015 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.25% investment rate of return, and 4.25% discount rate. Both rates included a 2.75% annual inflation

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assumption. Annual wage inflation is assumed to be 3.00%. The unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis over a 30-year period.

Funding progress information specifically related to the University's portion of the statewide OPEB plan is not available. For more details about the actuarial methods and assumptions used by the State as well as the statewide plans' funding progress and status, refer to the State of California's CAFR for the fiscal year ended 2016.

(13) Deferred Outflows and Inflows of Resources

The composition of deferred outflows and inflows of resources at June 30, 2016 is summarized as follows:

	Deferred outflows of resources	Deferred inflows of resources
Related to net pension liability	\$ 811,332,000	143,167,000
Loss on debt refundings:		
Systemwide revenue bonds	110,830,000	—
SPWB capitalized lease obligations	287,000	—
Total	<u>\$ 922,449,000</u>	<u>143,167,000</u>

(14) Claims Liability for Losses and Loss Adjustment Expenses

The University and certain auxiliary organizations have established the CSURMA, a discretely presented component unit of the University, to centrally manage workers' compensation, general liability, industrial and nonindustrial disability, unemployment insurance coverage, and other risk-related programs. The claims liability included in the discretely presented component unit column reflects the estimated ultimate cost of settling claims related to events that have occurred on or before June 30, 2016. The liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not yet been reported. The liability is also reduced by estimated amounts recoverable from the reinsurer that are related to the liabilities for unpaid claims and claim adjustment expenses. The liability is estimated through an actuarial calculation using individual case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is a reasonable estimate at June 30, 2016.

The information of the change in claims liability for losses and loss adjustment expenses may be obtained from the separate financial statements issued for CSURMA.

(15) Commitments and Contingencies

The State is a defendant in multiple lawsuits involving University matters not covered by the CSURMA as discussed in note 14. Management of the University is of the opinion that the liabilities, if any, arising from litigation will not have a material effect on the financial position of the University.

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Federal grant programs are subject to review by the grantor agencies, which could result in requests for reimbursement to grantor agencies for disallowed expenditures. Management believes that it has adhered to the terms of its grants and that any disallowed expenditures resulting from such reviews would not have a material effect on the financial position of the University.

Authorized but unexpended costs for construction projects as of June 30, 2016 totaled \$472,502,000. These expenditures will be funded primarily by State appropriations and bond proceeds.

In order to secure access to natural gas and electricity used for normal operation, the University participates in forward purchase contracts of natural gas and electricity operated by the Department of General Service and Shell Energy North America, respectively. The University's obligation under these special purchase arrangements requires it to purchase an estimated total of \$10,224,000 and \$29,834,000 of natural gas and electricity at fixed prices through June 2018 and December 2019, respectively. The University estimates that the special purchase contracts in place represent approximately 50.27% and 10.42% of its total annual natural gas and electricity expenses, respectively.

(16) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the Statement of Revenues, Expenses, and Changes in Net Position, and to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2016, operating expenses by natural classification consisted of the following:

	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships expense</u>	<u>Supplies and other services</u>	<u>Depreciation and amortization</u>	<u>Total operating expenses</u>
Instruction	\$ 1,624,612,000	661,321,000	—	217,631,000	—	2,503,564,000
Research	24,126,000	9,502,000	—	18,063,000	—	51,691,000
Public service	29,142,000	11,323,000	—	16,911,000	—	57,376,000
Academic support	377,311,000	194,332,000	—	191,277,000	—	762,920,000
Student services	396,519,000	193,736,000	—	221,755,000	—	812,010,000
Institutional support	399,312,000	179,138,000	—	217,100,000	—	795,550,000
Operation and maintenance of plant	214,161,000	121,298,000	—	313,159,000	—	648,618,000
Student grants and scholarships	—	—	881,578,000	—	—	881,578,000
Auxiliary enterprise expenses	76,969,000	66,167,000	—	213,894,000	—	357,030,000
Depreciation and amortization	—	—	—	—	457,919,000	457,919,000
Total	<u>\$ 3,142,152,000</u>	<u>1,436,817,000</u>	<u>881,578,000</u>	<u>1,409,790,000</u>	<u>457,919,000</u>	<u>7,328,256,000</u>

(17) Transactions with Related Entities

The University is an agency of the State and receives about 38.19% of total revenues through state appropriations. State appropriations allocated to the University aggregated approximately \$3,033,290,000 for the year ended June 30, 2016. State appropriations receivable is \$124,878,000 at June 30, 2016.

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(18) Subsequent Events

The University issued \$199,221,000 of BANs subsequent to June 30, 2016. These BANs are issued to fund capital projects at various campuses.

In September 2016, the University deposited cash and certain investment securities in an irrevocable escrow with the Treasurer of the State of California, as security for the partial refunding of SRB Series 2007A bonds with par amount of \$70,300,000.

In September 2016, the State Legislature passed SB 1412, which allows the University to invest in mutual funds including equity mutual funds, subject to registration by, and under the regulatory authority of the United States Securities and Exchange Commission, or in United States registered real estate investment trusts, effective January 1, 2017. Prior to SB 1412, the University is restricted to investing in fixed income securities.

Under SB 1412, the University is required to create an investment advisory committee reporting to the Board of Trustees. The total amount invested under the new authority shall not exceed \$200,000,000 in fiscal year ending June 30, 2017; \$400,000,000 in fiscal year ending June 30, 2018; \$600,000,000 in fiscal year ending June 30, 2019; and in fiscal year ending June 30, 2020, and each fiscal year thereafter, 30.00% of total investments of the University. All earnings from investment under the new authority shall be used only for capital outlay or maintenance, and shall not be used for ongoing operations.

CALIFORNIA STATE UNIVERSITY

Schedule of University's Proportionate Share of the Net Pension Liability

June 30, 2016

(Unaudited)

*Last Ten Fiscal Years**

State of California Miscellaneous Plan	2016	2015
University's proportion of the net pension liability	22.84970 %	22.72891 %
University's proportionate share of the net pension liability	\$ 6,453,200,000	5,411,439,000
University's covered-employee payroll	2,407,821,000	2,209,786,000
University's proportionate share of the net pension liability as a percentage of covered-employee payroll	268.00996 %	244.88521 %
Plan fiduciary net position as a percentage of the total pension liability	70.68274 %	74.17418 %
State of California Peace Officers & Firefighters Plan		
University's proportion of the net pension liability	1.07094 %	1.00623 %
University's proportionate share of the net pension liability	\$ 124,994,000	102,216,000
University's covered-employee payroll	33,341,000	30,160,000
University's proportionate share of the net pension liability as a percentage of covered-employee payroll	374.89140 %	338.91247 %
Plan fiduciary net position as a percentage of the total pension liability	69.61241 %	72.18915 %

* The University implemented GASB Statement No. 68 effective July 1, 2014, therefore, no information is available for the measurement periods prior to June 30, 2014.

See accompanying independent auditors' report.

CALIFORNIA STATE UNIVERSITY
Schedule of Employer Contributions
Year ended June 30, 2016
(Unaudited)

*Last Ten Fiscal Years**

State of California Miscellaneous Plan

	2016	2015
Actuarially determined contribution	\$ 593,632,000	487,992,000
Contributions in relation to the actuarially determined contributions	(596,100,000)	(490,106,000)
Contribution excess	\$ (2,468,000)	(2,114,000)
University's covered-employee payroll	\$ 2,407,821,000	2,209,786,000
Contributions as a percentage of covered-employee payroll	24.75682 %	22.17889 %

State of California Peace Officers & Firefighters Plan

Actuarially determined contribution	\$ 11,725,000	9,403,000
Contributions in relation to the actuarially determined contributions	(12,275,000)	(9,657,000)
Contribution excess	\$ (550,000)	(254,000)
University's covered-employee payroll	\$ 33,341,000	30,160,000
Contributions as a percentage of covered-employee payroll	36.81653 %	32.01923 %

* The University implemented GASB Statement No. 68 effective July 1, 2014, therefore, no information is available for the measurement periods prior to June 30, 2014.

Notes to required supplementary information schedule:

Valuation date	Actuarially calculated contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.
Methods and assumption used to determine contribution rates:	
Actuarial cost method	Entry age normal in accordance with the requirements of GASB
Amortization method/period	For details, see June 30, 2013 Funding Valuation Report
Asset valuation method	Actuarial Value of Assets. For details, see June 30, 2013 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3%
Investment rate of return	7.50%, net of pension plan investment and administrative expenses; includes inflation.
Retirement age	The probabilities of retirement are based on the 2014 CalPERS experience study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS experience retirement mortality rates include CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using scale BB published by the Society of Actuaries.
Significant factors affecting contribution rates	For details, see June 30, 2013 Funding Valuation Report

See accompanying independent auditors' report.

CALIFORNIA STATE UNIVERSITY

Systemwide Revenue Bond Program's Net Income Available for Debt Services

Year ended June 30, 2016

Gross revenues:	
Tuition fees	\$ 3,076,532,676
Student housing	451,881,471
Student unions/recreation centers	223,369,642
Parking	117,313,997
Health centers	10,722,889
Extended and continuing education	388,486,999
Auxiliary organization (1)	571,404,651
Other related entity (2)	<u>12,075,156</u>
Total gross revenues	<u>4,851,787,481</u>
Maintenance and operations expenses:	
Academic facilities	144,023,588
Student housing	287,892,582
Student unions/recreation centers	102,292,739
Parking	72,224,778
Health centers	3,710,459
Extended and continuing education	387,553,491
Auxiliary organization (1)	<u>503,833,540</u>
Total maintenance and operations expenses	<u>1,501,531,178</u>
Net income available for debt service	<u>\$ 3,350,256,303</u>
Debt service:	
Systemwide revenue bonds debt	\$ 271,610,145
Designated auxiliary debt	<u>2,023,793</u>
Total debt service	<u>\$ 273,633,938</u>

The purpose of this schedule is to meet bond reporting covenants covering the operations of the projects showing the gross revenues and expenses for the fiscal year.

- (1) Revenue and expenditures shown include 17 auxiliary organizations that have financed with Systemwide Revenue Bonds through a lease or loan and exclude research grant and contract activity and restricted gifts. Gross Revenues under the Indenture are a smaller amount derived from payments under certain leases or loans with the Board of Trustees.
- (2) Includes revenue derived from leases with California State University, Channel Islands Site Authority which are used solely to pay debt service on Systemwide Revenue Bonds; operating expenditures are not paid from Gross Revenues.

See accompanying independent auditors' report.

CALIFORNIA STATE UNIVERSITY
Systemwide Revenue Bond Program's Residence and Dining Halls Operating Data by Campus (1)
Year ended June 30, 2016
(Unaudited)

	Operating & other revenue	Operating expenditures	Excess of revenue over expenditures	Design capacity	Operational capacity (2)	Average number of spaces occupied	% of spaces occupied (3)
CSU, Bakersfield	\$ 5,876,804	4,137,613	1,739,191	512	504	419	83%
CSU, Channel Islands	14,016,130	9,702,903	4,313,227	820	1,389	1,314	95
CSU, Chico	24,072,926	16,174,277	7,898,649	2,222	2,221	2,173	98
CSU, Dominguez Hills	4,647,483	3,223,591	1,423,892	712	679	671	99
CSU, East Bay	12,773,533	8,019,049	4,754,484	1,296	1,645	1,510	92
CSU, Fullerton	28,765,450	14,538,759	14,226,691	1,918	1,904	1,929	101
Humboldt State University	14,422,705	7,668,558	6,754,147	2,047	2,073	2,025	98
CSU, Long Beach	23,731,651	10,422,449	13,309,202	1,826	2,052	2,017	98
CSU, Los Angeles	8,095,807	5,224,339	2,871,468	1,069	1,008	1,002	99
California Maritime Academy	9,112,928	5,820,679	3,292,249	735	735	683	93
CSU, Northridge	24,462,636	11,697,777	12,764,859	3,826	3,260	3,108	95
CSPU, Pomona	22,566,351	10,387,852	12,178,499	2,338	2,338	2,205	94
CSU, Sacramento	19,096,604	14,125,602	4,971,002	1,672	1,692	1,670	99
CSU, San Bernardino	10,703,960	7,081,922	3,622,038	1,529	1,453	1,341	92
San Diego State University	40,733,822	24,799,507	15,934,315	3,510	3,803	3,323	87
San Francisco State University (5)	51,679,646	31,857,847	19,821,799	3,314	3,439	3,475	101
San Jose State University	49,871,524	26,943,575	22,927,949	3,339	3,677	3,651	99
CPSU, San Luis Obispo	51,171,563	26,471,791	24,699,772	6,245	7,375	7,280	99
Sonoma State University	27,639,300	15,772,340	11,866,960	3,146	3,135	2,979	95
CSU, Stanislaus	4,903,349	3,715,708	1,187,641	460	470	455	97
	<u>448,344,172</u>	<u>257,786,138</u>	<u>190,558,034</u>	<u>\$ 42,536</u>	<u>44,852</u>	<u>43,230</u>	<u>96%</u>
Systemwide Offices	—	(3,041,904)	3,041,904				
Interest income	3,537,301	—	3,537,301				
Total	\$ 451,881,473	254,744,234	197,137,239				

Average annual rates per academic year (4)

	Residence Halls			Apartments		
	Single	Double	Suite	Single	Double	Suite
CSU, Bakersfield	\$ 12,225	8,229	—	—	—	—
CSU, Channel Islands	11,090	10,060	—	12,050	10,520	—
CSU, Chico	9,275	7,657	—	9,275	7,657	—
CSU, Dominguez Hills	—	—	—	—	8,424	—
CSU, East Bay	—	—	7,745	9,047	7,342	—
CSU, Fullerton	—	11,238	—	11,970	9,120	—
Humboldt State University	7,304	5,900	—	7,304	5,900	—
CSU, Long Beach	8,650	7,650	—	—	—	—
CSU, Los Angeles	—	—	—	8,181	6,321	—
California Maritime Academy	7,262	5,562	—	—	—	—
CSU, Northridge	—	—	6,036	—	6,259	—
CSPU, Pomona	9,858	8,598	—	—	—	—
CSU, Sacramento	7,346	6,811	—	7,574	—	8,655
CSU, San Bernardino	6,351	5,100	—	8,649	—	8,604
San Diego State University	10,120	8,640	—	10,120	8,640	—
San Francisco State University (5)	—	8,090	—	11,282	10,090	—
San Jose State University	9,035	7,924	—	12,639	10,046	—
CPSU, San Luis Obispo	10,767	7,176	—	8,302	6,311	—
Sonoma State University	8,190	6,282	—	9,690	7,748	—
CSU, Stanislaus	7,121	—	—	7,584	6,347	—
	<u>\$ 8,900</u>	<u>7,661</u>	<u>6,891</u>	<u>9,548</u>	<u>7,909</u>	<u>8,630</u>

- (1) Housing facilities at the Fresno, Monterey Bay and San Marcos campuses are operated by Auxiliary Organizations.
- (2) This column reflects capacity adjusted for increase or decrease in permanent conversions and temporary adjustments.
- (3) % of spaces occupied is based on Operational Capacity. In certain cases, % occupancy by Design Capacity is over 100%.
- (4) This section primarily reflects an average of the more traditional rates to students. Each campus has different rates depending on accommodations such as super doubles, cluster occupancy, etc.
- (5) The operational capacity does not include 551 apartment units that were occupied by students, faculty and staff. The annual rates for the one-bedroom, two-bedroom or three-bedroom units (not bed-spaces) vary between \$1,600 and \$4,250.

See accompanying independent auditors' report.

CALIFORNIA STATE UNIVERSITY
 Systemwide Revenue Bond Program's Rental Fees
 Year ended June 30, 2016
 (Unaudited)

Campus	Student Union	Health Facilities
CSU, Bakersfield	\$ 456	6
CSU, Channel Islands	324	6
CSU, Chico	776	6
CSU, Dominguez Hills	330	6
CSU, East Bay	360	6
CSU, Fresno	228	6
CSU, Fullerton	268	6
Humboldt State University	185	6
CSU, Long Beach	358	6
CSU, Los Angeles	275	6
California Maritime Academy*	n/a	21
CSU, Monterey Bay	200	n/a
CSU, Northridge	536	6
CSPU, Pomona	711	6
CSU, Sacramento	638	33
CSU, San Bernardino	383	40
San Diego State University	474	50
San Francisco State University	164	6
San Jose State University	690	116
CPSU, San Luis Obispo	679	10
CSU, San Marcos	630	50
Sonoma State University	748	32
CSU, Stanislaus	157	17
	<hr/>	<hr/>
Min fee	157	6
	<hr/>	<hr/>
Max fee	\$ 776	116
	<hr/> <hr/>	<hr/> <hr/>

* Campus does not have Student Union

See accompanying independent auditors' report.

CALIFORNIA STATE UNIVERSITY

Systemwide Revenue Bond Program's Statement of Insurance Coverage

Year ended June 30, 2016

(Unaudited)

Expiration date	Coverage	Amount	Company	Policy number
July 1, 2016*	CSU Master Property Policy, "All Risk" Building, Equipment, and Rental Income	\$ 1,000,000,000 per occurrence	Alliant Property Insurance Program (APIP)	APIP1516
July 1, 2016*	CSU Master Property Policy, Boiler, and Machinery	100,000,000	Alliant Property Insurance Program (APIP)	APIP1516
July 1, 2016*	Bodily Injury and Property Damage Liability (Primary)	5,000,000	CSURMA	CSURMA-SYST-1516-1
July 1, 2016*	Bodily Injury and Property Damage Liability (Excess)	5,000,000	Ironshore	_000541305
July 1, 2016*	Bodily Injury and Property Damage Liability (Excess)	10,000,000	Allied World Assurance Company (AWAC)	_03057227

* New insurance policies are maintained for the period from July 1, 2016 to June 30, 2017. These policies provide the same coverage indicated above.

See accompanying independent auditors' report.

COMMITTEE ON AUDIT

Single Audit Reports of Federal Funds

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Mary Ek
Assistant Vice Chancellor/Controller
Financial Services

Summary

Federal awards received by the California State University, including student financial aid, are subject to both compliance and internal control audit procedures as required by the Office of Management and Budget Compliance Supplement and the Uniform Guidance.

The CSU Single Audit Reports were issued on December 1, 2016 with an unmodified opinion, and are included as Attachment A to this item.

There were three audit findings identified in the Single Audit Reports. Two findings were related to internal controls over administration of federal financial aid funds at several campuses and one was related to internal controls over eligibility requirements for special education at one campus. The two findings related to administration of financial aid funds were essentially repeat findings from the previous year, but at different campus locations sampled in the current year. Corrective actions are underway and a status update will be provided at a future board meeting.



CALIFORNIA STATE UNIVERSITY
Single Audit Reports
Year ended June 30, 2016
(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY

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KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

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*

The Board of Trustees
California State University:

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 business-type activities and the aggregate discretely presented component units of the California State University, an agency of the State of California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise California State University's basic financial statements, and have issued our report thereon dated December 1, 2016. Our report refers to other auditors who audited 88 of the 90 aggregate discretely presented component units, which statements reflect total assets constituting 95% and total revenues constituting 94% of the aggregate discretely presented component units totals. The reports of the other auditors have been furnished to us, and our opinion, insofar as they relate to the amounts included for the 88 aggregate discretely presented component units, are based solely on the reports of the other auditors. The financial statements of 46 discretely presented component units are not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters in accordance with *Government Auditing Standards* that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered California State University'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 State University's internal control. Accordingly, we do not express an opinion on the effectiveness of California State University'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 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 State University'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 California State University'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 California State University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Orange County, California
December 1, 2016



KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Trustees
California State University:

Report on Compliance for Each Major Federal Program

We have audited the California State University's (the University) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2016. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The University's basic financial statements include the operations of the University's discretely presented component units, which received federal awards totaling \$343,120,000, which is not included in the schedule of expenditures of federal awards for the year ended June 30, 2016. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors to perform audits in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the California State University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002, and 2016-003. Our opinion on each major federal program is not modified with respect to these matters.

The University's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-2002, and 2016-003 that we consider to be significant deficiencies.

The University's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the University, an agency of the State of California, as of and for the year ended June 30, 2016, and have issued our report thereon dated December 1, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Los Angeles, California
December 1, 2016

CALIFORNIA STATE UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2016

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance (CFDA) number	Pass-through entity identifying number	Federal disbursements/ expenditures	Amounts provided to subrecipients
Student Financial Assistance Cluster:				
U.S. Department of Education:				
Direct programs:				
Federal Supplemental Educational Opportunity Grant	84.007		\$ 13,420,245	—
Federal Work-Study Program	84.033		16,712,861	—
Federal Perkins Loan Program	84.038		97,096,291	—
Federal Pell Grant Program	84.063		959,027,030	—
Federal Direct Student Loans	84.268		1,493,586,808	—
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379		1,951,532	—
Total U.S. Department of Education			2,581,794,767	—
U.S. Department of Health and Human Services:				
Direct programs:				
Nurse Faculty Loan Program (NFLP)	93.264		21,685	—
Nursing Student Loans	93.364		1,686,103	—
Total U.S. Department of Health and Human Services			1,707,788	—
Total Student Financial Assistance Cluster			2,583,502,555	—
Other programs and clusters:				
U.S. Department of Agriculture:				
Child Nutrition Cluster:				
Passed through California Department of Education: Summer Food Service Program for Children	10.559	04050-SFSP-37	11,730	—
Total Child Nutrition Cluster			11,730	—
Passed through Mid Coast Fire Brigade:				
U.S. Department of Agriculture (not classified elsewhere)	10.UNK	MCFB-073114	3,032	—
Direct program:				
Rural Development, Forestry, and Communities	10.672		1,988	—
Total U.S. Department of Agriculture			16,750	—
U.S. Department of Defense:				
Passed through Institute of International Education Inc.:				
		#0054-SFSU-8-SSC-280-PO2 2340-SFSU-14 NSEP-U631073-		
The Language Flagship Grants to Institutions of Higher Education	12.550	SFSU-CHN	364,106	32,094
Total U.S. Department of Defense			364,106	32,094
U.S. Department of the Interior:				
Direct programs:				
U.S. Department of the Interior (not classified elsewhere)	15.UNK		18,155	—
Fish and Wildlife Management Assistance	15.608		3,793	—
Passed through California Office of Historic Preservation:				
Historic Preservation Fund Grants-in-Aid	15.904	C8956509, C8957509	11,107	—
Direct programs:				
Native American Graves Protection and Repatriation Act	15.922		22,868	—
Cultural Resources Management	15.946		15,185	—
Total U.S. Department of the Interior			71,108	—
U.S. Department of Labor:				
WIA/WIOA Cluster:				
Passed through Imperial County Workforce Development Board: Workforce Investment Act (WIA) Adult Program	17.258	M.O. #55	2,092	—
Total WIA/WIOA Cluster			2,092	—
Direct program:				
Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282		937,413	170,731
Passed through Spokane Community College – Air Washington Project:				
Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	AW061515	11,710	—
Subtotal CFDA 17.282			949,123	170,731
Passed through City and County of San Francisco: Workforce Innovation Fund	17.283	N/A	2,900	—
Total U.S. Department of Labor			954,115	170,731
U.S. Department of Transportation:				

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Passed through California Department of Transportation:				
U.S. Department of Transportation (not classified elsewhere)	20.UNK	04A3889, 04A4091 03A2168, 04A4643	\$ 199,874	—
Passed through County of San Diego Sheriff: Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	528851-3	1,839	—
Direct programs:				
State Maritime Schools	20.806		798,808	—
Ballast Water Treatment Technologies	20.819		61,439	—
Women on the Water (WOW)	20.821		15,000	—
Total U.S. Department of Transportation			<u>1,076,960</u>	<u>—</u>
National Aeronautics and Space Administration:				
Direct program:				
Science	43.001		137,854	—
Passed through Association of Universities for Research in Astronomy, Incorporated:				
Science	43.001	STI-509915	58,279	—
Passed through Stanford University:				
Science	43.001	PY04430-22727-C	262,598	—
Passed through California Institute of Technology:				
Science	43.001	44A-1085525	2,051	—
Passed through The Regents of the University of California:				
Science	43.001	012815	5,744	—
Subtotal CFDA 43.001			<u>466,526</u>	<u>—</u>
Direct Program:				
Education	43.008		19,368	—
Passed through Napa Valley College:				
Education	43.008	SSU16	26,708	—
Subtotal CFDA 43.008			<u>46,076</u>	<u>—</u>
Total National Aeronautics and Space Administration			<u>512,602</u>	<u>—</u>
National Endowment for the Arts:				
Direct program:				
Promotion of the Arts – Grants to Organizations and Individuals	45.024		10,000	—
Total National Endowment for the Arts			<u>10,000</u>	<u>—</u>
National Endowment for the Humanities:				
Direct program:				
Promotion of the Humanities – Division of Preservation and Access	45.149		4,153	—
Total National Endowment for the Humanities			<u>4,153</u>	<u>—</u>
National Science Foundation:				
Direct programs:				
Mathematical and Physical Sciences	47.049		9,968	—
Geosciences	47.050		613	—
Education and Human Resources	47.076		199,952	—
Passed through University Enterprises, Incorporated California State University, Sacramento:				
Education and Human Resources	47.076	HRD-1302873, 520541A HRD-1302873	33,115	—
Subtotal CFDA 47.076			<u>233,067</u>	<u>—</u>
Total National Science Foundation			<u>243,648</u>	<u>—</u>
U.S. Environmental Protection Agency:				
Passed through Environmental Quality Management:				
U.S. Environmental Protection Agency (not classified elsewhere)	66.UNK	019624, 020942	113,724	—
Passed through Weston Solutions, Incorporated:				
U.S. Environmental Protection Agency (not classified elsewhere)	66.UNK	0091101	4,679	—
Subtotal CFDA 66.UNK			<u>118,403</u>	<u>—</u>
Direct program:				
Regional Wetland Program Development Grants	66.461		321,411	—
Total U.S. Environmental Protection Agency			<u>439,814</u>	<u>—</u>

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U.S. Department of Energy:				
Direct program:				
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		\$ 202,748	—
Total U.S. Department of Energy			<u>202,748</u>	<u>—</u>
U.S. Department of Education, excluding Student Financial Assistance Cluster:				
TRIO Cluster:				
Direct program:				
TRIO – Student Support Services	84.042		1,471,831	—
Passed through The CSU, Chico Research Foundation:				
TRIO – Student Support Services	84.042	P042A100854-15	29,400	—
Passed through California State University, Fresno Foundation:				
TRIO – Student Support Services	84.042	P042A150383, P042A150475	68,810	—
Subtotal CFDA 84.042			<u>1,570,041</u>	<u>—</u>
Direct programs:				
TRIO – Talent Search Program	84.044		474,299	—
TRIO – Upward Bound Program	84.047		1,496,751	—
TRIO – McNair Post-Baccalaureate Achievement	84.217		213,440	—
Total TRIO Cluster			<u>3,754,531</u>	<u>—</u>
Passed through Virginia Commonwealth University:				
Undergraduate International Studies and Foreign Language Programs	84.016	PT108273-SCI04765	8,010	—
Passed through University Enterprises Corporation at California State University San Bernardino:				
Undergraduate International Studies and Foreign Language Programs	84.016	GT-14130	3,356	—
Subtotal CFDA 84.016			<u>11,366</u>	<u>—</u>
Direct program:				
Higher Education-Institutional Aid	84.031		6,202,816	570,481
Passed through Bakersfield College:				
Higher Education-Institutional Aid	84.031	GRA 1994/P031C110073	3,070	—
Passed through California State University, Long Beach Research Foundation:				
Higher Education-Institutional Aid	84.031	SG1391SUP-CO SG1391SUP-CI SG1391SUP-ST	68,364	—
Passed through Santa Barbara City College:				
Higher Education – Institutional Aid	84.031	12131.4070.562000.60	130,667	—
Passed through Ventura County Community College District:				
Higher Education – Institutional Aid	84.031	P0083733	220,600	—
Passed through San Mateo County Community College District:				
Higher Education – Institutional Aid	84.031	P031C1100159	147,978	—
Subtotal CFDA 84.031			<u>6,773,495</u>	<u>570,481</u>
Direct programs:				
TRIO Staff Training Program	84.103		714,695	—
Fund for the Improvement of Postsecondary Education	84.116		85,030	—
Minority Science and Engineering Improvement	84.120		34,003	—
Passed through California Department of Rehabilitation:				
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	28592	162,942	—
Direct program:				
Rehabilitation Long-Term Training	84.129		342,696	—
Passed through Oxnard School District:				
Magnet Schools Assistance	84.165	13-176	13,206	—
Direct program:				
Special Education – Personnel Development to Improve Services and Results for Children with Disabilities	84.325		1,090,652	52,821
Passed through Commission on Teacher Credentialing:				
Special Education – Personnel Development to Improve Services and Results for Children with Disabilities	84.325	14STC0035	6,253	—
Subtotal CFDA 84.325			<u>1,096,905</u>	<u>52,821</u>

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Direct programs:				
Special Education – Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		\$ 581,396	—
Child Care Access Means Parents in School	84.335		260,673	—
Passed through The California State University, Chico Research Foundation:				
Teacher Quality Partnership Grants	84.336	14-042, 15-034, SUB 12-059	124,083	—
Passed through California State University Dominguez Hills Foundation:				
Transition to Teaching	84.350	SA NO 5857	27,303	—
Direct program:				
English Language Acquisition State Grants	84.365		170,520	—
Passed through University of California, Santa Cruz:				
English Language Acquisition State Grants	84.365	S0183643	92,682	—
Subtotal CFDA 84.365			<u>263,202</u>	<u>—</u>
Passed through Santa Rosa City Schools:				
Mathematics and Science Partnerships	84.366	101	124,773	—
Passed through California Department of Education:				
Supporting Effective Instruction Grant (Formerly Improving Teacher Quality State Grants)	84.367	15-15196-3064-00	22,133	—
Passed through The Regents of the University of California:				
Improving Teacher Quality State Grants	84.367	NCLB11-CISP-SONOMA NCLB11-CMP-SONOMA NCLB12-CISP-SONOMA NCLB12-CMP-SONOMA NCLB12-CMP-STANISLAUS NCLB12-CWP-TURLOCK	144,555	—
Passed through National Writing Project:				
Improving Teacher Quality State Grants	84.367	92-CA10-SEED2012 92-CA10-SEED2016 92-CA10-SEED2016-ILI AM2A 92CA10 SEED2012	34,357	—
Subtotal CFDA 84.367			<u>201,045</u>	<u>—</u>
Passed through California Department of Rehabilitation:				
Promoting Readiness of Minors in Supplemental Security Income	84.418	29505	44,106	—
Total U.S. Department of Education, excluding Student Financial Assistance Cluster			<u>14,615,450</u>	<u>623,302</u>
U.S. Department of Health and Human Services:				
Child Care and Development Fund Cluster:				
Passed through California Department of Education:				
Child Care and Development Block Grant	93.575	CCTR-5042	61,506	—
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CCTR-5042	136,912	—
Total Child Care and Development Fund Cluster			<u>198,418</u>	<u>—</u>
Direct programs:				
Mental Health Research Grants	93.242		91,684	64,825
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243		384,657	—
Passed through University of California, San Francisco:				
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	8300SC	14,421	—
Subtotal CFDA 93.243			<u>399,078</u>	<u>—</u>
Passed through University of California, San Francisco:				
Minority Health and Health Disparities Research	93.307	7518SC	8,112	—
Direct program:				
Trans-NIH Research Support	93.310		28,876	7,820
Passed through California Department of Education:				
Head Start	93.600	EHS-CCP	503,381	—
Passed through University of California, Berkeley:				

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Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance (CFDA) number	Pass-through entity identifying number	Federal disbursements/ expenditures	Amounts provided to subrecipients
Foster Care – Title IV-E Passed through The Regents of the University of California:	93.658	CDSS Agreement No.15-IA-00850 00008889	\$ 2,002,496	—
Foster Care – Title IV-E	93.658	15-IA-00850	995,417	—
Subtotal CFDA 93.658			2,997,913	—
Passed through County of Sonoma: PPHF: Community Transformation Grants – Small Communities Program financed solely by Public Prevention and Health Funds	93.737	2013-0159-A00	2,609	—
Direct program: Biomedical Research and Research Training	93.859		1,738,549	—
Passed through AIDS United: HIV Prevention Activities – Non-Governmental Organization Based	93.939	880-20172, 1U65PS004409-01	97,555	—
Passed through The Regents of the University of California, Los Angeles: PPHF Geriatric Education Centers	93.969	1558 G NA589	306	—
Total U.S. Department of Health and Human Services			6,066,481	72,645
Corporation for National and Community Service: Direct programs:				
Learn and Serve America Higher Education	94.005		80,956	—
AmeriCorps	94.006		69,335	—
Passed through Jumpstart for Young Children: AmeriCorps	94.006	CFDA-94.006-JS-SITE#10, N/A	15,671	—
Subtotal CFDA 94.006			85,006	—
Direct program: Volunteers in Service to America	94.013		10,307	—
Total Corporation for National and Community Service			176,269	—
U.S. Department of Homeland Security: Passed through County of San Diego Sheriff: Homeland Security Preparedness Technical Assistance Program	97.007	2011-1077	103,078	—
Passed through Department of Parks and Recreation, Division of Boating and Waterways: Boating Safety Financial Assistance	97.012	C8956314, 11-201-014	16,643	—
Total U.S. Department of Homeland Security			119,721	—
Research and Development Cluster: U.S. Department of Agriculture:				
Passed through The CSU, Chico Research Foundation: U.S. Department of Agriculture (not classified elsewhere)	10.UNK	SUB-14-001	18,068	—
Passed through California Department of Education: Agricultural Research – Basic and Applied Research	10.001	59-6201-4-020 and 68-6201-1-039	212	—
Direct program: Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)	10.326		22,616	3,288
Passed through University of California, Santa Barbara: Forestry Research	10.652	KK1339	10,733	—
Direct program: Cooperative Forestry Assistance	10.664		106,292	—
Total U.S. Department of Agriculture			157,921	3,288
U.S. Department of Commerce: Passed through Monterey Bay Aquarium Research Institute: Integrated Ocean Observing System (IOOS)	11.012	NA11NOS0120032	139,903	—
Passed through The Regents of the University of California: Sea Grant Support	11.417	71780057	24,092	—
Passed through California Coastal Commission: Coastal Zone Management Administration Awards	11.419	RD	1,737	—
Direct program: Coastal Zone Management Estuarine Research Reserves	11.420		586,070	—
Passed through Merkel & Associates Incorporated: Coastal Zone Management Estuarine Research Reserves	11.420	GS-10F-0060T/ AB-133F-14NC-1535	61,175	—
Subtotal CFDA 11.420			647,245	—

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Direct program: Marine Sanctuary Program	11.429		\$ 57,609	—
Passed through Merkel & Associates Incorporated: Habitat Conservation	11.463	GS-10F-0060T/ AB-133F-14NC-0346	15,984	—
Total U.S. Department of Commerce			886,570	—
U.S. Department of Defense: Passed through George Mason University: Department of Defense (not classified elsewhere)	12.UNK	E203705-1	49,502	—
Direct programs: Flood Control Projects	12.106		37,704	—
Basic and Applied Scientific Research	12.300		107,880	—
Passed through National Marine Mammal Foundation: Basic and Applied Scientific Research	12.300	SSU-2773	15,437	—
Subtotal CFDA 12.300			123,317	—
Direct program: Basic, Applied, and Advanced Research in Science and Engineering	12.630		61,427	—
Passed through Army Research Office: Basic, Applied, and Advanced Research in Science and Engineering	12.630	W911NF – 15 -1-0033	124,620	—
Subtotal CFDA 12.630			186,047	—
Direct program: Air Force Defense Research Sciences Program	12.800		66,849	—
Total U.S. Department of Defense			463,419	—
U.S. Department of the Interior: Direct programs: Forest Plan Revision Collaboration for Northwest and Northern / Central Sierra Forrest	15.UNK		2,417	—
Fish, Wildlife and Plant Conservation Resource Management	15.231		58,176	—
Challenge Cost Share	15.238		4,586	—
Central Valley Improvement Act, Title XXXIV	15.512		49,148	6,000
Fish and Wildlife Management Assistance	15.608		20,532	—
Cooperative Endangered Species Conservation Fund	15.615		70,179	47,631
Central Valley Improvement (CVI) Anadromous Fish Restoration Program (AFR)	15.648		20,016	17,928
Research Grants (Generic)	15.650		58,809	—
Earthquake Hazards Reduction Program	15.807		57,227	—
U.S. Geological Survey-Research and Data Collection	15.808		67,496	—
Passed through California Office of Historic Preservation: Historic Preservation Fund Grants-In-Aid	15.904	C1410019, C8957510	30,788	—
Direct program: Cooperative Research and Training Programs – Resources of the National Park System	15.945		19,806	—
Direct program: National Park Service Conservation, Protection, Outreach, and Education	15.954		16,956	—
Passed through Santa Monica Mountains Fund: National Park Service Conservation, Protection, Outreach, and Education	15.954	103114	4,227	—
Subtotal CFDA 15.954			21,183	—
Total U.S. Department of the Interior			480,363	71,559
National Aeronautics and Space Administration: Direct program: Science	43.001		199,664	—
Passed through Los Gatos Research: Science	43.001	SFSU-1	1,334	—
Passed through Oregon State University: Science	43.001	NS251A-A	209,059	—
Passed through Arizona State University, Tempe: Science	43.001	15-718	42,931	—

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Passed through Space Telescope Science Institute:				
Science	43.001	HST-GO-12950.03-A HST-GO-13297.07-A	\$ 1,674	—
Subtotal CFDA 43.001			454,662	—
Passed through San Jose State University Research Foundation:				
Aeronautics	43.002	21-1614-4877-SFSU 21-1614-4877-SFSU2015	93,316	—
Passed through Georgia Institute of Technology:				
Exploration	43.003	RD224-G1	34,352	—
Total National Aeronautics and Space Administration			582,330	—
National Science Foundation:				
Direct programs:				
Engineering Grants	47.041		252,591	—
Mathematical and Physical Sciences	47.049		601,359	36,655
Passed through American Physical Society:				
Mathematical and Physical Sciences	47.049	APS090114	7,786	—
Subtotal CFDA 47.049			609,145	36,655
Direct program:				
Geosciences	47.050		778,258	48,476
Passed through Consortium for Ocean Leadership:				
Geosciences	47.050	BA-120	32,343	—
Passed through The Regents of the University of California:				
Geosciences	47.050	S0184227	12,465	—
Passed through Sonoma State University:				
Geosciences	47.050	1061530	1,505	—
Subtotal CFDA 47.050			824,571	48,476
Direct programs:				
Computer and Information Science and Engineering	47.070		71,316	—
Biological Sciences	47.074		1,119,942	—
Passed through University of California, Berkeley:				
Biological Sciences	47.074	00007925	25,943	—
Subtotal CFDA 47.074			1,145,885	—
Direct programs:				
Social, Behavioral, and Economic Sciences	47.075		28,857	—
Education and Human Resources	47.076		930,643	33,808
Passed through California State University Sacramento:				
Education and Human Resources	47.076	523911, 523913	9,861	—
Passed through The University Foundation at Sacramento State:				
Education and Human Resources	47.076	MOU HRD-1302873	15,000	—
Passed through Missouri State University:				
Education and Human Resources	47.076	16043-007	52,437	—
Passed through University Enterprises, Incorporated				
California State University, Sacramento:				
Education and Human Resources	47.076	523751, 523951 A523953	24,511	—
Passed through Northeastern University:				
Education and Human Resources	47.076	502277-78050	16,176	—
Passed through The Regents of the University of California:				
Education and Human Resources	47.076	KK1627 A00-1696S004-P056579	106,761	—
Passed through Research Foundation for The State University of				
New York / Buffalo State:				
Education and Human Resources	47.076	1347681-CHANNEL ISLANDS	6,353	—
Passed through WestEd:				
Education and Human Resources	47.076	S00028711.0	71,839	—
Subtotal CFDA 47.076			1,233,581	33,808
Direct program:				
Polar Programs	47.078		5,361	33,137
Passed through University of Nevada, Las Vegas:				
Office of International Science and Engineering	47.079	11-707D-F	55,069	—
Direct program:				
Trans-NSF Recovery Act Research Support	47.082		33,821	—
Total National Science Foundation			4,260,197	152,076

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U.S. Environmental Protection Agency: Passed through California State Coastal Conservancy: Congressionally Mandated Projects	66.202	CONTRACT NO. 10-030	\$ 157,972	—
Direct program: TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		15,000	—
Total U.S. Environmental Protection Agency			172,972	—
U.S. Department of Energy: Direct programs: U.S. Department of Energy (not classified elsewhere) Office of Science Financial Assistance Program	81.UNK 81.049		78,022 143,763	— —
Total U.S. Department of Energy			221,785	—
U.S. Department of Education: Passed through San Mateo County Community College District: Minority Science and Engineering Improvement	84.120	P120A150014	23,680	—
Direct program: Research in Special Education Investing in Innovation (i3) Fund	84.324 84.411		503,669 593,142	137,302 —
Total U.S. Department of Education			1,120,491	137,302
U.S. Morris K. Udall Foundation: Direct program: Morris K. Udall Scholarship Program	85.400		82,704	—
Total U.S. Morris K. Udall Foundation			82,704	—
U.S. Department of Health and Human Services: Direct programs: Environmental Public Health and Emergency Response Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.070 93.074		11,250 11,003	— —
Research Related to Deafness and Communication Disorders Mental Health Research Grants	93.173 93.242		146,358 343,046	— 25,774
Passed through Santa Clara University: Mental Health Research Grants	93.242	NIH008-01	15,628	—
Subtotal CFDA 93.242			358,674	25,774
Direct program: Immunization Cooperative Agreements Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.268 93.283		18,750 71,250	— —
Passed through Stanford University: Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	60917381-114033	107,230	—
Direct programs: Trans-NIH Research Support Cancer Detection and Diagnosis Research Cancer Biology Research	93.310 93.394 93.396		3,053,637 26,460 127,965	482,729 — —
PPHF: Health Care Surveillance / Health Statistics – Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by Prevention and Public Health Fund	93.745		312,326	—
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757		7,500	—
Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758		67,500	—
Cardiovascular Diseases Research	93.837		188,126	—
Passed through University of California, San Francisco: Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	8109SC	48,066	—
Direct program: Allergy and Infectious Diseases Research	93.855		122,998	46,414
Passed through The Regents of the University of California: Allergy and Infectious Diseases Research	93.855	6125 SC	6,219	—
Subtotal CFDA 93.855			129,217	46,414

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Direct program:				
Biomedical Research and Research Training	93.859		\$ 684,751	—
Passed through University of California, San Francisco:				
Biomedical Research and Research Training	93.859	A120112, 7284SC	71,277	—
Subtotal CFDA 93.859			<u>756,028</u>	<u>—</u>
Direct program:				
Child Health and Human Development Extramural Research	93.865		366,319	12,909
Passed through Research Foundation for Mental Hygiene, Incorporated:				
Child Health and Human Development Extramural Research	93.865	25999	132,146	—
Subtotal CFDA 93.865			<u>498,465</u>	<u>12,909</u>
Passed through University of Southern California:				
Aging Research	93.866	57764387	147,568	—
Passed through Stanford University:				
Medical Library Assistance	93.879	61100260-12656-A	46,907	—
Direct program:				
Assistance Programs for Chronic Disease Prevention and Control	93.945		33,750	—
Total U.S. Department of Health and Human Services			<u>6,168,030</u>	<u>567,826</u>
U.S. Department of Homeland Security:				
Passed through Smithsonian Institution:				
Information Analysis Infrastructure Protection (IAIP) and Critical Infrastructure Monitoring and Protection	97.080	15-SUBC-440-0000315055	40,079	—
Total U.S. Department of Homeland Security			<u>40,079</u>	<u>—</u>
Total Research and Development Cluster			<u>14,636,861</u>	<u>932,051</u>
Total expenditures of federal awards			<u>\$ 2,623,013,341</u>	<u>1,830,823</u>

See accompanying notes to schedule of expenditures of federal awards and independent auditors' report on compliance for each major federal program; report on internal control over compliance; and report on schedule of expenditures of federal awards required by the Uniform Guidance.

CALIFORNIA STATE UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

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(1) General

The accompanying schedule of expenditures of federal awards (Schedule) presents the activity of all federal award programs of the California State University (the University). The University does not consider itself a subrecipient of federal funds when those funds are received as payments for services rendered from individual campus foundations, which are discretely presented component units in the basic financial statements of the University. Accordingly, these amounts are not reflected in the accompanying Schedule.

For purposes of the Schedule, federal awards include all grants and contracts entered into directly between the University and agencies and departments of the federal government and pass-through agencies. The awards are classified into major program categories in accordance with the provisions of the Uniform Guidance.

(2) Basis of Accounting

The information in the accompanying Schedule is prepared on the accrual basis of accounting and is also presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(3) Loan Programs

Total loans outstanding under the Federal Perkins Loan Program and the Nursing Student Loan Program are \$82,307,699 and \$1,837,686, respectively, at June 30, 2016. The amounts included in the accompanying Schedule consist of the beginning balances of the loans, loans advanced to students during the year and the administrative cost allowance for the year ended June 30, 2016.

(4) Administrative Cost Allowances

Administrative cost allowances included in the accompanying Schedule are summarized as follows:

Federal Perkins Loan Program	\$	1,142,202
Federal Pell Grant Program		787,220
Federal Work-Study Program		599,852
Federal Supplemental Educational Opportunity Grant Program		<u>106,365</u>
Total administrative cost allowances	\$	<u><u>2,635,639</u></u>

(5) Indirect Cost Rate

The University did not elect to use the 10% de minimis indirect cost rate as discussed in the Uniform Guidance section 200.414. For all sponsored programs where indirect costs are allowed to be claimed, the rates approved by the University's cognizant agency were used.

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 Schedule of Findings and Questioned Costs
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(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on financial statements: Unmodified opinion

Internal control over financial reporting:

- Material weakness identified? _____ Yes X No
- Significant deficiencies in internal control disclosed by the audit of the financial statements _____ Yes X No
- Noncompliance material to the financial statements noted _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness identified? _____ Yes X No
- Significant deficiencies in internal control over major programs X Yes _____ No

Type of auditors' report issued on compliance for major programs: Unmodified opinion

Any audit findings that are required to be reported in accordance with 2 CFR 200.516 of Uniform Guidance X Yes _____ No

Identification of Major Programs

CFDA number(s)	Name of federal program or cluster
84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.364, and 93.264	Student Financial Assistance Cluster
84.042, 84.044, 84.047, and 84.217	TRIO Cluster
Various	Research and Development Cluster
84.325	Special Education Personnel Development to Improve Services and Results for Children with Disabilities

Dollar threshold used to distinguish between Type A and Type B programs: \$1,185,324

Auditee qualified as low-risk auditee? X Yes _____ No

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(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None noted

(3) Findings and Questioned Costs Relating to Federal Awards

2016-001

<i>Compliance requirement:</i>	Disbursements To and On Behalf of Students
<i>Campus:</i>	Chico, Northridge, San Francisco, and Sonoma
<i>Cluster name/program:</i>	Student Financial Assistance Cluster
<i>CFDA number:</i>	84.268 Federal Direct Student Loans 84.038 Federal Perkins Loan Program
<i>Federal agency:</i>	U.S. Department of Education
<i>Passed through entity:</i>	None
<i>Award year:</i>	July 1, 2015 through June 30, 2016

Criteria or Specific Requirement

Per 34 CFR section 668.165, with respect to each disbursement of Federal Direct Loans or Federal Perkins Loans, institutions must notify the student or parent in writing to communicate the date and amount of the disbursement and of the student's or parent's right to cancel all or a portion of the loan or loan disbursement and have the loan proceeds returned to the holder of the loan. This notification must be made no earlier than 30 days before and no later than 30 days after each loan disbursement if the campus has implemented an affirmative confirmation process and no later than seven days after disbursement if they have not implemented an affirmative confirmation process.

Condition Found and Context

During our testwork, we randomly selected 200 samples of notifications for federal loan disbursements made to students from eight campuses and noted the following:

- We identified 18 student notifications that were not sent to the students.
- We identified two student notifications that were not performed in a timely manner. The notifications were sent up to 97 days after the date of loan disbursement.

Since student notifications were late or missing information at four of the eight campuses sampled, we consider this to be a significant deficiency in internal control over the compliance requirement for disbursements to and on behalf of students.

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Cause and Effect

The notification noncompliance at the four campuses resulted from not having a control in place that was properly designed to ensure that notifications sent to students or parents have met all federal requirements. The effect of these loan notifications not being made eliminates the students' right to cancel and could lead to students borrowing funds and not realizing the long-term financial commitment.

Sampling

Not statistical

Isolated or Systemic

Systemic

Questioned Costs

None noted

Repeat Finding

Yes, however, different campus locations were sampled in the current year.

Recommendation

We recommend that the University put controls in place in its system that would automatically send a loan notification based on disbursements of loan proceeds made in the student financial aid system. In addition, we recommend that the University maintain these e-mail notifications as part of the student's electronic file to provide evidence that these notifications were performed.

Views of Responsible Officials

The University concurs with the recommendation. Campuses will review and revise procedures and processes to ensure timely and accurate student notifications related to Federal Direct and Perkins loan disbursements, including documentation that notification was sent.

2016-002

<i>Compliance requirement:</i>	Enrollment Reporting
<i>Campus:</i>	Channel Islands, Chico, Long Beach, Maritime, Northridge, San Bernardino, San Francisco, and Sonoma
<i>Cluster name/program:</i>	Student Financial Assistance Cluster
<i>CFDA number:</i>	84.268 Federal Direct Student Loans
<i>Federal agency:</i>	U.S. Department of Education

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Passed through entity: None
Award year: July 1, 2015 through June 30, 2016

Criteria or Specific Requirement

Per 34 CFR section 685.309, institutions with direct loan programs must complete and return to the National Student Loan Data System for Students (NSLDS) within 30 days the enrollment reporting roster file provided by NSLDS, unless the school expects to complete the next roster within 60 days, then they must return it within 60 days. The institution must update changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and then submit changes electronically to the NSLDS, for the purpose of providing complete and accurate data to lenders regarding enrollment status so they may properly determine when repayment of the loans should begin.

Condition Found and Context

During our testwork, we randomly selected 200 students from eight campuses that withdrew or graduated during the year that had direct loans that we tested for reporting the change of status to NSLDS and noted the following:

- We identified 62 students where their change in status was not reported to the NSLDS within the 30/60-day reporting period. For these students, status was communicated between 47-189 days late.
- We identified one student with status changes that were not accurately reported to NSLDS.
- We identified three students with status changes that were not reported to NSLDS.
- We identified 10 students that the student graduation status change was not reported to NSLDS.

Since late or inaccurate enrollment status reporting in conjunction with inadequate documentation of controls was identified at eight of the eight campuses sampled, we consider this to be a significant deficiency in internal control over the compliance requirement for enrollment status reporting.

Cause and Effect

All campuses utilize the services of the National Student Clearinghouse (NSC) to assist in the reporting of enrollment status changes to NSLDS. NSC generally requires approximately 45 days to submit information provided to them by institutions to NSLDS. The cause of the late or inaccurate submissions was caused by each of the eight campuses relying on the NSC, and as such, were not performing their own independent checks of data received by NSLDS, or properly accounting for the time lag incurred by NSLDS in the processing of changes. The effect of these status changes not being reported timely is that the repayment of outstanding loan balances to the lenders is not started and payment to them is delayed.

Sampling

Not statistical

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Year ended June 30, 2016

Isolated or Systemic

Systemic

Questioned Costs

None noted

Repeat Finding

Yes, however, different campus locations were sampled in the current year.

Recommendation

We recommend the University select a sample of students from each transmission sent to the NSC and compare the information received by NSLDS against what was sent to the NSC to ensure the information was transmitted by NSC accurately and timely. In addition, we recommend that the University conduct this sample prior to the 60-day deadline to ensure that disbursement information is reported timely.

Views of Responsible Officials

The University concurs with the recommendation. Campuses will review their policies and procedures and devise appropriate internal controls to ensure the timely and accurate reporting of student status changes, including data provided on behalf of the campus by the NSC.

2016-003

<i>Compliance requirement:</i>	Eligibility
<i>Campus:</i>	San Francisco
<i>Cluster name/program:</i>	Special Education – Personnel Development to Improve Services and Results for Children with Disabilities
<i>CFDA number:</i>	84.325
<i>Federal agency:</i>	U.S. Department of Education
<i>Passed through entity:</i>	None
<i>Award year:</i>	July 1, 2015 through June 30, 2016

Criteria or Specific Requirement

Per 34 CFR Part 304.22 on requirements for grantee in disbursing scholarships, the following must be met by the student prior to receiving assistance:

- They must be a citizen or national of the United States.

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- Scholarship assistance (federal, state, and local) plus the stipend from the program may not exceed the cost of attendance.
- Obtain a certification of eligibility as prescribed in 34 CFR 75.60.
- Enter into a service agreement in which the student agrees to terms and conditions as set forth in 34 CFR 304.30.

Condition Found and Context

We randomly sampled 23 students receiving scholarship assistance and found the following conditions:

- Eight of 23 students sampled did not have a certification of eligibility.
- Five out of 23 students sampled had scholarship assistance from federal, state, and local aid plus amounts awarded as stipends in the program that exceeded their cost of attendance for the year.

In addition, the University did not have a control that was properly designed to ensure that each of these four eligibility requirements listed above were met prior to disbursing stipends to students.

Cause and Effect

For students sampled that did not have a certification of eligibility and their scholarship assistance exceeded their cost of attendance, the cause was that the principal investigators (PI's) were uncertain that these were requirements of the program. In addition, the cause of these exceptions was that the University did not have a centralized monitoring control in place to ensure that all these requirements were checked prior to disbursing the stipend to the student.

Sampling

Not statistical

Isolated or Systemic

Systemic

Questioned Costs

Total scholarship assistance that exceeded the students' cost of attendance for these five students in our sample is \$17,883 of \$195,700 in stipends awarded in our sample. Total stipends awarded for the year for the program were \$675,600.

Repeat Finding

No

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Recommendation

We recommend that the PI's complete all the required eligibility checks prior to disbursement of stipends. In addition, we recommend that an eligibility checklist be created that is completed by the PI's and that the campus improve internal controls to ensure compliance with eligibility requirements.

Views of Responsible Officials

The University concurs with the recommendation. The University will enhance internal controls to improve compliance with eligibility requirements, including coordination with PIs and Student Financial Aid to ensure that all requirements are met.