

AGENDA

COMMITTEE ON AUDIT

Meeting: 1:00 p.m., Tuesday, March 19, 2019
Glenn S. Dumke Auditorium

Douglas Faigin, Chair
Hugo N. Morales, Vice Chair
Jack McGrory
Lateefah Simon

- Consent** 1. Approval of Minutes of the Meeting of January 22, 2019, *Action*
2. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
- Discussion** 3. Report of the Systemwide Financial Statements and Single Audit of Federal Awards Including the Report to Management, *Information*
4. Individual Consequences for Intentional Fiscal Improprieties at the CSU, *Action*

**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**

January 22, 2019

Members Present

Douglas Faigin, Chair
Jack McGrory
Lateefah Simon
Adam Day, Chairman of the Board

Trustee Douglas Faigin called the meeting to order.

Public Comments

The committee heard from Rich McGee of the California State University Employees Union and Ejmin Hakobian who both commented on procedural matters related to campus audits.

Approval of Minutes

The minutes of November 14, 2018, were approved as submitted.

Status Report on Current and Follow-up Internal Audit Assignments

Mr. Larry Mandel, vice chancellor and chief audit officer, provided a status on the 2018 audit plan and follow-up on past audit assignments. Mr. Mandel explained that updates to the status report are displayed in green numerals and indicate progress toward or completion of recommendations since the distribution of the agenda. All audit assignments for 2018 are currently in process or complete.

Mr. Mandel reported that the campuses and the Office of the Chancellor continue to complete recommendations on a timely basis and that Audit and Advisory Services is working with the Office of the Chancellor to clear the remaining recommendation from their systemwide student organizations audit. Consultative reviews continue to be offered through the advisory services function, the continuous audit initiative proceeds, and investigations are performed as needed. Additionally, Audit and Advisory Services' investigations unit tracks intergovernmental audits conducted by the California State Auditor and other governmental entities, providing support and services to the Office of the Chancellor and campuses undergoing such audits.

Aud.
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Trustee John Nilon inquired as to whether all 23 campuses will be included in the continuous auditing initiative credit card reviews and it was clarified that 12 campuses were reviewed in 2018 and that 12 campuses (including the Office of the Chancellor) will be reviewed in 2019.

Calendar Year 2019 Audit Plan

Mr. Mandel presented information on the calendar year 2019 audit plan, highlighting that the plan constitutes year three of the four year phase-in period for the redesign of Audit and Advisory Services. The redesign has led to a better optimized audit function. Implementation activities proceed as planned and culminate with the addition of two remaining audit positions to be added in fiscal year 2019-20, which is reflected in the 2019 audit plan.

Mr. Mandel shared information on the risk assessment process and provided an overview of the audit plan allocation. Audits represent the largest portion of the plan at 68 percent and consist of general audits, information technology audits, sponsored programs audits, and construction audits. The next largest portion of the plan, representing 15 percent is advisory services, and the goal of advisory services is to proactively prevent risk, rather than conducting audits to detect problems after the fact. Mr. Mandel noted that the final components of the plan include investigations representing 7 percent, audit support representing 9 percent, and staff time for committees and special projects representing 1 percent. It was also noted that the percentage allocations for advisory services and investigations, respectively, have increased year-over-year.

Trustee Jane Carney inquired about protocols related to when a misuse of funds is discovered in the course of an audit and Mr. Mandel described the process that is followed in such instances. Trustee Carney also inquired as to whether there is a systemwide standard for disciplinary action if there is a substantiated instance of employee misappropriation of funds. Mr. Andrew Jones, executive vice chancellor and general counsel, clarified that misuse of public funds would be grounds for discipline while noting that there is not a policy that stipulates the specific level of discipline for various circumstances. Chancellor Timothy P. White explained that practice is driven by policy and is dependent on the magnitude of the issue.

Trustee Jack McGrory asked if a comprehensive cybersecurity audit has been conducted and if there is adequate protection. It was noted that as part of the information technology audit program, information security audits are consistently performed and have resulted in improved controls.

Trustee Faigin called for a motion to approve the committee resolution. A motion was made, there was a second, and the resolution was approved.

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
Audit and Advisory Services

Summary

This item includes both a status report on the 2019 audit plan and follow-up on past assignments. For the 2019 year, assignments were made to develop and execute individual campus audit plans; conduct audits of Information Technology (IT), Sponsored Programs and Construction; use continuous auditing techniques; provide advisory services and investigation reviews; and continue implementation activities for the redesign of Audit and Advisory Services. Follow-up on current and past assignments was also being conducted on approximately 30 completed campus reviews. Attachment A summarizes the audit assignments in tabular form.

AUDITS

General Audits

The organizational redesign for Audit and Advisory Services provides for individual campus audit plans that are better aligned with campus and auxiliary organization risks and systemwide goals and strategies. Risk assessments and initial audit plans have been completed for all campuses. Audit plans include a Health and Safety audit at each campus as a follow-up to the health and safety audits performed by the California State Auditor in 2018. Fieldwork is being conducted at two campuses, and report writing is being completed for seven campuses.

Information Technology Audits

The initial audit plan indicated that reviews of Information Security, IT Disaster Recovery, Cloud Computing, and Accessible Technology would be performed at those campuses where a greater degree of risk was perceived for each topic. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues. Fieldwork is being completed at one campus, and report writing is being completed for one campus.

Sponsored Programs

The initial audit plan indicated that reviews of both post-award and pre-award activities would be performed. Post-award reviews emphasize review of operational, administrative, and financial controls to determine whether processes and expenditures are in accordance with both sponsor terms and conditions, and applicable policies, procedures, and regulations. Pre-award reviews emphasize compliance with conflict-of-interest and training requirements. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues relating to sponsored programs activities. Fieldwork is being completed at one campus, and report writing is being completed for one campus.

Construction

The initial audit plan indicated that reviews of recently completed construction projects, including activities performed by the campus, general contractor, and selected subcontractors would be performed. Areas to be reviewed include, but are not limited to approval of project design, budget and funding; administration of the bid and award process; the closeout process; and overall project accounting and reporting. Report writing is being completed for one review.

ADVISORY SERVICES

Audit and Advisory Services partners 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. Reviews are ongoing.

INVESTIGATIONS

Audit and Advisory Services is periodically called upon to provide investigative reviews, which are often the result of alleged misappropriations or conflicts of interest. Further, whistleblower investigations are being performed on an ongoing basis, both by referral from the state auditor and directly from the CSU Chancellor's Office. In addition, the investigations unit tracks external audits being conducted by state and federal agencies, acts as a liaison for the system throughout the audit process, and offers assistance to campuses undergoing such audits.

CONTINUOUS AUDITING TECHNIQUES

The initial audit plan indicated that continuous auditing techniques would be used to review credit card data for the twelve campuses not reviewed in 2018 to identify potential risks and to evaluate compliance with policies and procedures. Continuous auditing uses data analytics tools and techniques to analyze large volumes of data, look for anomalies and trends, and complement the existing risk assessment process. Reviews are ongoing.

COMMITTEES/SPECIAL PROJECTS

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.

AUDIT SUPPORT

Annual Risk Assessment

Audit and Advisory Services annually performs individual campus risk assessments, using management interviews, surveys, audit history, and other factors to score an audit universe of topics in order to determine the topics of highest risk to each campus and the system. Periodically, other audit topics are selected for review due to their high profile nature in order to assure the board that appropriate policies and procedures are in place to mitigate risk to the system.

Administration

Day-to-day administration of the Audit and Advisory Services division 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.

Status Report on Current and Past
Audit Assignments
(as of 3/15/2019)

Campus	Audit Topic	Audit Plan Year	Audit Status	Follow-up on Current and Past Audit Assignments	
				*Recs	**Mo.
Bakersfield	Sponsored Programs - Post Award	2018	AC	0/5	1
	Information Security	2018	AI		
	Const. - Humanities Office Bldg. & Humanities Classrooms	2019	RW		
Channel Islands	Counseling & Psychological Services	2018	AC	8/8	-
	University Auxiliary Services	2018	AI		
Chico	Academic Department Fiscal Review	2018	AC	10/10	-
	Information Security	2018	AC	7/7	-
	Student Health Services	2018	AC	0/6	5
	Centers and Institutes	2018	AI		
Dominguez Hills	Centers and Institutes	2018	AC	3/6	7
	International Activities	2018	AC	0/9	5
East Bay	Cloud Computing	2018	AC	0/3	5
	Educational Foundation	2019	AI		
Fresno	Fresno Athletic Corporation	2018	AC	10/10	-
	Cloud Computing	2018	AC	1/2	3
Fullerton	Const. - One Banting	2018	AC	5/5	-
	Cal State Fullerton Philanthropic Fdn.	2018	AC	0/3	2
	Sponsored Programs	2019	RW		
Humboldt	Information Security	2018	AC	5/5	-
	Cashiering	2018	AC	2/2	-
Long Beach	Cashiering	2018	AC	2/3	5
	The Forty-Niner Shops, Inc.	2018	AI		
	Information Security	2019	RW		
Los Angeles	Decentralized Computing	2018	AC	0/4	3
	Facilities Management	2018	AC	2/2	-
	Health and Safety	2019	RW		
Maritime Academy	Associated Students	2018	AC	5/5	-
Monterey Bay	IT Disaster Recovery	2018	AC	3/3	-
	Foundation of CSU Monterey Bay	2018	AC	2/8	3
	University Corporation	2019	FW		
Northridge	Sponsored Programs - Post Award	2019	FW		
	Northridge Foundation	2018	AC	8/8	-
Pomona	Sponsored Programs	2018	AC	0/5	4
	Associated Students Incorporated	2018	AC	2/4	3
Sacramento	Sponsored Programs - Post Award	2018	AC	2/3	10 ¹
	IT Disaster Recovery	2018	AC	2/4	5
	Associated Students of CSU, Sacramento	2018	AC	0/10	1
	Const. - Student Housing, Phase II	2018	AI		
	Cashiering	2019	RW		

Status Report on Current and Past
 Audit Assignments
 (as of 3/15/2019)

Campus	Audit Topic	Audit Plan Year	Audit Status	Follow-up on Current and Past Audit Assignments	
				*Recs	**Mo.
San Bernardino	Emergency Management	2018	AC	3/5	7
	Const. - Std. Housing & Dining Commons	2018	AC	1/1	-
	Health and Safety	2019	RW		
San Diego	Decentralized Computing	2018	AC	0/11	3
	The Campanile Foundation	2019	FW		
San Francisco	Centers and Institutes	2018	AC	4/4	-
	Sponsored Programs - Pre Award	2018	AC	2/2	-
	Accounts Receivable	2018	AC	0/4	3
	Student Organizations	2018	AC	0/7	3
	Health and Safety	2019	RW		
San Jose	Housing and Residential Services	2018	AC	6/9	5
	The Student Union of San Jose State Univ.	2018	AC	0/7	1
	Health and Safety	2019	RW		
San Luis Obispo	IT Disaster Recovery	2018	AC	4/4	-
	Student Health Services	2018	AC	4/4	-
	Cal Poly Corporation	2018	AC	0/7	4
	Health and Safety	2019	RW		
San Marcos	Sponsored Programs - Pre Award	2018	AC	3/3	-
Sonoma	IT Disaster Recovery	2018	AC	9/10	6
	Sonoma State Enterprises	2018	AC	0/5	3
Stanislaus	Instructionally Related Activity Fees	2018	AC	1/1	-
	Information Security	2018	AC	0/9	1
Chancellor's Office	Emergency Management	2018	AC	3/4	5
	Accessible Technology	2019	FW		
Systemwide	Student Organizations	2017	AC	0/1	12 ²

Status
 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
 * 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.
¹ Approved extended completion date of 12/31/19.
² Approved extended completion date of 12/31/18.
 Numbers/letters in green are updates since the agenda mailout.

COMMITTEE ON AUDIT

Report of the Systemwide Financial Statements and Single Audit of Federal Awards 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

Financial statements audits are performed annually for the California State University (CSU) and for its discretely presented component units (i.e., auxiliary organizations) that separately issue stand-alone audited financial statements by 18 certified public accounting firms. The CSU systemwide financial statements for fiscal year ended June 30, 2018, included as Attachment A, were issued with an unmodified opinion on March 8, 2019. There was an audit finding related to the CSU systemwide financial statements. Highlights of the systemwide financial statements and significant changes from last year will be presented at the March 2019 meeting.

Significant changes in 2018 include the adoption of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The changes in the accounting policy are designed to improve transparency by requiring recognition of the net other postemployment benefits (OPEB) liability, and report costs associated with OPEB as they are earned by employees rather than based on cash funding. Prior to this adoption, the costs associated with OPEB were equal to the actuarially determined Annual Required Contribution and accrued unfunded portion. This change in accounting policy was the primary reason for the significant decrease in net position.

The CSU Single Audit Report was also issued on March 8, 2019 and is included as Attachment B. The Single Audit Report covers federal awards received by the CSU, including student financial aid, subject to both compliance and internal control audit procedures as required by the Office of Management and Budget Compliance Supplement and the Uniform Guidance. There were two audit findings related to internal controls over administration of federal financial aid programs at several campuses. Corrective actions are in progress and a status update will be provided at a future board meeting.

CSU The California State University

FINANCIAL STATEMENTS

June 30, 2018



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

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 477,000 students in the college year 2017-18. 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





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

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, 2018, 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 87 of the 89 aggregate discretely presented component units, which reflect total assets constituting 93% and total revenues constituting 95% 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 87 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of 45 discretely presented component units were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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.



Opinion

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, 2018, 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 Matters

As discussed in the notes to the financial statements, in fiscal year 2018, the California State University adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. Our opinion is 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 5–28, the Schedules of University's proportionate share of the net pension liability and related ratios, and employer contributions related to pensions in Schedules 1 and 2, and the Schedule of University's net other postemployment benefits liability and related ratios, and employer contributions related to other postemployment benefits in Schedules 3 and 4, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standard Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 5 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Schedule 5 is the responsibility of management and were derived from and relate 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 5 is fairly stated in all material respects, in relation to the basic financial statements that collectively comprise the University's basic financial statements.

Schedules 6 and 7 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 them.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2019 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

Orange County, California
March 8, 2019

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2018

(Unaudited)

The Management's Discussion and Analysis provides an overview of the financial position and performance of the California State University (the University) as of and for the year ended June 30, 2018, including 23 campuses and the Office of the Chancellor (collectively referred to as the University), and 89 discretely presented component units. 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 California State University

The University promotes student success through high-quality education that prepares students to become leaders in the changing workforce, making the University a vital economic engine for California.

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, who is the chief executive officer of the University, and the University presidents, who are the chief executive officers of the respective campuses.

The discretely presented component units of the University are primarily recognized auxiliary organizations. These nonprofit organizations are separate legal entities created to perform essential functions.

These functions are classified into the following categories:

- Student self-governance
- Student body center, union, and recreation center
- Externally supported research and sponsored programs
- Commercial services such as bookstores, food services, housing, or real estate development
- Philanthropic activities

Financial Statements

The financial statements of the University as of and for the year ended June 30, 2018 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.

This discussion and analysis is intended to serve as an introduction to the University's basic 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

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2018

(Unaudited)

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.

Statement of Net Position

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 as net investment in capital assets, restricted or unrestricted.

Changes from one fiscal 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.

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.

Statement of Cash Flows

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 method. 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 Bonds (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.

CALIFORNIA STATE UNIVERSITY
Management's Discussion and Analysis
June 30, 2018
(Unaudited)

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

Financial Position

The Statement of Net Position presents the financial position of the University and its discretely presented component units. The major components of the Statement of Net Position include assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. A condensed comparative Statements of Net Position follows:

	<u>University</u>		<u>Discretely presented component units</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	(In thousands)			
Assets:				
Current assets	\$ 3,788,535	3,579,682	1,559,753	1,250,207
Capital assets, net	9,056,572	8,569,643	833,650	826,412
Other noncurrent assets	<u>1,915,548</u>	<u>2,469,600</u>	<u>2,358,674</u>	<u>2,308,958</u>
Total assets	<u>14,760,655</u>	<u>14,618,925</u>	<u>4,752,077</u>	<u>4,385,577</u>
Deferred outflows of resources	<u>3,752,587</u>	<u>1,829,367</u>	<u>37,782</u>	<u>29,972</u>
Liabilities:				
Current liabilities	1,426,526	1,385,123	517,734	340,458
Noncurrent liabilities	<u>29,756,004</u>	<u>15,007,323</u>	<u>1,014,903</u>	<u>981,540</u>
Total liabilities	<u>31,182,530</u>	<u>16,392,446</u>	<u>1,532,637</u>	<u>1,321,998</u>
Deferred inflows of resources	<u>1,504,986</u>	<u>17,394</u>	<u>45,034</u>	<u>13,058</u>
Net position:				
Net investment in capital assets	3,485,290	3,443,607	259,778	264,544
Restricted:				
Nonexpendable	1,708	1,746	1,274,214	1,174,814
Expendable	135,223	256,809	1,025,148	1,001,637
Unrestricted	<u>(17,796,495)</u>	<u>(3,663,710)</u>	<u>653,048</u>	<u>639,498</u>
Total net position	<u>\$ (14,174,274)</u>	<u>38,452</u>	<u>3,212,188</u>	<u>3,080,493</u>

The University's net position decreased by \$14.21 billion in 2018. The University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in 2018. The changes in the accounting policy is designed to improve transparency by requiring recognition of the net other postemployment benefits (OPEB) liability, deferred inflows of resources, deferred outflows of resources, and report costs associated with OPEB as they are earned by employees instead of based on cash funding. Prior to this adoption, the costs associated with OPEB were equal to the actuarially determined Annual Required

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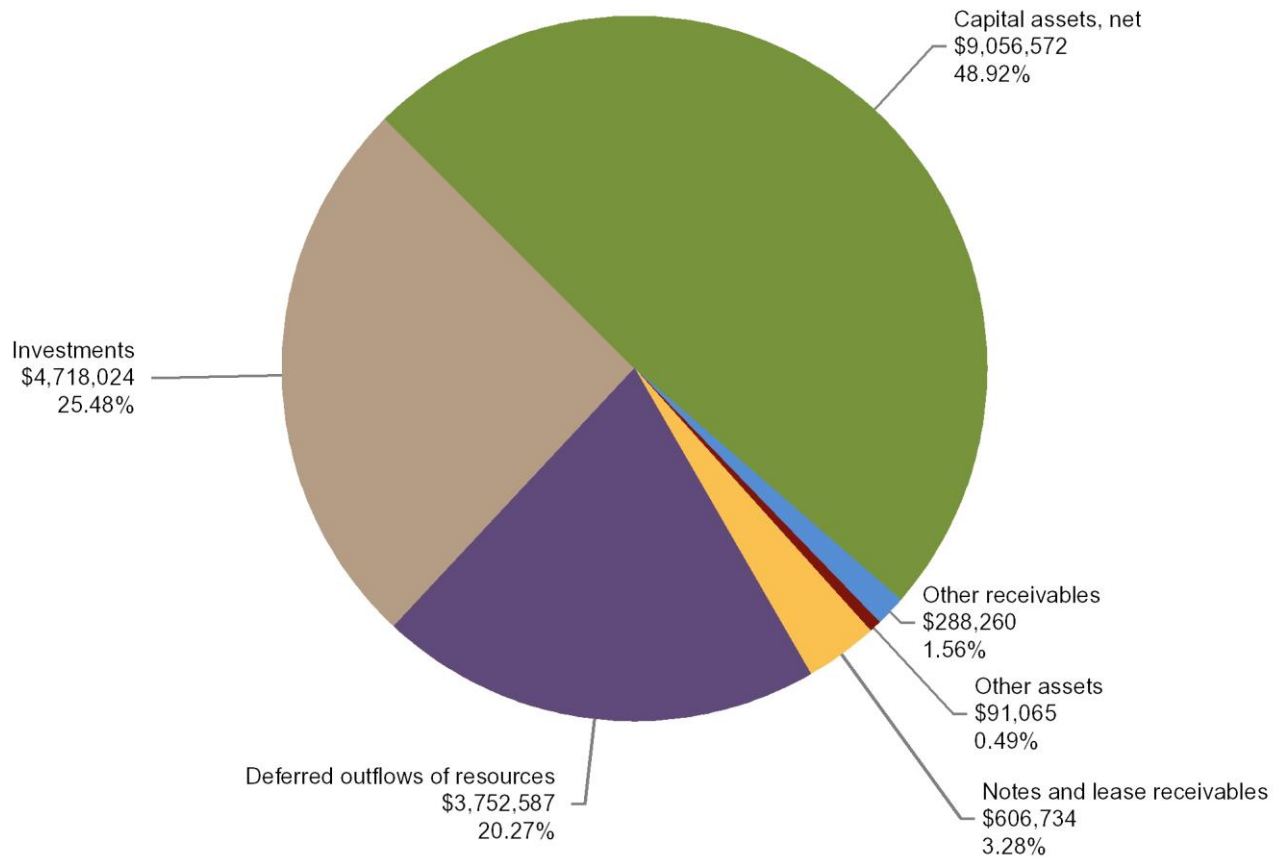
Contribution and recognized accrual of unfunded required contributions. This change in accounting policy was the primary reason for the decrease in net position.

The University's Financial Position

Assets and Deferred Outflows of Resources

Total assets increased from \$14.62 billion in 2017 to \$14.76 billion in 2018. Deferred outflows of resources increased from \$1.83 billion in 2017 to \$3.75 billion in 2018.

**Assets and Deferred Outflows of Resources
(In thousands)**



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Current and other noncurrent assets of the University 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, capital leases receivable, student loans receivable, pledges receivable, prepaid expenses, and other assets.

Capital Assets, Net

The University's capital assets, net of accumulated depreciation and amortization, represents the largest portion of total assets. The University's capital assets, net of accumulated depreciation and amortization, are as follows:

	<u>2018</u>	<u>2017</u>
	(In thousands)	
Land and land improvements	\$ 273,340	268,821
Buildings and building improvements	6,468,331	6,432,766
Improvements other than buildings	211,300	202,100
Infrastructure	648,478	654,440
Equipment	232,830	225,538
Library books and materials	30,877	32,178
Works of art and historical treasures	47,231	44,713
Intangible assets	59,928	50,961
Construction work in progress	<u>1,084,257</u>	<u>658,126</u>
Total	<u>\$ 9,056,572</u>	<u>8,569,643</u>

The University continues to expand its campuses and renovate existing facilities to meet the needs of its students, faculty, and staff. The capital spending includes constructing and renovating academic buildings, student services, recreation centers, and housing facilities. Major projects in 2018 included the Pomona Student Housing Replacement, the San Bernardino Student Housing and Dining Commons, the San Diego Engineering and Interdisciplinary Sciences Complex, the Sacramento Student Housing, Phase II, and the San Luis Obispo Student Housing South project.

Investments

The University invests its funds mainly through the CSU Consolidated Investment Pool, whose objective is to maximize current income while ensuring 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.

Investments decreased from \$4.99 billion in 2017 to \$4.72 billion in 2018. Investments decreased due to capital project spending and debt service payments. This is offset by proceeds from issuance of Bond Anticipation Notes (BAN) and an increase in operating resources provided by the State through noncapital appropriations. The University's endowment investments comprise \$1.71 million of the total investments, with no significant change from prior year.

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Effective January 1, 2017, changes were enacted to the Education and Government Code to expand the allowable investments, which resulted in establishment of the CSU Total Return Portfolio (TRP). Allowable investments now include mutual funds, including equity mutual funds. Under State law, investment of funds in the TRP is subject to the University meeting certain conditions regarding investment oversight, reporting, and use of earnings, and is to be phased in at no more than \$400 million as of June 2018, \$600 million as of June 2019, and thirty percent of eligible investments thereafter.

The University made an initial TRP investment of \$33.5 million in March 2018, and a subsequent investment of \$91.5 million in June 2018, with the goal of reaching the aggregate statutory limit of \$600 million in the first half of 2019. With the establishment of the TRP, the University expects that exposure in the value of its investments as a result of illiquidity or volatility in certain investment sectors of the financial markets will increase for a portion of its investments, but that such exposure is not expected to have a material adverse impact on gross investment income. Funds held in the University's investment program are subject to changes in market valuation.

Additional earnings from investment under the new authority (if any) shall be used only for capital outlay or maintenance, and shall not be used for ongoing operations.

Notes and Leases Receivable

The University has a program utilizing discretely presented component units to support a broad range of functions. In certain cases, the discretely presented component units are involved in the financing of campus facilities as well as off-campus facilities serving the needs of the campus. These facilities are mostly financed by SRB using either lease or loan arrangements.

In the loan arrangement, facilities are financed or refinanced by a loan of SRB proceeds from the University to the discretely presented component units pursuant to a loan agreement. Under the terms of the loan agreement, in return for the loan from the University, the component unit agrees to acquire, construct and/or maintain the facility and to repay the loan to the University. The outstanding loan balance is carried by the University as notes receivable. Notes receivable from discretely presented component units increased from \$341.25 million in 2017 to \$376.75 million in 2018. The increase of \$35.49 million is due mainly to the new loan agreements for construction of facilities in the University amounting to \$46.23 million. Current year notes receivable collections were \$10.74 million.

In a lease arrangement, the financed lease facility is leased from the University, as lessor, to discretely presented component units, as lessee. Under the lease arrangement, the lessee agrees to operate the facility and to make certain rental payment to the University. The leases receivable from discretely presented component units decreased from \$242.71 million in 2017 to \$220.58 million in 2018. The decrease is due to the current year leases receivable collections of \$22.13 million.

Other Receivables

Other receivables include accounts receivable, student loans receivable, and pledges receivable. The other receivables decreased from \$374.12 million in 2017 to \$288.26 million in 2018.

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The accounts receivable from the State Public Works Board (SPWB) Lease Revenue Bond program for the capital outlay projects amounted to \$2.61 million and \$66.31 million in 2018 and 2017, respectively. The decrease of \$63.70 million is due mainly to restructuring of the agreement with SPWB which resulted in the change in capital outlay funding from SPWB Lease Revenue Bond program to the SRB program.

Accounts receivable from student accounts increased from \$68.44 million in 2017 to \$71.55 million in 2018 due to enrollment growth and higher tuition and fees effective in academic year 2017-2018.

The accounts receivable from the State for capital and noncapital appropriations decreased from \$54.95 million in 2017 to \$32.52 million in 2018. The decrease of \$22.42 million was primarily due to appropriation funds spent for constructions during the fiscal year.

Student loans receivable, decreased from \$77.24 million in 2017 to \$70.65 million in 2018. Receivable from students' Perkins loans decreased by \$8.17 million, offset by \$1.58 million increase in California Dream loans.

Deferred Outflows of Resources

Deferred outflows of resources are consumption of assets that are applicable to a future reporting period, which has a positive effect on the net position.

Deferred outflows of resources consist of the following transactions:

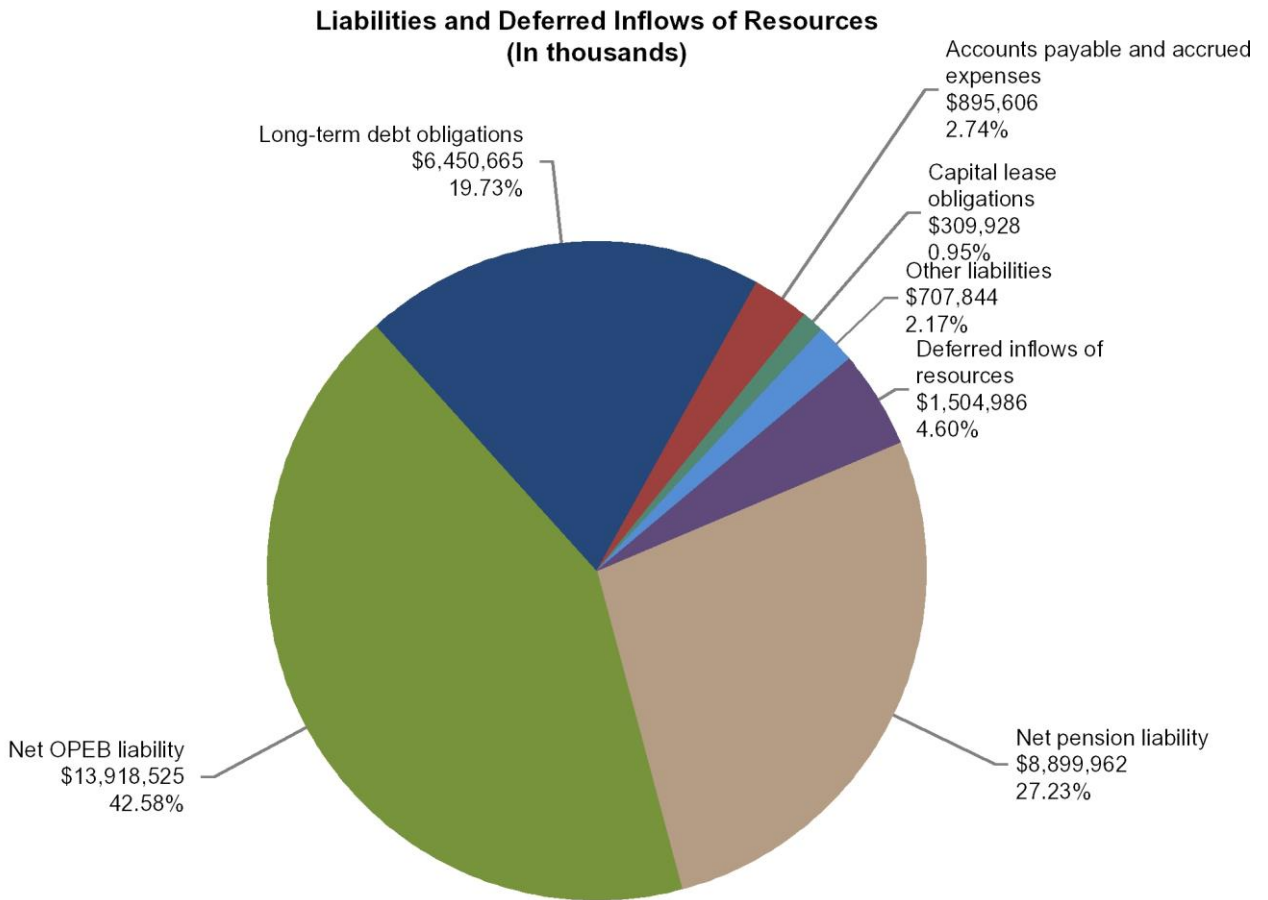
- *Loss on Debt Refunding* – The defeasance of previously outstanding systemwide revenue bonds results in deferring refunding losses. These deferred losses are recognized as a component of interest over the remaining life of the old debt or the life of the new debt, whichever is shorter.
- *Net Pension Liability* – Increases in the net pension liability that are not recognized as pension expenses for the reporting period are reported as deferred outflows of resources. The difference between expected and actual experience with regard to economic or demographic factors used by an actuary to determine total pension liability; and increases in the University's proportionate share of net pension liability, are recognized as pension expenses over the average of the expected remaining service lives of participating employees. A deferred outflow of resources is also reported when projected earnings on pension plan investments exceed actual earnings, with the net difference amortized to pension expense over a five-year period beginning in the current period. The employer contributions subsequent to measurement date are recognized as deferred outflows of resources related to pensions and reduction of net pension liability in the following year.
- *Net Other Postemployment Benefits (OPEB) Liability* – The employer contributions subsequent to measurement date are recognized as deferred outflows of resources and a reduction of net OPEB liability in the following year.

Deferred outflows of resources increased by \$1.92 billion from \$1.83 billion in 2017 to \$3.75 billion in 2018. In 2018, the deferred outflows of resources increased due to the University's share in the State's one-time supplemental pension contribution made subsequent to the measurement date, the OPEB contribution made subsequent to measurement date associated with the implementation of GASB Statement No. 75, the impact of higher proportionate share related to net pension liability in 2018, and the impact of the change in assumptions including the lowering of the discount rate in calculating the net pension liability.

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Liabilities and Deferred Inflows of Resources

Total liabilities of \$31.18 billion represent an increase of \$14.79 billion compared to \$16.39 billion in 2017. Deferred inflows of resources increased from \$17.39 million in 2017 to \$1.50 billion in 2018. The increase in liabilities and deferred inflows of resources were primarily due to implementation of GASB Statement No. 75.



Current liabilities (liabilities due within one year) and noncurrent liabilities (liabilities due in more than one year) include major components such as net pension liability, long-term debt obligations, accounts payable and accrued expenses, net OPEB liability, capital lease obligations, and other liabilities.

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Net OPEB Liability

The State has a Retiree Health Benefits Program with CalPERS as an agent multiple-employer defined-benefit plan and CalPERS functions as the investment and administrative agent for its members. The University, as a state agency, participates in the State's Retiree Health Benefits Program.

The University implemented the new accounting standard for other postemployment benefits which requires recognition of the net OPEB liability. The ending net OPEB liability, recognized as a result of the implementation of GASB Statement No. 75, was \$13.92 billion. The OPEB benefits are funded on a pay-as-you-go basis as eligible participants retire and receive those benefits.

Net Pension Liability

The State's pension plans with CalPERS are agent multiple-employer defined-benefit pension plans and CalPERS functions as the investment and administrative agent for its members. The University, as a state agency, participates in the State's pension plans. The plans act as cost-sharing, multiple-employer defined-benefit pension plans for the University. The University's share in the net pension liability, which is actuarially determined, is based on its proportionate share in the total pensionable compensation of all the participating state agencies for the measurement period.

The net pension liability increased from \$7.73 billion in 2017 to \$8.90 billion in 2018. The \$1.17 billion increase is primarily due to a lower discount rate used to estimate net pension liability. The discount rate was reduced from 7.65% in 2017 to 7.15% in 2018.

Long-Term Debt Obligations

The University's capital assets are financed using the State's capital appropriations, SRB, leases, and reserves. BANs provide short-term financing for capital assets during the construction period. The University's total long-term debt obligations increased by \$9.09 million in 2018. The University's long-term debt obligations are summarized as follows:

	<u>2018</u>	<u>2017</u>
	(In thousands)	
Systemwide revenue bonds	\$ 5,692,563	5,826,473
Bond anticipation notes	169,205	600
Other long-term debt obligations	<u>12,813</u>	<u>8,583</u>
Total	5,874,581	5,835,656
Unamortized net bond premium	<u>576,084</u>	<u>605,917</u>
Total long-term debt obligations	6,450,665	6,441,573
Less current portion	<u>(144,174)</u>	<u>(122,026)</u>
Long-term debt obligations, net of current portion	<u>\$ 6,306,491</u>	<u>6,319,547</u>

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- *Systemwide Revenue Bonds*

The University's SRB program issues revenue bonds to finance housing, parking, health centers, student body centers, continuing education facilities, and other special projects related to the educational mission of the University. The following revenues have been pledged as a security for outstanding SRB: student tuition fees, student housing fees, student body center fees, parking fees, health center facility fees, and fees from the continuing education program, as well as payments from various auxiliary organizations and special purpose government entities.

Historically, the State has funded academic facilities with proceeds from issuance of SPWB Lease Revenue Bonds and State General Obligation (GO) Bonds for which, in each case, the State made all debt service payments directly or through appropriations to the University.

Education Code Section 89770 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. The student tuition fees were added to the gross revenues pledged to secure outstanding SRB.

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 2007B, and 2007C, and certain maturities in 2008A are 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.

The long-term debt obligations related to SRB decreased by \$133.91 million due to repayment of outstanding debt.

- *Bond Anticipation Notes*

New issuances of BANs amounted to \$169.64 million. Proceeds were used as short-term financing to acquire and construct capital assets.

- *State General Obligation Bonds*

The State's GO 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 is not recorded in the University's financial statements. The total GO Bonds carried by the State related to University projects decreased from \$2.32 billion in 2017 to \$2.24 billion in 2018. As a result of the enactment of Education Code Section 89770, the University's share continues to decrease as bonds are paid by the State with no new debt issued for capital facilities.

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Accounts Payable and Accrued Expenses

Accrued expenses for salaries, benefits, and compensated absences decreased from \$638.34 million in 2017 to \$621.40 million in 2018.

Accounts payable increased from \$267.49 million in 2017 to \$274.20 million in 2018. The increase of \$6.71 million is due mainly to the increase in the number of capital projects that are currently in progress. These capital projects were primarily funded by SRB.

Capital Lease Obligations

The University has capital leases for campus facilities including computer, energy efficiency, and telecommunications equipment. The majority of the capital lease obligations are with the SPWB Lease Revenue Bond program for academic campus facilities. Capital lease obligations of the University decreased by \$43.52 million in 2018 due to current year payments of \$46.38 million and amortization of related premiums of \$0.27 million, offset by new capital lease obligations of \$3.12 million.

Other Liabilities

Other liabilities include unearned revenues, grants refundable, and depository accounts, increased from \$531.77 million in 2017 to \$707.84 million in 2018. In 2018, the State made a one-time \$6 billion supplemental pension payment to CalPERS as authorized by Government Code Section 20825. The supplemental pension payment is funded through a cash loan from mainly the State's Surplus Money Investment Fund (SMIF), which will be paid back by June 30, 2030. The loan was apportioned to the State retirement plans, including State Miscellaneous and Peace Officer and Firefighters. As a result, the University recognized \$156.28 million of loan payable to the State representing the University's share of the loan.

Deferred Inflows of Resources

Deferred inflows of resources are related to certain changes in net pension and net OPEB liabilities. Deferred inflows of resources increased related to changes in actuarial assumptions used in the OPEB liability actuarial valuation and the difference between expected and actual experience related to pension by \$1.42 billion and \$66.70 million, respectively.

Net Position

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.

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Net position by category is as follows:

	2018	2017
	(In thousands)	
Net investment in capital assets	\$ 3,485,290	3,443,607
Restricted:		
Nonexpendable	1,708	1,746
Expendable	135,223	256,809
Unrestricted	(17,796,495)	(3,663,710)
Total net position	\$ (14,174,274)	38,452

- *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 net investment in capital assets increased from \$3.44 billion in 2017 to \$3.49 billion in 2018. The increase in 2018 reflects greater additions to net capital assets during the year than the associated increase in capital asset-related 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 and fellowships, research, loans, capital projects, 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. The University's foundations, which are discretely presented component units, hold the significant majority of the University-related endowments.

- 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 and fellowships, research,

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loans, capital projects, and debt service funds. The restricted expendable net position decreased due to spending for capital outlay projects and debt service payments.

- *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 by statute for specific programs or projects related to certain revenue sources. The University, an agency of the State of California, consider statutory restrictions as internally imposed restrictions rather than externally imposed restrictions.

These 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. For example, students pay fees, including housing, parking, and campus activities fees, all of which are to be used for specific designated purposes as described in the State of California Education Code. The University also has certain designated resources that represent amounts pledged to support the SRB program. The undesignated resources are mainly from the operating fund.

At June 30, 2018, unrestricted net position reflects a deficit of \$17.80 billion due primarily to the implementation of GASB Statement No. 68 (pension) during 2015, and the implementation of GASB Statement No. 75 (OPEB) in the current year. Unrestricted net position decreased \$14.13 billion in 2018, primarily due to the impact of implementing GASB Statement No. 75. These Statements require the University to record its share of the State's actuarially determined liabilities for pension and OPEB. Excluding the impact of these accounting changes, unrestricted net position increased by \$84.06 million or 3.02%, in 2018.

Unrestricted net position consisted of the following:

	<u>2018</u>	<u>2017</u>
	(In thousands)	
Unrestricted net position, as reported	\$ (17,796,495)	(3,663,710)
Impact of pension related activities	5,678,261	6,025,459
Impact of OPEB related activities	<u>14,989,933</u>	<u>425,888</u>
Unrestricted net position, excluding pension and OPEB	<u>\$ 2,871,699</u>	<u>2,787,637</u>
Designated unrestricted net position	\$ 2,070,901	2,146,228
Undesignated unrestricted net position	<u>800,797</u>	<u>641,409</u>
Unrestricted net position, excluding pension and OPEB	<u>\$ 2,871,698</u>	<u>2,787,637</u>

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Discretely Presented Component Units' Financial Position

In 2018, the discretely presented component units managed \$4.75 billion, representing 24.35% of the University's \$19.51 billion combined total assets. In 2017, \$4.39 billion of assets were managed by the discretely presented component units, representing 23.08% of the combined total assets.

The philanthropic activities of the University are managed mostly by the discretely presented component units. The restricted cash and cash equivalents, pledges receivables, and endowment investments increased from \$1.73 billion in 2017 to \$1.86 billion in 2018. This represents 9.53% and 9.12% of the combined total assets for 2018 and 2017, respectively.

The claims liability for losses and loss adjustment expenses decreased from of \$74.57 million in 2017 to \$68.69 million in 2018. These are mainly the liabilities from the California State University Risk Management Authority, a discretely presented component unit.

The restricted net position, expendable and nonexpendable, of the discretely presented component units was \$2.30 billion, representing 94.38% of the combined restricted net position in 2018. In 2017, the restricted net position of discretely presented component units was \$2.18 billion, representing 89.38% of the combined restricted net position.

The combined University and discretely presented component units' net position reflects a deficit of \$10.96 billion in 2018 primarily due to the impact of implementing GASB Statement No. 75 when compared to \$3.12 billion in 2017.

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Results of Operations

The Statement of Revenues, Expenses and Changes in Net Position represents the University's and its discretely presented component units' result of operations. Major components are operating revenues, operating expenses, and nonoperating revenues (expenses). A condensed comparative presentation of the results of operations follows:

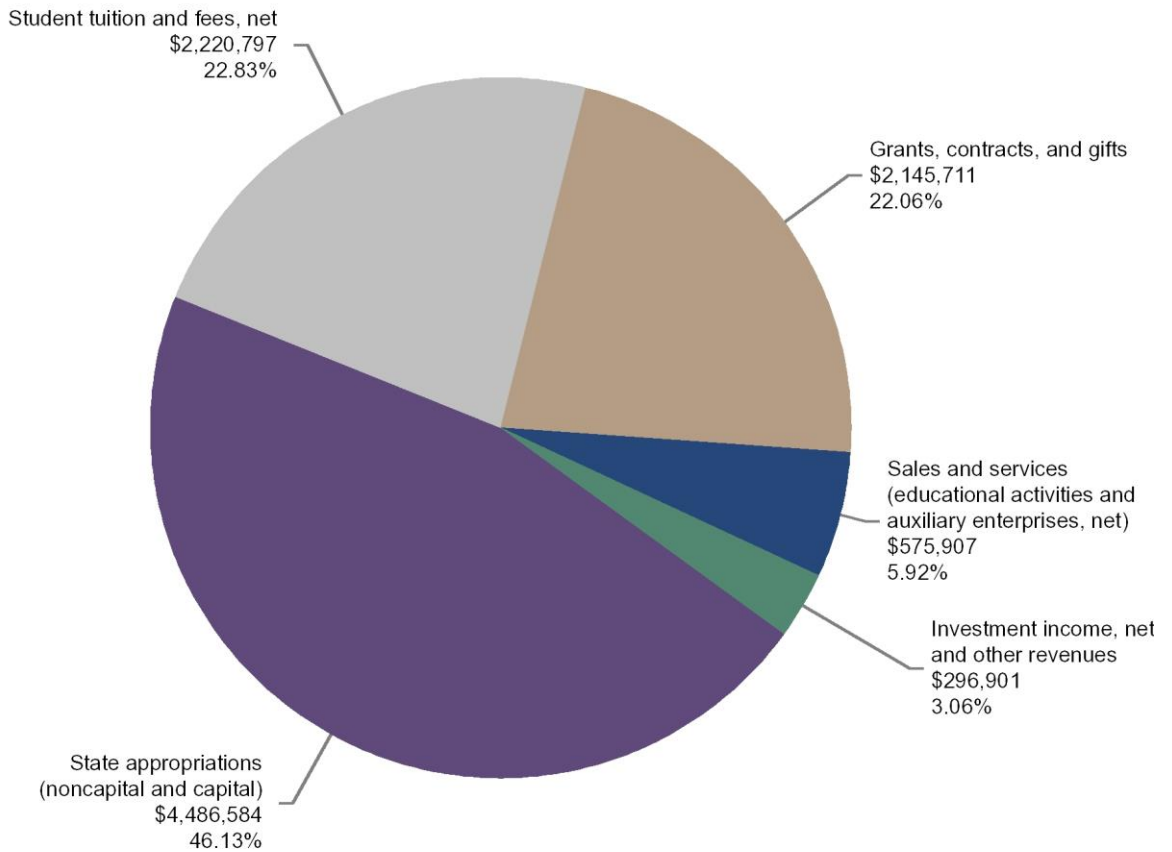
	<u>University</u>		<u>Discretely presented component units</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	(In thousands)			
Operating revenues:				
Student tuition and fees, net	\$ 2,220,797	2,185,444	186,827	193,227
Grants and contracts, noncapital	77,792	71,277	569,289	526,196
Sales and services of educational activities	52,403	48,198	51,367	49,997
Sales and services of auxiliary enterprises, net	523,504	499,383	511,877	526,139
Other operating revenues	229,550	208,480	242,584	284,413
Total operating revenues	<u>3,104,046</u>	<u>3,012,782</u>	<u>1,561,944</u>	<u>1,579,972</u>
Operating expenses	<u>9,726,004</u>	<u>7,986,652</u>	<u>1,768,584</u>	<u>1,723,859</u>
Operating loss	<u>(6,621,958)</u>	<u>(4,973,870)</u>	<u>(206,640)</u>	<u>(143,887)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	4,486,584	3,258,252	—	—
Financial aid grants, noncapital	1,928,555	1,751,263	3,285	3,839
Grants and gifts, noncapital	65,411	58,413	194,827	197,152
Investment income, net	67,351	52,662	64,081	91,231
Endowment income, net	—	15	69,622	121,341
Interest expense	(224,909)	(204,095)	(21,343)	(19,001)
Other nonoperating expenses	(64,009)	(23,739)	(37,347)	(24,262)
Net nonoperating revenues	<u>6,258,983</u>	<u>4,892,771</u>	<u>273,125</u>	<u>370,300</u>
Income (loss) before other revenues (expenses)	<u>(362,975)</u>	<u>(81,099)</u>	<u>66,485</u>	<u>226,413</u>
State appropriations, capital	—	34,946	—	—
Grants and gifts, capital	73,953	50,256	13,643	11,372
Additions (reductions) to permanent endowments	<u>—</u>	<u>(6,876)</u>	<u>96,080</u>	<u>90,897</u>
Change in net position	<u>(289,022)</u>	<u>(2,773)</u>	<u>176,208</u>	<u>328,682</u>
Net position – beginning of year, as restated	<u>(13,885,252)</u>	<u>41,225</u>	<u>3,035,980</u>	<u>2,751,811</u>
Net position – end of year	<u>\$ (14,174,274)</u>	<u>38,452</u>	<u>3,212,188</u>	<u>3,080,493</u>

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Revenues (Operating and Nonoperating)

The University's two largest sources of revenues are state appropriations and student tuition and fees, net, which accounted for a combined 68.96% and 66.72% of total revenues in 2018 and 2017, respectively. State appropriations are received for both noncapital and capital purposes.

**Revenues (Operating and Nonoperating)
(In thousands)**



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The University's total revenues consisted of the following:

	<u>2018</u>	<u>Percentage of total</u>	<u>2017</u>	<u>Percentage of total</u>
	(In thousands)		(In thousands)	
State appropriations (noncapital and capital)	\$ 4,486,584	46.13 %	\$ 3,293,198	40.10 %
Student tuition and fees, net	2,220,797	22.83	2,185,444	26.61
Grants, contracts, and gifts	2,145,711	22.06	1,924,333	23.43
Sales and services (educational activities and auxiliary enterprises), net	575,907	5.92	547,581	6.67
Investment income, net and other revenues	296,901	3.06	261,157	3.19
Total revenues (operating and nonoperating)	<u>\$ 9,725,900</u>	<u>100.00 %</u>	<u>\$ 8,211,713</u>	<u>100.00 %</u>

State Appropriations (Noncapital and Capital)

The University's state appropriations (noncapital and capital) consisted of the following:

	<u>2018</u>	<u>2017</u>
	(In thousands)	
State appropriations, noncapital	\$ 3,451,874	3,258,252
State's contribution on behalf of the University for pension benefits	720,559	—
State's contribution on behalf of the University for OPEB	314,151	—
Total state appropriations, noncapital	4,486,584	3,258,252
State appropriations, capital	—	34,946
Total state appropriations (noncapital and capital)	<u>\$ 4,486,584</u>	<u>3,293,198</u>

The state noncapital appropriations increased from \$3.26 billion in 2017 to \$4.49 billion in 2018. The general state appropriations increased by \$193.62 million for Graduation Initiative 2025, State University Grants (SUG), employee compensation, SPWB capital lease obligations debt service, mandatory cost increases, and other miscellaneous support.

In addition to the general state appropriations, the State, on behalf of the University, contributed \$720.56 million of one-time supplemental payment to CalPERS to help reduce the net pension liability in accordance with

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Government Code Section 20825. In 2018, the State also contributed \$314.15 million to pay for University retirees' health benefits.

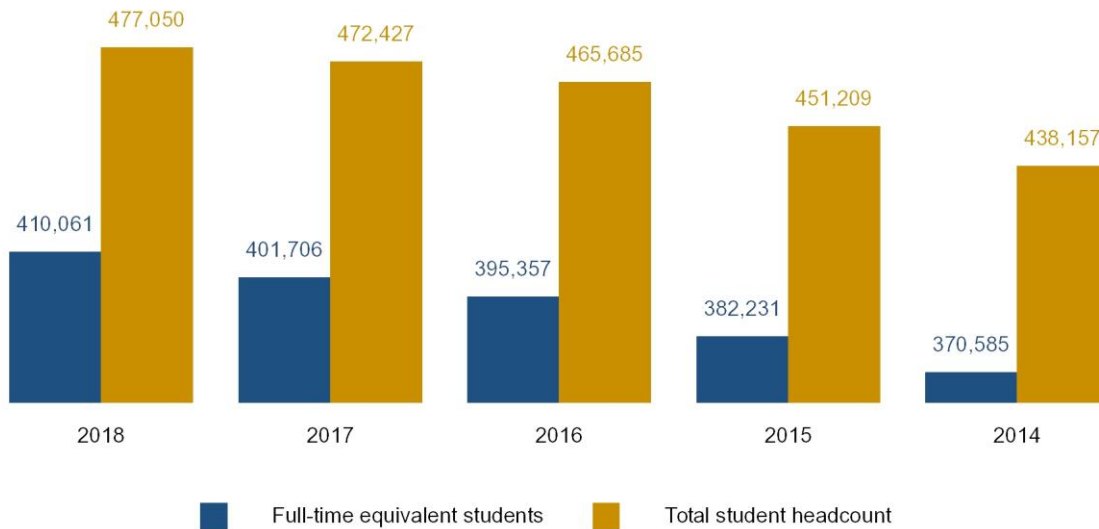
There was no state capital appropriations allocated in 2018; the \$34.95 million in 2017 was mainly for deferred maintenance projects.

Student Tuition and Fees, Net

Gross student tuition and fees increased from \$3.74 billion in 2017 to \$3.99 billion in 2018. The increase is due to student enrollment growth and higher tuition rates effective in academic year 2017-2018. Student headcount enrollment grew by 0.98% from 472,427 in 2017 to 477,050 in 2018, as reflected in the following chart. Full-time equivalent students grew by 2.08% from 401,706 in 2017 to 410,061 in 2018.

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

5-Year Enrollment



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The increase in gross student tuition and fees was partially offset by an increase in scholarship allowances. The net student and tuition fees revenue increased by \$35.35 million in 2018 as a result of tuition increase for the Fall 2017 term together with growing student enrollment.

Scholarship allowances, mainly financial aid reported as an offset to the gross student tuition and fees, are the difference between the tuition and fees and the amount paid by the student and third parties on behalf of the student. The University's support for 2018 included an increase in aid to reduce the impact of the approved tuition increase. Scholarship allowances of \$1.77 billion and \$1.55 billion in 2018 and 2017, respectively, were netted against student tuition and fees. The increase is a combination of the effect of increases in eligible students and allowable aid per student.

Sales and Services (Educational Activities and Auxiliary Enterprise)

Sales and services of educational activities include revenues related incidentally to the conduct of instruction, research, and public service, and revenues for activities that exist to provide instructional and laboratory experience for students and that incidentally create goods and services that may be sold to faculty, students, staff, and the general public. Net revenues from sales and services of educational activities amounted to \$52.40 million, an increase from \$48.20 million in 2017.

Auxiliary enterprises exist predominantly to furnish goods or services to students, faculty, or staff, for a fee. Net revenues from sales and services of auxiliary enterprises, which are primarily for student housing and parking, amounted to \$523.50 million, which is a \$24.12 million increase when compared to 2017. The increase is due mainly to new student housing facilities which operated for the first time in 2018 and increases in housing occupancy, space rentals, and parking permits issued to students, faculty, and employees.

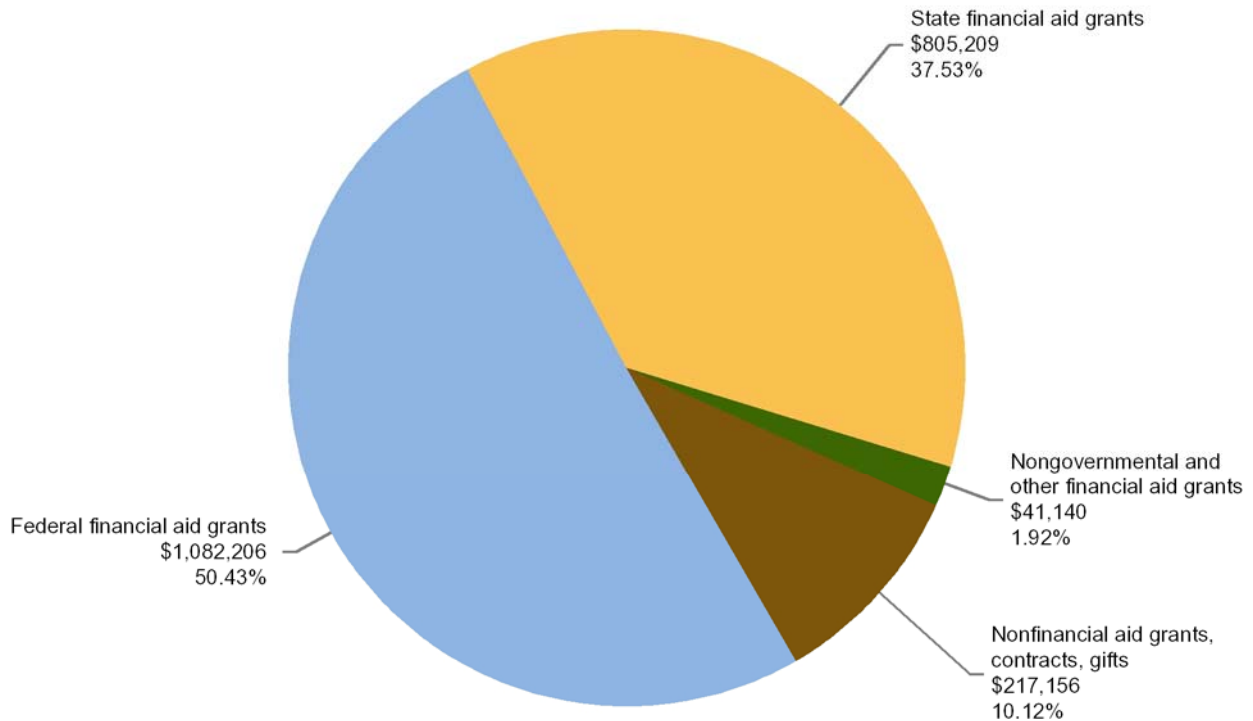
Grants, Contracts and Gifts

Grants, contracts and gifts revenues are derived substantially from the student financial aid grants from federal agencies, state agencies, and nongovernmental grantors. Major federal financial aid grants came from the Pell

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Grant, Supplemental Educational Opportunity Grant, and College Work Study. Major state financial aid grants came from Cal Grants and Middle Class Scholarship.

**Grants, Contracts and Gifts
 (In thousands)**



Student financial aid grants of \$1.93 billion represent 89.88% of the University's total grants, contracts, and gifts revenues of \$2.15 billion for 2018. Federal and state agencies contributed \$1.89 billion representing 97.87% of the University's total student financial aid grants in 2018 and \$1.71 billion representing 97.81% in 2017. The financial aid increases are due to more eligible students and higher aid per student.

The remainder of the grants, contracts and gifts include nonfinancial aid grants, contracts, changes to permanent endowments, and gifts (capital and noncapital), which amounted to \$217.16 million, or 10.12%, of total grants, contracts, and gifts. It increased by \$44.09 million due mainly to new one-time grants and gifts from third parties received in 2018. Further, gifts received from discretely presented component units amounted to \$101.45 million, which is \$21.75 million higher compared to 2017. The University transferred endowment investments of \$6.88 million in 2017 to its discretely presented component units.

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Investment Income, Net and Other Revenues

Other operating revenues for the fiscal year of \$229.55 million is an increase of \$21.07 million compared to the prior year. This is mainly due to increase in revenues from cost recoveries from discretely presented component units and from special noncapital related projects.

Investment income for the fiscal year is \$67.35 million, which is \$14.69 million higher when compared to the prior year. This includes the return on investments from the CSU Consolidated Investment Pool and SMIF investments, realized gains or losses on the sale of securities, unrealized gains or losses in the fair value of securities, investment income from capital leases receivable, and capital related loans with discretely presented component units, and is offset by investment service charges.

Expenses (Operating and Nonoperating)

The University's total expenses of \$10.01 billion is comprised of operating expenses of \$9.73 billion, or 97.12%, and nonoperating expenses of \$288.92 million, or 2.88%.

Operating Expenses

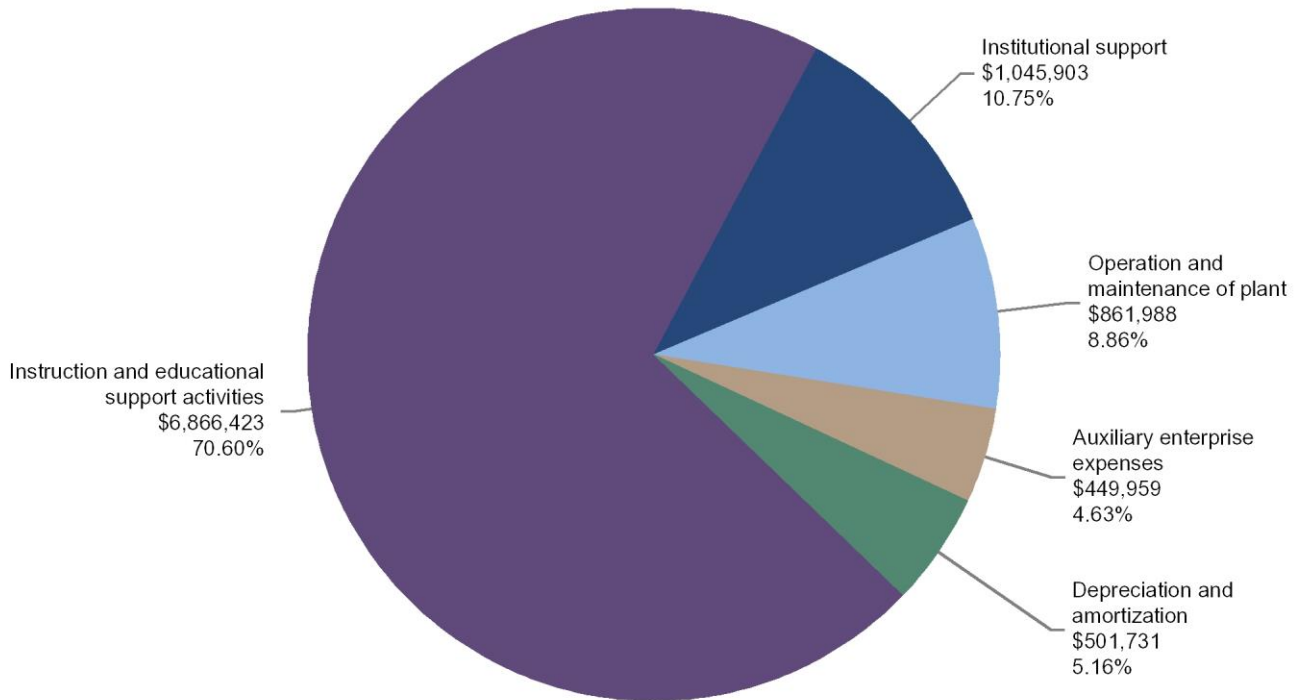
When the mission-critical educational support activities of student services, academic support, student grants and scholarships, public service, and research are added to direct classroom instruction, the total instruction and educational support activities account for 70.60% of the 2018 total operating expenses of the University which was an increase from 2017, as shown below:

	2018	Percentage of total	2017	Percentage of total
	(In thousands)		(In thousands)	
Instruction	\$ 3,767,929	38.74 %	\$ 2,853,923	35.73 %
Research	71,377	0.74	54,468	0.68
Public service	61,543	0.63	47,013	0.59
Academic support	982,493	10.10	810,610	10.15
Student services	1,091,912	11.23	885,908	11.09
Student grants and scholarships	891,169	9.16	844,019	10.57
Total instruction and educational support activities	6,866,423	70.60	5,495,941	68.81
Institutional support	1,045,903	10.75	903,730	11.31
Operation and maintenance of plant	861,988	8.86	720,859	9.03
Auxiliary enterprise expenses	449,959	4.63	385,618	4.83
Depreciation and amortization	501,731	5.16	480,504	6.02
Total operating expenses	<u>\$ 9,726,004</u>	<u>100.00 %</u>	<u>\$ 7,986,652</u>	<u>100.00 %</u>

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The total operating expenses increased by \$1.74 billion in 2018. This is due primarily to an increase in benefits expense due primarily to the implementation of GASB Statement No. 75 and changes in assumptions related to pension, as well as overall growth in the University's operation.

**Operating Expenses
 (In thousands)**



- **Salaries**

The University's salaries increased from \$3.37 billion in 2017 to \$3.61 billion in 2018. The increase of \$234.51 million is mainly comprised of \$184.26 million, or 78.57%, for instruction and educational support; \$22.85 million, or 9.75%, for institutional support; \$17.77 million, or 7.58%, for operation and maintenance of plant; and \$9.62 million, or 4.10%, for auxiliary enterprise. The combination of employee salary rate increases during the year and higher employee headcount contributed to the change in salary expenses.

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- *Benefits*

The University's benefits increased from \$1.79 billion in 2017 to \$3.19 billion in 2018. The increase of \$1.40 billion is mainly comprised of \$1.13 billion, or 81.01%, for instruction and educational support; \$112.10 million, or 8.01%, for institutional support; \$118.56 million, or 8.48%, for operation and maintenance of plant; and \$35.03 million, or 2.50%, for auxiliary enterprise.

Benefits expense increased in 2018 primarily due to the implementation of GASB Statement No. 75. Expenses associated with OPEB benefits were previously recorded as a current year expense based on cash funding paid to the OPEB plan administrator. Implementation of GASB Statement No. 75 requires the University to record its share of the State's actuarially determined OPEB expense, representing OPEB subsidies earned during the year by eligible employees, together with interest on the total OPEB liability and current amortization of deferred changes in the liability. For 2018, the increase in expense due to the implementation of GASB Statement No. 75 was \$894.76 million. Benefits expense related to pension increased in 2018 by \$514.92 million due to amortization of deferred changes in liability, and higher service costs and related interest resulted from a lower discount rate in 2018.

- *Scholarships and Fellowships*

The scholarship and fellowship, which represents financial aid directly paid to students, increased from \$844.02 million in 2017 to \$891.17 million in 2018. The increase of \$47.15 million is mainly due to an increase in the number of students eligible for financial aid.

- *Supplies and Services*

The University's supplies and services increased from \$1.49 billion in 2017 to \$1.53 billion in 2018. The increase of \$37.64 million is mainly comprised of \$5.94 million, or 15.78%, for instruction and educational support; \$7.22 million, or 19.18%, for institutional support; \$4.80 million, or 12.74%, for operation and maintenance of plant; and \$19.69 million, or 52.30%, for auxiliary enterprise.

- *Depreciation and Amortization*

The depreciation and amortization expense increased from \$480.50 million in 2017 to \$501.73 million in 2018. The increase of \$21.23 million was due to the completion of construction projects for building, building improvements, improvements other than building, and infrastructure.

Other Nonoperating Expenses, Net

The University's other nonoperating expenses, net increased from \$23.74 million in 2017 to \$64.01 million in 2018. The change is mainly due to restructuring of the agreement with SPWB which resulted in the change in capital outlay funding from SPWB Lease Revenue Bond program to SRB program.

Discretely Presented Component Units' Results of Operations

The discretely presented component units managed \$2 billion of revenues, representing 17.08% of the University's \$11.73 billion combined total revenues. This is lower compared to the 20.33% in prior year due to decrease in endowment income of \$51.72 million resulted from changes in investment market conditions.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

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(Unaudited)

The discretely presented component units managed \$781.04 million grants contracts, and gifts revenues, representing 26.69% of the \$2.15 billion combined total. Discretely presented component units fund many student co-curricular activities, administer research programs, raise funds, operate student unions, offer recreational programs, coordinate commercial enterprises, and develop public-private partnerships on behalf of the University.

Factors Impacting Future Periods

University Support Budget Plan for Fiscal year 2018–2019

The University's \$6.82 billion total operating budget for fiscal year 2018-2019 is funded primarily from two sources: \$3.75 billion from State general fund appropriations and \$3.07 billion of net tuition and fee revenues.

The fiscal year 2018-2019 budget includes an augmentation of \$317.27 million for the following:

- \$120 million for one-time enrollment support
- \$106.64 million for employee compensation
- \$75 million for the Graduation Initiative 2025
- \$15.63 million for mandatory cost increases (e.g., health benefits, operation and maintenance of new facilities)

University Support Budget Plan for Fiscal year 2019–2020

In the proposed 2019-20 budget released in January 2019, the Governor proposed an ongoing increase of \$300 million for the University to fund Graduation Initiative 2025, enrollment growth and employee compensation and mandatory costs. The governor is also proposing one-time allocation of \$247 million to assist the University in addressing a growing backlog of maintenance for aging facilities across the 23 campuses, and \$15 million to help support the basic needs of students.

Subsequent Events

The following information describes significant events that occurred subsequent to June 30, 2018, but prior to the date of the auditor's report.

- *SRB Issuance*

In August 2018, the University issued \$492.69 million of SRB Series 2018A (Tax Exempt) and \$171 million of SRB Series 2018B (Taxable). The new bonds were issued to fund various capital projects, redeem maturing BANs, refund outstanding SRB Series 2008A bonds, and pay related issuance costs.

- *BAN Issuance*

In October 2018 and December 2018, the University issued \$20 million of BANs to finance the various capital outlay projects and \$36.52 million of BANs for the Sonoma State Petaluma Acquisition project, respectively. In January 2019, the University issued \$52.15 million of BANs for the Five-Year Facilities Renewal and Improvement Plan.

CALIFORNIA STATE UNIVERSITY

Statement of Net Position

June 30, 2018

(In thousands)

Assets	University	Discretely presented component units	Total
	<u> </u>	<u> </u>	<u> </u>
Current assets:			
Cash and cash equivalents	\$ 2,721	267,648	270,369
Short-term investments	3,513,293	785,290	4,298,583
Accounts receivable, net	178,036	221,644	399,680
Capital lease receivable, current portion	11,384	1,857	13,241
Notes receivable, current portion	14,783	170,145	184,928
Pledges receivable, net	2,240	77,896	80,136
Prepaid expenses and other current assets	66,078	35,273	101,351
Total current assets	<u>3,788,535</u>	<u>1,559,753</u>	<u>5,348,288</u>
Noncurrent assets:			
Restricted cash and cash equivalents	103	39,908	40,011
Accounts receivable, net	37,337	18,378	55,715
Capital lease receivable, net of current portion	218,229	61,275	279,504
Notes receivable, net of current portion	362,338	25,712	388,050
Student loans receivable, net	70,647	557	71,204
Pledges receivable, net	—	126,477	126,477
Endowment investments	1,708	1,616,205	1,617,913
Other long-term investments	1,203,023	433,293	1,636,316
Capital assets, net	9,056,572	833,650	9,890,222
Other assets	22,163	36,869	59,032
Total noncurrent assets	<u>10,972,120</u>	<u>3,192,324</u>	<u>14,164,444</u>
Total assets	<u>14,760,655</u>	<u>4,752,077</u>	<u>19,512,732</u>
Deferred Outflows of Resources			
Deferred outflows of resources	<u>3,752,587</u>	<u>37,782</u>	<u>3,790,369</u>
Liabilities			
Current liabilities:			
Accounts payable	274,204	92,403	366,607
Accrued salaries and benefits	395,409	30,022	425,431
Accrued compensated absences, current portion	126,093	15,424	141,517
Unearned revenues	327,235	77,605	404,840
Capital lease obligations, current portion	19,783	11,492	31,275
Long-term debt obligations, current portion	144,174	184,597	328,771
Claims liability for losses and loss adjustment expenses, current portion	—	19,385	19,385
Depository accounts	9,850	14,416	24,266
Other liabilities	129,778	72,390	202,168
Total current liabilities	<u>\$ 1,426,526</u>	<u>517,734</u>	<u>1,944,260</u>

CALIFORNIA STATE UNIVERSITY

Statement of Net Position

June 30, 2018

(In thousands)

	<u>University</u>	<u>Discretely presented component units</u>	<u>Total</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	\$ 99,900	5,554	105,454
Unearned revenues	10,149	15,036	25,185
Grants refundable	69,919	3,404	73,323
Capital lease obligations, net of current portion	290,145	237,440	527,585
Long-term debt obligations, net of current portion	6,306,491	429,426	6,735,917
Claims liability for losses and loss adjustment expenses, net of current portion	—	49,303	49,303
Depository accounts	2,283	21,253	23,536
Net other postemployment benefits liability	13,918,525	121,645	14,040,170
Net pension liability	8,899,962	82,280	8,982,242
Other liabilities	158,630	49,562	208,192
	<u>29,756,004</u>	<u>1,014,903</u>	<u>30,770,907</u>
Total noncurrent liabilities			
Total liabilities	<u>31,182,530</u>	<u>1,532,637</u>	<u>32,715,167</u>
Deferred Inflows of Resources			
Deferred inflows of resources	<u>1,504,986</u>	<u>45,034</u>	<u>1,550,020</u>
Net Position			
Net position:			
Net investment in capital assets	3,485,290	259,778	3,745,068
Restricted for:			
Nonexpendable – endowments	1,708	1,274,214	1,275,922
Expendable:			
Scholarships and fellowships	19,631	261,958	281,589
Research	111	21,046	21,157
Loans	18,426	3,279	21,705
Capital projects	47,929	75,162	123,091
Debt service	27,974	8,260	36,234
Others	21,152	655,443	676,595
Unrestricted	<u>(17,796,495)</u>	<u>653,048</u>	<u>(17,143,447)</u>
Total net position	<u>\$ (14,174,274)</u>	<u>3,212,188</u>	<u>(10,962,086)</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2018

(In thousands)

	<u>University</u>	<u>Discretely presented component units</u>	<u>Eliminations</u>	<u>Total</u>
Revenues:				
Operating revenues:				
Student tuition and fees (net of University scholarship allowances of \$1,772,436)	\$ 2,220,797	186,827	(16,350)	2,391,274
Grants and contracts, noncapital:				
Federal	44,527	372,831	(172)	417,186
State	14,785	103,387	(588)	117,584
Local	4,148	24,525	—	28,673
Nongovernmental	14,332	68,546	(1,610)	81,268
Sales and services of educational activities	52,403	51,367	(3,550)	100,220
Sales and services of auxiliary enterprises (net of University scholarship allowances of \$110,850)	523,504	511,877	(108)	1,035,273
Other operating revenues	229,550	242,584	(5,678)	466,456
Total operating revenues	<u>3,104,046</u>	<u>1,561,944</u>	<u>(28,056)</u>	<u>4,637,934</u>
Expenses:				
Operating expenses:				
Instruction	3,767,929	157,329	(1,605)	3,923,653
Research	71,377	222,053	(12)	293,418
Public service	61,543	189,865	(3,814)	247,594
Academic support	982,493	83,694	(3,859)	1,062,328
Student services	1,091,912	186,605	(15,086)	1,263,431
Institutional support	1,045,903	262,572	(29,675)	1,278,800
Operation and maintenance of plant	861,988	54,077	(9,626)	906,439
Student grants and scholarships	891,169	70,329	(37,047)	924,451
Auxiliary enterprise expenses	449,959	489,456	(19,337)	920,078
Depreciation and amortization	501,731	52,604	—	554,335
Total operating expenses	<u>9,726,004</u>	<u>1,768,584</u>	<u>(120,061)</u>	<u>11,374,527</u>
Operating loss	<u>(6,621,958)</u>	<u>(206,640)</u>	<u>92,005</u>	<u>(6,736,593)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	4,486,584	—	—	4,486,584
Federal financial aid grants, noncapital	1,082,206	1,510	(29)	1,083,687
State financial aid grants, noncapital	805,209	1,266	—	806,475
Local financial aid grants, noncapital	—	170	—	170
Nongovernmental and other financial aid grants, noncapital	41,140	339	(21,519)	19,960
Other federal nonoperating grants, noncapital	4,025	—	—	4,025
Gifts, noncapital	61,386	194,827	(46,065)	210,148
Investment income, net	67,351	64,081	—	131,432
Endowment income, net	—	69,622	—	69,622
Interest expense	(224,909)	(21,343)	—	(246,252)
Other nonoperating expenses	(64,009)	(37,347)	30,995	(70,361)
Net nonoperating revenues	<u>6,258,983</u>	<u>273,125</u>	<u>(36,618)</u>	<u>6,495,490</u>
Income (loss) before other revenues	<u>(362,975)</u>	<u>66,485</u>	<u>55,387</u>	<u>(241,103)</u>
Grants and gifts, capital	73,953	13,643	(55,387)	32,209
Additions to permanent endowments	—	96,080	—	96,080
Increase (decrease) in net position	<u>(289,022)</u>	<u>176,208</u>	<u>—</u>	<u>(112,814)</u>
Net position:				
Net position at beginning of year, as restated	<u>(13,885,252)</u>	<u>3,035,980</u>	<u>—</u>	<u>(10,849,272)</u>
Net position at end of year	<u>\$ (14,174,274)</u>	<u>3,212,188</u>	<u>—</u>	<u>(10,962,086)</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2018

(In thousands)

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 2,226,545
Federal grants and contracts	48,136
State grants and contracts	13,972
Local grants and contracts	4,147
Nongovernmental grants and contracts	14,303
Payments to suppliers	(1,539,156)
Payments to employees	(5,332,515)
Payments to students	(892,485)
Collections of student loans	621
Sales and services of educational activities	52,714
Sales and services of auxiliary enterprises	517,109
Other receipts	236,114
	<hr/>
Net cash used in operating activities	(4,650,495)
	<hr/>
Cash flows from noncapital financing activities:	
State appropriations	3,450,531
Federal financial aid grants	1,080,712
State financial aid grants	805,223
Nongovernmental and other financial aid grants	41,180
Other federal nonoperating grants	3,739
Gifts and grants received for other than capital purposes	61,830
Federal loan program receipts	1,507,207
Federal loan program disbursements	(1,506,832)
Monies received on behalf of others	146,862
Monies disbursed on behalf of others	(134,304)
Principal paid on long-term debt	(15,149)
Interest paid on long-term debt	(20,953)
Issuance of notes receivable	(46,706)
Principal collections on capital leases	5,235
Interest collections on capital leases	10,111
Principal collections on notes receivable	10,627
Interest collections on notes receivable	17,533
Other noncapital financing activities	(21,085)
	<hr/>
Net cash provided by noncapital financing activities	5,395,761
	<hr/>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	168,039
State appropriations	23,971
State appropriations – SPWB Lease Revenue Bond program	13,786
Capital grants and gifts	58,613
Proceeds from sale of capital assets	5,193
Acquisition of capital assets	(913,371)
Principal paid on capital debt and leases	(167,998)
Interest paid on capital debt and leases	(283,372)
Principal collection on capital leases	18,032
Interest collection on capital leases	1,022
	<hr/>
Net cash used in capital and related financing activities	(1,076,085)
	<hr/>

CALIFORNIA STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2018

(In thousands)

	<u>University</u>
Cash flows from investing activities:	
Proceeds from sales of investments	\$ 9,615,494
Purchases of investments	(9,359,378)
Investment income proceeds	67,758
	<hr/>
Net cash provided by investing activities	323,874
	<hr/>
Net decrease in cash and cash equivalents	(6,945)
Cash and cash equivalents at beginning of year	9,769
	<hr/>
Cash and cash equivalents at end of year	\$ 2,824
	<hr/>
Summary of cash and cash equivalents at end of year:	
Cash and cash equivalents	\$ 2,721
Restricted cash and cash equivalents	103
	<hr/>
Total cash and cash equivalents at end of year	\$ 2,824
	<hr/>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (6,621,958)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	501,731
Change in assets and liabilities:	
Accounts receivable, net	(13,213)
Student loans receivable, net	(2,329)
Prepaid expenses and other current assets	(10,109)
Other assets	2,182
Deferred outflows of resources	(404,597)
Accounts payable	1,604
Accrued salaries and benefits	18,700
Accrued compensated absences	(34,003)
Unearned revenues	9,608
Depository accounts	344
Net other postemployment benefits liability	(764,895)
Net pension liability	1,166,037
Other liabilities	12,812
Deferred inflows of resources	1,487,591
	<hr/>
Net cash used in operating activities	\$ (4,650,495)
	<hr/>
Supplemental schedule of noncash transactions:	
State's contribution for pension benefits	\$ 720,559
State's contribution for OPEB	314,151
Expenses resulting from restructuring agreement with SPWB	49,909
BAN proceeds paid directly to escrow agent by bank	48,706
Amortization of net bond premium	30,100
Change in accrued capital asset purchases	16,511
Contributed capital assets	15,580
Acquisition of capital assets through long term debt	8,055
Amortization of loss on debt refundings	6,198
Acquisition of capital assets through capital lease	2,448
Gifts in kind	1,398

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2018

(In thousands)

(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, who is the chief executive officer of the University, and the University presidents, who are 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, 2018:

- 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

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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 89 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, auxiliary services, university corporations, and similar organizations. Foundations, whose net position comprises approximately 78.91% 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 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 Foundation
- California State University Institute
- California State University Risk Management Authority
- California State University, Channel Islands Foundation
- Associated Students of California State University Channel Islands, Inc.
- CI University Auxiliary Services, Inc.
- California State University Channel Islands Financing Authority

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- California State University Channel Islands Site Authority
- 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
- California State University, Dominguez Hills Philanthropic 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
- Cal State East Bay Educational Foundation, Inc.
- California State University, East Bay Foundation, Inc.
- Associated Students, Inc. of California State University, East Bay
- California State University, Fresno Foundation
- The Agricultural Foundation of California State University, Fresno
- The Bulldog Foundation (Fresno)
- Associated Students California State University, Fresno
- California State University, Fresno Athletic Corporation
- California State University, Fresno Association, Inc.
- Fresno State Programs for Children, Inc.
- Cal State Fullerton Philanthropic Foundation
- Associated Students, California State University, Fullerton, Inc.
- CSU Fullerton Auxiliary Services Corporation
- Humboldt State University Advancement Foundation
- Humboldt State University Sponsored Programs Foundation
- Associated Students of Humboldt State University
- Humboldt State University Center Board of Directors
- California State University, Long Beach Research Foundation
- CSULB 49er Foundation
- Associated Students, Inc., California State University, Long Beach
- Forty-Niner Shops, Inc. (Long Beach)
- California State University, Los Angeles Foundation
- Associated Students of California State University, Los Angeles, Inc.

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

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- Associated Students of San José State University
- The Student Union of San José State University
- Spartan Shops, Inc. (San José)
- California Polytechnic State University Foundation (San Luis Obispo)
- Associated Students, Inc., California Polytechnic State University, San Luis Obispo
- Cal Poly Corporation (San Luis Obispo)
- California State University San Marcos Foundation
- Associated Students, Inc. of California State University San Marcos
- California State University San Marcos Corporation (formerly University Auxiliary and Research Services Corporation)
- Sonoma State University Foundation
- 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 between the University and discretely presented component units have been eliminated from these financial statements.

The accompanying financial statements also include the Stockton Center Site Authority, and Fullerton Arboretum Authority, 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.

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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 November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for the University's fiscal year beginning July 1, 2018. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The University is evaluating the effect GASB Statement No. 83 will have on its financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for the University's fiscal year beginning July 1, 2019. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefits) trust funds, (2) investment trust funds, (3) private-purpose trust funds and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust fund or equivalent arrangement that meets specific criteria. The University is evaluating the effect GASB Statement No. 84 will have on its financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*, effective for the University's fiscal year beginning July 1, 2020. This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The University is evaluating the effect GASB Statement No. 87 will have on its financial statements.

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In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, effective for the University's fiscal year beginning July 1, 2019. This Statement requires that additional essential information related to debt, arising from contractual obligations, be disclosed in notes to financial statements, including (1) unused lines of credit, (2) assets pledged as collateral for the debt, and (3) terms specified in debt agreements related to significant events of default with finance related consequences, and significant subjective acceleration clauses. It also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The University is evaluating the effect GASB Statement No. 88 will have on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for the University's fiscal year beginning July 1, 2020. This Statement requires that interest cost incurred before the end of the construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The University is evaluating the effect GASB Statement No. 89 will have on its financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests*, effective for the University's fiscal year beginning July 1, 2019. This Statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization. When a majority equity interest meets the definition of an investment as defined by GASB, the equity interest is to be reported as an investment for financial reporting purposes and measured using the equity method. Majority equity interests that do not meet the definition of an investment are to be reported as a component unit. This Statement also provides guidance for valuing the acquisition of assets and liabilities of 100% equity interests that remain legally separate, and brings this reporting in line with existing standards that apply to acquisitions that do not remain legally separate. The University is evaluating the effect GASB Statement No. 90 will have on its 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.

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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 investment income, net.

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 obligations, and restricted as to the liquidity of the investments are classified as other long-term investments.

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 governs the PMIA. The State Treasurer chairs this 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 types of receivables and expectations of repayment. In establishing the required allowance, management considers one or more of the following: types 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 five thousand dollars or more and with a useful life of over one year, 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

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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 Revenues*

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

(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, 2017 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.

(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, 2018. 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.

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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 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.

Changes in net OPEB liability not included in OPEB 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 inflows of resources related to differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average employees' remaining service lives.

(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

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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.

Restricted or unrestricted resources are spent based upon a variety of factors, including funding restrictions, consideration of prior and future revenue sources, the type of expenses incurred, the University's budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost. Unrestricted net position is negative due primarily to liabilities for pension and retiree health benefits exceeding University assets available to pay such obligations.

(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 grants, net investment income, noncapital gifts, interest expense, capital grants and gifts, and changes in permanent endowments.

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

(p) Net Other Postemployment Benefits (OPEB) Liability

The University records the net OPEB liability equal to its share of the State's total OPEB liability. The total OPEB liability is an actuarial accrued liability that reflects the present value of future healthcare benefits earned by employees in prior fiscal years. The University's total net OPEB liability is determined by discounting the projected benefit for current active employees and retirees based on the discount rate required by GASB Statement No. 75 for OPEB plans which do not have assets residing in a qualified trust. The University and the State fund their current OPEB expenses on a "pay-as-you-go" basis.

(q) Net Pension Liability

The University records a pension liability equal to the net pension liability for its proportionate share in the State's defined-benefit plans: the State's Miscellaneous Plan and the 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

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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. Pension plan 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. The component units are either exempt governmental entities 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 its 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.

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(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.

(w) Cumulative Effect of Change in Accounting Principle

The University and its discretely presented component units reported the cumulative effect of change in accounting principle in relation to the implementation of new accounting standards. A summary of these changes to the beginning net position is as follows:

	<u>University</u>	<u>Discretely presented component units</u>
Net position as of June 30, 2017, as previously reported	\$ 38,452	3,080,493
Cumulative effect of change in accounting – GASB Statement No. 75	(13,923,704)	(10,930)
Cumulative effect of change in accounting – GASB Statement No. 81	<u>—</u>	<u>(33,583)</u>
Net position at beginning of year, as restated	\$ <u>(13,885,252)</u>	<u>3,035,980</u>

(3) Cash, Cash Equivalents, and Investments

The University's cash, cash equivalents, and investments as of June 30, 2018 are classified in the accompanying Statement of Net Position as follows:

Cash and cash equivalents	\$ 2,721
Restricted cash and cash equivalents	<u>103</u>
Total cash and cash equivalents	<u>2,824</u>
Short-term investments	3,513,293
Endowment investments	1,708
Other long-term investments	<u>1,203,023</u>
Total investments	<u>4,718,024</u>
Total cash, cash equivalents, and investments	\$ <u>4,720,848</u>

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(a) Cash and Cash Equivalents

At June 30, 2018, cash and cash equivalents consist of demand deposits held at the State Treasury, commercial banks, and petty cash. Total cash and cash equivalents of \$2,824 had a corresponding carrying balance with the State Treasury and commercial banks of \$15,295 at June 30, 2018. 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.

(i) 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 institutions that are Federal Deposit Insurance Corporation secured. As a result, custodial credit risk for deposits is remote.

(b) Investments

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.

(i) Investment Policy

State law and regulations require that surplus monies of the University must be invested. The objectives of the University's investment policy are to safeguard the principal, to meet liquidity needs of the University, and to obtain the best possible return commensurate with the degree of risk the University is willing to assume in obtaining such return. These objectives may be weighted or prioritized differently for individual portfolios depending on the purpose of the portfolio.

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 Sections 89724 and 89725, 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.

Effective January 1, 2017, changes to the Education and Government Code of the State expanded the permitted investments to include mutual funds, including equity mutual funds, subject to registration by, and under the regulatory authority of the United States Securities and Exchange Commission (SEC), or in Unites States registered real estate investment trusts, resulting in the establishment of the CSU Total Return Portfolio (TRP). Under State law, investment of funds in the TRP is subject to the University meeting certain conditions regarding investment oversight, reporting, and use of earnings, and is to be phased in at no more than \$400,000 as of June 30, 2018, \$600,000 as of June 30, 2019, and 30% of eligible investments thereafter.

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Additional earnings from investment under the TRP shall be used only for capital outlay or maintenance, and shall not be used for ongoing operations.

(ii) 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, however, there are no restrictions on the duration for the investments in the TRP. 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, 2018 are presented in the following table:

<u>Investment type</u>	<u>Fair value</u>	<u>Duration</u>
Money market funds	\$ 12,642	—
Repurchase agreements	9,928	0.00537
Certificates of deposit	196,265	0.20921
U.S. agency securities	1,147,215	0.96169
U.S. Treasury securities	970,365	1.20576
Municipal bonds	50,335	1.15095
Corporate bonds	1,111,111	0.92657
Asset-backed securities	284,228	1.05694
Mortgage-backed securities	261	2.18645
Mutual fund	124,160	5.68226
SMIF	811,514	0.52877
Total	\$ <u>4,718,024</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.

(iii) Credit Risk

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

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The University, except for investments in the TRP, 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.

Investments in the TRP include SEC registered mutual funds invested per a target asset allocation which includes investment grade bonds, higher credit risk bonds (i.e., high yield bonds, bank loans, and emerging market bonds), equities and real assets. Risk for the TRP is viewed holistically and in the context of the overall CSU Consolidated Investment Pool, incorporating quantitative and qualitative assessments into oversight of the TRP. The University accepts a level of risk is necessary to achieve the long-term investment goals of the TRP. The mutual fund investment managers are responsible for assessing the credit risk of the individual securities held in the mutual funds for the TRP. Moreover, certain passive index funds in the TRP will seek to replicate the credit risk of underlying index to which the index funds are benchmarked.

Ratings of the University's investment portfolio for each investment type as of June 30, 2018 are presented in the following table:

<u>Investment type</u>	<u>Fair value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>B+</u>	<u>B</u>	<u>Not rated</u>
Money market funds	\$ 12,642	3,163	—	—	—	—	9,479
Repurchase agreements	9,928	—	—	—	—	—	9,928
Certificates of deposit	196,265	72,461	—	123,804	—	—	—
U.S. agency securities	1,147,215	19,611	1,127,604	—	—	—	—
U.S. Treasury securities	970,365	—	970,365	—	—	—	—
Municipal bonds	50,335	19,771	28,035	2,529	—	—	—
Corporate bonds	1,111,111	7,719	168,433	934,959	—	—	—
Asset-backed securities	284,228	284,228	—	—	—	—	—
Mortgage-backed securities	261	—	261	—	—	—	—
Mutual fund	124,160	6,207	27,337	—	7,449	7,449	75,718
SMIF	811,514	—	—	—	—	—	811,514
Total	\$ <u>4,718,024</u>	<u>413,160</u>	<u>2,322,035</u>	<u>1,061,292</u>	<u>7,449</u>	<u>7,449</u>	<u>906,639</u>

The mutual fund credit ratings are based on average credit ratings of the underlying mutual funds. Credit ratings for mutual fund related to equity and real estate asset are not applicable.

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.

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(iv) *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, 2018, 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 (\$502,049 or 10.64%) and Federal National Mortgage Association, Inc. (\$364,376 or 7.72%).

(v) *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.

(vi) *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.

(vii) *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 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 level in the fair value hierarchy with

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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 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 following table presents investments that are measured at fair value on a recurring basis at June 30, 2018:

<u>Investment type</u>	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>
Money market funds	\$ 12,642	3,163	—	9,479
Repurchase agreements	9,928	—	9,928	—
Certificates of deposit	196,265	—	196,265	—
U.S. agency securities	1,147,215	—	1,147,215	—
U.S. Treasury securities	970,365	—	970,365	—
Municipal bonds	50,335	—	50,335	—
Corporate bonds	1,111,111	—	1,111,111	—
Asset-backed securities	284,228	—	284,228	—
Mortgage-backed securities	261	—	261	—
Mutual funds	124,160	—	124,160	—
	3,906,510	\$ <u>3,163</u>	<u>3,893,868</u>	<u>9,479</u>
SMIF	<u>811,514</u>			
Total	\$ <u>4,718,024</u>			

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.

Investments are classified in Level 1 as fair value is obtained 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. Investments 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.

Investments are classified in Level 2 as fair value is calculated using valuations that include observable market quoted prices for similar assets or liabilities. Observable inputs other than

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quoted prices such as price services or indices, estimates, appraisals, assumptions, and other methods that are reviewed by management. Changes in market conditions and economic environments may impact the net asset value (NAV) and consequently, the fair value of the University's interests in the funds.

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

Certain money market funds are not categorized under the fair value hierarchy and are shown at NAV. These investments are measured at amortized cost when calculating NAV per share (or its equivalent) of the investment.

(viii) Discretely Presented Component Units' Investments

Investments of the discretely presented component units at fair value consisted of the following at June 30, 2018:

Investment type	Current	Noncurrent	Total
Money market funds	\$ 22,120	7,939	30,059
Repurchase agreements	111	3	114
Certificates of deposit	21,662	51,582	73,244
U.S. agency securities	14,640	7,683	22,323
U.S. Treasury securities	104,824	26,987	131,811
Municipal bonds	1,744	10,733	12,477
Corporate bonds	39,640	90,925	130,565
Asset-backed securities	3,588	5,248	8,836
Mortgage-backed securities	1,970	14,661	16,631
Mutual funds	252,021	917,407	1,169,428
Exchange-traded funds	8,596	75,658	84,254
Equity securities	72,153	505,400	577,553
Alternative investments:			
Private equity (including limited partnerships)	10,123	61,451	71,574
Hedge funds	3,829	80,286	84,115
Real estate investments (including real estate investment trust)	3,545	38,001	41,546
Commodities	96	755	851
Other alternative investments	—	8,679	8,679
Other external investment pools	889	104,435	105,324
Other investments	12,877	41,597	54,474
Local Agency Investment Fund (LAIF)	210,862	68	210,930
Total	\$ 785,290	2,049,498	2,834,788

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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, 2018:

<u>Investment type</u>	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Money market funds	\$ 30,059	24,526	4,806	—	727
Repurchase agreements	114	5	109	—	—
Certificates of deposit	73,244	46,278	26,966	—	—
U.S. agency securities	22,323	4,074	18,249	—	—
U.S. Treasury securities	131,811	33,278	98,533	—	—
Municipal bonds	12,477	1,866	10,611	—	—
Corporate bonds	130,565	59,928	67,768	2	2,867
Asset-backed securities	8,836	580	8,256	—	—
Mortgage-backed securities	16,631	7,280	9,351	—	—
Mutual funds	1,169,428	1,130,408	39,020	—	—
Exchange-traded funds	84,254	84,254	—	—	—
Equity securities	577,553	525,568	2,849	978	48,158
Alternative investments:					
Private equity (including limited partnerships)	71,574	813	484	5,292	64,985
Hedge funds	84,115	1,127	1,896	4,237	76,855
Real estate investments (including real estate investment trust)	41,546	8,366	4,303	8,421	20,456
Commodities	851	851	—	—	—
Other alternative investments	8,679	1,594	964	—	6,121
Other external investment pools	105,324	890	—	55,026	49,408
Other investments	54,474	35,339	14,104	5,001	30
	2,623,858	\$ 1,967,025	308,269	78,957	269,607
LAIF	210,930				
Total	\$ 2,834,788				

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

Investments reported by the University of \$53,978 are invested under contractual agreements on behalf of the discretely presented component units of the University.

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(In thousands)

(4) Accounts Receivable

Accounts receivable of the University at June 30, 2018 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 3,836	28,687	32,523
State appropriations – SPWB Lease			
Revenue Bond program	—	2,614	2,614
Discretely presented component units	43,620	1,159	44,779
Student accounts	71,546	—	71,546
Government grants and contracts	24,114	—	24,114
Others	44,118	5,145	49,263
	<u>187,234</u>	<u>37,605</u>	<u>224,839</u>
Less allowance for doubtful accounts	<u>(9,198)</u>	<u>(268)</u>	<u>(9,466)</u>
Total	<u>\$ 178,036</u>	<u>37,337</u>	<u>215,373</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 and BANs to lease existing and newly constructed facilities to the discretely presented component units amounting to \$220,575. Interest rates range from 2% to 5.55%. Lease payments are due twice a year on May 1 and November 1. Under the capital lease agreements, payments are due to the University as follows:

Fiscal year ending June 30:		
2019	\$	23,689
2020		19,859
2021		19,809
2022		20,053
2023		22,228
2024–2028		101,409
2029–2033		85,775
2034–2038		34,083
2039–2043		638
Total minimum lease payments to be received		<u>327,543</u>
Less amounts representing interest		<u>(97,930)</u>
Present value of future minimum lease payments to be received		229,613
Less current portion		<u>(11,384)</u>
Capital lease receivable, net of current portion	\$	<u>218,229</u>

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(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 \$376,746. Interest rates range from 2% 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:

2019	\$	30,920
2020		28,723
2021		28,433
2022		28,371
2023		28,440
2024–2028		137,640
2029–2033		124,915
2034–2038		93,607
2039–2043		53,017
2044–2048		28,644
2049–thereafter		<u>1,677</u>
Total minimum note payments to be received		584,387
Less amounts representing interest		<u>(207,266)</u>
Present value of future minimum note payments to be received		377,121
Less current portion		<u>(14,783)</u>
Notes receivable, net of current portion	\$	<u><u>362,338</u></u>

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(In thousands)

(7) Capital Assets

Capital assets activity for the University for the year ended June 30, 2018 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	\$ 268,821	4,519	—	—	273,340
Works of art and historical treasures	44,713	2,518	—	—	47,231
Construction work in progress	658,126	845,754	(3,131)	(416,492)	1,084,257
Intangible assets	30,924	8,853	—	(2,428)	37,349
Total nondepreciable/ nonamortizable capital assets	<u>1,002,584</u>	<u>861,644</u>	<u>(3,131)</u>	<u>(418,920)</u>	<u>1,442,177</u>
Depreciable/amortizable capital assets:					
Buildings and building improvements	11,968,266	80,292	(5,735)	362,579	12,405,402
Improvements other than buildings	684,028	14,379	(191)	23,523	721,739
Infrastructure	1,168,220	11,422	(107)	22,432	1,201,967
Personal property:					
Equipment	840,844	58,737	(35,700)	7,825	871,706
Library books and materials	390,873	5,606	(4,326)	—	392,153
Intangible assets	265,804	8,876	(1,094)	2,561	276,147
Total depreciable/amortizable capital assets	<u>15,318,035</u>	<u>179,312</u>	<u>(47,153)</u>	<u>418,920</u>	<u>15,869,114</u>
Total cost	<u>16,320,619</u>	<u>1,040,956</u>	<u>(50,284)</u>	<u>—</u>	<u>17,311,291</u>
Less accumulated depreciation/amortization:					
Buildings and building improvements	(5,535,500)	(405,986)	4,415	—	(5,937,071)
Improvements other than buildings	(481,928)	(28,560)	49	—	(510,439)
Infrastructure	(513,780)	(39,802)	93	—	(553,489)
Personal property:					
Equipment	(615,306)	(57,084)	33,514	—	(638,876)
Library books and materials	(358,695)	(6,876)	4,295	—	(361,276)
Intangible assets	(245,767)	(8,615)	814	—	(253,568)
Total accumulated depreciation/ amortization	<u>(7,750,976)</u>	<u>(546,923)</u>	<u>43,180</u>	<u>—</u>	<u>(8,254,719)</u>
Net capital assets	\$ <u>8,569,643</u>	<u>494,033</u>	<u>(7,104)</u>	<u>—</u>	<u>9,056,572</u>

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Capital assets activity of the discretely presented component units of the University for the year ended June 30, 2018 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	\$ 128,445	1,704	(1,341)	437	129,245
Works of art and historical treasures	7,931	4,547	(4)	—	12,474
Construction work in progress	27,623	47,420	(4,320)	(15,289)	55,434
Intangible assets	5,098	—	—	—	5,098
Total nondepreciable/ nonamortizable capital assets	<u>169,097</u>	<u>53,671</u>	<u>(5,665)</u>	<u>(14,852)</u>	<u>202,251</u>
Depreciable/amortizable capital assets:					
Buildings and building improvements	774,806	32,341	(48,388)	7,672	766,431
Improvements other than buildings	159,597	5,740	(3,601)	2,985	164,721
Infrastructure	67,693	—	—	—	67,693
Personal property:					
Equipment	213,659	19,854	(16,501)	4,108	221,120
Intangible assets	10,259	172	(1,230)	87	9,288
Total depreciable/amortizable capital assets	<u>1,226,014</u>	<u>58,107</u>	<u>(69,720)</u>	<u>14,852</u>	<u>1,229,253</u>
Total cost	<u>1,395,111</u>	<u>111,778</u>	<u>(75,385)</u>	<u>—</u>	<u>1,431,504</u>
Less accumulated depreciation/amortization:					
Buildings and building improvements	(300,527)	(34,484)	19,214	—	(315,797)
Improvements other than buildings	(81,593)	(9,440)	2,294	—	(88,739)
Infrastructure	(20,855)	(1,694)	—	—	(22,549)
Personal property:					
Equipment	(156,959)	(18,827)	12,635	—	(163,151)
Intangible assets	(8,765)	(477)	1,624	—	(7,618)
Total accumulated depreciation/ amortization	<u>(568,699)</u>	<u>(64,922)</u>	<u>35,767</u>	<u>—</u>	<u>(597,854)</u>
Net capital assets	<u>\$ 826,412</u>	<u>46,856</u>	<u>(39,618)</u>	<u>—</u>	<u>833,650</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.

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(In thousands)

(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.

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 capital lease obligations related to the SPWB Lease Revenue Bond program amounted to \$154,685 at June 30, 2018. Total capital assets related to these capital leases have a carrying value of \$204,827 at June 30, 2018. The leases have terms expiring in various years through 2035.

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. These capital leases consist primarily of leases of campus facilities, but also include certain computer, energy efficiency equipment, and telecommunications equipment. Total capital assets related to these capital leases have a carrying value of \$198,927 at June 30, 2018. The leases bear interest at rates ranging from 0.04% to 9% and have terms expiring in various years through 2041.

Operating leases consist primarily of leases for the use of real property. The University's operating leases expire in various years through 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, 2018 were \$27,332 of which \$16,585 was paid to related discretely presented component units.

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(In thousands)

Future minimum lease payments under capital and operating leases having remaining terms in excess of one year as of June 30, 2018 are as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
Fiscal year ending June 30:		
2019	\$ 36,491	27,748
2020	34,978	20,086
2021	33,583	18,830
2022	32,317	14,836
2023	31,429	9,486
2024–2028	136,694	38,013
2029–2033	126,199	13,497
2034–2038	47,089	3,205
2039–2043	7,518	1,538
2044–thereafter	—	992
Total minimum lease payments	486,298	\$ <u>148,231</u>
Less amount representing interest	<u>(176,956)</u>	
Present value of future minimum lease payments	309,342	
Unamortized net premium	<u>586</u>	
Total capital lease obligations	309,928	
Less current portion	<u>(19,783)</u>	
Capital lease obligations, net of current portion	\$ <u>290,145</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 the State's General Obligation Bonds is not allocated to the University by the State. This debt remains as 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 \$2,239,671 as of June 30, 2018.

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(b) Systemwide 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 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 multiple sources of revenue as the security for the debt. The University's total outstanding balance of revenue bond indebtedness under the SRB program was \$5,692,563 at June 30, 2018. 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 Obligations*).

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 and fees; and designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$6,859,758 in SRB issued through 2018.

(c) Bond Anticipation Notes

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 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. 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, 2018 were 2.10% and 0.87%, respectively. The University's BANs totaled \$169,205 at June 30, 2018. The not-to-exceed amounts related to the outstanding amounts totaled \$487,515, of which \$302,895 has not been issued and \$184,620 has been issued and paid back.

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(In thousands)

Long-term debt obligations of the University as of June 30, 2018 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	718
Housing Series L-M	3.00	2020/21	5,510	700
Housing Series N, P & Q	3.00	2021/22	6,695	1,110
Series 2007-B	5.27-5.55	2037/38	13,165	9,825
Series 2007-C	5.00	2028/29	63,275	35,175
Series 2008-A	4.00-5.00	2039/40	375,160	11,085
Series 2009-A	4.00-5.00	2018/19	454,240	9,805
Series 2010-A	3.00-5.00	2031/32	146,950	94,420
Series 2010-B	5.45-6.48	2041/42	205,145	205,145
Series 2011-A	2.50-5.25	2042/43	429,855	344,665
Series 2012-A	3.00-5.00	2042/43	436,220	412,670
Series 2012-B	2.79-4.17	2036/37	16,700	14,865
Series 2013-A	3.00-5.00	2026/27	308,855	251,705
Series 2014-A	3.00-5.00	2044/45	747,740	727,010
Series 2015-A	2.00-5.00	2047/48	1,032,920	975,470
Series 2015-B	0.98-4.41	2035/36	29,305	24,435
Series 2016-A	2.00-5.00	2045/46	1,133,105	1,131,250
Series 2016B-1	3.00	2047/48	50,000	50,000
Series 2016B-2	4.00	2049/50	100,000	100,000
Series 2016B-3	4.00	2051/52	100,000	100,000
Series 2017-A	3.00-5.00	2047/48	812,030	810,160
Series 2017-B	0.95-3.90	2047/48	335,155	334,855
Series 2017-C	2.00-5.00	2037/38	49,175	47,495
			\$ 6,859,758	5,692,563
Bond Anticipation Notes	Various			169,205
Others	Various			12,813
Total				5,874,581
Unamortized net bond premium				576,084
Total long-term debt				6,450,665
Less current portion				(144,174)
Long-term debt, net of current portion				\$ 6,306,491

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

	<u>Principal</u>	<u>Interest</u>
Fiscal year ending June 30:		
2019	\$ 144,174	265,237
2020	150,863	258,651
2021	162,416	251,602
2022	170,643	243,686
2023	174,958	235,362
2024–2028	974,054	1,048,363
2029–2033	1,180,513	794,373
2034–2038	1,159,047	518,154
2039–2043	901,313	278,844
2044–2048	684,525	100,166
Thereafter	<u>172,075</u>	<u>12,067</u>
	\$ <u>5,874,581</u>	<u>4,006,505</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.

The Board of Trustees does not have a specified debt limit or debt margin, as noted in the University's Policy for Financing Activities. However, the Board finds it appropriate to establish the lowest cost debt financing programs for the University, and to use the limited debt capacity in the most prudent manner.

As of June 30, 2018, the Board had approved SRB and BANs that were authorized but unissued in the aggregate principal amount of \$1,476,000 for projects including academic, infrastructure, housing, and parking facilities. As of June 30, 2018, there are approximately \$470,840 of remaining authorized and unissued debt for the purpose of refunding certain bonds of the SPWB not previously refunded.

(10) Long-Term Debt Refunding

In prior years, the University refunded certain SRB by placing the proceeds from the issuance of SRB refunding bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the defeased bonds. The proceeds 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 refunded debt until the debt is called or matured. Accordingly, the trust account assets and liability for the refunded bonds are not included in the University's financial statements. The amount of refunded bonds outstanding totaled \$390,960 as of June 30, 2018.

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(11) Long-Term Liabilities Activity

Long-term liabilities activity of the University for the year ended June 30, 2018 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 261,636	96,101	(131,744)	225,993	126,093
Capital lease obligations (note 8)	353,453	3,125	(46,650)	309,928	19,783
Long-term debt obligations (note 9):					
Systemwide revenue bonds	5,826,473	—	(133,910)	5,692,563	134,440
Bond anticipation notes	600	169,644	(1,039)	169,205	7,129
Other	8,583	5,610	(1,380)	12,813	2,605
	<u>5,835,656</u>	<u>175,254</u>	<u>(136,329)</u>	<u>5,874,581</u>	<u>144,174</u>
Unamortized net bond premium	605,917	—	(29,833)	576,084	—
Total long-term debt obligations	<u>6,441,573</u>	<u>175,254</u>	<u>(166,162)</u>	<u>6,450,665</u>	<u>144,174</u>
Total long-term liabilities	<u>\$ 7,056,662</u>	<u>274,480</u>	<u>(344,556)</u>	<u>6,986,586</u>	<u>290,050</u>

Long-term liabilities activity of the aggregated discretely presented component units of the University for the year ended June 30, 2018 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 20,213	13,876	(13,111)	20,978	15,424
Claims liability for losses and loss adjustment expenses	74,574	31,135	(37,021)	68,688	19,385
Capital lease obligations	273,167	19,678	(43,913)	248,932	11,492
Long-term debt obligations:					
Revenue bonds	23,085	—	(2,375)	20,710	920
Commercial paper	600	366,976	(198,371)	169,205	166,279
Notes payable	284,740	47,721	(9,375)	323,086	13,116
Other	76,438	200	(3,047)	73,591	4,282
	<u>384,863</u>	<u>414,897</u>	<u>(213,168)</u>	<u>586,592</u>	<u>184,597</u>
Unamortized net bond premium	28,981	—	(1,550)	27,431	—
Total long-term debt obligations	<u>413,844</u>	<u>414,897</u>	<u>(214,718)</u>	<u>614,023</u>	<u>184,597</u>
Total long-term liabilities	<u>\$ 781,798</u>	<u>479,586</u>	<u>(308,763)</u>	<u>952,621</u>	<u>230,898</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 and BANs, for the discretely presented component units amounting to \$323,086 included in notes payable and \$53,660 in other long-term debt obligations as of June 30, 2018.

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The University has also entered into capital lease agreements with certain discretely presented component units using proceeds from issuance of SRB and BANs to lease existing and newly constructed facilities to the discretely presented component units amounting to \$219,131 as of June 30, 2018.

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

(a) Pension Plan Description

The University participates in the State's Public Employee's Retirement Fund A (PERF A). PERF A is comprised of agent multiple-employer plans, which includes the State. CalPERS acts as an investment and administrative agent for participating employers. State employees served by PERF A includes the University's Miscellaneous Tier 1 employees and Peace Officers and Firefighters.

(b) Benefits Provided

The plan also provides survivor, death, and disability benefits. Eligible employees are covered by the Public Employees' Medical and Hospital Care Act (PEMHCA) for medical benefits. The benefit provisions are established by the Public Employee's Retirement Law (PERL) and the Public Employees' Pension Reform Act of 2013 (PEPRA).

A full description of the pension plans regarding numbers of employees covered, benefit provision, assumptions, and membership information are listed in the June 30, 2016 State Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report.

In general, retirement benefits are based on a formula using member's years of service credit, age at retirement, and final compensation (average salary for a defined period of employment). Retirement formulas vary based on:

- Classification (e.g., miscellaneous or peace officers and firefighters)
- Membership category (pre-PEPRA and post-PEPRA); and
- Specific provisions in employees' contracts.

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 and CAFR may be obtained at www.CalPERS.ca.gov or from the California Public Employees' Retirement System Executive Office, 400 P Street, Sacramento, CA 95814.

(c) Pensionable Compensation

For the University, the plan acts as cost sharing multiple-employer defined-benefit pension plan, which provides a defined-benefit pension and postretirement program for substantially all eligible University employees. The University's proportion of the State's net pension liability was calculated based on its

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proportionate share of the State's pensionable compensation. The pensionable compensation has a measurement period of July 1, 2016 through June 30, 2017.

(d) Contributions

Section 20814(c) of the 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 the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

For the measurement period ended June 30, 2017, the average State's active employee contribution rates for State Miscellaneous and Peace Officer and Firefighters Plans are 6.74% and 11.33% of annual payroll, respectively. For the measurement period ended June 30, 2017, the State's contribution rates for State Miscellaneous and Peace Officer and Firefighters Plans are 26.73% and 41.88% of annual payroll, respectively.

State Miscellaneous Plan members of the University are required to contribute 5% of their annual earnings in excess of \$513 per month to CalPERS. Effective January 1, 2013, all new University employees that are considered "new members" to CalPERS are required to contribute 50% of the normal cost for their category (e.g., State Miscellaneous Plan members contribute 6.5% of their annual earnings per month to CalPERS). The University is required to contribute at an actuarially determined rate.

State Peace Officers and Firefighters Plan members of the University are required to contribute 8% of their annual earnings in excess of \$238 per month to CalPERS. Effective January 1, 2013, all new University employees that are considered "new members" to CalPERS are required to contribute 50% of the normal cost for their category (e.g., State Peace Officers and Firefighters Plan members contribute 11% of their annual earnings per month to CalPERS). The University is required to contribute at an actuarially determined rate.

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

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the IRC 401(a) 17 limits. The University's contributions to CalPERS for the most recent three fiscal years ended June 30 were equal to the required contributions and were as follows:

	<u>University's contributions</u>
Fiscal year ending June 30:	
2016	\$ 659,326
2017	757,170
2018	1,734,715

In 2018, the State made a supplemental pension contribution of \$876,842 to CalPERS on behalf of the University as authorized by Government Code Section 20825. The University shall repay \$156,283 of the amount contributed through June 30, 2030, while the remainder is recognized as State appropriations, noncapital.

(e) Actuarial Methods and Assumptions

The total pension liability was measured as of June 30, 2017 (measurement date), by rolling forward the total pension liability determined by the June 30, 2016 actuarial valuation (valuation date), based on the following actuarial methods and assumptions:

Valuation date:	June 30, 2016
Actuarial cost method:	Entry age normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.15%, 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

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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, 2016 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 www.CalPERS.ca.gov under Forms and Publications.

(f) Discount Rate

The discount rate used to measure the total pension liability was 7.15%. 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 plans tested, none of the plan assets were exhausted. Therefore, the current 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% is applied to all plans in the PERF. The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test result is presented in the GASB Crossover Testing Report, which can be obtained from www.CalPERS.ca.gov under GASB Statement No. 68 section.

In fiscal year ended June 30, 2017, the discount rate used in the actuarial assumptions was lowered from 7.65% to 7.15% (gross of 0.15% of administrative expenses).

(g) Investment Rate of Return

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. Taking into account historical returns of all the PERF's asset classes (which includes the agent plan and two cost-sharing plans), 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 PERF 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.

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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 used to measure the total pension liability.

Asset class	Current target allocation	Real return years 1–10¹	Real return years 11–60²
Global equity	47 %	4.90 %	5.38 %
Global fixed income	19	0.80	2.27
Inflation sensitive	6	0.60	1.39
Private equity	12	6.60	6.63
Real estate	11	2.80	5.21
Infrastructure and forestland	3	3.90	5.36
Liquidity	2	(0.40)	(0.90)
Total	100 %		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

(h) 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 State Miscellaneous and Peace Officers and Firefighters Plans (collectively the Plans) as of the measurement date, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.15%) or one-percentage point higher (8.15%) than the current rate:

Plan	Discount rate -1% (6.15%)	Current discount rate (7.15%)	Discount rate +1% (8.15%)
Miscellaneous Plan	\$ 11,934,060	8,723,068	6,035,759
Peace Officers and Firefighters Plan	250,794	176,894	116,459
Net pension liability	\$ 12,184,854	8,899,962	6,152,218

(i) Changes in Net Pension Liability

The University reported a liability of \$8,899,962 for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined based on an actuarial valuation as of June 30, 2016 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 the State's pensionable compensation. The State considered this a practical, systematic, and rational approach. At measurement date June 30,

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2017, the University's proportionate share of the total State net pension liability for the State Miscellaneous and Peace Officers and Firefighters Plans were 23.87558% and 1.15890%, respectively.

The following table presents the changes in net pension liability of the University recognized over the measurement period for the Plans:

	State Miscellaneous Plan	State Peace Officers and Firefighters Plan	Total
Balance at June 30, 2016 (measurement date)	\$ 7,575,326	158,599	7,733,925
Changes in proportionate share	330,795	11	330,806
Balance at June 30, 2016, adjusted	<u>7,906,121</u>	<u>158,610</u>	<u>8,064,731</u>
Changes recognized for the measurement period:			
Service cost	460,209	11,368	471,577
Interest on total pension liability	1,762,268	34,978	1,797,246
Recognized difference between expected and actual experience	(92,408)	(3,321)	(95,729)
Recognized changes of assumptions	1,353,163	30,233	1,383,396
Employee contributions	(201,455)	(4,635)	(206,090)
Employer contributions	(738,935)	(16,540)	(755,475)
Net investment income	(1,750,046)	(34,236)	(1,784,282)
Plan to plan resource movement	653	(19)	634
Administrative expenses	23,498	456	23,954
Net changes	<u>816,947</u>	<u>18,284</u>	<u>835,231</u>
Balance at June 30, 2017 (measurement date)	\$ <u><u>8,723,068</u></u>	<u><u>176,894</u></u>	<u><u>8,899,962</u></u>

(j) Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in the GASB Statement No. 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. For example, for the accounting valuations, CalPERS must keep items such as deficiency reserves and fiduciary self-insurance included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation.

(k) Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension

The University recognized pension expense of \$1,357,936 for State Miscellaneous Plan and \$29,582 for State Peace Officers and Firefighters Plan, which were reported as benefits expense.

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The following table presents deferred outflows and inflows of resources. Deferred outflows of resources are recognized for the University's retirement contributions made subsequent to the measurement date of June 30, 2017 which will be recognized as a reduction of the net pension liability in the next measurement date, the difference between expected and actual experience, aggregate difference between projected and actual earnings on pension plan investments arising in different measurement periods and changes in the University's proportionate share of pensionable compensation. Deferred inflows of resources are recognized for the difference between expected and actual experience.

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
University's retirement contributions subsequent to the measurement date	\$ 1,734,715	—
Differences due to changes in assumptions	1,039,292	—
Net differences between projected and actual earnings on pension plan investments	252,158	—
Differences due to changes in proportionate share	239,902	—
Differences between expected and actual experience	<u>39,725</u>	<u>84,091</u>
Total	\$ <u>3,305,792</u>	<u>84,091</u>

The deferred outflows of resources will be recognized as pension expense as follows:

(i) *Schedule of Differences Due to Changes in Assumptions*

Measurement period ended June 30	Initial differences*	Recognition period (year)	Increase in pension expense arising from the recognition of the effects of changes in assumptions (measurement dates)					Total
			2018	2019	2020	2021	2022	
Miscellaneous Plan: 2017	\$ 1,354,163	4.0	\$ 338,291	338,291	338,291	—	—	1,014,873
Peace Officers and Firefighters Plan: 2017	\$ 30,233	5.2	<u>5,814</u>	<u>5,814</u>	<u>5,814</u>	<u>5,814</u>	<u>1,163</u>	<u>24,419</u>
Increase in pension expense			\$ <u>344,105</u>	<u>344,105</u>	<u>344,105</u>	<u>5,814</u>	<u>1,163</u>	<u>1,039,292</u>

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(ii) *Schedule of Differences between Projected and Actual Earnings on Pension Plan Investments*

Measurement period ended June 30	Initial differences*	Recognition period (year)	Increase (decrease) in pension expense arising from the recognition of the differences between projected and actual earnings on pension plan investments (measurement dates)				
			2018	2019	2020	2021	Total
Miscellaneous Plan:							
2014	\$ (1,403,212)	5	\$ (280,642)	—	—	—	(280,642)
2015	868,416	5	173,683	173,683	—	—	347,366
2016	1,142,024	5	228,405	228,405	228,405	—	685,215
2017	(630,624)	5	(126,125)	(126,125)	(126,125)	(126,125)	(504,500)
Peace Officers and Firefighters Plan:							
2014	\$ (26,041)	5	(5,208)	—	—	—	(5,208)
2015	16,422	5	3,284	3,284	—	—	6,568
2016	21,939	5	4,388	4,388	4,388	—	13,164
2017	(12,257)	5	(2,451)	(2,451)	(2,451)	(2,452)	(9,805)
Increase (decrease) in pension expense			\$ (4,666)	281,184	104,217	(128,577)	252,158

(iii) *Schedule of Changes in Proportionate Share*

Measurement period ended June 30	Initial differences*	Recognition period (year)	Increase in pension expense arising from the recognition of the effects of changes in proportionate share (measurement dates)				
			2018	2019	2020	2021	Total
Miscellaneous Plan:							
2015	\$ 34,438	3.9	\$ 7,947	—	—	—	7,947
2016	7,628	4.0	1,907	1,907	—	—	3,814
2017	291,636	4.0	72,909	72,909	72,909	—	218,727
Peace Officers and Firefighters Plan:							
2015	\$ 7,537	5.1	1,478	1,478	148	—	3,104
2016	10,242	5.2	1,970	1,970	1,970	392	6,302
2017	10	5.2	2	2	2	2	8
Increase in pension expense			\$ 86,213	78,266	75,029	394	239,902

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(iv) *Schedule of Differences between Expected and Actual Experience*

Measurement period ended June 30	Initial differences*	Recognition period (year)	Increase in pension expense arising from the recognition of the effects of differences between expected and actual experience (measurement dates)					Total
			2018	2019	2020	2021		
Miscellaneous Plan:								
2015	\$ 165,610	3.9	\$ 38,218	—	—	—	—	38,218
Peace Officers and Firefighters Plan:								
2015	\$ 3,344	5.1	656	656	65	—	—	1,377
2016	212	5.2	41	41	41	7	—	130
		Increase in pension expense	\$ 38,915	697	106	7	—	39,725

* Adjusted for any changes in University's proportionate share

The deferred inflows of resources will be recognized as pension expense as follows:

(v) *Schedule of Differences between Expected and Actual Experience*

Measurement period ended June 30	Initial differences*	Recognition period (year)	Decrease in pension expense arising from the recognition of the differences between projected and actual earnings on pension plan investments (measurement dates)					Total
			2018	2019	2020	2021	2022	
Miscellaneous Plan:								
2016	\$ 24,205	4.0	\$ 6,051	6,051	—	—	—	12,102
2017	92,408	4.0	23,102	23,102	23,102	—	—	69,306
Peace Officers and Firefighters Plan:								
2017	\$ 3,321	5.2	639	639	639	639	127	2,683
		Decrease in pension expense	\$ 29,792	29,792	23,741	639	127	84,091

* Adjusted for any changes in University's proportionate share

(13) Other Postemployment Benefits (OPEB)

(a) OPEB Plan Description

The State provides retiree health and dental benefits to annuitants of retirement systems through an agent multiple-employer defined benefit which operates as a single-employer defined benefit plan for the University. The design of health and dental benefit plans can be amended by CalPERS Board of Administration and the California Department of Human Resources (CalHR), respectively.

To be eligible for these benefits, first-tier plan annuitants must retire on or after age 50 with at least five years of service, and second-tier plan annuitants must retire on or after age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits.

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(b) Benefits Provided

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 are offered to the University's retirees. Health plans offered, covered benefits, monthly rates, and co-payments are determined by the CalPERS Board of Administration, which reviews health plan contracts annually. At measurement date, the count of retired and active employees covered by the benefit terms were:

Retirees elected to receive healthcare benefits	30,034
Active employees	<u>48,011</u>
Total	<u><u>78,045</u></u>

(c) Contributions

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.

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. Historically, the State has funded approximately 95% of the cost of the benefits.

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. The State's contribution to the retirees' health benefits are recorded as State appropriations, noncapital.

In addition to the explicit University contribution provided to retirees, there is an "implicit rate subsidy". The gross premium for retired members not eligible for Medicare who are charged a premium based on the experience of both active and retired members will be receiving a subsidy because the average healthcare costs of retired members is generally higher than the blended average costs of a group comprised of both active and retired members. The subsidy is referred to as the implicit rate subsidy.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2018

(In thousands)

The implicit subsidy associated with the retiree health costs paid during the past year is also considered to be a contribution from the University.

(d) Actuarial Methods and Assumptions

Projections of benefits for financial 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 benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future.

Significant actuarial methods and assumptions used to calculate the University's net OPEB liability were:

Valuation date:	June 30, 2017
Actuarial cost method:	Entry age normal in accordance with the requirements of GASB Statement No. 75
Actuarial assumptions:	
Discount rate	3.56%
Price inflation	2.75%
Wage inflation	3%
Healthcare-related	Based on an experience review for the period July 1, 2007 to June 30, 2014, performed by State Actuary, which were first adopted beginning with the June 30, 2015 actuarial valuation. Assumptions were updated based on experience through June 30, 2017
Healthcare trend rate	4.5%
Participation rate	On average approximately 95% of all eligible retirees elect healthcare coverage
Per capita claim costs	A retiree healthcare actuarial valuation depends on the retired member's expected healthcare claim at a given age indexed for healthcare inflation.
Pension-related:	Based on an experience review performed by CalPERS and were first adopted beginning with the June 30, 2014. Assumptions include termination rates, disability rates, retirement rates and mortality rates.

(e) Sensitivity of the University's Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

One of the key assumptions influencing costs is the assumed growth or trend in healthcare costs. The healthcare trend assumption for OPEB actuarial valuations spans over the lifetime of a covered retiree, which could extend to over 30 years. This is in contrast to the short-term healthcare inflation used to

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2018

(In thousands)

develop premiums for the next fiscal year. This long-term healthcare assumption is by far the most difficult to set.

The following table presents the University's net OPEB liability as of the measurement date, calculated using the ultimate trend rate of 4.5%, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower (3.5%) or one-percentage point higher (5.5%) than the current rate:

	<u>Trend rate -1% (3.5%)</u>	<u>Current trend rate (4.5%)</u>	<u>Trend rate +1% (5.5%)</u>
Net OPEB liability	\$ 11,827,140	13,918,525	16,591,308

(f) Discount Rate

The discount rate used to estimate the net OPEB liability as of measurement dates June 30, 2017 and 2016 was 3.56% and 2.85%, respectively. The discount rate as of June 30, 2017 was based on Fidelity Index's 20-Year Municipal GO AA Index since the University has no plan assets sufficient to make benefit payments.

(g) Sensitivity of the University's Net OPEB Liability to Changes in the Discount Rate

The following table presents the University's net OPEB liability as of the measurement date, calculated using the discount rate of 3.56%, as well as what the net other postemployment benefits liability would be if it were calculated using a discount rate that is one-percentage point lower (2.56%) or one-percentage point higher (4.56%) than the current rate:

	<u>Discount rate -1% (2.56%)</u>	<u>Current discount rate (3.56%)</u>	<u>Discount rate +1% (4.56%)</u>
Net OPEB liability	\$ 16,342,689	13,918,525	11,979,359

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Notes to Financial Statements

June 30, 2018

(In thousands)

(h) Changes in Net OPEB Liability

The following table presents the changes in net OPEB liability of the University recognized over the measurement period:

Balance at June 30, 2016 (measurement date), as restated	\$ 14,683,420
Changes recognized for the measurement period:	
Service cost	795,696
Interest on total OPEB liability	436,431
Recognized changes of assumptions	(1,663,194)
Employer contribution	<u>(333,828)</u>
Net changes	<u>(764,895)</u>
Balance at June 30, 2017 (measurement date)	\$ <u>13,918,525</u>

(i) OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

The University recognized OPEB expense of \$989,828 which was reported as benefits expense.

The following table presents deferred outflows and inflows of resources. Deferred outflows of resources are recognized for the University's retirement contributions made subsequent to the measurement date of June 30, 2017 which will be recognized as a reduction of net OPEB liability on the subsequent measurement date. The deferred inflows of resources are recognized for the change in assumptions.

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
University's contributions subsequent to the measurement date	\$ 349,487	—
Differences due to changes in assumptions	<u>—</u>	<u>1,420,895</u>
Total	\$ <u>349,487</u>	<u>1,420,895</u>

The University's contributions subsequent to the measurement date include \$314,151 which was contributed by the State on behalf of the University as authorized by Government Code Section 22871. The State's contributions are recognized as State appropriations, noncapital.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2018

(In thousands)

The deferred inflows of resources due to changes in assumptions will be recognized as OPEB expense as follows:

Measurement period ended June 30	Initial difference	Recognition period (year)	Decrease in OPEB expenses arising from changes of assumptions (measurement dates)						
			2018	2019	2020	2021	2022	2023	Total
2017	\$ 1,663,194	6.84	\$ 242,299	242,299	242,299	242,299	242,299	209,400	1,420,895
	Decrease in OPEB expenses		\$ 242,299	242,299	242,299	242,299	242,299	209,400	1,420,895

(14) Deferred Outflows and Inflows of Resources

The composition of deferred outflows and inflows of resources at June 30, 2018 is summarized as follows:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Related to:		
Net pension liability (note 12)	\$ 3,305,792	84,091
Net other postemployment benefits liability (note 13)	349,487	1,420,895
Unamortized loss on SRB debt refunding	97,308	—
Total	\$ <u>3,752,587</u>	<u>1,504,986</u>

(15) 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, 2018. 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, 2018.

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.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2018

(In thousands)

(16) Commitments and Contingencies

The State is a defendant in multiple lawsuits involving University matters not covered by the CSURMA as discussed in note 15. 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.

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, 2018 totaled \$592,357. These expenditures will be funded primarily by State appropriations and bond proceeds.

In order to secure access to electricity used for normal operation, the University participates in forward purchase contract of electricity operated by Shell Energy North America. The University's obligations under these special purchase arrangements require it to purchase an estimated total of \$14,921 of electricity at fixed prices through December 2019. The University estimates that the special purchase contract in place represent approximately 10.79% of its total annual electricity expenses.

(17) 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, 2018, 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	\$ 1,891,074	1,660,208	—	216,647	—	3,767,929
Research	31,362	22,049	—	17,966	—	71,377
Public service	29,046	16,368	—	16,129	—	61,543
Academic support	432,386	348,440	—	201,667	—	982,493
Student services	454,528	400,555	—	236,829	—	1,091,912
Institutional support	436,082	371,834	—	237,987	—	1,045,903
Operation and maintenance of plant	241,760	270,054	—	350,174	—	861,988
Student grants and scholarships	—	—	891,169	—	—	891,169
Auxiliary enterprise expenses	91,472	104,865	—	253,622	—	449,959
Depreciation and amortization	—	—	—	—	501,731	501,731
Total	\$ <u>3,607,710</u>	<u>3,194,373</u>	<u>891,169</u>	<u>1,531,021</u>	<u>501,731</u>	<u>9,726,004</u>

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2018

(In thousands)

(18) Transactions with Related Entities

The University is an agency of the State and receives approximately 46% of total revenues through state appropriations. State appropriations, noncapital allocated to the University aggregated \$4,486,584 for the year ended June 30, 2018. There were no State appropriations allocated for capital projects for the year ended June 30, 2018. State appropriations receivable is \$35,137 at June 30, 2018.

State appropriations, noncapital of the University for the year ended June 30, 2018 consisted of the following:

	<u>2018</u>
State appropriations, noncapital	\$ 3,451,874
State's contribution on behalf of the University for pension benefits	720,559
State's contribution on behalf of the University for OPEB	<u>314,151</u>
Total state appropriations, noncapital	<u>\$ 4,486,584</u>

(19) Subsequent Events

The following information describes significant events that occurred subsequent to June 30, 2018, but prior to the date of the auditor's report.

- **SRB Issuance**

In August 2018, the University issued \$492,690 of SRB Series 2018A (Tax Exempt) and \$171,000 of SRB Series 2018B (Taxable). The new bonds were issued to fund various capital projects, redeem maturing BANs, refund outstanding SRB Series 2008A, and pay related issuance costs.

- **BAN Issuance**

In October 2018 and December 2018, the University issued \$20,000 of BANs to finance the various capital outlay projects and \$36,520 of BANs for the Sonoma State Petaluma Acquisition project, respectively. In January 2019, the University issued \$52,150 of BANs for the Five-Year Facilities Renewal and Improvement Plan.

CALIFORNIA STATE UNIVERSITY

Schedule of University's Proportionate Share of the Net Pension Liability and Related Ratios

June 30, 2018

(Unaudited)

(In thousands)

*Last Ten Fiscal Years*¹

State of California Miscellaneous Plan	2017²	2016²	2015²	2014²
University's proportion of the net pension liability	23.87558 %	22.87662 %	22.84970 %	22.72891 %
University's proportionate share of the net pension liability	\$ 8,723,068	7,575,326	6,453,200	5,411,439
University's proportionate share of covered payroll	2,780,552	2,567,251	2,407,821	2,209,786
University's proportionate share of the net pension liability as a percentage of covered payroll	313.71711 %	295.07539 %	268.00996 %	244.88521 %
Plan fiduciary net position as a percentage of the total pension liability	66.41644	66.81100	70.68274	74.17418
State of California Peace Officers and Firefighters Plan				
University's proportion of the net pension liability	1.15890 %	1.15882 %	1.07094 %	1.00623 %
University's proportionate share of the net pension liability	\$ 176,894	158,599	124,994	102,216
University's proportionate share of covered payroll	38,632	37,528	33,341	30,160
University's proportionate share of the net pension liability as a percentage of covered payroll	457.89066 %	422.61507 %	374.89140 %	338.91247 %
Plan fiduciary net position as a percentage of the total pension liability	65.89199	66.09678	69.61241	72.18915

¹ 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.

² The date in the column heading represents the end of the measurement period of the net pension liability, which is one year prior to the reporting period.

See accompanying independent auditors' report.

CALIFORNIA STATE UNIVERSITY
 Schedule of Employer Contributions Related to Pension
 Year ended June 30, 2018
 (Unaudited)
 (In thousands)

*Last Ten Fiscal Years*¹

State of California Miscellaneous Plan	2018	2017	2016	2015
Actuarially determined contribution	\$ 836,450	737,766	641,710	588,353
Contributions in relation to the actuarially determined contributions	<u>(839,367)</u>	<u>(740,571)</u>	<u>(644,679)</u>	<u>(589,385)</u>
Contribution excess	<u>\$ (2,917)</u>	<u>(2,805)</u>	<u>(2,969)</u>	<u>(1,032)</u>
University's covered payroll	\$ 2,953,043	2,768,770	2,559,878	2,431,410
Contributions as a percentage of covered payroll	28.42380 %	26.74729 %	25.18397 %	24.24046 %
State of California Peace Officers and Firefighters Plan				
Actuarially determined contribution	\$ 17,762	15,858	14,027	11,737
Contributions in relation to the actuarially determined contributions	<u>(18,442)</u>	<u>(16,600)</u>	<u>(14,647)</u>	<u>(13,610)</u>
Contribution excess	<u>\$ (680)</u>	<u>(742)</u>	<u>(620)</u>	<u>(1,873)</u>
University's covered payroll	\$ 41,696	39,372	37,568	33,363
Contributions as a percentage of covered payroll	44.22966 %	42.16194 %	38.98797 %	40.79369 %

¹ 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 notes to financial statements.

CALIFORNIA STATE UNIVERSITY

Schedule of Employer Contributions Related to Pensions

Year ended June 30, 2018

(Unaudited)

(In thousands)

Notes to required supplementary information schedule for the most recent fiscal year presented:

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 requirement of GASB Statement No. 68.
Amortization method/period	For details, see June 30, 2016 Funding Valuation Report.
Asset valuation method	Actuarial Value of Assets. For details, see June 30, 2016 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3%
Investment rate of return	7.5%, 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 is based on the 2014 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, 2016 Funding Valuation Report.

See accompanying independent auditors' report.

CALIFORNIA STATE UNIVERSITY

Schedule of University's Net Other Postemployment Benefits Liability and Related Ratios

June 30, 2018

(Unaudited)

(In thousands)

*Last Ten Fiscal Years*¹

	<u>2017²</u>
University's net other postemployment benefits liability at June 30, 2016, as restated	\$ 14,683,420
Changes recognized for the measurement period:	
Service cost	795,696
Interest on total other postemployment benefits liability	436,431
Recognized changes of assumptions	(1,663,194)
Employer contributions	<u>(333,828)</u>
Net changes	<u>(764,895)</u>
University's net other postemployment benefits liability at June 30, 2017	\$ <u>13,918,525</u>
University's covered payroll	\$ 2,994,739
University's net other postemployment benefits liability as a percentage of covered payroll	464.76588 %

¹ The University implemented GASB Statement No. 75 effective July 1, 2017, therefore, no information is available for the measurement periods prior to June 30, 2017.

² The date in the column heading represents the end of the measurement period of the net pension liability, which is one year prior to the reporting period.

See accompanying independent auditors' report.

CALIFORNIA STATE UNIVERSITY

Schedule of Employer Contributions Related to Other Postemployment Benefits

Year ended June 30, 2018

(Unaudited)

(In thousands)

*Last Ten Fiscal Years*¹

	<u>2018</u>
Actuarially determined contributions	\$ 754,550
Contributions in relation to the actuarially determined contributions	<u>(349,487)</u>
Contribution deficiency	<u>\$ 405,063</u>
University's covered payroll	\$ 2,994,739
Contributions as a percentage of covered payroll	11.67003 %

¹ The University implemented GASB Statement No. 75 effective July 1, 2017, therefore, no information is available for the measurement periods prior to June 30, 2017.

CALIFORNIA STATE UNIVERSITY

Schedule of Employer Contributions Related to Other Postemployment Benefits

Year ended June 30, 2018

(Unaudited)

(In thousands)

Notes to required supplementary information schedule for the most recent fiscal year presented:

Valuation date	Actuarially calculated contribution rates are calculated as of July 1, one year prior to the end of the fiscal year in which contributions are reported.
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Methods and assumption used to determine actuarially determined contributions:

Actuarial cost method	Entry age normal and the blended discount rates in accordance with the requirement of GASB Statement No. 74 and 75. The Normal Cost and Actuarial Accrued Liability for purpose of calculating the Actuarially Determined Contribution were developed using the Entry Age Normal Actuarial Cost Method and a full-funding discount rate of 7.28%.
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Inflation	2.75%
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Payroll growth	3%
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Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
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Mortality	The probabilities of mortality is based on the 2014 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.
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See accompanying independent auditors' report.

CALIFORNIA STATE UNIVERSITY

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

Year ended June 30, 2018

Gross revenues:	
Tuition fees	\$ 3,350,638,899
Student housing	502,203,611
Student unions/recreation centers	242,513,189
Parking	124,295,536
Health centers	11,462,022
Extended and continuing education	401,326,864
Auxiliary organizations ¹	610,849,343
Other related entity ²	<u>7,266,997</u>
Total gross revenues	<u>5,250,556,461</u>
Maintenance and operation expenses ³ :	
Academic facilities	285,045,839
Student housing	354,287,832
Student unions/recreation centers	119,436,552
Parking	82,654,850
Health centers	5,074,150
Extended and continuing education	424,672,407
Auxiliary organizations ¹	<u>523,133,628</u>
Total maintenance and operation expenses	<u>1,794,305,258</u>
Net income available for debt service	<u>\$ 3,456,251,203</u>
Debt service:	
Systemwide revenue bonds debt	\$ 361,314,254
Designated auxiliary organizations debt	<u>2,012,487</u>
Total debt service	<u>\$ 363,326,741</u>

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

- (1) This included gross revenues and maintenance and operation expenses of 17 auxiliary organizations that have financed with SRB through lease or loan arrangements. This excludes research grants and contracts activity and restricted gifts. Gross revenues under the SRB Indenture are a smaller amount derived from payments under certain leases or with the Board of Trustees.
- (2) This includes gross revenues derived from leases with California State University, Channel Islands Site Authority which are used solely to pay debt service. The maintenance and operation expenses are excluded as these are not paid by the pledged gross revenues.
- (3) Maintenance and operation expenses for the year ended June 30, 2018 include extraordinary maintenance and repair projects, which are generally paid from existing program fund balances of \$114.3 million, other postemployment benefits expense of \$74 million pursuant to GASB Statement No. 75, and pension expense of \$55.4 million pursuant to GASB Statement No. 68.

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, 2018

(Unaudited)

	<u>Operating and other revenues</u>	<u>Operating expenditures</u>	<u>Excess of revenues over expenditures</u>	<u>Design capacity</u>	<u>Operational capacity ⁽²⁾</u>	<u>Average number of spaces occupied</u>	<u>% of spaces occupied ⁽³⁾</u>
CSU Bakersfield	\$ 5,130,321	4,773,552	356,769	578	565	364	64 %
CSU Channel Islands	17,448,014	8,558,848	8,889,166	1,527	1,667	1,578	95
CSU Chico	23,887,902	18,460,647	5,427,255	2,200	2,323	2,223	96
CSU Dominguez Hills	4,846,777	3,260,615	1,586,162	712	708	684	97
CSU East Bay	12,975,215	7,784,443	5,190,772	1,296	1,697	1,472	87
CSU Fullerton	29,275,463	14,346,764	14,928,699	1,918	2,039	1,976	97
Humboldt State University	15,326,364	10,339,004	4,987,360	2,049	2,075	1,993	96
CSU Long Beach	21,519,503	14,408,777	7,110,726	1,826	2,051	1,824	89
CSU Los Angeles	8,181,553	6,366,585	1,814,968	1,069	1,009	955	95
California Maritime Academy	9,042,879	8,458,402	584,477	735	735	683	93
CSU Northridge	26,575,554	15,159,840	11,415,714	3,595	3,261	3,148	97
CSPU Pomona	25,923,027	11,554,595	14,368,432	2,440	2,471	2,389	97
CSU Sacramento	24,840,031	17,959,656	6,880,375	2,088	2,127	1,992	94
CSU San Bernardino	10,854,060	7,648,409	3,205,651	1,539	1,445	1,191	82
San Diego State University	53,909,453	31,136,031	22,773,422	3,934	4,470	3,917	88
San Francisco State University ⁽⁵⁾	60,859,823	46,320,512	14,539,311	3,880	3,975	3,834	96
San Jose State University	62,825,562	37,446,879	25,378,683	3,941	4,188	4,138	99
CPSU San Luis Obispo	50,942,962	37,307,663	13,635,299	6,324	8,362	7,627	91
Sonoma State University	29,175,234	16,965,482	12,209,752	3,146	3,211	3,041	95
CSU Stanislaus	4,600,182	5,030,748	(430,566)	460	484	415	86
	<u>498,139,879</u>	<u>323,287,452</u>	<u>174,852,427</u>	<u>\$ 45,257</u>	<u>48,863</u>	<u>45,444</u>	<u>93</u>
Systemwide Office	—	76,665	(76,665)				
Interest income	<u>3,738,832</u>	—	<u>3,738,832</u>				
Total	<u>\$ 501,878,711</u>	<u>323,364,117</u>	<u>178,514,594</u>				

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, 2018

(Unaudited)

	Average annual rates per academic year ⁽⁴⁾					
	Residence Halls			Apartments		
	Single	Double	Suite	Single	Double	Suite
CSU Bakersfield	\$ 11,820	9,823	—	—	—	—
CSU Channel Islands	10,820	9,740	—	12,670	11,060	—
CSU Chico	9,367	7,732	—	9,367	7,733	—
CSU Dominguez Hills	—	—	—	—	9,012	—
CSU East Bay	—	—	7,854	9,879	8,170	—
CSU Fullerton	—	11,670	—	12,432	9,468	—
Humboldt State University	7,596	6,136	—	7,596	6,136	—
CSU Long Beach	8,650	7,650	—	—	—	—
CSU Los Angeles	—	—	—	8,930	6,897	—
California Maritime Academy	—	5,802	—	—	—	—
CSU Northridge	—	—	6,461	11,347	6,699	—
CSPU Pomona	10,764	9,390	12,408	—	—	—
CSU Sacramento	7,794	7,226	—	8,603	7,751	9,183
CSU San Bernardino	7,548	6,060	—	10,275	—	10,221
San Diego State University	12,016	10,448	—	10,056	8,384	—
San Francisco State University ⁽⁵⁾	—	8,752	9,576	12,200	9,952	—
San Jose State University	9,734	8,538	—	13,340	10,603	—
CPSU San Luis Obispo	—	7,792	—	9,014	—	5,770
Sonoma State University	8,800	6,814	—	10,512	7,676	—
CSU Stanislaus	7,300	—	—	7,775	6,507	—
Average annual rates	9,351	8,238	9,075	10,266	8,289	8,391

(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) Percentage of spaces occupied is based on Operational Capacity. In certain cases, percentage 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 423 apartment units, of which 417 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 \$1,525 and \$4,465.

See accompanying independent auditors' report.

CALIFORNIA STATE UNIVERSITY

Systemwide Revenue Bond Program's Statement of Insurance Coverage

Year ended June 30, 2018

(Unaudited)

<u>Expiration date*</u>	<u>Insurance Coverage</u>	<u>Coverage Limit</u>	<u>Insurance Company</u>	<u>Policy number</u>
<u>Property Insurance</u>				
July 1, 2018	CSU Master Property Policy, "All Risk" Building, Equipment, Rental Income (excluding earthquake)	\$ 1,000,000,000 per occurrence	Alliant Property Insurance Program	017471590/04
July 1, 2018	CSU Master Property Policy, Boiler & Machinery	100,000,000	Alliant Property Insurance Program	017471590/04
<u>General Liability Insurance</u>				
July 1, 2018	Bodily Injury & Property Damage Liability (Primary)	\$ 5,000,000	CSU Risk Management Authority (self-insured portion)	N/A
July 1, 2018	Bodily Injury & Property Damage Liability (Reinsurance)	5,000,000	Ironshore Indemnity Inc.	000541307
July 1, 2018	Bodily Injury & Property Damage Liability (Reinsurance)	10,000,000	Allied World Assurance Company	0310-2286
July 1, 2018	Bodily Injury & Property Damage Liability (Excess)	5,000,000	Ironshore Specialty Insurance Company	001090806
July 1, 2018	Bodily Injury & Property Damage Liability (Excess)	10,000,000	Peleus Insurance Company	2902082-00
July 1, 2018	Bodily Injury & Property Damage Liability (Excess)	5,000,000	Allied World Assurance Company	0308-4646
July 1, 2018	Bodily Injury & Property Damage Liability (Excess)	10,000,000	Gemini Insurance Company	CEX09600368-04
July 1, 2018	Bodily Injury & Property Damage Liability (Excess)	100,000,000	Multiple	Multiple
July 1, 2018	Bodily Injury & Property Damage Liability (Excess)	50,000,000	XL Insurance Company	IE00018197L117A
July 1, 2018	Bodily Injury & Property Damage Liability (Excess)	100,000,000	Multiple	Multiple
<u>Workers' Compensation and Employer's Liability Insurance</u>				
July 1, 2018	Workers' Compensation and Employer's Liability	California Workers' Compensation Statutes	CSAC Excess Insurance Authority	EIA PE 17 EWC-143
July 1, 2018	Workers' Compensation and Employer's Liability	\$ 2,500,000	Safety National Casualty Corporation	SP4055109

* Additional insurance policies are maintained for the period from July 1, 2018 through July 1, 2019. These policies provide the same coverage indicated above.

See accompanying independent auditors' report.



CSU NORTHRIDGE



CSU SAN BERNARDINO



CSU DOMINGUEZ HILLS



CSU EAST BAY



STANISLAUS STATE

CSU The California State University

CSU OFFICE OF THE CHANCELLOR
Division of Financial Services

Systemwide Financial Standards & Reporting
401 Golden Shore, Long Beach, CA 90802-4210

www.calstate.edu



CALIFORNIA STATE UNIVERSITY

Single Audit Reports

June 30, 2018

(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, 2018, 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 March 8, 2019. Our report refers to other auditors who audited 87 of the 89 aggregate discretely presented component units, which statements reflect total assets constituting 93% and total revenues constituting 95% 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 87 aggregate discretely presented component units, are based solely on the reports of the other auditors. The financial statements of 45 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* for the discretely presented component units.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule or findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.



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*.

The University's Response to Findings

The University's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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
March 8, 2019



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, 2018. 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 \$374,340,854, which is not included in the schedule of expenditures of federal awards for the year ended June 30, 2018. 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, 2018.



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 2018-002 and 2018-003. 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 2018-002 and 2018-003 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, 2018, and have issued our report thereon dated March 8, 2019, 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

Orange County, California
March 8, 2019

CALIFORNIA STATE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2018

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 Grants	84.007		\$ 15,585,515	—
Federal Work-Study Program	84.033		18,745,549	—
Federal Perkins Loan Program	84.038		81,283,248	—
Federal Pell Grant Program	84.063		1,045,767,200	—
Federal Direct Student Loans	84.268		1,490,959,019	—
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379		3,116,515	—
Postsecondary Education Scholarships for Veteran's Dependents (Iraq and Afghanistan Service Grant (IASG))	84.408		4,148	—
Total U.S. Department of Education			<u>2,655,461,194</u>	<u>—</u>
U.S. Department of Health and Human Services:				
Direct program:				
Nursing Student Loans	93.364		2,647,945	—
Total U.S. Department of Health and Human Services			<u>2,647,945</u>	<u>—</u>
Total Student Financial Assistance Cluster			<u>2,658,109,139</u>	<u>—</u>
Other Programs and Clusters:				
U.S. Department of Agriculture:				
Direct program:				
Higher Education Multicultural Scholars Program	10.220		26,000	—
Passed through California Department of Education: Child and Adult Care Food Program	10.558	04346-CACFP-12-HU-CS	39,626	—
Total U.S. Department of Agriculture			<u>65,626</u>	<u>—</u>
U.S. Department of Commerce:				
Passed through Regents of the University of Michigan:				
Coastal Zone Management Administration Awards	11.419	3004232335	10,000	—
Direct program:				
Marine Debris Program	11.999		36,643	—
Total U.S. Department of Commerce			<u>46,643</u>	<u>—</u>
U.S. Department of Defense:				
Passed through Institute of International Education Inc.:				
The Language Flagship Grants to Institutions of Higher Education	12.550	0054-SFSU-8-SSC-280-PO4	51,720	—
The Language Flagship Grants to Institutions of Higher Education	12.550	0054-SFSU-8-link-280-PO5	1,945	—
The Language Flagship Grants to Institutions of Higher Education	12.550	0054-SFSU-8-SSC-280-PO3	16,000	—
The Language Flagship Grants to Institutions of Higher Education	12.550	1-0054-SFSU-8-CHN-280-PO1 Amendment #2-0054-SFSU-8-CHN-280-PO1	8,630	—
The Language Flagship Grants to Institutions of Higher Education	12.550		300,254	—
Total U.S. Department of Defense			<u>378,549</u>	<u>—</u>
U.S. Department of the Interior:				
Direct programs:				
Cultural and Paleontological Resources Management	15.224		7,875	—
National Center for Preservation Technology and Training	15.923		21,058	—
Passed through CSU Dominguez Hills Foundation:				
Preservation of Japanese American Confinement Sites	15.933	500020	2,497	—
Direct program:				
Cultural Resources Management	15.946		17,338	—
Total U.S. Department of the Interior			<u>48,768</u>	<u>—</u>
U.S. Department of Labor:				
Direct program:				
Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282		1,628,558	36,962
Total U.S. Department of Labor			<u>1,628,558</u>	<u>36,962</u>
U.S. Department of Transportation:				
Passed through California Department of Transportation:				
U.S. Department of Transportation (not classified elsewhere)	20.UNK	04A4658,04A4782, 04A4916 06A2062, 43A0342	181,498	—
Direct program:				
Highway Training and Education	20.215		11,384	—
Passed through California Department of Transportation:				
Highway Training and Education	20.215	88A0121	5,058	—
Subtotal CFDA 20.215			<u>16,442</u>	<u>—</u>
Direct programs:				
State Maritime Schools	20.806		24,251	—
Ballast Water Treatment Technologies	20.819		126,990	—
Total U.S. Department of Transportation			<u>349,181</u>	<u>—</u>

CALIFORNIA STATE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2018

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
Office of Personnel Management:				
Direct program:				
Intergovernmental Personnel Act (IPA) Mobility Program	27.011		\$ 288,558	—
Total Office of Personnel Management			<u>288,558</u>	<u>—</u>
National Aeronautics and Space Administration:				
Passed through Association of Universities for Research in Astronomy, Incorporated:				
Science	43.001	STI-509915	390,121	—
Passed through University of California, San Diego:				
Science	43.001	NNX15AP87H	3,000	—
Subtotal CFDA 43.001			<u>393,121</u>	<u>—</u>
Direct program:				
Education	43.008		107,231	25,438
Passed through Napa Valley College:				
Education	43.008	SSU16	114,314	—
Subtotal CFDA 43.008			<u>221,545</u>	<u>25,438</u>
Total National Aeronautics and Space Administration			<u>614,666</u>	<u>25,438</u>
National Endowment for the Humanities:				
Passed through California Humanities:				
Promotion of the Humanities Federal/State Partnership	45.129	HFAQ17-46	5,000	—
Direct program:				
Promotion of the Humanities Fellowships and Stipends	45.160		29,400	—
Total National Endowment for the Humanities			<u>34,400</u>	<u>—</u>
U.S. Environmental Protection Agency:				
Passed through Environmental Quality Management:				
U.S. Environmental Protection Agency (not classified elsewhere)	66.UNK	13-017_021003	135,190	—
Direct program:				
Regional Wetland Program Development Grants	66.461		81,924	—
Total U.S. Environmental Protection Agency			<u>217,114</u>	<u>—</u>
U.S. Department of Energy:				
Passed through Alliance for Sustainable Energy, LLC:				
Renewable Energy Research and Development	81.087	AFC-5-52004-02	14,492	—
Direct program:				
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		251,612	—
Total U.S. Department of Energy			<u>266,104</u>	<u>—</u>
U.S. Department of Education, excluding Student Financial Assistance Cluster:				
TRIO Cluster:				
Direct program:				
TRIO – Student Support Services	84.042		1,858,609	—
Passed through The CSU, Chico Research Foundation:				
TRIO – Student Support Services	84.042	P042A100854-17	29,350	—
Subtotal CFDA 84.042			<u>1,887,959</u>	<u>—</u>
Direct programs:				
TRIO – Talent Search Program	84.044		782,270	—
TRIO – Upward Bound Program	84.047		1,783,226	—
TRIO – McNair Post-Baccalaureate Achievement	84.217		375,122	—
Total TRIO Cluster			<u>4,828,577</u>	<u>—</u>
Passed through University Enterprises Corporation at California State University San Bernardino:				
Undergraduate International Studies and Foreign Language Programs	84.016	GT-14130	5,828	—
Direct program:				
Higher Education – Institutional Aid	84.031		6,364,930	199,479
Passed through Santa Barbara City College:				
Higher Education – Institutional Aid	84.031	12131.4070.562000.60	138,777	—
Passed through Ventura County Community College District:				
Higher Education – Institutional Aid	84.031	P0103046	126,986	—
Passed through San Mateo County Community College District:				
Higher Education – Institutional Aid	84.031	P031S160245	83,017	—
Higher Education – Institutional Aid	84.031	P031C1100159	2,172	—
Subtotal CFDA 84.031			<u>6,715,882</u>	<u>199,479</u>

CALIFORNIA STATE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2018

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
Direct program: TRIO Staff Training Program	84.103		\$ 491,513	—
Passed through California Department of Rehabilitation: Rehabilitation Services Vocational Rehabilitation Grants to States	84.126	28592	73,139	—
Direct program: Rehabilitation Long-Term Training	84.129		349,877	—
Direct program: Special Education – Personnel Development to Improve Services and Results for Children with Disabilities	84.325		1,086,768	124,283
Passed through Commission on Teacher Credentialing: Special Education – Personnel Development to Improve Services and Results for Children with Disabilities	84.325	14STC0035	5,114	—
Subtotal CFDA 84.325			1,091,882	124,283
Direct programs: Special Education – Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		652,584	—
Child Care Access Means Parents in School	84.335		328,979	—
Passed through The California State University, Chico Research Foundation: Teacher Quality Partnership Grants	84.336	14-042, 15-034	155,063	—
Direct program: English Language Acquisition State Grants	84.365		407,447	—
Passed through Santa Rosa City Schools: Mathematics and Science Partnerships	84.366	101	74,174	—
Passed through California Department of Education: Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	15-15196-3064-00	197,031	129,763
Passed through The Regents of the University of California: Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	NCLB14-CISP-SONOMA NCLB14-CMP-SONOMA NCLB14-CMP-STANISLAUS NCLB14-CWP-TURLOCK	163,204	—
Passed through National Writing Project: Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	92-CA10-SEED2016	1,048	—
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	92-CA10-SEED2016-ILI	320	—
Subtotal CFDA 84.367			361,603	129,763
Direct program: Strengthening Minority-Serving Institutions Total U.S. Department of Education, excluding Student Financial Assistance Cluster	84.382		375,028	—
			15,911,576	453,525
U.S. Department of Health and Human Services: 477 Cluster: Child Care and Development Fund Cluster: Passed through California Department of Education: Child Care and Development Block Grant	93.575	CCTR-7044, CSPP-7105	69,778	—
Child Care Mandatory and Matching Funds of the Child Care and Development Fund Total Child Care and Development Fund Cluster	93.596	CCTR-7044, CSPP-7105	151,822	—
Total 477 Cluster			221,600	—
Direct program: Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243		199,660	—
Passed through University of California, San Francisco: Minority Health and Health Disparities Research	93.307	7518SC	2,224	—
Passed through California Department of Education: Early Head Start-Child Care Partnerships (EHS-CCP) Grant Partnerships (EHS-CCP) Grant	93.600	15291, 15292, 15298	236,140	—
Passed through University of California, Berkeley: Foster Care – Title IV-E	93.658	00009246-01 Agreement #9243; CDSS #16- IA-00775	2,206,808	—
Passed through The Regents of the University of California: Foster Care – Title IV-E	93.658	16-IA-00775	1,267,532	—
Subtotal CFDA 93.658			3,474,340	—

CALIFORNIA STATE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2018

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
Direct program: Biomedical Research and Research Training Passed through University of California, San Francisco:	93.859		\$ 487,161	—
Biomedical Research and Research Training	93.859	10339SC 7284SC	90,673	—
Subtotal CFDA 93.859			<u>577,834</u>	<u>—</u>
Passed through AIDS United: HIV Prevention Activities – Non-Governmental Organization Based	93.939	880-20172	11	—
Total U.S. Department of Health and Human Services			<u>4,711,809</u>	<u>—</u>
Corporation for National and Community Service: Direct program: AmeriCorps	94.006		195,501	—
Passed through Jumpstart for Young Children: AmeriCorps	94.006	CFDA-94.006-JS-SITE#10	212,701	—
Subtotal CFDA 94.006			<u>408,202</u>	<u>—</u>
Direct program: Volunteers in Service to America	94.013		19,233	—
Total Corporation for National and Community Service			<u>427,435</u>	<u>—</u>
U.S. Department of Homeland Security: Passed through Department of Parks and Recreation, Division of Boating and Waterways: Boating Safety Financial Assistance	97.012	C8960313	9,100	—
Passed through Historic Preservation, Office of (OHP): Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	C1710004	6,506	—
Total U.S. Department of Homeland Security			<u>15,606</u>	<u>—</u>
Total other programs and clusters			<u>25,004,593</u>	<u>515,925</u>
Research and Development Cluster: U.S. Department of Agriculture: Direct program: Agricultural Research Basic and Applied Research	10.001		2,461	—
Direct program: Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)	10.326		69,431	22,004
Supplemental Nutrition Assistance Program (SNAP) Cluster: Passed through California Department of Public Health: State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16-10234	33,712	—
Total Supplemental Nutrition Assistance Program (SNAP) Cluster			<u>33,712</u>	<u>—</u>
Direct program: Cooperative Forestry Assistance	10.664		32,848	—
Direct program: Partnership Agreements	10.699		15,914	—
Total U.S. Department of Agriculture			<u>154,366</u>	<u>22,004</u>
U.S. Department of Commerce: Passed through Monterey Bay Aquarium Research Institute: Integrated Ocean Observing System (IOOS)	11.012	1611290	125,042	—
Passed through The Regents of the University of California: Sea Grant Support	11.417	71780057	102,470	—
Direct program: Coastal Zone Management Estuarine Research Reserves	11.420		642,787	—
Passed through Merkel & Associates Incorporated: Coastal Zone Management Estuarine Research Reserves	11.420	GS-10F-0060T/ AB-133F-14NC-1535	54,824	—
Subtotal CFDA 11.420			<u>697,611</u>	<u>—</u>
Direct programs: Marine Sanctuary Program	11.429		21,084	—
Habitat Conservation	11.463		25,580	—
Total U.S. Department of Commerce			<u>971,787</u>	<u>—</u>
U.S. Department of Defense: Direct program: Flood Control Projects	12.106		11,510	—
Passed through National Marine Mammal Foundation: Basic and Applied Scientific Research	12.300	SSU-2773	22,068	—
Direct program: Basic, Applied, and Advanced Research in Science and Engineering	12.630		997,507	—

CALIFORNIA STATE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2018

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
Air Force Defense Research Sciences Program	12.800		\$ 37,723	—
Passed through George Mason University:				
Air Force Defense Research Sciences Program	12.800	E2043361	22,159	—
Subtotal CFDA 12.800			59,882	—
Total U.S. Department of Defense			1,090,967	—
U.S. Department of the Interior:				
Direct programs:				
Fish, Wildlife and Plant Conservation Resource Management	15.231		242,788	—
Fish and Wildlife Management Assistance	15.608		30,808	—
Cooperative Endangered Species Conservation Fund	15.615		46,341	—
Passed through Fish and Wildlife, California Department of (CDFW):				
Cooperative Endangered Species Conservation Fund	15.615	P1680007 P1680032	60,068	—
Subtotal CFDA 15.615			106,409	—
Passed through Fish and Wildlife, California Department of (CDFW):				
State Wildlife Grants	15.634	P1640010 S1780015	46,261	—
Direct programs:				
Challenge Cost Share	15.642		3,728	—
Research Grants (Generic)	15.650		31,535	—
Passed through Regents of the University of California:				
Endangered Species Conservation, Recovery Implementation Funds	15.657	A18-0450-S0001	512	—
Direct programs:				
Earthquake Hazards Reduction Program	15.807		43,358	—
U.S. Geological Survey-Research and Data Collection	15.808		172,167	—
Passed through California Office of Historic Preservation:				
Historic Preservation Fund Grants-In-Aid	15.904	C8960507	11,000	—
Direct programs:				
Cooperative Research and Training Programs – Resources of the National Park System	15.945		55,728	—
National Park Service Conservation, Protection, Outreach, and Education	15.954		31,043	—
CA Biodiversity Council Facilitation	15.UNK		16,757	—
Total U.S. Department of the Interior			792,094	—
National Aeronautics and Space Administration:				
Direct program:				
Science	43.001		182,720	49,062
Passed through Space Telescope Science Institute:				
Science	43.001	HST-GO-12950.03-A HST-GO-13297.07-A	7,716	—
Passed through Oregon State University:				
Science	43.001	NS251A-A	4,984	—
Passed through Arizona State University, Tempe:				
Science	43.001	15-718	3,814	—
Subtotal CFDA 43.001			199,234	49,062
Total National Aeronautics and Space Administration			199,234	49,062
National Endowment for the Humanities:				
Passed through California Humanities:				
Promotion of the Humanities Federal/State Partnership	45.129	HFAP17-11	7,653	—
Direct program:				
Promotion of the Humanities Fellowship and Stipends	45.160		37,800	—
Total National Endowment for the Humanities:			45,453	—
National Science Foundation:				
Direct programs:				
Engineering Grants	47.041		536,816	—
Mathematical and Physical Sciences	47.049		539,179	—
Geosciences	47.050		426,233	—
Computer and Information Science and Engineering	47.070		189,347	35,894
Biological Sciences	47.074		1,327,456	—
Passed through Fordham University:				
Biological Sciences	47.074	FORD0003	19,217	—
Passed through Regents of the University of California San Francisco:				
Biological Sciences	47.074	9807SC	358,230	—
Subtotal CFDA 47.074			1,704,903	—
Direct program:				
Education and Human Resources	47.076		721,834	25,640
Passed through California State University Sacramento:				
Education and Human Resources	47.076	523911 AMENDMENT NO. 523914 523911 AMENDMENT NO. 523915	12,458	—

CALIFORNIA STATE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2018

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
Passed through Cal Poly Corporation: Education and Human Resources	47.076	2018-2-51273	\$ 10,683	—
Passed through Missouri State University: Education and Human Resources	47.076	16043-007	49,070	—
Passed through University Enterprises, Incorporated California State University: Education and Human Resources	47.076	HRD – 1302873	9,814	—
Passed through University Enterprises, Incorporated California State University, Sacramento: Education and Human Resources	47.076	520541A, 523841 523951 A523955	31,710	—
Passed through University Enterprises, Incorporated: Education and Human Resources	47.076	523751, 523961	24,961	—
Passed through Northeastern University: Education and Human Resources	47.076	502277-78050	186,398	—
Passed through The Regents of the University of California: Education and Human Resources	47.076	9400, KK1627 A00-1696S004-P056579	87,259	—
Passed through WestEd: Education and Human Resources	47.076	S00028711.0	34	—
Passed through University of Texas at El Paso: Education and Human Resources	47.076	226100955B	238,699	—
Subtotal CFDA 47.076			<u>1,372,920</u>	<u>25,640</u>
Direct program:				
Polar Programs	47.078		24,500	24,500
Total National Science Foundation			<u>4,793,898</u>	<u>86,034</u>
U.S. Department of Veterans Affairs VA Health Administration Center				
Direct program:				
Research and Development	64.054		29,414	—
Total U.S. Department of Veterans Affairs VA Health Administration Center			<u>29,414</u>	<u>—</u>
U.S. Environmental Protection Agency: Passed through California State Coastal Conservancy: Congressionally Mandated Projects	66.202	CONTRACT NO. 10-030	182,757	—
Total U.S. Environmental Protection Agency			<u>182,757</u>	<u>—</u>
U.S. Department of Energy: Direct program:				
Office of Science Financial Assistance Program	81.049		247,615	—
Total U.S. Department of Energy			<u>247,615</u>	<u>—</u>
U.S. Department of Education: Passed through San Mateo County Community College District: Minority Science and Engineering Improvement	84.120	P120A150014	83,495	—
Direct programs:				
Research in Special Education	84.324		1,031,444	640,481
Education Innovation and Research (formerly Investing in Innovation (i3) Fund	84.411		637,569	—
Total U.S. Department of Education			<u>1,752,508</u>	<u>640,481</u>
U.S. Morris K. Udall Foundation: Direct program:				
Morris K. Udall Scholarship Program	85.400		32,836	—
Total U.S. Morris K. Udall Foundation			<u>32,836</u>	<u>—</u>
U.S. Department of Health and Human Services: Passed through California Department of Public Health Environmental Public Health and Emergency Response	93.070	13-20878	22,500	—
Passed through Urban Institute Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	09349-00-00 #36200	19,889	—
Passed through California Department of Public Health Injury Prevention and Control Research and State and Community Based Programs	93.136	13-20878	7,500	—
Direct program:				
Mental Health Research Grants	93.242		814,244	69,114
Passed through Boston University: Mental Health Research Grants	93.242	4500002320	76,888	—
Subtotal CFDA 93.242			<u>891,132</u>	<u>69,114</u>

CALIFORNIA STATE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2018

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of federal domestic assistance (CFDA) number</u>	<u>Pass-through entity identifying number</u>	<u>Federal disbursements/ expenditures</u>	<u>Amounts provided to subrecipients</u>
Passed through Stanford University: Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	60917381-114033	\$ 53,679	—
Direct programs:				
Minority Health and Health Disparities Research	93.307		246,077	—
Trans-NIH Research Support	93.310		3,408,617	1,033,282
Behavioral Risk Factor Surveillance System	93.336		28,621	—
Passed through The Regents of the University of California: Mental and Behavioral Health Education and Training Grants	93.732	9668	47,468	—
Passed through California Department of Public Health: 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	13-20878	202,569	—
Passed through California Department of Public Health: State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757	13-20878	35,404	—
Passed through California Department of Public Health: Preventative Health and Health Services Block Grant Funded solely with Prevention and Public Health Funds	93.758	13-20878	338,760	—
Direct program: Cardiovascular Diseases Research	93.837		82,878	—
Passed through University of California, San Francisco: Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	8109SC	26,123	—
Direct program: Allergy and Infectious Diseases Research	93.855		338,585	—
Direct program: Biomedical Research and Research Training	93.859		2,766,849	—
Passed through University of California, San Francisco: Biomedical Research and Research Training	93.859	1R15GM116043-01	71,159	—
Subtotal CFDA 93.859			<u>2,838,008</u>	<u>—</u>
Direct program: Child Health and Human Development Extramural Research	93.865		227,310	13,814
Passed through Research Foundation for Mental Hygiene, Incorporated: Child Health and Human Development Extramural Research	93.865	25999	158,751	—
Subtotal CFDA 93.865			<u>386,061</u>	<u>13,814</u>
Direct program: Aging Research	93.866		139,243	—
Passed through University of California, San Francisco: Aging Research	93.866	9913C, 10273SC, 10295SC	125,716	—
Passed through Stanford University: Aging Research	93.866	61406136-45510 61593292-45510	24,728	—
Subtotal CFDA 93.866			<u>289,687</u>	<u>—</u>
Passed through Stanford University: Medical Library Assistance	93.879	61100260-12656-A	36,327	—
Passed through California Department of Public Health: Assistance Programs for Chronic Disease Prevention and Control	93.945	13-20878	33,750	—
Total U.S. Department of Health and Human Services			<u>9,333,635</u>	<u>1,116,210</u>
Total Research and Development Cluster			<u>19,626,564</u>	<u>1,913,791</u>
Total expenditures of federal awards			<u>\$ 2,702,740,296</u>	<u>2,429,716</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

Year ended June 30, 2018

(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 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 \$68,898,975 and \$2,406,773, respectively, at June 30, 2018. 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, 2018.

(4) Administrative Cost Allowances

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

Federal Perkins Loan Program	\$	893,647
Federal Pell Grant Program		871,670
Federal Work-Study Program		403,948
Federal Supplemental Educational Opportunity Grant Program		<u>172,026</u>
Total administrative cost allowances	\$	<u>2,341,291</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.

CALIFORNIA STATE UNIVERSITY
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2018

(1) Summary of Auditors' Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____ None Reported

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 _____ None Reported

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

<u>CFDA number(s)</u>	<u>Name of federal program or cluster</u>
84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 84.408, and 93.364	Student Financial Assistance Cluster
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants
84.031	Higher Education – Institutional Aid

Dollar threshold used to distinguish between Type A and Type B programs: \$1,338,935

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

CALIFORNIA STATE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

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

2018-001

Missing Control over the Review of Employee Census Data used to Calculate Other Post-Employment Benefits

Condition and Context

The University records the net other postemployment benefits (OPEB) liability based on the projected benefit for current and active employees and retirees based on various assumptions and employee census data elements. Errors were identified in the census data file for the active employees, resulting in the OPEB expenses and liability being calculated using erroneous information. While the University submits changes to the census data elements for active employees to the State, there is a missing control over the review of the accuracy of census data used by the actuary in estimating OPEB expense and liability.

Criteria

A significant deficiency in internal control is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements will not be prevented or detected.

Potential Cause and Effect

Due to the lack of controls over the review to ensure completeness and accuracy of census data used by the actuary in estimating OPEB, this resulted in a projected overstatement of OPEB liability in the amount of \$199.3M. This error was not corrected in the June 30, 2018 financial statements.

Recommendation

We recommend that the University revisits its policies and procedures and take the necessary action to improve its control over the review of census data used in estimating OPEB liability.

View of Responsible Officials and Planned Corrective Action

The University concurs with the recommendation. The University will review the policies and procedures and develop appropriate internal controls to ensure the completeness and accuracy of the census data used by the actuary in estimating the net OPEB liability.

CALIFORNIA STATE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

(3) Findings and Questioned Costs Relating to Federal Awards

2018-002

Compliance requirement:	Enrollment Reporting
Campus:	Northridge, San Francisco, Sacramento, Chico, Fresno, Dominguez Hills, Pomona, San Marcos, and Sonoma
Cluster name/program:	Student Financial Assistance Cluster
CFDA number:	84.268 Federal Direct Student Loans 84.038 Federal Perkins Loan Program
Federal agency:	U.S. Department of Education
Pass-through entity:	None
Award year:	July 1, 2017 through June 30, 2018

Criteria or Specific Requirement

According to 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 haphazardly selected 132 students from 12 campuses that withdrew or graduated during the year that have direct loans that we tested for reporting the change of status to NSLDS and noted the following:

- We identified ten 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 3-237 days late.
- We identified three students with status changes that were not accurately reported to NSLDS due to campuses not accurately reporting retroactive withdrawals.

During our testwork, we have identified insufficient documentation of controls at six of the 12 campuses and noted the following:

- We were unable to obtain sufficient audit evidence over the effectiveness of the control at three of the 12 campuses.
- We identified sufficient control at one of the campuses, however, it was implemented in January 2018, as such, was not effective throughout the period under audit.

CALIFORNIA STATE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

- We identified inadequate documentation of the design and implementation of controls at two of the 12 campuses.

Since late or inaccurate enrollment status reporting in conjunction with inadequate documentation of controls was identified at six of the twelve 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 six campuses not implementing effective procedures in place to monitor the timely reporting from NSC to NSLDS. 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

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.

CALIFORNIA STATE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

2018-003

Compliance requirement:	Verification
Campus:	Northridge, San Francisco, Long Beach
Cluster name/program:	Student Financial Assistance Cluster
CFDA number:	84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 84.408, and 93.364
Federal agency:	U.S. Department of Education and U.S. Department of Health
Pass-through entity:	None
Award year:	July 1, 2017 through June 30, 2018

Criteria or Specific Requirement

Title 34 Education. Chapter VI – Office of Postsecondary Education, Department of Education. Part 668 Student Assistance General Provisions. Subpart E Verification of Student Aid Application Information. Sec. 668.56 Items to be verified. (a) Except as provided in paragraphs (b), (c), (d), and (e) of this section, an institution shall require an applicant selected for verification under Sec. 668.54(a)(2) or (3) to submit acceptable documentation described in Sec. 668.57 that will verify or update the following information used to determine the applicant's Expected Family Contributions (EFC): (2) U.S. income tax paid for the base year data was used in determining eligibility.

Condition Found and Context

During our testwork, we haphazardly selected 77 students from seven campuses that received Federal Financial Assistance awards during the year that were also selected for verification under Sec. 668.54(a)(2) or (3) and noted the following:

- We identified one student's verification documents were not appropriately obtained prior to the clearance of the verification flag, but did not result in any known questioned cost impact.
- We identified one student where the student's adjusted gross income (AGI) was incorrectly verified, resulting in a miscalculation of the student's expected family contribution (EFC) and an under-award of Pell grant by \$100. We verified that the campus corrected the under-award amount to the respective student within the same academic year.

The questioned cost is likely over \$25,000, if extrapolated over the entire Pell Grant awards disbursed population. We consider this to be a significant deficiency in internal control over the compliance requirement for verification.

CALIFORNIA STATE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

During our testwork, we have identified controls that are not operating effectively at 1 out of the 7 campuses.

Cause and Effect

Information reported on the campus verification worksheets did not match the information reported on the Institutional Student Information Record (ISIR), which could result in the use of inaccurate amounts in the determination of financial aid awards. The exception impacted the value of awards granted to the student in our selected sample.

Sampling

Not statistical

Isolated or Systemic

Isolated

Questioned Costs

Under-award of Pell Grant known amounts of \$100.

Repeat Finding

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

Recommendation

We recommend that the University put controls in place to ensure that applicant data is properly verified. In addition, any discrepancies in student data reported in the ISIR should be properly resolved and reported to the Department of Education.

Views of Responsible Officials

The University concurs with the recommendation. Campuses have taken steps to further strengthen internal controls to ensure application data is properly verified and any discrepancies in ISIR are properly resolved and reported to the Department of Education.

COMMITTEE ON AUDIT

Individual Consequences for Intentional Fiscal Improprieties at the CSU

Presentation By

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

Summary

The vast majority of California State University (CSU) personnel are ethical and well-intentioned and have a desire to conduct business activities with the utmost propriety. The CSU relies on ethical personnel at all levels of the organization to help fulfill its mission. The CSU's internal controls and operating procedures are intended to detect and to prevent or deter improper activities. However, even the best systems of control cannot provide absolute safeguards against irregularities. As part of an ongoing effort to provide public accountability and deter fraudulent activity, the CSU will pursue criminal prosecution for intentional fiscal improprieties committed against the CSU or a recognized auxiliary, and will seek repayment from responsible individuals whenever possible. In addition, discipline (up to and including dismissal) shall be evaluated and imposed when appropriate if a state/auxiliary employee is determined to have engaged in a fiscal impropriety such as fraud, theft, or the intentional misuse of funds resulting in a financial loss to the CSU or a recognized auxiliary.

Background

The California State Administrative Manual, Section 20080, requires state agencies to report actual or suspected fraud or errors to the Department of Finance and the California State Auditor. While the CSU is not subject to the requirements under the State Administrative Manual, the CSU is nevertheless committed to the highest ethical standards and to creating an environment where fraudulent and other improper acts are not tolerated. In May 2016, the chancellor issued Executive Order 1104 (EO 1104), *Campus Reporting of Fiscal Improprieties*, which superseded an earlier executive order on reporting of fiscal improprieties. Under EO 1104, the chancellor and campus presidents are required to notify Chancellor's Office administrators (the chancellor, executive vice chancellor/CFO, vice chancellor and chief audit officer) and the chair of the Board of Trustees' Committee on Audit of actual or suspected fiscal improprieties of \$5,000 or more, and, for losses greater than \$50,000, they must also notify the California State Auditor and the Department of Finance. Decisions of whether to refer cases for prosecution or pursue discipline are not specifically addressed in the current policy but should be considered as part of the reporting process.

Active oversight and monitoring processes for the prevention and early detection of fraud and errors in program administration are vital to public confidence and the appropriate and efficient use of public resources. If it is believed that intentional fiscal improprieties have been committed against the CSU or a recognized auxiliary, the CSU should consult with the appropriate prosecuting authority. The appropriate prosecuting authority shall determine in its discretion whether to pursue criminal prosecution. Finally, in all cases where a state/auxiliary employee is determined to have intentionally engaged in a fiscal impropriety, discipline (up to and including dismissal) shall be evaluated and imposed when appropriate.

Recommended Action

The following resolution is recommended for adoption:

RESOLVED, by the Committee on Audit of the California State University Board of Trustees, that, effective immediately:

1. If the chancellor or campus presidents a) determine that it is more likely than not that there has been a fiscal impropriety such as fraud, theft, or intentional misuse of funds resulting in a loss to the CSU or a recognized auxiliary greater than \$20,000; and b) with a reasonable degree of certainty, they have identified an individual or individual(s) as responsible; and c) it is believed the individual(s) intentionally engaged in the fiscal impropriety, the chancellor or campus president (or their designee) shall promptly contact the appropriate prosecuting authority and present the evidence so that the prosecuting authority may consider criminal prosecution. In cases where the loss is \$20,000 or less, the chancellor and campus presidents are encouraged to present the evidence to the prosecuting authority, if appropriate based on the totality of the circumstances.
2. If an individual has been identified as responsible for an intentional act of fiscal impropriety resulting in a loss in any amount to the CSU or a recognized auxiliary, the CSU shall in all cases evaluate the appropriateness of seeking repayment of the loss either outright or in the form of a restitution agreement, and such repayment or agreement to repay shall be secured whenever possible and whenever appropriate based on the totality of the circumstances.
3. On an annual basis the chancellor and each campus president is required to complete a certification stating that, in accordance with CSU policy, they have disclosed all known actual or suspected fiscal improprieties of \$5,000 or more.
4. Further, in all cases where an investigation substantiates that there has been a fiscal impropriety such as fraud, theft, or intentional misuse of funds resulting in a loss to the CSU or a recognized auxiliary and a state/auxiliary employee is determined by a preponderance of the evidence to be culpable, discipline (up to and including dismissal) shall be evaluated and imposed when appropriate.