

AGENDA

COMMITTEE ON AUDIT

Meeting: 4:00 p.m., Tuesday, January 28, 2020
Glenn S. Dumke Auditorium

Jack McGrory, Chair
Hugo N. Morales, Vice Chair
Silas H. Abrego
Jane W. Carney
Douglas Faigin
Jean P. Firstenberg
Wenda Fong
Lateefah Simon

- Consent**
1. Approval of Minutes of the Meeting of November 19, 2019, *Action*
 2. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
- Discussion**
3. Calendar Year 2020 Audit Plan, *Action*
 4. Status Report on the California State Auditor Report on Accounts Outside the State Treasury and Campus Parking Programs, *Information*
 5. Audited Financial Statements and Single Audit Report, *Information*

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

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

November 19, 2019

Members Present

Jack McGrory, Chair
Hugo N. Morales, Vice Chair
Silas Abrego
Jane W. Carney
Douglas Faigin
Jean P. Firstenberg
Wenda Fong
Lateefah Simon
Adam Day, Chair of the Board

Trustee Jack McGrory called the meeting to order.

Approval of Minutes

The minutes of September 25, 2019, were approved as submitted.

Status Report on Current and Follow-up Internal Audit Assignments

With the concurrence of the committee, Trustee McGrory presented agenda item 2 as a consent information item.

Status Report on Consideration of Opportunities for Continued Program Enhancement of the Institutional Control Environment

Mr. Mandel provided a summary of the four observations and opportunities for continued program enhancement related to the institutional control environment contained in the January 2019 Report on the Results of the Quality Assessment Review (QAR) of the California State University System Internal Audit Program. While the primary objective of the QAR was to provide reasonable assurance that the internal auditing program at the California State University System complied with the International Professional Practices Framework promulgated by the Institute of Internal

Aud.
Agenda Item 1
January 28-29, 2020
Page 2 of 2

Auditors, observations and opportunities for continued program enhancement related to the institutional control environment were also noted. The review team was cognizant of the strong control environment at the CSU because of the effect it can have on audit work and did not detect weaknesses in the control environment.

Mr. Mandel provided a status update on each of the four opportunities for continued program enhancement. There is one item remaining for board consideration—a systemwide code of ethics. It was noted that a draft systemwide statement on ethical values and expectations is anticipated to be prepared for the January 2020 meeting of the Committee on Audit.

Trustee Carney asked several questions pertaining to the CSU whistleblower complaint process and average number of complaints and Chancellor White and Mr. Mandel clarified that the quality assurance review items being discussed were suggestions to consider as opposed to traditional audit recommendations.

Trustee McGrory 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 49 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. Twenty-eight campus reports have been completed, report writing is being completed for six campuses, and five reports are awaiting a campus response prior to finalization.

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. Six campus reports have been completed, report writing is being completed for three campuses, and one report is awaiting a campus response prior to finalization.

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. Four campus reports have been completed 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. Three campus reports have been completed, report writing is being completed for one campus, and one report is awaiting a campus response prior to finalization.

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 12 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 1/23/2020)

Campus	Audit Topic	Audit Plan Year	Audit Status	Follow-up on Current and Past Audit Assignments	
				*Recs	**Mo.
Bakersfield	Const. - Humanities Office Bldg. & Humanities Classrooms	2019	AC	4/4	-
	Health and Safety	2019	AC	2/10	4
	Student Union	2019	AI		
Channel Islands	Health and Safety	2019	AI		
	Faculty Reassigned Time & Addtl. Employ.	2019	RW		
Chico	Special Investigation - Misuse of Campus Resources and Improper Reim. Claims	2018	AC	0/7	2
	Health and Safety	2019	AC	0/11	5
	Housing and Residential Services	2019	AC	0/11	3
Dominguez Hills	International Activities	2018	AC	8/9	15 ¹
	Health and Safety	2019	AC	0/15	2
East Bay	Educational Foundation	2019	AC	3/3	-
	Health and Safety	2019	AC	0/13	3
	IT Disaster Recovery	2019	RW		
Fresno	Information Security	2019	AC	4/10	5
	Health and Safety	2019	AC	3/12	4
	Associated Students, Inc.	2019	AI		
Fullerton	Sponsored Programs	2019	AC	4/4	-
	Health and Safety	2019	AC	9/9	-
	Associated Students, Inc.	2019	AC	0/11	2
	Accessible Technology	2019	RW		
Humboldt	Health and Safety	2019	AC	10/17	7
Long Beach	The Forty-Niner Shops, Inc.	2018	AC	18/18	-
	Information Security	2019	AC	3/4	7
	Health and Safety	2019	AC	11/15	6
	Emergency Management	2019	AC	0/6	3
	Special Investigation - Inaccuracies in Time Reporting for Grant Program	2019	AC	0/5	1
Los Angeles	Const. - College of Continuing Professional Education Classroom Bldg.	2019	RW		
	Health and Safety	2019	AC	10/10	-
	Const. - Rongxiang Xu Bioscience Inn. Cntr. Foundation	2019	AC	0/3	2
Maritime Academy	Health and Safety	2019	AC	7/7	-
	IT Disaster Recovery	2019	RW		
Monterey Bay	University Corporation	2019	AC	9/9	-
	Sponsored Programs - Post Award	2019	AC	4/4	-
	Health and Safety	2019	AI		
Northridge	Health and Safety	2019	AC	8/11	7
	Cloud Computing	2019	AI		
	Emergency Management	2019	RW		
Pomona	Const. - Student Services Building	2019	AC	5/5	-
	Professional & Continuing Education	2019	AC	0/7	2
	Health and Safety	2019	RW		

**Status Report on Current and Past
Audit Assignments
(as of 1/23/2020)**

Campus	Audit Topic	Audit Plan Year	Audit Status	Follow-up on Current and Past Audit Assignments	
				*Recs	**Mo.
Sacramento	Associated Students of CSU, Sacramento	2018	AC	9/10	11 ²
	Cashiering	2019	AC	4/7	9
	Emergency Management	2019	AC	0/7	5
	Health and Safety	2019	AI		
San Bernardino	Health and Safety	2019	AC	17/17	-
	Information Security	2019	AC	0/4	3
San Diego	Decentralized Computing	2018	AC	11/11	-
	The Campanile Foundation	2019	AC	4/4	-
	Health and Safety	2019	AC	2/6	5
	Sponsored Programs - Pre Award	2019	AC	1/1	-
San Francisco	Health and Safety	2019	AC	11/11	-
	Information Security	2019	AI		
	Emergency Management	2019	AI		
San Jose	Health and Safety	2019	AC	11/12	8
	Const. - Spartan Golf Complex, Phase I	2019	AC	4/5	7
	Information Security	2019	AC	0/4	2
	Facilities Management	2019	RW		
San Luis Obispo	Health and Safety	2019	AC	9/9	-
	Sponsored Programs	2019	AC	0/5	1
San Marcos	Health and Safety	2019	AC	6/9	5
	IT Disaster Recovery	2019	AC	0/4	2
Sonoma	Health and Safety	2019	RW		
Stanislaus	Health and Safety	2019	AC	6/11	5
	Foundation	2019	AC	7/7	-
	Sponsored Programs - Post Award	2019	RW		
Chancellor's Office	Accessible Technology	2019	AC	0/7	7 ³
	Health and Safety	2019	AI		
Systemwide	Student Organizations	2017	AC	1/1	-

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 4/30/20.

² Approved extended completion date of 5/1/20.

³ Approved extended completion date of 1/31/20.

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

COMMITTEE ON AUDIT

Calendar Year 2020 Audit Plan

Presentation By

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

Background

Education Code Section 89045, enacted by Chapter 1406 of the Statutes of 1969, provides for the establishment of an internal auditing function reporting directly to the Trustees of the California State University. Audit and Advisory Services assists university management and the Trustees in the effective discharge of their fiduciary and administrative responsibilities by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Additionally, Audit and Advisory Services serves the university in a manner that is consistent with the *International Professional Practices Framework* and the *Code of Ethics* as promulgated by the Institute of Internal Auditors.

Summary

Audit and Advisory Services presents its audit plan for the calendar year at the January meeting of the Board of Trustees' Committee on Audit for review and approval. The following item is an audit plan for calendar year 2020.

Audit Plan

AUDITS – 66% of Plan

As part of the annual audit planning process, customized individual campus audit plans are created and are aligned with campus and auxiliary organization risks and systemwide goals. The plan provides coverage in seven distinct organizational areas: academic administration; finance and administration; information technology; student activities and services; human resources; risk management; and auxiliary organizations.

Academic Administration

Audits planned in this area include professional and continuing education, post-award administration, intercollegiate athletics, service learning, and internships.

Finance and Administration

Audits planned in this area include construction management, conference services, facilities management, credit cards, and accounts payable and disbursements.

Information Technology

Audits planned in this area include information security, information technology disaster recovery, accessible technology, and cloud computing.

Student Activities and Services

Audits planned in this area include student organizations, scholarships, and housing and residential services.

Human Resources

Audits planned in this area include academic personnel and faculty reassigned time and additional employment.

Risk Management

Audits planned in this area include minors on campus, emergency management, and business continuity.

Auxiliary Organizations

While auxiliary operations will be included within the scope of the various audits being performed within the aforementioned six organizational areas, stand-alone auxiliary organization audits will also be performed as part of the audit plan. Audits planned in this area include foundations, student unions, and corporations.

Continuous Auditing

Continuous auditing techniques are employed using data analytics tools and techniques to analyze large volumes of data, look for anomalies and trends, and complement the existing audit process. Building upon the continuous audit reviews of credit card data that took place in 2018 and 2019, credit card information management tools are being finalized, which will be used to provide periodic updates and information to campus management on campus credit card programs. Additionally, continuous audit tests will be piloted on human resources and payroll data to identify potential risks and anomalies. Reviews in this area will be performed on a limited number of campuses during the latter half of the year.

ADVISORY SERVICES – 16% of Plan

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

INVESTIGATIONS – 8% of Plan

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 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 of the CSU 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.

COMMITTEES/SPECIAL PROJECTS – 1% of Plan

Audit and Advisory Services is periodically called upon to provide consultation to the campuses and/or participate in CSU affinity groups and serve on committees such as those related to information technology and policy development, and to perform special projects.

AUDIT SUPPORT – 9% of Plan

Annual Audit Planning Process

Audit and Advisory Services performs an annual audit planning process using risk questionnaires and other surveys, management interviews, audit history, and other factors. 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 Audit and Advisory Services includes such tasks as scheduling, personnel administration, maintenance of department standards and protocols, administration of the department's automated workpaper system, audit planning database, SharePoint website, and department quality assurance and improvement.

The following resolution is recommended for approval:

RESOLVED, By the Committee on Audit of the California State University Board of Trustees that the Calendar Year 2020 Audit Plan, as detailed in Agenda Item 3 of the Committee on Audit at the January 28-29, 2020 meeting, be approved.

COMMITTEE ON AUDIT

Status Report on the California State Auditor Report on Accounts Outside the State Treasury and Campus Parking Programs

Presentation By

Larry Mandel
Vice Chancellor and Chief Audit Officer

Summary

In June 2019, the California State Auditor (State Auditor) issued its report on the California State University's (CSU's) financial accounts invested outside the state treasury and campus parking programs. The State Auditor requires follow-up responses 60 days, six months, and one year after the report is issued.

The 60-day response was submitted to the State Auditor on August 19, 2019, and was included in the board packet at the September meeting of the Committee on Audit. The CSU asserted full implementation of one of the eight recommendations. While the State Auditor confirmed that the two examples provided in support of the CSU's assertion were exactly what they were looking for, they want to see more repetition. Additional examples will be provided to the State Auditor as they become available. The State Auditor considers this recommendation to be partially implemented.

The six-month response was submitted to the State Auditor on December 20, 2019, and is included as Attachment A. The CSU asserted full implementation of two additional recommendations. The State Auditor is currently reviewing the submission and it is anticipated that updated information will be available in time for the March board meeting.

6-Month Responses to CSA Audit #2018-127 Parking Programs and Outside Accounts Submitted December 20, 2019

Note: The audit report included 10 total recommendations. Recommendation numbers 1 and 4 were made to the Legislature.

Report Recommendation #2:

To improve CSU's financial transparency with students and other stakeholders, the Chancellor's Office, with the approval of the trustees, should revise CSU policy by October 2019 to require that it publish information about CSU's discretionary surplus. At a minimum, the Chancellor's Office should do the following:

- Identify the full amount of discretionary surplus that CSU has accumulated to date in its outside investment account that is attributable to its operating fund or other funds that hold tuition revenue, an estimate of the portion of the surplus amounts that came from tuition, and the dollar amount to date that CSU is obligated to spend to pay for goods and services it has already received or expenses that are tied to existing contracts.
- Report this information to the trustees when it presents them with a summary of CSU's reserves, at least annually.
- Ensure that this information is easily accessible on CSU's website and publicly available to all stakeholders, along with the information CSU provides about tuition rates and policies.

60-Day Response:

Estimated completion date: November 2019

Status: Not fully implemented.¹

CSA Assessment of 60-Day Response: Pending

The Chancellor's Office is drafting policy updates to implement the recommendation. We anticipate being able to update our policy and website by October 2019 and make a report to the trustees at the November 2019 meeting.

6-Month Response:

First month of full implementation: November 2019

Status: Fully implemented

At the September 24-25, 2019 Board of Trustees meeting, the trustees were presented with information on the operating fund designated balances and reserves, which

¹ The State Auditor's website, where we upload these responses, provides three status options: fully implemented, not fully implemented, or will not implement.

included a breakdown of total amounts related to short term obligations, capital, and operating activities. The information was presented again at the November 19-20, 2019 meeting, and estimated the portion of reserves that came from tuition by stating that the designated balances and reserves were accumulated primarily from tuition. Because state statutes require that we spend the general fund appropriation throughout the year, any designated balances or reserves available on June 30 of each year are derived primarily from tuition and fee revenue. The information presented also noted that the reserve policy was revised. The revised policy requires that the designated balances and reserve information be shared with the trustees at least annually and included on the CSU's transparency portal so it is publicly available to stakeholders. Further, included in the 2020-2021 Tuition Proposal Prepared for the California State Student Association is a discussion about the use of operating fund designated balances and reserves as one of the alternatives for addressing a potential operating budget shortfall. This discussion further demonstrates the California State University's commitment to financial transparency.

Report Recommendation #3:

To improve CSU's financial transparency with students and other stakeholders, the Chancellor's Office, with the approval of the trustees, should revise CSU policy by October 2019 to require that it publish information about CSU's discretionary surplus. At a minimum, the Chancellor's Office should do the following:

- Revise its reserve policy to establish and justify a minimum sufficient level of reserve for economic uncertainty and require the Chancellor's Office to provide additional oversight to ensure that CSU maintains that level. This oversight should include monitoring, approving, and notifying the trustees of any uses of the reserve for economic uncertainty.

60-Day Response:

Estimated completion date: October 2019

Status: Not fully implemented.

CSA Assessment of 60-Day Response: Pending

The Chancellor's Office is drafting policy updates to implement the recommendation.

6-Month Response:

First month of full implementation: November 2019

Status: Fully implemented.

The Chancellor's Office revised the reserve policy to require the publication of information about the designated balances and reserves and include information about a minimum sufficient level for reserves for economic uncertainty. The policy was presented at the November 2019 Board of Trustees meeting. Oversight of the reserve balances is achieved via the annual reporting requirements and sharing the information with the trustees annually. With regard to approval for the use of reserves for economic uncertainty, Executive Order 1000, *Delegation of Fiscal Authority and Responsibility*, issued pursuant to Standing Orders of the Board of Trustees and the California

Education Code, delegates authority to the campus president for effective oversight of all state funds held by the campus and all funds held in a fiduciary capacity. In addition, campuses prepare an annual budget submission that includes information about their reserves for economic uncertainty and this information is reviewed by the systemwide budget office and must be approved by the chief financial officer at the Chancellor's Office.

Moreover, each year since 2016, the Chancellor's Office has provided a tuition proposal report to the California State Student Association. The proposal includes a discussion about the use of operating fund designated balances and reserves, including the reserves for economic uncertainty and further demonstrates the California State University's commitment to financial transparency. The designated balances and reserves are listed as one alternative for addressing a potential operating budget shortfall.

Report Recommendation #5:

To ensure that campuses thoroughly investigate and consider alternate transportation strategies, the Chancellor's Office should immediately enforce its policy and require campuses to submit the following information when they request to build new parking facilities:

- Up-to-date master plans and transportation management plans that include as key components their plans for implementing alternate transportation strategies.
- Information on whether and to what extent their alternate transportation strategies have decreased parking demand and evidence that projected parking demand justifies building a new parking facility.

60-Day Response:

First month of full implementation: July 2019

Status: Fully implemented.

CSA Assessment of 60-Day Response: Partially implemented

In July 2019, Chancellor's Office representatives met with campus parking directors to discuss the implementation of the audit recommendations. In addition, the CSU's division of Capital Planning, Design and Construction (CPDC) has taken steps to ensure more meticulous implementation of CSU policy. For example, for a proposed parking structure at the Fullerton campus, CPDC notified campus representatives of the additional information they needed to provide in order to proceed with the process. Further, for a proposed parking structure at the Dominguez Hills campus, CPDC sent a detailed memo to the campus interim vice president outlining additional issues the campus must address before proceeding further with the project.

CSA Assessment of 60-Day Response: Partially Implemented

The Chancellor's Office has demonstrated that it is taking steps to implement the recommendation. For one campus requesting to build a new parking structure, the Chancellor's Office provided information on to what extent their alternate transportation strategies decreased parking demand. The Chancellor's Office also provided evidence that it followed up with another campus to provide additional information related to parking demand and alternate transportation. The Chancellor's

Office should continue this practice and provide additional examples in its six-month response to our recommendations.

Auditee did not substantiate its claim of full implementation

6-Month Response:

First month of full implementation: July 2019

Status: Fully implemented.

The Chancellor's Office continues to assert that this recommendation is fully implemented. We will continue the practice of enforcing the policy requirements, but there have been no additional submissions from campuses requesting to build new parking structures and we do not know when any future submissions may occur.

Report Recommendation #6:

The Chancellor's Office should update its policy by October 2019 to require campuses to submit the following information when requesting to build a new parking facility:

- The total annual cost to implement each alternate transportation strategy compared to the annual cost of constructing, operating, and maintaining a new parking facility.
- The cost per student served by those strategies compared to the cost per student of constructing, operating, and maintaining a new parking facility.
- The number of students served by each of those strategies compared to the number of students served by the new facility.
- Information, including participation data, on how the campuses have implemented alternate transportation strategies during the last three years.

60-Day Response:

Estimated completion date: October 2019

Status: Not fully implemented.

CSA Assessment of 60-Day Response: Pending

The Chancellor's Office has drafted and communicated for review policy updates to implement the recommendation with the primarily affected campus staff and their management. Comments on the policy were solicited to ensure the feasibility of the specific requirements in the drafted policy. Final adoption of the policy is expected in October 2019.

6-Month Response:

First month of full implementation: January 2020

Status: Not fully implemented.

The Chancellor's Office has drafted a revised policy to address the recommendation. The draft policy is undergoing review and is expected to be finalized by the end of January 2020. In addition, the division of Capital Planning, Design, and Construction at the Chancellor's Office has hired a transportation analyst whose primary job duty is to

analyze the effectiveness of campus transportation and parking programs and promote the lowest cost/preferred alternatives.

Report Recommendation #7

The Chancellor's Office should not approve any request to build a new parking facility unless the requesting campus has submitted this information (recommendations 5 and 6) and the Chancellor's Office has reviewed and approved it.

60-Day Response:

Estimated completion date: January 2020

Status: Not fully implemented.

CSA Assessment of 60-Day Response: Pending

The Chancellor's Office is already requiring the information outlined in recommendation 5 and has used those experiences to draft and circulate updated policy in response to recommendation 6. Once the draft policy and programs have been reviewed and accepted, we will formalize all of the new requirements for requests to build a parking facility.

6-Month Response:

Estimated completion date: January 2020

Status: Not fully implemented.

The Chancellor's Office previously provided examples of follow up with two campuses to request additional information before the Chancellor's Office would approve requests to build new parking facilities. Since that time, the Chancellor's Office has drafted a revised policy to further address the information campuses must provide when requesting to build a new parking facility. The draft policy is undergoing review and is expected to be finalized by the end of January 2020.

Report Recommendation #8:

To ensure that campuses' alternate transportation committees are consistent systemwide, the Chancellor's Office should adopt systemwide policies, by October 2019, to detail the following:

- The frequency of required meetings. The policy should require meetings at least biennially.
- The composition of committee members. The policy should require that the committees include student representatives.
- The committees' responsibilities. These responsibilities should include the assessment of alternate transportation programs based on participation data and recommendations in the campuses' transportation studies.

60-Day Response:

Estimated completion date: October 2019

Status: Not fully implemented.

CSA Assessment of 60-Day Response: Pending

The Chancellor's Office is drafting policy updates to implement the recommendation and will notify campuses of the new requirements once the policies are in place.

6-Month Response:

Estimated completion date: January 2020

Status: Not fully implemented.

The Chancellor's Office has drafted a revised policy to address the recommendation. The draft policy is undergoing review and is expected to be finalized by the end of January 2020.

Report Recommendation #9:

The Chancellor's Office should also require that, by October 2019, the campuses publish the names of the alternate transportation committee members, the committee meeting minutes, and the committee meeting schedule on their parking and transportation services websites.

60-Day Response:

Estimated completion date: October 2019

Status: Not fully implemented.

CSA Assessment of 60-Day Response: Pending

6-Month Response:

Estimated completion date: January 2020

Status: Not fully implemented.

The Chancellor's Office has drafted a revised policy to address the recommendation. The draft policy is undergoing review and is expected to be finalized by the end of January 2020.

Report Recommendation #10:

To ensure that campuses have a stable source of funding for investing in alternate transportation programs, the Chancellor's Office should update its policy by October 2019 to require campuses to include in their master plans or transportation management plans the potential revenue streams they will explore to secure a stable source for funding these programs. Examples of such revenue streams could include parking fees that they have reprioritized for alternate transportation, a stand-alone student transportation fee, local government partnerships or grants, or surplus parking revenue.

60-Day Response:

Estimated completion date: October 2019

Status: Not fully implemented.

CSA Assessment of 60-Day Response: Pending

The Chancellor's Office is drafting policy updates to implement the recommendation and will notify campuses of the new requirements once the policies are in place.

6-Month Response:

Estimated completion date: January 2020

Status: Not fully implemented.

The Chancellor's Office has drafted a revised policy to address the recommendation. The draft policy is undergoing review and is expected to be finalized by the end of January 2020.

COMMITTEE ON AUDIT

Audited Financial Statements and Single Audit Report

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Mary Ek
Assistant Vice Chancellor/Controller
Financial Services

Summary

Financial statement 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 19 certified public accounting firms. The CSU systemwide financial statements for fiscal year ended June 30, 2019, included as Attachment A, were issued with an unmodified opinion on December 12, 2019. There was an audit finding related to the CSU systemwide financial statements regarding the employee census data used in the calculations of other post employment benefits (OPEB). Highlights of the systemwide financial statements and significant changes from last year will be presented at the January 2020 Board of Trustees meeting.

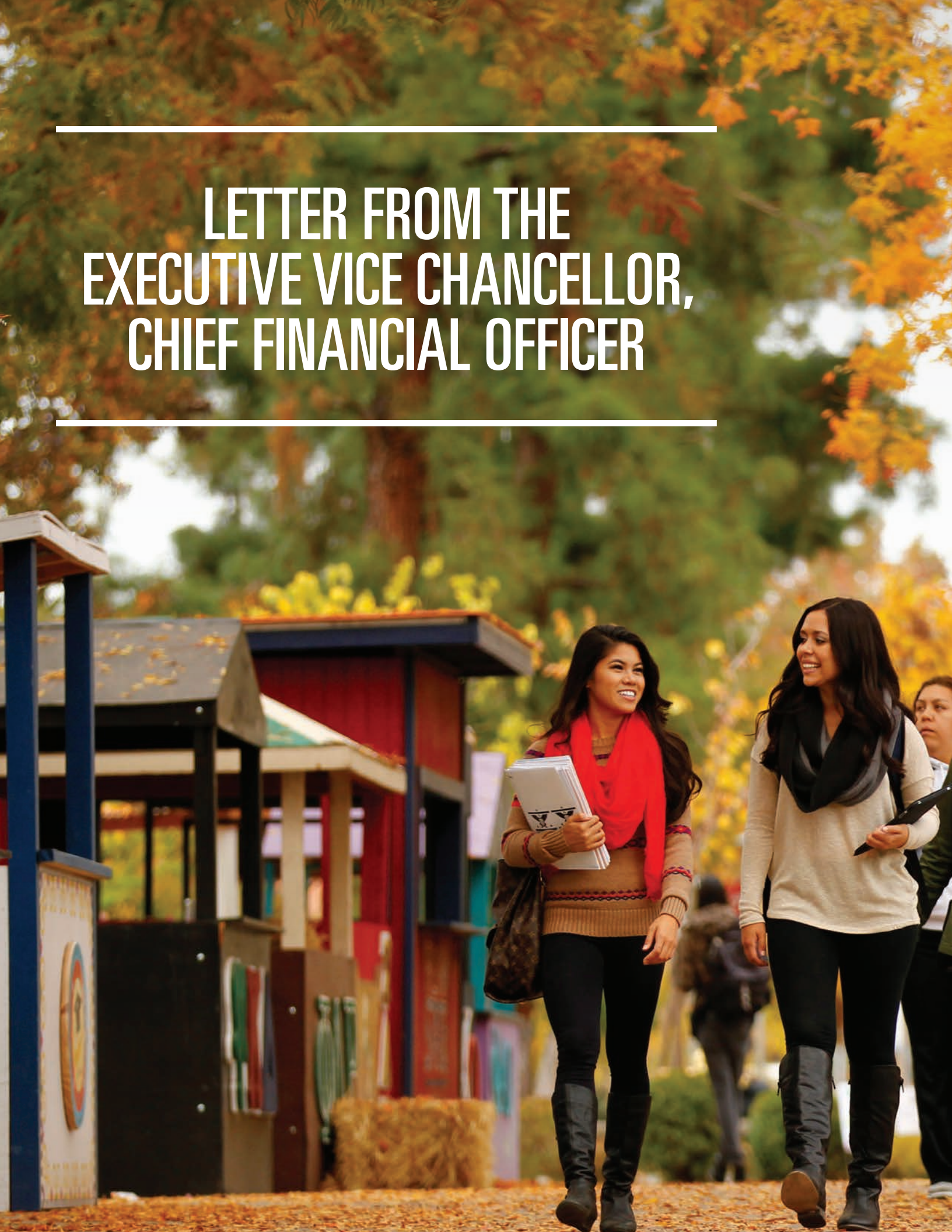
The CSU Single Audit Report was also issued on December 12, 2019, and is included as Attachment B. The Single Audit Report covers federal awards received by the CSU, including student financial aid, subject to both compliance and internal control audit procedures as required by the Office of Management 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.



Table of Contents

	Page
Letter from the Executive Vice Chancellor, Chief Financial Officer	1
Independent Auditors' Report	2
Management's Discussion and Analysis (Unaudited)	5
Basic Financial Statements:	
Statement of Net Position	26
Statement of Revenues, Expenses, and Changes in Net Position	28
Statement of Cash Flows	30
Notes to Financial Statements	34
Required Supplementary Information:	
Schedule 1: Schedule of University's Proportionate Share of the Net Pension Liability and Related Ratios (Unaudited)	79
Schedule 2: Schedule of Employer Contributions Related to Pension (Unaudited)	80
Schedule 3: Schedule of University's Total Other Postemployment Benefits Liability and Related Ratios (Unaudited)	82
Schedule 4: Schedule of Employer Contributions Related to Other Postemployment Benefits (Unaudited)	83
Supplementary Information:	
Schedule 5: Systemwide Revenue Bond Program's Net Income Available for Debt Service	85
Schedule 6: Systemwide Revenue Bond Program's Residence and Dining Halls Operating Data by Campus (Unaudited)	86
Schedule 7: Systemwide Revenue Bond Program's Statement of Insurance Coverage (Unaudited)	88

LETTER FROM THE EXECUTIVE VICE CHANCELLOR, CHIEF FINANCIAL OFFICER



LETTER FROM THE EXECUTIVE VICE CHANCELLOR, CHIEF FINANCIAL OFFICER



The California State University is the largest and most ethnically and economically diverse four-year university in the United States. We educate more than 475,000 students across 23 campuses spanning 800 miles, from Humboldt State in the north to San Diego State in the south. By bringing the life-changing opportunities of an affordable, high-quality education to a student population as dynamically diverse as California itself, the CSU is a powerful driver of social mobility.

The CSU drives California's economy, as well. One in 10 California employees is a CSU graduate. With more than 125,000 annual graduates, we award approximately half of the state's bachelor's degrees, fueling innovation and prosperity in fields such as information technology, agriculture, education, engineering, healthcare, business, public administration, media and entertainment.

But we are committed to doing more for Californians from all walks of life, for whom a college degree has never been more important, and to increasing our educated workforce to sustain economic growth.

To that end, we are continuing to increase our enrollment capacity, hiring additional tenure-track faculty and adding course sections. We've introduced a new admission redirection policy to ensure that no eligible student is turned away from the CSU.

However, we know that merely opening the door to higher education is not enough. So, as we work to provide increased access for California's diverse citizenry, we are also committed to ensuring that all our students succeed and graduate in a timely manner. By providing holistic student support, the CSU's flagship Graduation Initiative 2025 is designed to do exactly that, and the results have been truly remarkable. Graduation rates are at all-time highs for all students, regardless of race, ethnicity or financial background. Record numbers of degrees are being awarded.

Indeed, we are gaining momentum at the CSU. We have worked hard to streamline our operations so that we can direct more resources toward student success. Our financial position is strong. The state has demonstrated its belief in the CSU by investing boldly in our work.

Our commitment to the people of California is to build upon this momentum – to do more than ever before to ensure authentic access to an affordable quality education for all – and to help propel California toward its brightest future.

A handwritten signature in black ink, appearing to read 'Steve Relyea', written in a cursive, flowing style.

Steve Relyea
Executive Vice Chancellor, CFO
The California State University

INDEPENDENT AUDITORS' REPORT

GRANT M. BROWN
ENGINEERING
BUILDING

41

CALIFORNIA POLYTECHNIC
SAN LUIS OBISPO
COLLEGE OF ENG



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, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of 88 of the 90 aggregate discretely presented component units, which reflect total assets constituting 95% and total revenues constituting 94% of the aggregate discretely presented component units totals. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the 88 discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 39 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, 2019, 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.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 5-24, the Schedules of University's proportionate share of the net pension liability and related ratios, and employer contributions related to pension 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 was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, 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 December 19, 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
December 19, 2019



MANAGEMENT'S DISCUSSION AND ANALYSIS

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

The discussion and analysis below 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, 2019, including 23 campuses and the Office of the Chancellor (collectively referred to as the University), and 90 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 consist of primarily recognized auxiliary organizations. These not-for-profit 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, 2019 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 revenue sources, in a manner similar to the private sector. The University's discretely presented component units are presented in a separate column to enable the reader to distinguish between the University and these separate but related not-for-profit organizations.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

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.

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

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

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:

	University		Discretely presented component units	
	2019	2018	2019	2018
	(In thousands)			
Assets:				
Current assets	\$ 4,076,294	3,788,535	1,585,507	1,559,753
Capital assets, net	9,538,377	9,056,572	912,577	833,650
Other noncurrent assets	2,017,426	1,915,548	2,487,979	2,358,674
Total assets	15,632,097	14,760,655	4,986,063	4,752,077
Deferred outflows of resources	2,456,788	3,752,587	32,520	37,782
Liabilities:				
Current liabilities	1,502,157	1,426,526	493,517	517,734
Noncurrent liabilities	28,279,755	29,756,004	1,034,713	1,014,903
Total liabilities	29,781,912	31,182,530	1,528,230	1,532,637
Deferred inflows of resources	2,888,140	1,504,986	52,189	45,034
Net position:				
Net investment in capital assets	3,438,964	3,485,290	295,177	259,778
Restricted:				
Nonexpendable	1,693	1,708	1,336,916	1,274,214
Expendable	194,812	135,223	1,146,945	1,025,148
Unrestricted	(18,216,636)	(17,796,495)	659,126	653,048
Total net position	\$ (14,581,167)	(14,174,274)	3,438,164	3,212,188

The University's net position decreased by \$406.89 million in 2019. The University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in 2018. This change in accounting policy in 2018 was the primary reason for the deficit in the unrestricted net position. Despite the deficit, the University's current ratio, which measures its ability to pay-off short-term obligations, remains positive for both years at an average of 2.68.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

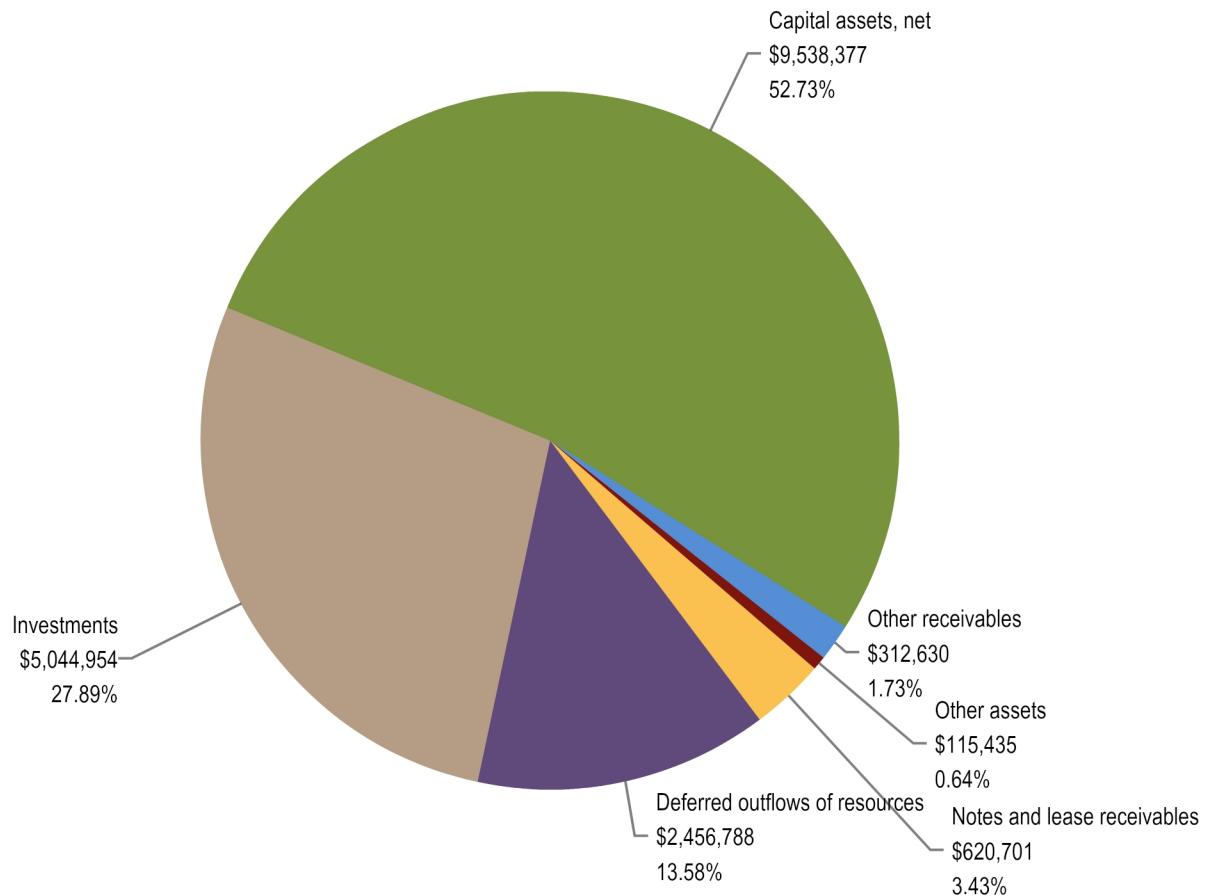
(Unaudited)

The University's Financial Position

Assets and Deferred Outflows of Resources

Total assets increased from \$14.76 billion in 2018 to \$15.63 billion in 2019. Deferred outflows of resources decreased from \$3.75 billion in 2018 to \$2.46 billion in 2019.

Assets and Deferred Outflows of Resources
(In thousands)



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.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

Capital Assets, Net

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

	2019	2018
	(In thousands)	
Land and land improvements	\$ 281,916	273,340
Buildings and building improvements	6,861,632	6,468,331
Improvements other than buildings	213,164	211,300
Infrastructure	658,566	648,478
Equipment	228,913	232,830
Library books and materials	29,578	30,877
Works of art and historical treasures	50,100	47,231
Intangible assets	57,870	59,928
Construction work in progress	1,156,638	1,084,257
Total	\$ 9,538,377	9,056,572

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 union and recreation centers, and housing facilities. Major projects in 2019 included the Dominguez Hills Center for Science and Innovation, the Long Beach Student Success Center/Peterson Hall 2 renovation, the Los Angeles Student Housing East and Parking Structure E, the Monterey Bay Academic Building III and Student Union, the Pomona Student Housing Replacement, the San Bernardino College of Extended Learning expansion, and the San Jose Student Recreation and Aquatics Center.

Investments

The University invests its funds mainly in the Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), and the Total Return Portfolio (TRP), collectively referred herein as CSU Consolidated Investment Pool. The purpose of the Liquidity Portfolio is to provide sufficient and immediate liquidity to meet the operating needs of the University. The investment objective for TRP is to achieve prudent return within a moderate risk level. In addition, funds are invested in Surplus Money Investment Fund (SMIF), which is managed and invested by the State Treasurer in a short-term pool. The proceeds from the sale of Systemwide Revenue Bonds (SRB) are held by the State and invested in SMIF, as required by state law. The investment balances are as follows:

	2019	Percentage of total	2018	Percentage of total
	(In thousands)		(In thousands)	
Liquidity Portfolio	\$ 3,655,041	72.45%	\$ 3,780,477	80.13%
Total Return Portfolio	559,192	11.08	126,033	2.67
State's Surplus Money Investment Fund	830,721	16.47	811,514	17.20
Total	\$ 5,044,954	100.00%	\$ 4,718,024	100.00%

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

Investments increased from \$4.72 billion in 2018 to \$5.04 billion in 2019. Investments increased due to proceeds from issuance of SRB Series 2018A/B and Bond Anticipation Notes (BAN), investment gains/earnings, and increase in operating resources provided by the State through noncapital appropriations. This is offset by capital project spending and debt service payments.

Notes 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 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 \$376.75 million in 2018 to \$400.38 million in 2019. The increase of \$23.63 million is due mainly to the new loan agreements for construction of facilities on the University amounting to \$90.28 million, net of current year collections of \$66.65 million.

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:

- *Pension* - Increases in the net pension liability that are not recognized as pension expenses for the reporting period are reported as deferred outflows of resources. This includes 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, which 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.
- *Other Postemployment Benefits (OPEB)* - The employer contributions subsequent to measurement date are recognized as deferred outflows of resources and a reduction of total OPEB liability in the following year.
- *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.

Deferred outflows of resources decreased by \$1.30 billion from \$3.75 billion in 2018 to \$2.46 billion in 2019. This is mainly due to the decrease in deferred outflows related to net pension liability. In 2018, the University recognized a one-time supplemental pension contribution of \$876.84 million which was applied against net pension liability in 2019. In addition, there was an amortization of \$467.55 million for deferred outflows of resources related to net pension liability.

CALIFORNIA STATE UNIVERSITY

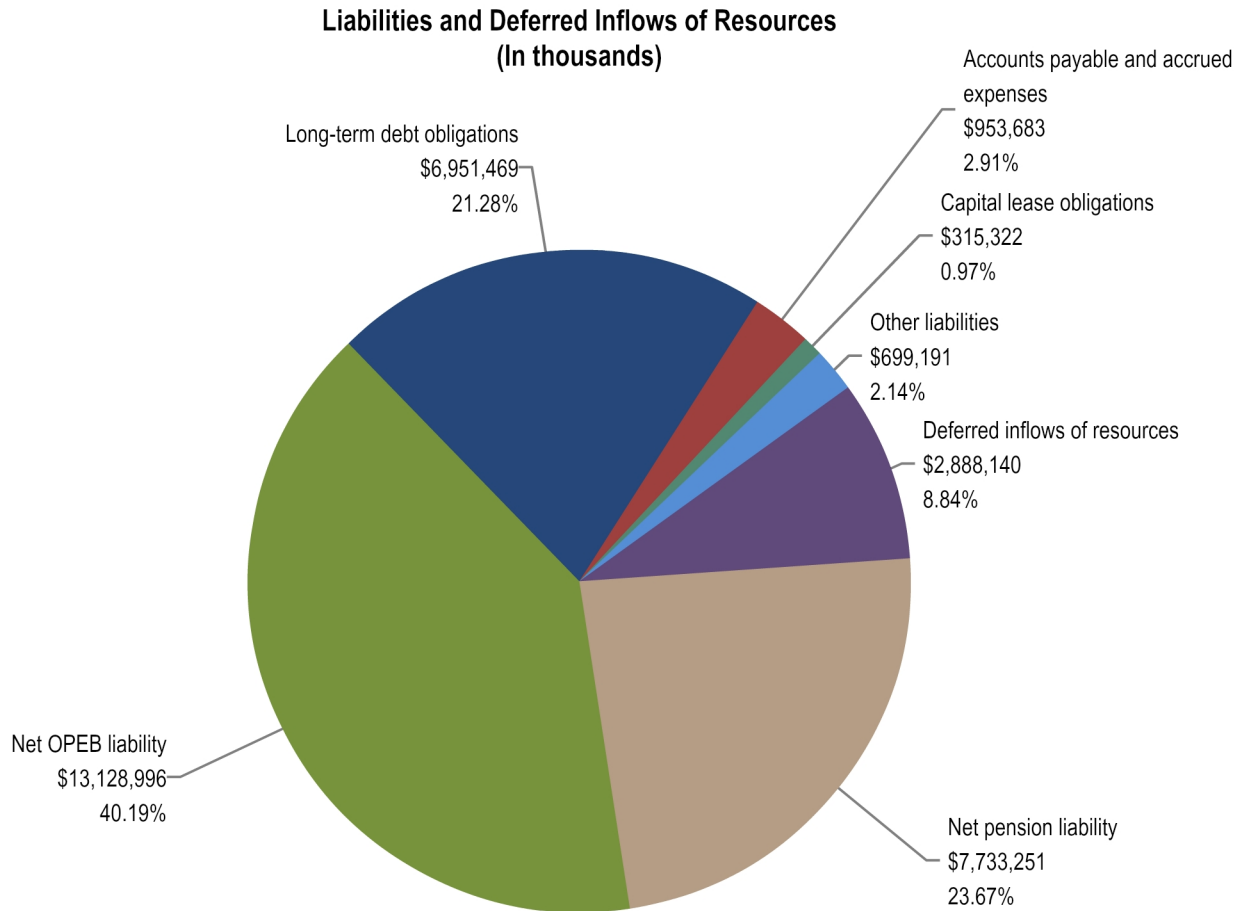
Management's Discussion and Analysis

June 30, 2019

(Unaudited)

Liabilities and Deferred Inflows of Resources

Total liabilities of \$29.78 billion represent a decrease of \$1.40 billion compared to \$31.18 billion in 2018. Deferred inflows of resources increased from \$1.50 billion in 2018 to \$2.89 billion in 2019.



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, total OPEB liability, capital lease obligations, and other liabilities.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

Total 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 accounting standard for other postemployment benefits in 2018 which requires recognition of the total OPEB liability. The ending total OPEB liability, recognized as a result of the implementation of GASB Statement No. 75, was \$13.13 billion. The OPEB benefits are funded on a pay-as-you-go basis as eligible participants retire and receive those benefits.

The total OPEB liability decreased from \$13.92 billion as of June 30, 2018 to \$13.13 billion as of June 30, 2019. The key factors contributing to this decrease include (a) favorable healthcare claims experience resulting in lower average per member claim cost, (b) change in trend rates, (c) update on pension related assumptions based on the December 2017 experience study, and (d) higher discount rate from 3.56% to 3.62%.

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 decreased from \$8.90 billion in 2018 to \$7.73 billion in 2019. The \$1.17 billion decrease is primarily due to the favorable impact of stronger than expected net investment returns on the pension plan assets of \$1.43 billion. Furthermore, the contributions both by the University and its employees of \$1.95 billion reduced the net pension liability. Changes in assumptions reduced the net pension liability by \$332.25 million, offset by \$2.54 billion additional pension liability which included the impact of service costs, interest and unfavorable experience compared to the expected.

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 \$500.80 million in 2019. The University's long-term debt obligations are summarized as follows:

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

	2019	2018
	(In thousands)	
Systemwide revenue bonds	\$ 6,211,333	5,692,563
Bond anticipation notes	109,659	169,205
Other long-term debt obligations	10,046	12,813
Total	6,331,038	5,874,581
Unamortized net bond premium	620,431	576,084
Total long-term debt obligations	6,951,469	6,450,665
Less current portion	(171,813)	(144,174)
Long-term debt obligations, net of current portion	\$ 6,779,656	6,306,491

- *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.

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 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 increased by \$518.77 million due to issuance of Series 2018A/B with proceeds amounting to \$663.69 million offset by \$144.92 million of combined payments and refunding of SRB Series 2008A.

- *Bond Anticipation Notes*

BANs are used as short-term financing to acquire and construct capital assets. The BAN payable decreased by \$59.55 million from a prior year's ending balance of \$169.21 million, based on additional BANs amounting to \$111.20 million, offset by redemption of \$170.75 million using proceeds from sale of SRB Series 2018 A/B and campus revenue.

- *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 \$2.24 billion in 2018 to \$2.14 billion in 2019. 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.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

Deferred Inflows of Resources

Deferred inflows of resources are related to certain changes in net pension liability and total OPEB liabilities. Deferred inflows of resources increased by \$1.39 billion from \$1.50 billion in 2018 to \$2.89 billion in 2019. This is mainly due to changes in the actuarial OPEB assumptions and the favorable healthcare claims experience as the member claims cost is lower than assumed.

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.

Net position by category is as follows:

	<u>2019</u>	<u>2018</u>
	(In thousands)	
Net investment in capital assets	\$ 3,438,964	3,485,290
Restricted:		
Nonexpendable	1,693	1,708
Expendable	194,812	135,223
Unrestricted	<u>(18,216,636)</u>	<u>(17,796,495)</u>
Total net position	<u>\$ (14,581,167)</u>	<u>(14,174,274)</u>

- *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 slightly decreased from \$3.49 billion in 2018 to \$3.44 billion in 2019.

- *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*

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

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, loans, capital projects, and debt service funds. The restricted expendable net position increased 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, considers statutory restrictions as internally imposed restrictions rather than externally imposed restrictions.

These 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.

At June 30, 2019, unrestricted net position reflects a deficit of \$18.22 billion due primarily to the implementation of GASB Statement No. 68 (pension) during 2015, and the implementation of GASB Statement No. 75 (OPEB) in 2018. Unrestricted net position decreased \$420.14 million in 2019. These Statements require the University to record its share of the State's actuarially determined liabilities for pension and OPEB.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

Discretely Presented Component Units' Financial Position

In 2019, the discretely presented component units (DPCUs) managed \$4.99 billion of assets, representing 24.18% of the University's \$20.62 billion combined total assets. In 2018, \$4.75 billion of assets were managed by the discretely presented component units, representing 24.35% 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 \$1.86 billion in 2018 to \$2.00 billion in 2019. This represents 9.71% and 9.53% of the combined total assets for 2019 and 2018, respectively.

The claims liability for losses and loss adjustment expenses decreased from of \$68.69 million in 2018 to \$60.45 million in 2019. 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 \$2.48 billion, representing 92.67% of the combined restricted net position in 2019. In 2018, the restricted net position of discretely presented component units was \$2.30 billion, representing 94.38% of the combined restricted net position.

The combined University and discretely presented component units' net position reflects a deficit of \$11.14 billion in 2019 when compared to \$10.96 billion deficit in 2018.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

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:

	University		Discretely presented component units	
	2019	2018	2019	2018
	(In thousands)			
Operating revenues:				
Student tuition and fees, net	\$ 2,197,925	2,220,797	191,565	186,827
Grants and contracts, noncapital	79,131	77,792	596,454	569,289
Sales and services of educational activities	47,655	52,403	47,906	51,367
Sales and services of auxiliary enterprises, net	560,234	523,504	498,896	511,877
Other operating revenues	254,648	229,550	256,013	242,584
Total operating revenues	3,139,593	3,104,046	1,590,834	1,561,944
Operating expenses	9,683,523	9,726,004	1,784,670	1,768,584
Operating loss	(6,543,930)	(6,621,958)	(193,836)	(206,640)
Nonoperating revenues (expenses):				
State appropriations, noncapital	4,102,570	4,486,584	—	—
Financial aid grants, noncapital	1,980,562	1,928,555	2,746	3,285
Grants and gifts, noncapital	59,029	65,411	189,943	194,827
Investment income, net	204,813	67,351	66,692	64,081
Endowment income, net	20	—	59,479	69,622
Interest expense	(259,621)	(224,909)	(23,033)	(21,343)
Other nonoperating expenses	(45,449)	(64,009)	(7,667)	(37,347)
Net nonoperating revenues	6,041,924	6,258,983	288,160	273,125
Income (loss) before other revenues (expenses)	(502,006)	(362,975)	94,324	66,485
State appropriations, capital	34,972	—	—	—
Grants and gifts, capital	60,141	73,953	31,413	13,643
Additions to permanent endowments	—	—	100,239	96,080
Change in net position	(406,893)	(289,022)	225,976	176,208
Net position – beginning of year	(14,174,274)	(13,885,252)	3,212,188	3,035,980
Net position – end of year	\$ (14,581,167)	(14,174,274)	3,438,164	3,212,188

CALIFORNIA STATE UNIVERSITY

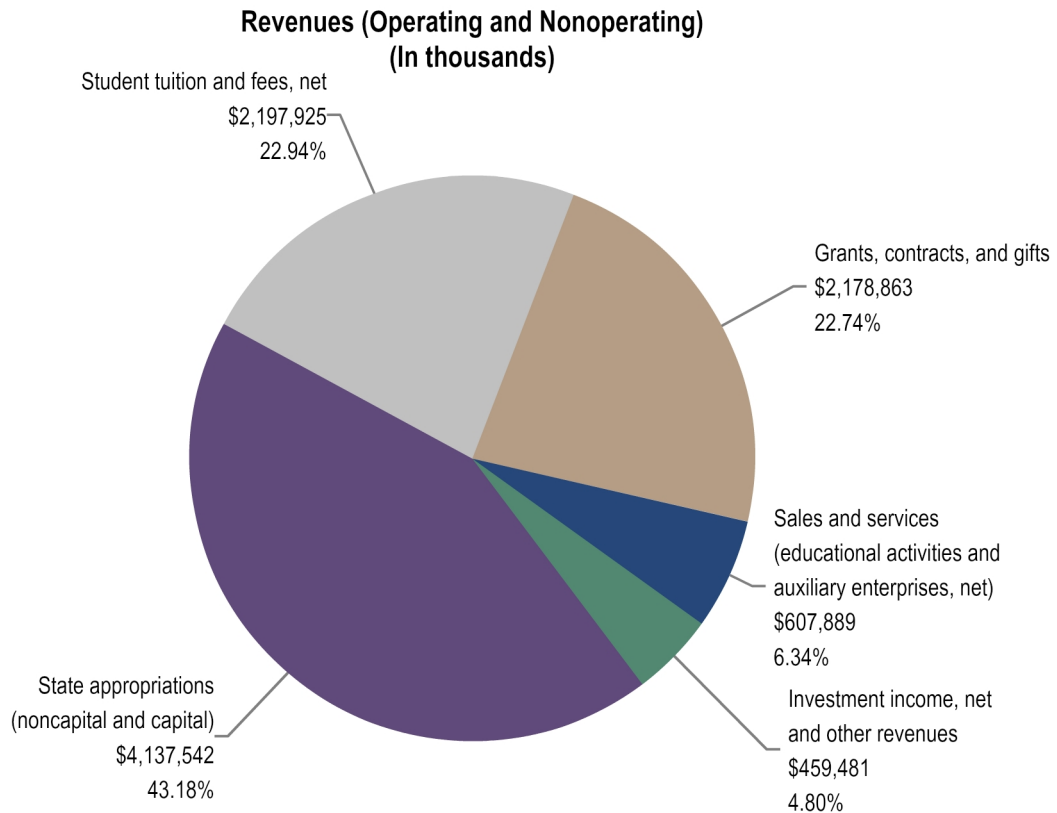
Management's Discussion and Analysis

June 30, 2019

(Unaudited)

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 66.12% and 68.96% of total revenues in 2019 and 2018, respectively. State appropriations are received for both noncapital and capital purposes.



The University's total revenues consisted of the following:

	<u>2019</u>	<u>Percentage of total</u>	<u>2018</u>	<u>Percentage of total</u>
	(In thousands)		(In thousands)	
State appropriations (noncapital and capital)	\$ 4,137,542	43.18%	\$ 4,486,584	46.13%
Student tuition and fees, net	2,197,925	22.94	2,220,797	22.83
Grants, contracts, and gifts	2,178,863	22.74	2,145,711	22.06
Sales and services (educational activities and auxiliary enterprises), net	607,889	6.34	575,907	5.92
Investment income, net and other revenues	459,481	4.80	296,901	3.06
Total revenues (operating and nonoperating)	\$ 9,581,700	100.00%	\$ 9,725,900	100.00%

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

State Appropriations (Noncapital and Capital)

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

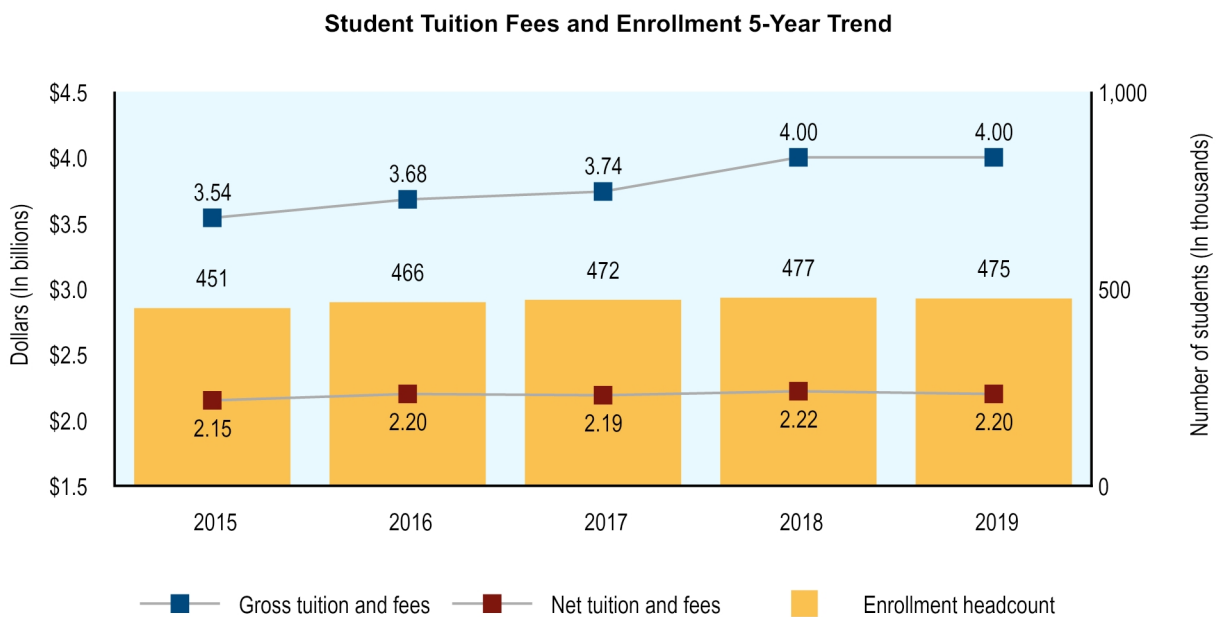
	2019	2018
	(In thousands)	
State appropriations, general fund	\$ 3,776,457	3,451,874
State's contribution on behalf of the University for pension benefits	—	720,559
State's contribution on behalf of the University for OPEB	326,113	314,151
Total state appropriations, noncapital	4,102,570	4,486,584
State appropriations, capital	34,972	—
Total state appropriations (noncapital and capital)	<u>\$ 4,137,542</u>	<u>4,486,584</u>

The state general fund appropriations increased from \$3.45 billion in 2018 to \$3.78 billion in 2019. The increase of \$324.58 million was to augment funding for the graduation initiative 2025, employee compensation, SPWB capital lease obligations debt service, mandatory cost increases, and other miscellaneous support.

In 2018, the State, on behalf of the University, had a one-time supplemental pension contribution amounting to \$720.56 million to help reduce the net pension liability in accordance with Government Code Section 20825. No similar contributions were made in 2019.

Student Tuition and Fees, Net

The student tuition and fees (before scholarship allowances) remained consistent with prior year at \$4 billion. The following chart displays the five-year trend between enrollment headcount and student tuition and fees:



CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

The gross student tuition fees revenue reflects an increasing trend over the last five years. This is mainly driven by student enrollment growth in the last five years. In addition to student enrollment growth, the increase in tuition rates effective in academic year 2017-2018 resulted in the upward trend in 2018.

The University offers eligible students fee waivers and institutional grants to be applied against student tuition and fees. This is in addition to federal agencies, state agencies, and nongovernmental grantor's student financial aid grants. Collectively, these are referred to as scholarship allowance; an offset to the gross student tuition and fees. The increasing gap between the gross and net student tuition and fees reflects growth in the waivers and financial aid grants made available to students. In 2019 and 2018, approximately half of the student tuition and fees were paid through waivers and financial aid grants, as shown in the table below.

	<u>2019</u>	<u>2018</u>
	(In thousands)	
Gross student tuition and fees	\$ 3,998,779	3,993,233
Less: Institutional grants	(802,370)	(783,690)
Less: Financial aid grants	(998,484)	(988,746)
Net student tuition and fees	<u>\$ 2,197,925</u>	<u>2,220,797</u>

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 \$47.66 million, a decrease from \$52.40 million in 2018.

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 \$560.23 million, which is a \$36.73 million increase when compared to 2018. The increase is due mainly to new student housing facilities which operated for the first time in 2019 and increases in housing occupancy, space rentals, and parking permits issued to students, faculty, and employees.

Grants, Contracts and Gifts

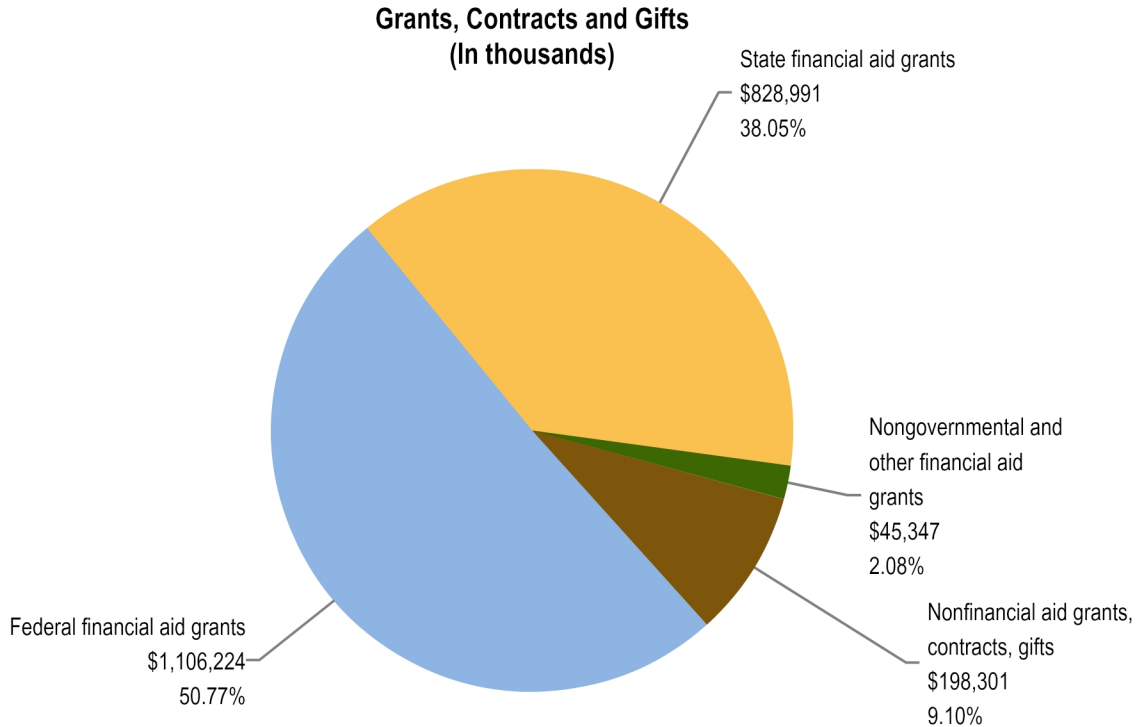
Grants, contracts and gifts revenues are derived substantially from the student financial aid grants from federal agencies, state agencies, and nongovernmental grantors. Major federal financial aid grants came from the Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study. Major state financial aid grants came from Cal Grants and Middle Class Scholarship.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

(Unaudited)



Student financial aid grants of \$1.98 billion represent 90.90% of the University's total grants, contracts, and gifts revenues of \$2.18 billion for 2019. Federal and state agencies contributed \$1.94 billion in 2019 and \$1.89 billion in 2018. The financial aid increases are due to more eligible students and higher aid per student.

The remainder of the grants, contracts and gifts include non-financial aid grants, contracts, changes to permanent endowments, and gifts (capital and noncapital), which amounted to \$198.30 million, or 9.10%, of total grants, contracts, and gifts. Further, gifts received from discretely presented component units amounted to \$75.54 million.

Investment and Endowment Income, Net

Investment and endowment income for 2019 is \$204.83 million, which is \$137.48 million higher when compared to the prior year. This is mainly attributable to favorable market conditions in 2019.

Expenses (Operating and Nonoperating)

The University's total expenses of \$9.99 billion is comprised of operating expenses of \$9.68 billion, or 96.95%, and nonoperating expenses of \$305.07 million, or 3.05%.

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 70.31% and 70.60% of the 2019 and 2018 total operating expenses of the University, respectively.

CALIFORNIA STATE UNIVERSITY

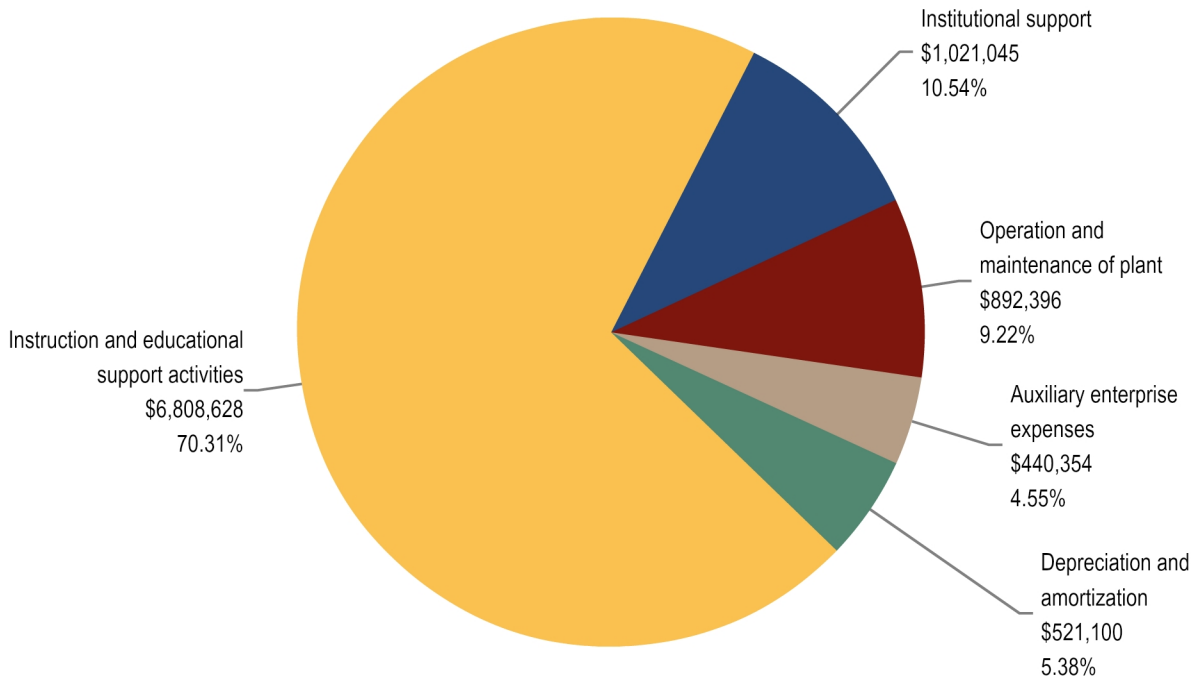
Management's Discussion and Analysis

June 30, 2019

(Unaudited)

	2019	Percentage of total	2018	Percentage of total
	(In thousands)		(In thousands)	
Instruction	\$ 3,614,639	37.33%	\$ 3,767,929	38.74%
Research	80,580	0.83	71,377	0.74
Public service	71,870	0.74	61,543	0.63
Academic support	1,042,756	10.77	982,493	10.10
Student services	1,083,497	11.19	1,091,912	11.23
Student grants and scholarships	915,286	9.45	891,169	9.16
Total instruction and educational support activities	6,808,628	70.31	6,866,423	70.60
Institutional support	1,021,045	10.54	1,045,903	10.75
Operation and maintenance of plant	892,396	9.22	861,988	8.86
Auxiliary enterprise expenses	440,354	4.55	449,959	4.63
Depreciation and amortization	521,100	5.38	501,731	5.16
Total operating expenses	\$ 9,683,523	100.00%	\$ 9,726,004	100.00%

**Operating Expenses
(In thousands)**



CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

- *Salaries*

The University's salaries increased from \$3.61 billion in 2018 to \$3.72 billion in 2019. The increase is due mainly to employee salary rate increases during the year and higher employee headcount. The majority of the increase in salaries are in instruction and education support of \$79.97 million, in institutional support of \$19.94 million, and in operation and maintenance of plant of \$17.22 million.

- *Benefits*

The University's benefits decreased from \$3.19 billion in 2018 to \$2.91 billion in 2019. The majority of the decrease in benefits are in instruction and educational support \$179.43 million, in institutional support of \$53.12 million, and in operation and maintenance of plant of \$28.27 million. The overall decrease was related to changes in OPEB and pension expenses.

The OPEB expense decreased by \$268.66 million in 2019, due mainly to the smoothing effect of the changes in the assumptions and differences between actual and expected experience. The pension related benefits expense decreased by \$100.82 million in 2019, due mainly to higher earnings from the pension plan investments, and favorable changes in assumptions which offset the increase in the service costs, interest on net pension liability, and other related costs. The other benefits expense increased by \$87.66 million due to increase in benefits rates and employee headcount.

- *Scholarships and Fellowships*

The scholarship and fellowships, which represent financial aid directly paid to students, increased from \$891.17 million in 2018 to \$915.29 million in 2019. The increase is mainly due to an increased number of students eligible for financial aid.

- *Supplies and Other Services*

The University's supplies and other services increased from \$1.53 billion in 2018 to \$1.61 billion in 2019. The increase of \$81.02 million is mainly comprised of \$17.55 million for instruction and educational support, \$8.32 million for institutional support, \$41.46 million for operation and maintenance of plant, and \$13.69 million for auxiliary enterprise.

Discretely Presented Component Units' Results of Operations

The discretely presented component units managed \$2.04 billion of revenues, representing 17.56% of the University's \$11.62 billion combined total revenues. This is higher compared to the 17.08% in prior year due to increase grants, gifts and contracts.

The discretely presented component units managed \$820.56 million grants contracts, and gifts revenues, representing 27.36% of the \$3 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.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

Factors Impacting Future Periods

University Support Budget Plan for Fiscal year 2019-2020

The University's \$7.15 billion total operating budget for fiscal year 2019-2020 is funded primarily from two sources: \$3.98 billion from State general fund appropriations and \$3.17 billion of tuition and fee revenues.

The fiscal year 2019-2020 budget includes an augmentation of \$379.07 million for the following:

- \$45 million for the Graduation Initiative 2025
- \$131.16 million for enrollment funding
- \$147.83 million for employee compensation
- \$131.16 million for increased enrollment
- \$9.80 million for facilities and infrastructure projects
- \$42.27 million for mandatory cost increases (e.g., health benefits, operations and maintenance of new facilities)
- \$3 million for other programs

Subsequent Events

The following information describes significant events that occurred subsequent to June 30, 2019, but prior to the date of the auditors' report.

- *SRB Issuance*

In August 2019, the University issued \$449.43 million of SRB Series 2019A (Tax Exempt) and \$81.34 million of SRB Series 2019B (Taxable). The new bonds were issued to fund various capital projects, redeem maturing BANs, refund outstanding SRB Series 2010A bonds.

- *BAN Issuance*

In September 2019, the University issued \$43.26 million of BANs for the San Diego State University Aztec Recreation Center expansion.

In October 2019, \$43.35 million of BANs were issued for the Long Beach Housing expansion - Parkside North project and \$30 million for the San Jose State University South Campus Parking Structure and Sports Field Facility Project.

In November 2019, the University issued \$98.30 million of BANs for the Capital Outlay Program and Five-Year Facilities Renewal and Improvement Plan.

BASIC FINANCIAL STATEMENTS



CALIFORNIA STATE UNIVERSITY

Statement of Net Position

June 30, 2019

(In thousands)

Assets	University	Discretely presented component units	Total
Current assets:			
Cash and cash equivalents	\$ 17,492	263,232	280,724
Short-term investments	3,765,526	799,035	4,564,561
Accounts receivable, net	196,894	270,150	467,044
Capital lease receivable, current portion	11,868	1,914	13,782
Notes receivable, current portion	13,057	109,772	122,829
Pledges receivable, net	2,000	99,217	101,217
Prepaid expenses and other current assets	69,457	42,187	111,644
Total current assets	<u>4,076,294</u>	<u>1,585,507</u>	<u>5,661,801</u>
Noncurrent assets:			
Restricted cash and cash equivalents	103	55,798	55,901
Accounts receivable, net	54,245	18,990	73,235
Capital lease receivable, net of current portion	208,216	59,361	267,577
Notes receivable, net of current portion	387,560	20,827	408,387
Student loans receivable, net	59,491	385	59,876
Pledges receivable, net	—	124,274	124,274
Endowment investments	1,693	1,722,462	1,724,155
Other long-term investments	1,277,735	446,270	1,724,005
Capital assets, net	9,538,377	912,577	10,450,954
Other assets	28,383	39,612	67,995
Total noncurrent assets	<u>11,555,803</u>	<u>3,400,556</u>	<u>14,956,359</u>
Total assets	<u>15,632,097</u>	<u>4,986,063</u>	<u>20,618,160</u>
Deferred Outflows of Resources			
Deferred outflows of resources	2,456,788	32,520	2,489,308
Liabilities			
Current liabilities:			
Accounts payable	292,087	112,912	404,999
Accrued salaries and benefits	421,634	31,675	453,309
Accrued compensated absences, current portion	127,417	15,310	142,727
Unearned revenues	321,194	92,184	413,378
Capital lease obligations, current portion	20,108	11,944	32,052
Long-term debt obligations, current portion	171,813	125,217	297,030
Claims liability for losses and loss adjustment expenses, current portion	—	16,466	16,466
Depository accounts	10,238	14,835	25,073
Other liabilities	137,666	72,974	210,640
Total current liabilities	<u>1,502,157</u>	<u>493,517</u>	<u>1,995,674</u>

CALIFORNIA STATE UNIVERSITY

Statement of Net Position

June 30, 2019

(In thousands)

	<u>University</u>	<u>Discretely presented component units</u>	<u>Total</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	\$ 112,545	6,065	118,610
Unearned revenues	8,048	18,333	26,381
Grants refundable	69,007	4,038	73,045
Capital lease obligations, net of current portion	295,214	226,301	521,515
Long-term debt obligations, net of current portion	6,779,656	460,989	7,240,645
Claims liability for losses and loss adjustment expenses, net of current portion	—	43,980	43,980
Depository accounts	2,101	19,025	21,126
Total other postemployment benefits liability	13,128,996	119,708	13,248,704
Net pension liability	7,733,251	83,557	7,816,808
Other liabilities	150,937	52,717	203,654
Total noncurrent liabilities	28,279,755	1,034,713	29,314,468
Total liabilities	29,781,912	1,528,230	31,310,142

Deferred Inflows of Resources

Deferred inflows of resources	2,888,140	52,189	2,940,329
-------------------------------	-----------	--------	-----------

Net Position

Net position:

Net investment in capital assets	3,438,964	295,177	3,734,141
Restricted for:			
Nonexpendable – endowments	1,693	1,336,916	1,338,609
Expendable:			
Scholarships and fellowships	23,057	241,878	264,935
Research	110	26,323	26,433
Loans	20,715	2,853	23,568
Capital projects	93,460	123,457	216,917
Debt service	38,975	6,625	45,600
Others	18,495	745,809	764,304
Unrestricted	(18,216,636)	659,126	(17,557,510)
Total net position	\$ (14,581,167)	3,438,164	(11,143,003)

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2019

(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 \$1,800,854)	\$ 2,197,925	191,565	(3,685)	2,385,805
Grants and contracts, noncapital:				
Federal	46,896	384,184	(144)	430,936
State	12,116	115,491	(367)	127,240
Local	3,996	24,129	(25)	28,100
Nongovernmental	16,123	72,650	(4,797)	83,976
Sales and services of educational activities	47,655	47,906	(299)	95,262
Sales and services of auxiliary enterprises (net of University scholarship allowances of \$114,846)	560,234	498,896	(3,256)	1,055,874
Other operating revenues	254,648	256,013	(8,555)	502,106
Total operating revenues	<u>3,139,593</u>	<u>1,590,834</u>	<u>(21,128)</u>	<u>4,709,299</u>
Expenses:				
Operating expenses:				
Instruction	3,614,639	134,551	(3,543)	3,745,647
Research	80,580	233,089	(673)	312,996
Public service	71,870	201,581	(37)	273,414
Academic support	1,042,756	100,315	(15,131)	1,127,940
Student services	1,083,497	188,006	(12,311)	1,259,192
Institutional support	1,021,045	246,939	(20,612)	1,247,372
Operation and maintenance of plant	892,396	47,515	(5,223)	934,688
Student grants and scholarships	915,286	92,095	(40,579)	966,802
Auxiliary enterprise expenses	440,354	486,536	(6,940)	919,950
Depreciation and amortization	521,100	54,043	—	575,143
Total operating expenses	<u>9,683,523</u>	<u>1,784,670</u>	<u>(105,049)</u>	<u>11,363,144</u>
Operating loss	<u>(6,543,930)</u>	<u>(193,836)</u>	<u>83,921</u>	<u>(6,653,845)</u>

CALIFORNIA STATE UNIVERSITY

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2019

(in thousands)

	<u>University</u>	<u>Discretely presented component units</u>	<u>Eliminations</u>	<u>Total</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	\$ 4,102,570	—	—	4,102,570
Federal financial aid grants, noncapital	1,106,224	1,181	—	1,107,405
State financial aid grants, noncapital	828,991	1,347	(1)	830,337
Local financial aid grants, noncapital	—	36	—	36
Nongovernmental and other financial aid grants, noncapital	45,347	182	(24,355)	21,174
Other federal nonoperating grants, noncapital	4,026	—	—	4,026
Gifts, noncapital	55,003	189,943	(48,877)	196,069
Investment income, net	204,813	66,692	—	271,505
Endowment income, net	20	59,479	—	59,499
Interest expense	(259,621)	(23,033)	—	(282,654)
Other nonoperating expenses	(45,449)	(7,667)	15,976	(37,140)
Net nonoperating revenues	<u>6,041,924</u>	<u>288,160</u>	<u>(57,257)</u>	<u>6,272,827</u>
Income (loss) before other revenues	(502,006)	94,324	26,664	(381,018)
State appropriations, capital	34,972	—	—	34,972
Grants and gifts, capital	60,141	31,413	(26,664)	64,890
Additions to permanent endowments	—	100,239	—	100,239
Increase (decrease) in net position	<u>(406,893)</u>	<u>225,976</u>	<u>—</u>	<u>(180,917)</u>
Net position:				
Net position at beginning of year	<u>(14,174,274)</u>	<u>3,212,188</u>	<u>—</u>	<u>(10,962,086)</u>
Net position at end of year	<u>\$ (14,581,167)</u>	<u>3,438,164</u>	<u>—</u>	<u>(11,143,003)</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2019

(In thousands)

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 2,186,027
Federal grants and contracts	44,091
State grants and contracts	6,659
Local grants and contracts	3,666
Nongovernmental grants and contracts	15,984
Payments to suppliers	(1,610,979)
Payments to employees	(3,692,890)
Payments for benefits	(1,838,672)
Payments to students	(918,947)
Collections of student loans	4,090
Sales and services of educational activities	46,779
Sales and services of auxiliary enterprises	554,746
Other receipts	229,591
	<hr/>
Net cash used in operating activities	(4,969,855)
	<hr/>
Cash flows from noncapital financing activities:	
State appropriations	3,775,647
Federal financial aid grants	1,103,570
State financial aid grants	830,127
Nongovernmental and other financial aid grants	45,379
Other federal nonoperating grants	4,024
Gifts and grants received for other than capital purposes	54,615
Federal loan program receipts	1,458,384
Federal loan program disbursements	(1,448,015)
Monies received on behalf of others	154,811
Monies disbursed on behalf of others	(157,657)
Transfers to escrow agent	(8,865)
Proceeds from long-term debt	89,815
Principal paid on long-term debt	(20,204)
Interest paid on long-term debt	(29,814)
Issuance of notes receivable	(90,276)
Principal collections on capital leases	5,486
Interest collections on capital leases	3,978
Principal collections on notes receivable	66,778
Interest collections on notes receivable	19,315
Other noncapital financing activities	(39,587)
	<hr/>
Net cash provided by noncapital financing activities	5,817,511
	<hr/>

CALIFORNIA STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2019

(In thousands)

	<u>University</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	\$ 762,076
State appropriations	14,549
State appropriations – SPWB Lease Revenue Bond program	1,153
Capital grants and gifts	52,337
Proceeds from sale of capital assets	13,051
Acquisition of capital assets	(954,173)
Transfers to escrow agent	(1,654)
Principal paid on capital debt and leases	(307,107)
Interest paid on capital debt and leases	(278,257)
Principal collection on capital leases	3,908
Interest collection on capital leases	5,179
	<hr/>
Net cash used in capital and related financing activities	(688,938)
 Cash flows from investing activities:	
Proceeds from sales of investments	10,308,412
Purchases of investments	(10,573,282)
Investment income proceeds	120,924
	<hr/>
Net cash used in investing activities	(143,946)
	 <hr/>
Net increase in cash and cash equivalents	14,772
Cash and cash equivalents at beginning of year	2,824
	<hr/>
Cash and cash equivalents at end of year	\$ 17,596
	<hr/> <hr/>
 Summary of cash and cash equivalents at end of year:	
Cash and cash equivalents	\$ 17,492
Restricted cash and cash equivalents	103
	<hr/>
Total cash and cash equivalents at end of year	\$ 17,595
	<hr/> <hr/>

CALIFORNIA STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2019

(In thousands)

	University
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (6,543,930)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	521,100
Change in assets and liabilities:	
Accounts receivable, net	(25,365)
Student loans receivable, net	135
Pledges receivable, net	240
Prepaid expenses and other current assets	(3,375)
Other assets	(6,190)
Deferred outflows of resources	1,615,763
Accounts payable	13,516
Accrued salaries and benefits	26,225
Accrued compensated absences	13,968
Unearned revenues	(7,253)
Depository accounts	(4)
Total other postemployment benefits liability	(789,529)
Net pension liability	(1,166,711)
Other liabilities	(1,600)
Deferred inflows of resources	1,383,154
Net cash used in operating activities	\$ (4,969,856)

Supplemental schedule of noncash transactions:

State's contribution for OPEB	\$ 326,113
Notes receivable paid through long-term debt	89,670
Amortization of net bond premium	32,159
Acquisition of capital assets through capital lease	24,599
Change in accrued capital asset purchases	9,835
Contributed capital assets	7,825
Amortization of loss on debt refundings	6,147

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS



CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(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, 2019:

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

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

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

(2) Summary of Significant Accounting Policies

(a) Financial Reporting Entity

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

In addition, the accompanying financial statements include the accounts of the 90 discretely presented component units, which are primarily University-related recognized auxiliary organizations. These discretely presented component units are legally separate entities that provide services primarily to the University and its students. Recognized auxiliary organizations include foundations, associated students, student unions, auxiliary services, university corporations, and similar organizations. Foundations, whose net position comprises approximately 78.84% 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
- California State University Channel Islands Site Authority
- Chico State Enterprises (formerly The CSU, Chico Research Foundation)
- The University Foundation, California State University, Chico

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

- 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 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.
- University-Student Union at California State University, Los Angeles

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

- 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
- Otter Student Union at CSU 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

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

- Tower Foundation of San José State University
- 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
- 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.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

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 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.

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.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, effective for the University's fiscal year beginning July 1, 2021. This Statement clarifies the definition of a conduit debt obligation and establishes that a conduit debt obligation is not a liability of the issuer. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. The University is evaluating the effect GASB Statement No. 91 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.

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

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

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 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, as either current or noncurrent liabilities, when the right to receive the compensation is earned by the employees from vested unpaid vacation and other paid leave programs. Unused sick leave balances are not included in the compensated absences because they do not vest to employees. Vacation is accrued on a monthly basis. The University uses an employee's current pay rate as of July 1, 2019 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, such as the Federal Perkins Loan Program which has expired in fiscal year 2018. 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.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

(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, 2019. The liability includes the estimated amount that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not been reported. The liability is also reduced by estimated amounts recoverable from the reinsurance that is related to the liabilities for unpaid claims and claim adjustment expenses. The liability is estimated through an actuarial calculation using individual case basis valuations and statistical analyses. The liability is not discounted.

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

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

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

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

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

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

- **Restricted:**

Nonexpendable: Net position subject to externally imposed conditions that the University retains in perpetuity. Net position in this category consists of endowments held by the University or its related discretely presented component units.

Expendable: Net position subject to externally imposed conditions that can be fulfilled by the actions of the University or by the passage of time.

- **Unrestricted:** All other categories of net position. In addition, unrestricted net position may have legislative or bond indenture requirements associated with their use or may be designated for use by management of the University. These requirements limit the area of operations for which expenditures of net position may be made and require that unrestricted net position be designated to support future operations in these areas. University housing programs are a primary example of operations that have unrestricted net position with designated uses.

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) Total Other Postemployment Benefits (OPEB) Liability

The University records the total 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 up to June 30, 2019. The University's total 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

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

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 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, 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 external customers. These include activities such as copy centers, postal services, and telecommunications. All significant internal service activities provided 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.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

(v) *Use of Estimates*

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

(3) **Cash, Cash Equivalents, and Investments**

The University's cash, cash equivalents, and investments as of June 30, 2019 are classified in the accompanying Statement of Net Position as follows:

Cash and cash equivalents	\$	17,492
Restricted cash and cash equivalents		103
Total cash and cash equivalents		17,595
Short-term investments		3,765,526
Endowment investments		1,693
Other long-term investments		1,277,735
Total investments		5,044,954
Total cash, cash equivalents, and investments	\$	5,062,549

(a) **Cash and Cash Equivalents**

At June 30, 2019, cash and cash equivalents consist of demand deposits held at the State Treasury, commercial banks, and petty cash. Total cash and cash equivalents of \$17,595 had a corresponding carrying balance with the State Treasury and commercial banks of \$21,056 at June 30, 2019. 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 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

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

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 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 United 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 \$600,000 as of June 30, 2019, and thirty percent of eligible investments thereafter. TRP investments amounted to \$559,192 as of June 30, 2019.

Additional earnings (if any) from TRP investments 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, 2019 are presented in the following table:

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

Investment type	Fair value	Duration
Money market funds	\$ 28,638	—
Repurchase agreements	10,352	0.00268
Certificates of deposit	151,165	0.12452
U.S. agency securities	1,053,102	0.58573
U.S. Treasury securities	1,197,884	1.25118
Municipal bonds	49,911	0.19506
Corporate bonds	1,008,970	1.02102
Asset-backed securities	152,372	0.50418
Mortgage-backed securities	202	1.99645
Mutual funds	561,637	5.48082
SMIF	830,721	0.47397
Total	<u>\$ 5,044,954</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 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.

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 credit risk is low and occurrence of default 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 commensurate with 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 the underlying indices to which the index funds are benchmarked.

Ratings of the University's investment portfolio for each investment type as of June 30, 2019 are presented in the following table:

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

Investment type	Fair value	AAA	AA	A	BBB	BB	B	Not rated
Money market funds	\$ 28,638	—	—	—	—	—	—	28,638
Repurchase agreements	10,352	10,352	—	—	—	—	—	—
Certificates of deposit	151,165	58,994	3,445	88,726	—	—	—	—
U.S. agency securities	1,053,102	37,879	1,015,223	—	—	—	—	—
U.S. Treasury securities	1,197,884	—	1,197,884	—	—	—	—	—
Municipal bonds	49,911	19,813	27,524	2,574	—	—	—	—
Corporate bonds	1,008,970	7,779	113,792	877,282	10,117	—	—	—
Asset-backed securities	152,372	152,372	—	—	—	—	—	—
Mortgage-backed securities	202	—	202	—	—	—	—	—
Mutual funds	561,637	30,826	120,919	—	—	8,407	57,975	343,510
SMIF	830,721	—	—	—	—	—	—	830,721
Total	\$ 5,044,954	318,015	2,478,989	968,582	10,117	8,407	57,975	1,202,869

The mutual funds 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.

(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, 2019, 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 (\$445,939 or 8.84%) and Federal National Mortgage Association, Inc. (\$300,631 or 5.96%).

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

(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*

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 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.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

The following table presents investments that are measured at fair value on a recurring basis at June 30, 2019:

Investment type	Fair value	Level 1	Level 2	NAV
Money market funds	\$ 28,638	—	—	28,638
Repurchase agreements	10,352	—	10,352	—
Certificates of deposit	151,165	—	151,165	—
U.S. agency securities	1,053,102	—	1,053,102	—
U.S. Treasury securities	1,197,884	—	1,197,884	—
Municipal bonds	49,911	—	49,911	—
Corporate bonds	1,008,970	—	1,008,970	—
Asset-backed securities	152,372	—	152,372	—
Mortgage-backed securities	202	—	202	—
Mutual funds	561,637	561,637	—	—
SMIF	830,721	—	—	830,721
Total	\$ 5,044,954	561,637	3,623,958	859,359

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 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.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

(viii) Foreign Currency Risk

Foreign Currency Risk, also known as exchange rate risk, is the risk arising from fluctuations in the value of a base currency (U.S. dollar) against foreign currencies related to the underlying currency denomination of securities held for investment.

The majority of the Consolidated Investment Pool is invested in U.S. dollar denominated securities without foreign currency risk.

However, the TRP includes allocations to non-U.S. equities and non-dollar-denominated bonds in the underlying mutual funds for the TRP. The TRP Investment Policy includes an asset allocation policy with targets and acceptable ranges for each asset class included in the TRP, including non-U.S. equity and emerging markets bonds. Additionally, mutual funds utilized in other asset classes within the TRP may also have some foreign currency exposure.

(viii) Discretely Presented Component Units' Investments

Investments of the discretely presented component units at fair value consisted of the following at June 30, 2019:

Investment type	Current	Noncurrent	Total
Money market funds	\$ 39,781	36,118	75,899
Repurchase agreements	141	5	146
Certificates of deposit	19,691	23,784	43,475
U.S. agency securities	15,515	11,638	27,153
U.S. Treasury securities	112,381	25,341	137,722
Municipal bonds	1,972	11,153	13,125
Corporate bonds	62,569	96,766	159,335
Asset-backed securities	2,079	9,979	12,058
Mortgage-backed securities	20	19,574	19,594
Mutual funds	208,751	976,549	1,185,300
Exchange-traded funds	41,331	146,737	188,068
Equity securities	50,834	445,074	495,908
Alternative investments:			
Private equity (including limited partnerships)	5,616	57,878	63,494
Hedge funds	4,731	128,435	133,166
Real estate investments (including real estate investment trust)	2,627	37,854	40,481
Commodities	94	7,374	7,468
Other alternative investments	—	56,842	56,842
Other external investment pools	—	23,728	23,728
Other investments	14,360	50,693	65,053
Local Agency Investment Fund (LAIF)	216,542	3,210	219,752
Total	\$ 799,035	2,168,732	2,967,767

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

The following table presents investments of the discretely presented component units that are measured at fair value on a recurring basis at June 30, 2019:

Investment type	Fair value	Level 1	Level 2	Level 3	NAV
Money market funds	\$ 75,899	67,781	6,079	—	2,039
Repurchase agreements	146	—	141	5	—
Certificates of deposit	43,475	24,425	18,976	74	—
U.S. agency securities	27,153	8,387	18,250	516	—
U.S. Treasury securities	137,722	55,700	81,435	587	—
Municipal bonds	13,125	3,370	9,731	24	—
Corporate bonds	159,335	108,868	46,504	494	3,469
Asset-backed securities	12,058	3,923	8,060	75	—
Mortgage-backed securities	19,594	9,616	9,978	—	—
Mutual funds	1,185,300	1,119,997	8,101	37,177	20,025
Exchange-traded funds	188,068	150,171	37,897	—	—
Equity securities	495,908	479,882	3,068	1,009	11,949
Alternative investments:					
Private equity (including limited partnerships)	63,494	—	—	9,044	54,450
Hedge funds	133,166	14,332	47	4,218	114,569
Real estate investments (including real estate investment trust)	40,481	1,433	3,127	14,122	21,799
Commodities	7,468	297	—	—	7,171
Other alternative investments	56,842	—	—	—	56,842
Other external investment pools	23,728	—	—	23,728	—
Other investments	65,053	49,009	14,935	1,032	77
LAIF	219,752	—	—	—	219,752
Total	<u>\$ 2,967,767</u>	<u>2,097,191</u>	<u>266,329</u>	<u>92,105</u>	<u>512,142</u>

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 \$55,972 are invested under contractual agreements on behalf of the discretely presented component units of the University.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

(4) Accounts Receivable

Accounts receivable of the University at June 30, 2019 consisted of the following:

	Current	Noncurrent	Total
State appropriations	\$ 5,785	47,944	53,729
State appropriations – SPWB Lease Revenue Bond program	—	1,462	1,462
Discretely presented component units	48,441	1,207	49,648
Student accounts	69,425	—	69,425
Government grants and contracts	32,118	—	32,118
Others	50,397	3,632	54,029
	<u>206,166</u>	<u>54,245</u>	<u>260,411</u>
Less allowance for doubtful accounts	(9,272)	—	(9,272)
Total	<u>\$ 196,894</u>	<u>54,245</u>	<u>251,139</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 \$211,560. 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:

2020	\$ 23,665
2021	19,809
2022	20,053
2023	22,228
2024	22,271
2025 - 2029	96,957
2030 - 2034	77,782
2035 - 2039	24,894
Total minimum lease payments to be received	<u>307,659</u>
Less amounts representing interest	(87,575)
Present value of future minimum lease payments to be received	220,084
Less current portion	<u>(11,868)</u>
Capital lease receivable, net of current portion	<u>\$ 208,216</u>

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

(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 \$400,380. 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:

2020	\$	32,579
2021		32,235
2022		32,112
2023		32,102
2024		31,748
2025 - 2029		153,760
2030 - 2034		137,033
2035 - 2039		106,618
2040 - 2044		69,276
2045 - 2049		37,879
		<hr/>
Total minimum note payments to be received		665,342
Less amounts representing interest		(264,725)
		<hr/>
Present value of future minimum note payments to be received		400,617
Less current portion		(13,057)
		<hr/>
Notes receivable, net of current portion	\$	<u>387,560</u>

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

(7) Capital Assets

Capital assets activity for the University for the year ended June 30, 2019 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	\$ 273,340	8,576	—	—	281,916
Works of art and historical treasures	47,231	2,869	—	—	50,100
Construction work in progress	1,084,257	866,819	(8,821)	(785,617)	1,156,638
Intangible assets	37,349	3,796	(5)	(2,143)	38,997
Total nondepreciable/ nonamortizable capital assets	1,442,177	882,060	(8,826)	(787,760)	1,527,651
Depreciable/amortizable capital assets:					
Buildings and building improvements	12,405,402	58,801	(11,417)	716,502	13,169,288
Improvements other than buildings	721,739	6,820	(363)	24,097	752,293
Infrastructure	1,201,967	16,610	(1,763)	33,759	1,250,573
Personal property:					
Equipment	871,706	45,815	(24,209)	11,259	904,571
Library books and materials	392,153	5,310	(11,440)	—	386,023
Intangible assets	276,147	2,233	(5,042)	2,143	275,481
Total depreciable/ amortizable capital assets	15,869,114	135,589	(54,234)	787,760	16,738,229
Total cost	17,311,291	1,017,649	(63,060)	—	18,265,880
Less accumulated depreciation/ amortization:					
Buildings and building improvements	(5,937,071)	(379,275)	8,690	—	(6,307,656)
Improvements other than buildings	(510,439)	(28,742)	52	—	(539,129)
Infrastructure	(553,489)	(39,354)	836	—	(592,007)
Personal property:					
Equipment	(638,876)	(59,314)	22,532	—	(675,658)
Library books and materials	(361,276)	(6,365)	11,196	—	(356,445)
Intangible assets	(253,568)	(8,050)	5,010	—	(256,608)
Total accumulated depreciation/amortization	(8,254,719)	(521,100)	48,316	—	(8,727,503)
Net capital assets	\$ 9,056,572	496,549	(14,744)	—	9,538,377

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

Capital assets activity of the discretely presented component units of the University for the year ended June 30, 2019 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	\$ 129,245	5,220	(1,489)	—	132,976
Works of art and historical treasures	12,474	1,842	(5,103)	—	9,213
Construction work in progress	55,434	105,315	(1,365)	(13,832)	145,552
Intangible assets	5,098	4,933	—	—	10,031
Total nondepreciable/ nonamortizable capital assets	202,251	117,310	(7,957)	(13,832)	297,772
Depreciable/amortizable capital assets:					
Buildings and building improvements	766,431	7,085	(6,452)	6,975	774,039
Improvements other than buildings	164,721	5,398	(2,151)	2,848	170,816
Infrastructure	67,693	—	—	—	67,693
Personal property:					
Equipment	221,120	17,237	(11,819)	3,879	230,417
Intangible assets	9,288	104	(1,478)	130	8,044
Total depreciable/ amortizable capital assets	1,229,253	29,824	(21,900)	13,832	1,251,009
Total cost	1,431,504	147,134	(29,857)	—	1,548,781
Less accumulated depreciation/ amortization:					
Buildings and building improvements	(315,797)	(25,653)	3,768	—	(337,682)
Improvements other than buildings	(88,739)	(9,489)	1,217	—	(97,011)
Infrastructure	(22,549)	(1,691)	—	—	(24,240)
Personal property:					
Equipment	(163,151)	(17,303)	9,659	—	(170,795)
Intangible assets	(7,618)	(336)	1,478	—	(6,476)
Total accumulated depreciation/amortization	(597,854)	(54,472)	16,122	—	(636,204)
Net capital assets	\$ 833,650	92,662	(13,735)	—	912,577

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

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(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 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 \$149,180 at June 30, 2019. Total capital assets related to these capital leases have a carrying value of \$176,503 at June 30, 2019. 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 \$172,134 at June 30, 2019. The leases bear interest at rates ranging from 0.04% to 10% 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, 2019 were \$33,888 of which \$23,074 was paid to related discretely presented component units.

Future minimum lease payments under capital and operating leases having remaining terms in excess of one year as of June 30, 2019 are as follows:

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

	<u>Capital leases</u>	<u>Operating leases</u>
Fiscal year ending June 30:		
2020	\$ 37,303	40,126
2021	35,970	30,828
2022	34,606	26,678
2023	33,462	15,756
2024	32,500	13,350
2025 - 2029	141,958	46,856
2030 - 2034	126,095	14,234
2035 - 2039	39,648	3,579
2040 - 2044	4,775	1,885
2045 - thereafter	—	1,465
Total minimum lease payments	<u>486,317</u>	<u>\$ 194,757</u>
Less amount representing interest	<u>(171,546)</u>	
Present value of future minimum lease payments	314,771	
Unamortized net premium	551	
Total capital lease obligations	<u>315,322</u>	
Less current portion	<u>(20,108)</u>	
Capital lease obligations, net of current portion	<u>\$ 295,214</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 \$2,141,932 as of June 30, 2019.

(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 \$6,211,333 at June 30,

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

2019. 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).

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 the bonds.

The SRB Indenture (The Indenture) contains provisions that define events of default related to punctuality of the payment of the outstanding principal and interest. Additionally, the Indenture describes the process for which other events of default by the Board related to covenants, agreements, or conditions of the Indenture occur for a period of sixty (60) days after written notice by bondholders (of not less than twenty-five percent (25%) in aggregate principal amount of the bonds outstanding) requiring remediation. Further, the Indenture specifies the process which the Trustees may undertake, at the request of the majority of the bondholders, to declare the principal of all of the bonds then outstanding and the interest accrued to be immediately due and payable.

(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 CSU 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, 2019 were 2.25% and 1.27%, respectively. The University's BANs totaled \$109,659 at June 30, 2019. The authorized amounts totaled \$868,630, of which \$756,950 has not been issued and \$111,680 has been issued.

CSU Institute, a discretely presented component unit of the University, manages the commercial paper program. The commercial paper program is bound by certain agreements, including the Trust Indenture with the Trustee/ paying agent and the Reimbursement Agreement with the letter of credit banks. Under certain provision of the Trust Indenture, in the event of a default, the Trustees shall take actions set forth by the BAN Resolution to effect the sale of long-term bonds to refinance outstanding BANs. Upon the occurrence of certain events of default specified in the Reimbursement Agreement, the right of the CSU Institute and the University to issue notes may be terminated or be suspended by the banks.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

Long-term debt obligations of the University as of June 30, 2019 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	\$ 363
Housing Series L - M	3.00	2020/21	5,510	475
Housing Series N & Q	3.00	2021/22	6,695	700
Series 2007-B	5.45-5.55	2037/38	13,165	9,385
Series 2007-C	5.00	2028/29	63,275	30,750
Series 2010-A	3.50-5.00	2031/32	146,950	85,205
Series 2010-B	5.45-6.48	2041/42	205,145	205,145
Series 2011-A	3.00-5.25	2042/43	429,855	325,325
Series 2012-A	3.00-5.00	2042/43	436,220	406,115
Series 2012-B	2.79-4.17	2036/37	16,700	14,465
Series 2013-A	3.00-5.00	2026/27	308,855	227,535
Series 2014-A	3.00-5.00	2044/45	747,740	718,615
Series 2015-A	2.00-5.00	2047/48	1,032,920	949,090
Series 2015-B	1.98-4.41	2035/36	29,305	21,955
Series 2016-A	2.00-5.00	2045/46	1,133,105	1,121,755
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	800,815
Series 2017-B	1.55-3.90	2047/48	335,155	334,495
Series 2017-C	3.25-5.00	2037/38	49,175	45,455
Series 2018-A	4.00-5.00	2050/51	492,690	492,690
Series 2018-B	2.45-4.25	2050/51	171,000	171,000
			<u>\$ 6,694,048</u>	6,211,333
Bond Anticipation Notes	Various			109,659
Others	Various			10,046
Total				<u>6,331,038</u>
Unamortized net bond premium				620,431
Total long-term debt				<u>6,951,469</u>
Less current portion				(171,813)
Long-term debt, net of current portion				<u>\$ 6,779,656</u>

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

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

Fiscal year ending June 30:	Principal	Interest
2020	\$ 171,813	289,485
2021	168,576	282,251
2022	180,706	273,950
2023	183,742	265,197
2024	189,480	256,591
2025 - 2029	1,085,177	1,139,361
2030 - 2034	1,257,982	858,027
2035 - 2039	1,214,935	562,105
2040 - 2044	973,495	303,031
2045 - 2049	731,820	101,741
Thereafter	173,312	8,548
	\$ 6,331,038	4,340,287

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, 2019, the Board had approved SRB and BANs that were authorized but unissued in the aggregate principal amount of \$2,026,108 for projects including academic, infrastructure, housing, and parking facilities. As of June 30, 2019, there are approximately \$470,840 of remaining authorized and unissued debt for the purpose of refunding certain bonds of the SPWB not previously refunded. The Board may issue all or a portion of these authorized bonds as well as other additional bonds for other new money projects or refunding purposes. The Board expects to authorize the issuance of additional Systemwide Revenue Bonds from time to time in the future. There is no limit on the amount of SRB that the Board may authorize.

(10) Long-Term Debt Refunding

In August 2018, the University issued SRB Series 2018A (Tax-Exempt), a portion of the proceeds was applied for a current refunding of SRB Series 2008A. The defeasance will reduce the University's total financing cost by approximately \$2,079 over the life of the refunded bonds. The economic gain (difference between net present values of the debt service payments on the old debt and new debt) from these transactions was approximately \$1,733. Accordingly, the refunded bonds have been considered defeased and, therefore, removed as a liability from the accompanying financial statements. The total par amount of bonds outstanding as of date of refunding totaled \$10,335. The entire outstanding balance was paid as of June 30, 2019.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

(11) Long-Term Liabilities Activity

Long-term liabilities activity of the University for the year ended June 30, 2019 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 225,993	136,658	(122,689)	239,962	127,417
Capital lease obligations (note 8)	309,928	25,709	(20,315)	315,322	20,108
Long-term debt obligations (note 9):					
Systemwide revenue bonds	5,692,563	663,690	(144,920)	6,211,333	149,458
Bond anticipation notes	169,205	111,199	(170,745)	109,659	21,146
Other	12,813	—	(2,767)	10,046	1,209
	<u>5,874,581</u>	<u>774,889</u>	<u>(318,432)</u>	<u>6,331,038</u>	<u>171,813</u>
Unamortized net bond premium	576,084	76,471	(32,124)	620,431	—
Total long-term debt obligations	<u>6,450,665</u>	<u>851,360</u>	<u>(350,556)</u>	<u>6,951,469</u>	<u>171,813</u>
Total long-term liabilities	<u>\$ 6,986,586</u>	<u>1,013,727</u>	<u>(493,560)</u>	<u>7,506,753</u>	<u>319,338</u>

Long-term liabilities activity of the aggregated discretely presented component units of the University for the year ended June 30, 2019 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 20,978	14,043	(13,646)	21,375	15,310
Claims liability for losses					
and loss adjustment expenses	68,688	32,552	(40,794)	60,446	16,466
Capital lease obligations	248,932	128	(10,815)	238,245	11,944
Long-term debt obligations:					
Revenue bonds	20,710	—	(920)	19,790	970
Commercial paper, including principal rollovers	169,205	558,822	(618,368)	109,659	107,805
Notes payable	323,086	83,724	(58,560)	348,250	11,245
Other	73,591	241	(5,503)	68,329	5,197
	<u>586,592</u>	<u>642,787</u>	<u>(683,351)</u>	<u>546,028</u>	<u>125,217</u>
Unamortized net bond premium	27,431	14,502	(1,755)	40,178	—
Total long-term debt obligations	<u>614,023</u>	<u>657,289</u>	<u>(685,106)</u>	<u>586,206</u>	<u>125,217</u>
Total long-term liabilities	<u>\$ 952,621</u>	<u>704,012</u>	<u>(750,361)</u>	<u>906,272</u>	<u>168,937</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

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

component units amounting to \$348,250 included in notes payable and \$52,130 in other long-term debt obligations as of June 30, 2019.

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 \$210,092 as of June 30, 2019.

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, 2017 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 proportionate share of the State's pensionable compensation. The pensionable compensation has a measurement period of July 1, 2017 through June 30, 2018.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

(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, 2018, the average State's active employee contribution rates for State Miscellaneous and Peace Officer and Firefighters Plans are 6.77% and 11.41% of annual payroll, respectively. For the measurement period ended June 30, 2018, the State's contribution rates for State Miscellaneous and Peace Officer and Firefighters Plans are 28.40% and 44.25% 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 7.25% 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 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:		
2019	\$	928,987
2018		1,734,716
2017		757,170

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 amount contributed through June 30, 2030, while the remainder was recognized as State appropriations, noncapital in 2018.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

(e) *Actuarial Methods and Assumptions*

The total pension liability was measured as of June 30, 2018 (measurement date), by rolling forward the total pension liability determined by the June 30, 2017 actuarial valuation (valuation date), based on the following actuarial methods and assumptions:

Valuation date:	June 30, 2017
Actuarial cost method:	Entry age normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.50%
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 2.00% until purchasing power protection allowance floor on purchasing power applies; 2.50% thereafter

The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions report (Experience Study), based on CalPERS demographic data from 1997 to 2015. 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.

(g) *Investment Rate of Return*

The long-term expected rate of return on pension plan investments of 7.15% 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 plant and two cost-sharing plans), expected compound

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

(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.

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 1–10 ¹ %	Real return years 11–60 ² %
Global equity	50	4.80	5.98
Fixed income	28	1.00	2.62
Inflation assets	0	0.77	1.81
Private equity	8	6.30	7.23
Real estate	13	3.75	4.93
Liquidity	1	0.00	(0.92)
Total	100		

¹ An expected inflation of 2% used for this period

² An expected inflation of 2.92% 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	\$ 10,852,766	\$ 7,570,177	\$ 4,819,309
Peace Officers and Firefighters Plan	240,703	163,074	99,482
Net pension liability	\$ 11,093,469	7,733,251	4,918,791

(i) Changes in Net Pension Liability

The University reported a liability of \$7,733,251 for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined based on an actuarial valuation as of June 30, 2017 rolled forward to the measurement date. The University's proportion of the State's net pension liability was calculated based on its

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

proportionate share of the State's pensionable compensation. The State considered this a practical, systematic, and rational approach. At measurement date June 30, 2018, the University's proportionate share of the total State net pension liability for the State Miscellaneous and Peace Officers and Firefighters Plans were 24.09757% and 1.17223%, 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, 2017 (measurement date)	\$ 8,723,068	176,894	8,899,962
Changes in proportionate share	81,105	2,035	83,140
Balance at June 30, 2017, adjusted	8,804,173	178,929	8,983,102
Changes recognized for the measurement period:			
Service cost	470,809	11,857	482,666
Interest on total pension liability	1,824,667	37,343	1,862,010
Recognized difference between expected and actual experience	107,413	4,151	111,564
Recognized changes of assumptions	(331,957)	(294)	(332,251)
Employee contributions	(209,746)	(4,943)	(214,689)
Employer contributions	(1,697,520)	(35,967)	(1,733,487)
Net investment income	(1,476,642)	(29,564)	(1,506,206)
Plan to plan resource movement	323	1	324
Administrative expenses	27,132	539	27,671
Other miscellaneous expense	51,524	1,023	52,547
Net changes	(1,233,997)	(15,854)	(1,249,851)
Balance at June 30, 2018 (measurement date)	\$ 7,570,176	163,075	7,733,251

(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 \$1,256,584 for State Miscellaneous Plan and \$30,112 for State Peace Officers and Firefighters Plan, which were reported as benefits expense.

The following table presents deferred outflows and inflows of resources as of June 30, 2019. Deferred outflows and inflows of resources are recognized for the difference between expected and actual experience and changes in assumptions. Deferred outflows of resources are recognized for the University's retirement contributions made subsequent to the measurement date of June 30, 2018 which will be recognized as a reduction of the net pension

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

liability in the next measurement date. Net deferred outflows of resources are recognized for the aggregate difference (positive and negative) between projected and actual earnings on pension plan investments arising in different measurement periods. Net deferred outflows of resources are recognized for changes in the University's proportionate share of pensionable compensation.

	Deferred outflows of resources	Deferred inflows of resources
University's retirement contributions subsequent to the measurement date	\$ 928,987	—
Differences due to changes in assumptions	701,691	251,227
Net differences between projected and actual earnings on pension plan investments	79,471	—
Differences due to changes in proportionate share	207,813	—
Differences between expected and actual experience	85,356	54,809
Total	<u>\$ 2,003,318</u>	<u>306,036</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
			2019	2020	2021	2022	
Miscellaneous Plan:							
2017	\$ 1,365,745	4	\$ 341,436	341,436	—	—	682,872
Peace Officers and Firefighters Plan:							
2017	30,580	5.2	5,881	5,881	5,881	1,176	18,819
Increase in pension expense			<u>\$ 347,317</u>	<u>347,317</u>	<u>5,881</u>	<u>1,176</u>	<u>701,691</u>

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

(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)				
			2019	2020	2021	2022	Total
Miscellaneous Plan:							
2015	\$ 876,490	5	\$ 175,298	—	—	—	175,298
2016	1,152,642	5	230,529	230,529	—	—	461,058
2017	(636,487)	5	(127,297)	(127,297)	(127,297)	—	(381,891)
2018	(220,320)	5	(44,064)	(44,064)	(44,064)	(44,064)	(176,256)
Peace Officers and Firefighters Plan:							
2015	16,611	5	3,322	—	—	—	3,322
2016	22,191	5	4,438	4,438	—	—	8,876
2017	(12,398)	5	(2,480)	(2,480)	(2,480)	—	(7,440)
2018	(4,370)	5	(874)	(874)	(874)	(874)	(3,496)
Increase (decrease) in pension expense			<u>\$ 238,872</u>	<u>60,252</u>	<u>(174,715)</u>	<u>(44,938)</u>	<u>79,471</u>

(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)				
			2019	2020	2021	2022	Total
Miscellaneous Plan:							
2016	\$ 7,628	4	\$ 1,907	—	—	—	1,907
2017	291,636	4	72,909	72,909	—	—	145,818
2018	69,770	4.1	17,017	17,017	17,017	1,702	52,753
Peace Officers and Firefighters Plan:							
2015	7,537	5.1	1,478	148	—	—	1,626
2016	10,242	5.2	1,970	1,970	391	—	4,331
2017	10	5.2	2	2	2	—	6
2018	1,713	5	343	343	343	343	1,372
Increase in pension expense			<u>\$ 95,626</u>	<u>92,389</u>	<u>17,753</u>	<u>2,045</u>	<u>207,813</u>

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

(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)				
			2019	2020	2021	2022	Total
Miscellaneous Plan:							
2018	\$ 107,413	4.1	\$ 26,199	26,199	26,199	2,620	81,217
Peace Officers and Firefighters Plan:							
2015	3,382	5.1	663	66	—	—	729
2016	215	5.2	41	41	8	—	90
2018	4,151	5	830	830	830	830	3,320
Increase in pension expense			<u>\$ 27,733</u>	<u>27,136</u>	<u>27,037</u>	<u>3,450</u>	<u>85,356</u>

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)				
			2019	2020	2021	2022	Total
Miscellaneous Plan:							
2016	\$ 24,430	4	\$ 6,108	—	—	—	6,108
2017	93,268	4	23,317	23,317	—	—	46,634
Peace Officers and Firefighters Plan:							
2017	3,359	5.2	646	646	646	129	2,067
Decrease in pension expense			<u>\$ 30,071</u>	<u>23,963</u>	<u>646</u>	<u>129</u>	<u>54,809</u>

(vi) Schedule of Differences due to Changes in Assumptions

Measurement Period ended June 30	Initial differences*	Recognition period (year)	Decrease in pension expense arising from the recognition of the effects of changes in assumptions (measurement dates)				
			2019	2020	2021	2022	Total
Miscellaneous Plan:							
2018	\$ 331,957	4.1	\$ 80,965	80,965	80,965	8,096	250,991
Peace Officers and Firefighters Plan:							
2018	295	5	59	59	59	59	236
Decrease in pension expense			<u>\$ 81,024</u>	<u>81,024</u>	<u>81,024</u>	<u>8,155</u>	<u>251,227</u>

*Adjusted for any changes in University's proportionate share

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

(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 plan 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.

(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:

	Headcount
Retirees elected to receive healthcare benefits	30,757
Active employees	47,995
Total	<u>78,752</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

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

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. 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 total OPEB liability were:

Valuation date:	June 30, 2018
Actuarial cost method:	Entry Age Normal Actuarial Cost Method and the blended discount rates in accordance with the requirements of GASB Statement No. 75
Actuarial assumptions:	
Discount rate	3.62%
Price inflation	2.50%
Wage inflation	2.75%
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:	
Pre-Medicare cost trend rate	7.5%, graded down to an ultimate 4.5% over 6 years
Post-Medicare cost trend rate	8.0%, graded down to an ultimate 4.5% over 7 years
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:	Assumptions were updated based on the December 2017 Experience Study conducted by CalPERS which includes rates of decrement, salary increase rates, and economic assumptions. Assumptions were first adopted beginning with the June 30, 2018, actuarial valuation

The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions report (Experience

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

Study), based on CalPERS demographic data from 1997 to 2015. The Experience Study report can be obtained from www.CalPERS.ca.gov under Forms and Publications.

(e) Sensitivity of the University's Total 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 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 total OPEB liability as of the measurement date, calculated using the ultimate trend rate of 4.50%, as well as what the total 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:

	Trend rate -1% (3.5%)	Current trend rate (4.5%)	Trend rate + 1% (5.5%)
Total OPEB liability	\$ 11,525,389	13,128,996	15,171,779

(f) Discount Rate

The discount rate used to estimate the total OPEB liability as of measurement dates June 30, 2018 and 2017 was 3.62% and 3.56%, respectively. The discount rates were 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 Total OPEB Liability to Changes in the Discount Rate

The following table presents the University's total OPEB liability as of the measurement date, calculated using the discount rate of 3.62%, as well as what the total other postemployment benefits liability would be if it were calculated using a discount rate that is one-percentage point lower (2.62%) or one-percentage point higher (4.62%) than the current rate:

	Discount rate -1% (2.62%)	Current discount rate (3.62%)	Discount rate + 1% (4.62%)
Total OPEB liability	\$ 15,372,355	13,128,996	11,329,989

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

(h) Changes in Total OPEB Liability

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

Balance at June 30, 2017 (Measurement Date)	\$ 13,918,525
Changes recognized for the measurement period:	
Service cost	680,934
Interest on total OPEB liability	513,512
Recognized changes of assumptions	(519,714)
Differences between expected and actual experience (non-investment)	(1,111,239)
Employer contribution	<u>(353,022)</u>
Net changes	<u>(789,529)</u>
Balance at June 30, 2018 (Measurement Date)	<u>\$ 13,128,996</u>

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

The University recognized OPEB expense of \$721,167 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, 2018 which will be recognized as a reduction of total OPEB liability on the subsequent measurement date. The deferred inflows of resources are recognized for the change in assumptions.

	Deferred outflows of resources	Deferred inflows of resources
University's contributions subsequent to the measurement date	\$ 362,261	—
Differences due to changes in assumptions	—	1,625,833
Differences between expected and actual experience (non-investment)	—	956,271
Total	<u>\$ 362,261</u>	<u>2,582,104</u>

The University's contributions subsequent to the measurement date includes \$326,113 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.

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)								Total
			2020	2021	2022	2023	2024	2025	2026		
2017	\$ 1,663,194	6.84	\$ 242,299	242,299	242,299	242,299	209,400	—	—	1,178,596	
2018	519,714	7.17	<u>72,477</u>	<u>72,477</u>	<u>72,477</u>	<u>72,477</u>	<u>72,477</u>	<u>72,477</u>	12,375	447,237	
Decrease in OPEB expenses			<u>\$ 314,776</u>	<u>314,776</u>	<u>314,776</u>	<u>314,776</u>	<u>281,877</u>	<u>72,477</u>	<u>12,375</u>	<u>1,625,833</u>	

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

**Decrease in OPEB expenses arising from differences between expected and actual experience
(non-investment)
(measurement dates)**

Measurement Period ended June 30	Initial difference	Recognition period (year)	2020	2021	2022	2023	2024	2025	2026	Total
2018	\$ 1,111,239	7.17	\$ 154,968	154,968	154,968	154,968	154,968	154,968	26,463	956,271
Decrease in OPEB expenses			\$ 154,968	154,968	154,968	154,968	154,968	154,968	26,463	956,271

(14) Deferred Outflows and Inflows of Resources

The composition of deferred outflows and inflows of resources at June 30, 2019 is summarized as follows:

	Deferred outflows of resources	Deferred inflows of resources
Related to:		
Net pension liability (note 12)	\$ 2,003,318	306,036
Total other postemployment benefits liability (note 13)	362,260	2,582,104
Unamortized loss on SRB debt refunding	91,210	—
Total	\$ 2,456,788	2,888,140

(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, 2019. 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, 2019.

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.

(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

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

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, 2019 totaled \$1,005,007. 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 \$14,768 of electricity at fixed prices through December 2020. The University estimates that the special purchase contract in place represent approximately 10.82% 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, 2019, operating expenses by natural classification consisted of the following:

	Salaries	Benefits	Scholarships and fellowships expense	Supplies and other services	Depreciation and amortization	Total operating expenses
Instruction	\$ 1,947,517	1,448,746	—	218,376	—	3,614,639
Research	29,221	29,323	—	22,036	—	80,580
Public service	30,025	25,071	—	16,774	—	71,870
Academic support	442,503	391,521	—	208,732	—	1,042,756
Student services	469,099	373,524	—	240,874	—	1,083,497
Institutional support	456,017	318,716	—	246,312	—	1,021,045
Operation and maintenance of plant	258,977	241,781	—	391,638	—	892,396
Student grants and scholarships	—	—	915,286	—	—	915,286
Auxiliary enterprise expenses	89,172	83,872	—	267,310	—	440,354
Depreciation and amortization	—	—	—	—	521,100	521,100
Total	\$ 3,722,531	2,912,554	915,286	1,612,052	521,100	9,683,523

(18) Transactions with Related Entities

The University is an agency of the State and receives approximately 43% of total revenues through state appropriations. State appropriations allocated to the University aggregated \$4,137,542 for the year ended June 30, 2019. State appropriations receivable is \$55,191 at June 30, 2019.

State appropriations allocated to the University for the year ended June 30, 2019 consisted of the following:

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2019

(In thousands)

	<u>2019</u>
State appropriations, noncapital	\$ 3,776,457
State's contribution on behalf of the University for OPEB	326,113
State appropriations, capital	<u>34,972</u>
Total state appropriations	<u>\$ 4,137,542</u>

(19) Subsequent Events

The following information describes significant events that occurred subsequent to June 30, 2019, but prior to the date of the auditors' report.

- *SRB Issuance*

In August 2019, the University issued \$449,430 of SRB Series 2019A (Tax Exempt) and \$81,335 of SRB Series 2019B (Taxable). The new bonds were issued to fund various capital projects, redeem maturing BANs, refund outstanding SRB Series 2010A bonds, and pay related issuance costs.

- *BAN Issuance*

In September 2019, the University issued \$43,255 of BANs for the San Diego State University Aztec Recreation Center expansion.

In October 2019, \$43,345 of BANs were issued for the Long Beach Housing expansion - Parkside North project and \$30,000 for the San Jose State University South Campus Parking Structure and Sports Field Facility Project.

In November 2019, the University issued \$98,300 of BANs for the Capital Outlay Program and Five-Year Facilities Renewal and Improvement Plan.

REQUIRED SUPPLEMENTARY INFORMATION



CALIFORNIA STATE UNIVERSITY

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

June 30, 2019

(Unaudited)

(In thousands)

Last Ten Fiscal Years ⁽¹⁾

State of California Miscellaneous Plan	2018⁽²⁾	2017⁽²⁾	2016⁽²⁾	2015⁽²⁾	2014⁽²⁾
University's proportion of the net pension liability	24.09757%	23.87558%	22.87662%	22.84970%	22.72891%
University's proportionate share of the net pension liability	\$ 7,570,176	8,723,068	7,575,326	6,453,200	5,411,439
University's proportionate share of covered payroll	\$ 2,900,140	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	261.02795%	313.71711%	295.07539%	268.00996%	244.88521%
Plan fiduciary net position as a percentage of the total pension liability	71.82994%	66.41644%	66.81100%	70.68274%	74.17418%
State of California Peace Officers and Firefighters Plan					
University's proportion of the net pension liability	1.17223%	1.15890%	1.15882%	1.07094%	1.00623%
University's proportionate share of the net pension liability	\$ 163,075	176,894	158,599	124,994	102,216
University's proportionate share of covered payroll	\$ 41,153	38,632	37,528	33,341	30,160
University's proportionate share of the net pension liability as a percentage of covered payroll	396.26516%	457.89066%	422.61507%	374.89140%	338.91247%
Plan fiduciary net position as a percentage of the total pension liability	70.53476%	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, 2019

(Unaudited)

(In thousands)

Last Ten Fiscal Years⁽¹⁾

	2019	2018	2017	2016	2015
State of California Miscellaneous Plan					
Actuarially determined contribution	\$ 902,330	836,450	737,766	641,710	588,353
Contributions in relation to the actuarially determined contributions	(909,834)	(839,367)	(740,571)	(644,679)	(589,385)
Contribution excess	\$ (7,504)	(2,917)	(2,805)	(2,969)	(1,032)
University's covered payroll	\$ 3,079,834	2,953,043	2,768,770	2,559,878	2,431,410
Contributions as a percentage of covered payroll	29.54166%	28.42380%	26.74729%	25.18397%	24.24046%
State of California Peace Officers and Firefighters Plan					
Actuarially determined contribution	\$ 18,374	17,762	15,858	14,027	11,737
Contributions in relation to the actuarially determined contributions	(19,153)	(18,442)	(16,600)	(14,647)	(13,610)
Contribution excess	\$ (779)	(680)	(742)	(620)	(1,873)
University's covered payroll	\$ 42,022	41,696	39,372	37,568	33,363
Contributions as a percentage of covered payroll	45.57851%	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.

CALIFORNIA STATE UNIVERSITY

Schedule of Employer Contributions Related to Pensions

Year ended June 30, 2019

(Unaudited)

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, 2017 Funding Valuation Report.
Asset valuation method	Actuarial Value of Assets. For details, see June 30, 2017 Funding Valuation Report.
Inflation	2.625%
Salary increases	Varies by entry age and service
Payroll growth	2.875%
Investment rate of return	7.25%, net of pension plan investment and administrative expenses; includes inflation.
Retirement age	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.
Mortality	The probabilities of retirement are based on 15 years of mortality improvements using the Society of Actuaries 90% of Scale MP 2016. For more details, please refer to the 2017 CalPERS Experience Study and Review of Actuarial Assumptions report.
Significant factors affecting contribution rates	For details, see June 30, 2017 Funding Valuation Report.

See accompanying independent auditors' report.

CALIFORNIA STATE UNIVERSITY

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

June 30, 2019

(Unaudited)

(In thousands)

Last Ten Fiscal Years (1)

	2018 ⁽²⁾	2017 ⁽²⁾
University's total other postemployment benefits liability at beginning of the year	\$ 13,918,525	14,683,420
Changes recognized for the measurement period:		
Service cost	680,934	795,696
Interest on total other postemployment benefits liability	513,512	436,431
Recognized changes of assumptions	(519,714)	(1,663,194)
Recognized differences between Expected and Actual Experience (Non-Investment)	(1,111,239)	—
Employer contributions	(353,022)	(333,828)
Net changes	(789,529)	(764,895)
University's total other postemployment benefits liability at end of the year	\$ 13,128,996	13,918,525
University's covered payroll	\$ 3,121,856	2,994,739
University's total other postemployment benefits liability as a percentage of covered payroll	420.55098%	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 total OPEB 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, 2019

(Unaudited)

(In thousands)

Last Ten Fiscal Years ⁽¹⁾

	2019	2018
Actuarially determined contributions	\$ 743,648	754,550
Contributions in relation to the actuarially determined contributions	(362,260)	(349,487)
Contribution deficiency	<u>\$ 381,388</u>	<u>405,063</u>
University's covered payroll	\$ 3,121,856	2,994,739
Contributions as a percentage of covered payroll	11.60399%	11.67003%

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.

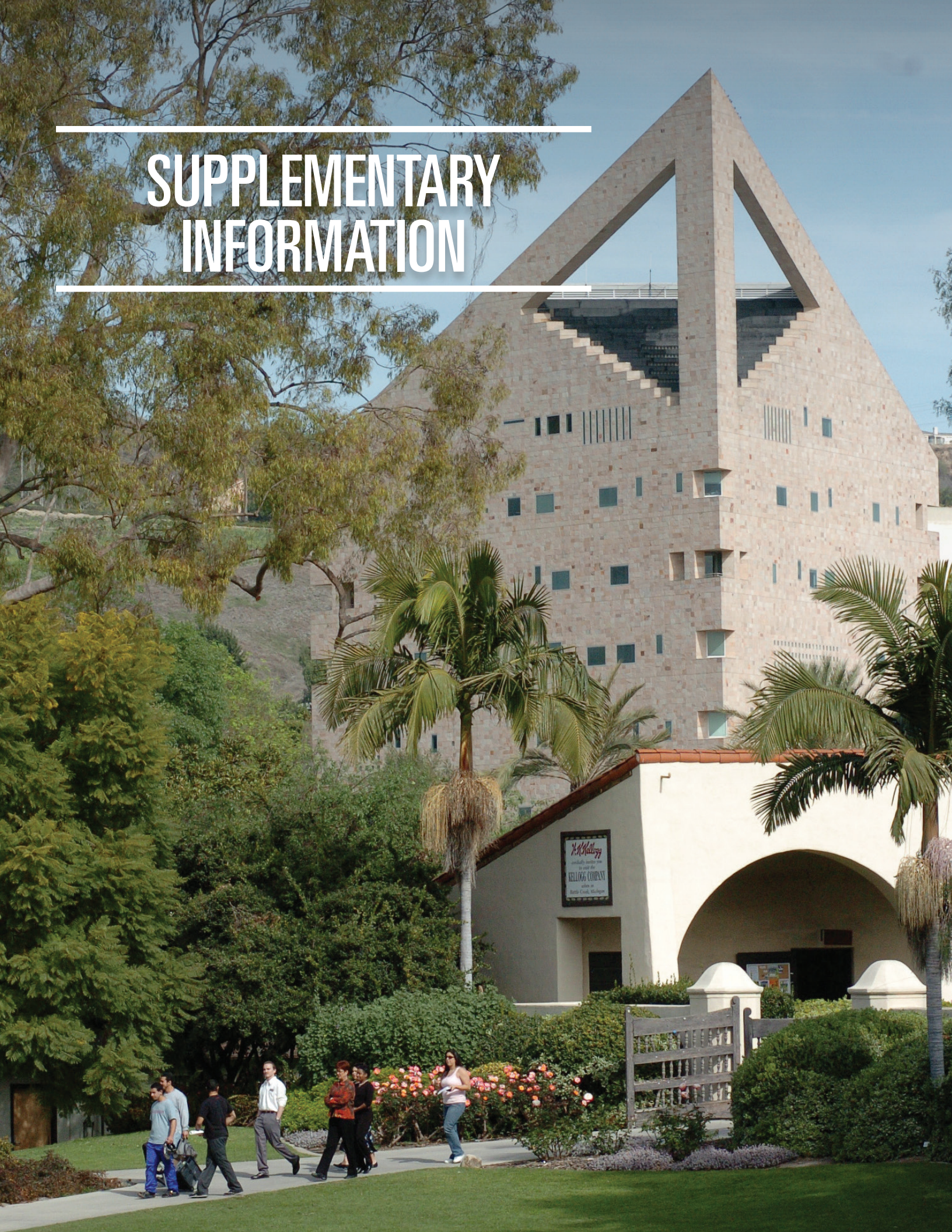
Methods and assumption used to determine actuarially determined contributions:

Actuarial cost method	Entry Age Normal Actuarial Cost Method and the blended discount rates as required by GASB Statements 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 7.00 percent.
Inflation	2.5%
Payroll growth	2.75%
Retirement age	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.
Mortality	The mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board. For purposes of the mortality rates, the revised rates include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

⁽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.

See accompanying independent auditors' report.

SUPPLEMENTARY INFORMATION



CALIFORNIA STATE UNIVERSITY

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

Year ended June 30, 2019

(In thousands)

Gross revenues:

Tuition fees	\$	3,353,956
Student housing		546,895
Student unions/recreation centers		253,990
Parking		128,644
Health centers		10,719
Extended and continuing education		412,537
Auxiliary organizations ¹		611,924
Other related entity ²		7,070
Total gross revenues		<u>5,325,735</u>

Maintenance and operation expenses³:

Academic facilities		313,261
Student housing		343,334
Student unions/recreation centers		121,464
Parking		76,105
Health centers		6,079
Extended and continuing education		408,998
Auxiliary organizations ¹		493,907
Total maintenance and operation expenses		<u>1,763,148</u>
Net income available for debt service	\$	<u>3,562,587</u>

Debt service:

Systemwide revenue bonds debt	\$	382,001
Designated auxiliary organizations debt		2,010
Total debt service	\$	<u>384,011</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, 2019 include extraordinary maintenance and repair projects, which are generally paid from existing program fund balances of \$105,836, other postemployment benefits expense of \$46,532 pursuant to GASB Statement No. 75, and pension expense of \$52,187 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, 2019

(Unaudited)

	(In thousands)						
	Operating and other revenues	Operating expenditures	Excess of revenues over expenditures	Design capacity	Operational capacity ⁽²⁾	Average number of spaces occupied	% of spaces occupied ⁽³⁾
California State University, Bakersfield	\$ 5,276	\$ 4,337	\$ 939	578	562	364	65%
California State University Channel Islands	17,187	9,787	7,400	1,529	1,683	1,529	91
California State University, Chico	24,110	17,879	6,231	2,235	2,256	2,171	96
California State University, Dominguez Hills	5,257	3,637	1,620	712	712	687	96
California State University, East Bay	13,280	9,697	3,583	1,296	1,666	1,632	98
California State University, Fullerton	29,836	17,028	12,808	1,918	2,039	1,960	96
Humboldt State University	15,605	10,071	5,534	2,049	2,075	1,967	95
California State University, Long Beach	23,205	17,589	5,616	1,826	2,050	1,952	95
California State University, Los Angeles	10,036	6,722	3,314	1,069	1,061	1,017	96
California State University Maritime Academy	10,666	9,070	1,596	992	992	722	73
California State University, Northridge	27,800	14,925	12,875	3,595	3,271	3,171	97
California State Polytechnic University, Pomona	27,662	10,526	17,136	2,440	2,468	2,410	98
California State University, Sacramento	25,865	20,640	5,225	2,088	2,128	2,086	98
California State University, San Bernardino	11,505	11,475	30	1,950	1,852	1,044	56
San Diego State University	62,696	40,823	21,873	3,721	4,798	4,306	90
San Francisco State University	62,676	18,313	44,363	3,825	3,911	3,859	99
San José State University	60,503	35,964	24,539	3,939	4,059	3,906	96
California Polytechnic State University, San Luis Obispo	69,112	35,512	33,600	7,755	8,144	7,556	93
Sonoma State University	30,104	17,854	12,249	3,146	3,286	2,917	89
California State University, Stanislaus	5,145	5,847	(701)	460	472	459	97
	<u>\$ 537,526</u>	<u>\$ 317,696</u>	<u>\$ 219,830</u>	<u>47,123</u>	<u>49,485</u>	<u>45,715</u>	<u>92%</u>
California State University, Office of the Chancellor (Systemwide Office)	—	3	(3)				
Interest income	8,482	—	8,482				
Total	<u><u>\$ 546,008</u></u>	<u><u>\$ 317,699</u></u>	<u><u>\$ 228,309</u></u>				

CALIFORNIA STATE UNIVERSITY

Systemwide Revenue Bond Program's Residence and Dining Halls Operating Data by Campus ⁽¹⁾

Year ended June 30, 2019

(Unaudited)

(In thousands)

Average annual rates per academic year ⁽⁴⁾

	Residence Halls			Apartments		
	Single	Double	Suite	Single	Double	Suite
California State University, Bakersfield	\$ 12	10	—	—	—	—
California State University Channel Islands	11	10	—	13	11	—
California State University, Chico	9	8	—	9	8	—
California State University, Dominguez Hills	—	—	—	7	10	—
California State University, East Bay	—	—	9	11	9	—
California State University, Fullerton	—	12	—	13	10	—
Humboldt State University	8	6	—	8	6	—
California State University, Long Beach	9	8	—	—	—	—
California State University, Los Angeles	—	—	—	10	8	—
California State University Maritime Academy	8	6	—	—	—	—
California State University, Northridge	—	—	7	12	7	—
California State Polytechnic University, Pomona	11	10	13	—	—	—
California State University, Sacramento	8	7	—	9	8	9
California State University, San Bernardino	8	7	—	9	—	11
San Diego State University	13	11	—	10	8	—
San Francisco State University	—	9	10	13	10	—
San José State University	10	9	—	14	11	—
California Polytechnic State University, San Luis Obispo	—	8	—	10	9	—
Sonoma State University	9	7	—	11	8	—
California State University, Stanislaus	8	—	—	8	7	—
Average annual rates	\$ 6	6	2	8	7	1

⁽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 units 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 and \$4.

See accompanying independent auditors' report.

CALIFORNIA STATE UNIVERSITY

Systemwide Revenue Bond Program's Statement of Insurance Coverage

Year ended June 30, 2019

(Unaudited)

(In thousands)

Expiration date ⁽¹⁾	Insurance Coverage	Coverage Limit	Insurance Company	Policy number
Property Insurance:				
July 1, 2019	CSU Master Property Policy, "All Risk" Building, Equipment, Rental Income (excluding earthquake)	\$1,000,000 per occurrence	Alliant Property Insurance Program	017471590/05
July 1, 2019	CSU Master Property Policy, Boiler & Machinery	100,000	Alliant Property Insurance Program	017471590/05
General Liability Insurance:				
July 1, 2019	Bodily Injury & Property Damage Liability (Primary)	5,000	CSU Risk Management Authority (self-insured portion)	CSURMA-LIAB-1819
July 1, 2019	Bodily Injury & Property Damage Liability (Reinsurance)	5,000	Multiple	Multiple
July 1, 2019	Bodily Injury & Property Damage Liability (Reinsurance)	5,000	Ironshore Indemnity	000541308
July 1, 2019	Bodily Injury & Property Damage Liability (Reinsurance)	10,000	Multiple	Multiple
July 1, 2019	Bodily Injury & Property Damage Liability (Excess)	5,000	Great American	1827346
July 1, 2019	Bodily Injury & Property Damage Liability (Excess)	5,000	Brit Syndicate	PEXS1012518
July 1, 2019	Bodily Injury & Property Damage Liability (Excess)	5,000	Peleus	2902082-01
July 1, 2019	Bodily Injury & Property Damage Liability (Excess)	15,000	Gemini	CEX09600368-05
July 1, 2019	Bodily Injury & Property Damage Liability (Excess)	50,000	Multiple	Multiple
July 1, 2019	Bodily Injury & Property Damage Liability (Excess)	50,000	Multiple	Multiple
July 1, 2019	Bodily Injury & Property Damage Liability (Excess)	50,000	XL Catlin	IE00018836L118A
July 1, 2019	Bodily Injury & Property Damage Liability (Excess)	100,000	Multiple	Multiple
Workers' Compensation and Employer's Liability Insurance:				
July 1, 2019	Workers' Compensation and Employer's Liability	California Workers' Compensation Statutes	CSAC Excess Insurance Authority	EIA-PE 18 EWC-143
July 1, 2019	Workers' Compensation and Employer's Liability	2,500	Safety National Casualty Corporation	SP 4058381

⁽¹⁾ Additional insurance policies are maintained for the period from July 1, 2019 through July 1, 2020. These policies provide the same coverage indicated above.

See accompanying independent auditors' report.



CSU The California State University

401 Golden Shore, Long Beach, CA 90802

www.calstate.edu

CSU The California
State University

SINGLE AUDIT REPORTS

2018–2019



Table of Contents

	Page
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 <i>Government Auditing Standards</i>	1
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	3
Schedule of Expenditures of Federal Awards	7
Notes to Schedule of Expenditures of Federal Awards	14
Schedule of Findings and Questioned Costs	16

INDEPENDENT AUDITORS' REPORT





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, 2019, and the related notes to the financial statements, which collectively comprise California State University's basic financial statements, and have issued our report thereon dated December 19, 2019. Our report refers to other auditors who audited 88 of the 90 aggregate discretely presented component units, which statements reflect total assets constituting 95% and total revenues constituting 94% of the aggregate discretely presented component units totals. The reports of the other auditors have been furnished to us, and our opinion, insofar as they relate to the amounts included for the 88 aggregate discretely presented component units, are based solely on the reports of the other auditors. The financial statements of 39 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 of Findings and Questioned Costs as item 2019-001 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
December 19, 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, 2019. 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 expended federal awards totaling \$385,364,704, which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2019. 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 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).

Management's Responsibility

Management is responsible for compliance with the federal status, regulations, and the terms and conditions of its federal awards 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 the 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, 2019.



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 2019-002 and 2019-003. 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 is also responsible for preparing corrective action plan to address each audit findings included in our auditors' report. The University's responses and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses or the corrective action plan.

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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2019-002 and 2019-003 that we consider to be significant deficiencies.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The University's responses and corrective action were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses or the corrective action plan.²



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, 2019, and have issued our report thereon dated December 19, 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
December 19, 2019

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



CALIFORNIA STATE UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended of June 30, 2019

Student Financial Assistance Cluster:

Federal Grantor Agency	CFDA	Cluster Name	Federal Program Name	Direct Award or Pass-through Entity	Pass-through Identifying Number	Amount Expended	Amounts Provided to Subrecipients
Department of Education	84.007	Student Financial Aid	Federal Supplemental Educational Opportunity Grants (FSEOG)	Direct Award		\$ 18,804,294	\$ -
	84.033	Student Financial Aid	Federal Work-Study Program (FWS)	Direct Award		20,787,626	-
	84.038	Student Financial Aid	Federal Perkins Loan Program (PERKINS LOAN)	Direct Award		68,742,345	-
	84.063	Student Financial Aid	Federal Pell Grant Program (PELL)	Direct Award		1,056,846,962	-
	84.268	Student Financial Aid	Federal Direct Student Loans (DIRECT LOAN)	Direct Award		1,434,162,882	-
	84.379	Student Financial Aid	Teacher Education Assistance for College and Higher Education Grants (TEACH)	Direct Award		2,811,029	-
	84.408	Student Financial Aid	Postsecondary Education Scholarships for Veteran's Dependents (VETERANS)	Direct Award		5,717	-
Department of Education Total						2,602,160,855	-
Department of Health and Human Services	93.364	Student Financial Aid	Nursing Student Loans (NURSING LOAN)	Direct Award		2,922,371	-
Department of Health and Human Services Total						2,922,371	-
Student Financial Assistance Cluster Total						\$ 2,605,083,226	\$ -

Other Programs and Clusters:

Federal Grantor Agency	CFDA	Cluster Name	Federal Program Name	Direct Award or Pass-through Entity	Pass-through Identifying Number	Amount Expended	Amounts Provided to Subrecipients
U.S. Department of Agriculture	10.001		Agricultural Research Basic and Applied Research	Direct Award		\$ 92,860	\$ -
	10.220		Higher Education - Multicultural Scholars Grant Program	Direct Award		59,128	14,628
	10.558		Child and Adult Care Food Program	Pass-through California Department of Education	04346-CACFP-12-HU-CS	37,791	-
	10.561	SNAP CLUSTER	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Pass-through CSU Chico Research Foundation	SUB18-018	8,555	-
				Sub 18-027		16,358	-
				Pass-through California State University, Chico Research Foundation	SUB18-043	18,504	-
				Pass-through The CSU, Chico Research Foundation	SUB18-046	13,977	-
SNAP CLUSTER Total						57,394	-
10.561 Total						57,394	-
U.S. Department of Agriculture Total						247,173	14,628
U.S. Department of Commerce	11.420		Coastal Zone Management Estuarine Research Reserves	Direct Award		17,268	4,792
	11.999		Marine Debris Program	Direct Award		37,731	-
U.S. Department of Commerce Total						54,999	4,792
U.S. Department of Defense	12.550		The Language Flagship Grants to Institutions of Higher Education	Pass-through The Institute of International Education, Inc.	0054-SFSU-8-CHN-280-PO1	320,441	-
					0054-SFSU-8-link-280-PO5	200,162	52,493
					0054-SFSU-8-SSC-280-PO4	68,690	-
12.550 Total						589,293	52,493
U.S. Department of Defense Total						589,293	52,493
U.S. Department of the Interior	15.224		Cultural and Paleontological Resources Management	Direct Award		28,030	-
	15.904		Historic Preservation Fund Grants-In-Aid	Pass-through Historic Preservation, Office of (OHP)	C8961513	1,000	-
				Pass-through California Office of Historic Preservation	C1810006	2,000	-
15.904 Total						3,000	-
U.S. Department of the Interior Total						31,030	-
U.S. Department of Justice	16.922		Equitable Sharing Program	Pass-through Orange County Sheriff's Department - Regional Narcotics Suppression Program	RNSP 07252013	54,183	-
U.S. Department of Justice Total						54,183	-
U.S. Department of Labor	17.277		WIOA National Dislocated Worker Grants / WIA National Emergency Grants	Pass-through Consortium, Inc	GC022 2011	317,910	-
	17.282		Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	Direct Award		845,539	131,461
U.S. Department of Labor Total						1,163,449	131,461
U.S. Department of Transportation	20.215		Highway Training and Education	Pass-through California Department of Transportation	88A0121	50,895	-
	20.819		Ballast Water Treatment Technologies	Direct Award		16,045	-
	20.UNK		U.S. Department of Transportation (not classified elsewhere)	Pass-through Transportation, Department of (DOT, Caltrans)	43A0342	18,053	-
					04A5368	25,290	-
20.UNK Total						43,343	-
U.S. Department of Transportation Total						110,283	-

CALIFORNIA STATE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended of June 30, 2019

Federal Grantor Agency	CFDA	Cluster Name	Federal Program Name	Direct Award or Pass-through Entity	Pass-through Identifying Number	Amount Expended	Amounts Provided to Subrecipients
Office of Personnel Management	27.011		Intergovernmental Personnel Act (IPA) Mobility Program	Direct Award		\$ 82,280	\$ -
Office of Personnel Management Total						82,280	-
General Services Administration	39.UNK		General Services Administration (not classified elsewhere)	Direct Award		19,479	-
General Services Administration Total						19,479	-
National Aeronautics and Space Administration	43.001		Science	Pass-through Association of Universities for Research in Astronomy, Inc.	STI-509915	290,122	-
	43.008		Education	Direct Award		48,045	6,910
National Aeronautics and Space Administration Total						338,167	6,910
National Endowment for the Humanities	45.149		Promotion of the Humanities Division of Preservation and Access	Direct Award		1,912	-
	45.160		Promotion of the Humanities Fellowships and Stipends	Direct Award		25,200	-
	45.169		Promotion of the Humanities Office of Digital Humanities	Direct Award		26,894	-
National Endowment for the Humanities Total						54,006	-
National Endowment for the Arts	45.024		Promotion of the Arts Grants to Organizations and Individuals	Direct Award		10,471	-
	45.025		Promotion of the Arts Partnership Agreements	Pass-through Western States Arts Federation	TW20180055	2,500	-
					TW20180156	2,500	-
	45.025 Total					5,000	-
National Endowment for the Arts Total						15,471	-
National Science Foundation	47.049		Mathematical and Physical Sciences	Direct Award		16,065	-
	47.050		Geosciences	Pass-through University of Connecticut	322618	72,630	-
	47.076		Education and Human Resources	Direct Award		9,521	-
				Pass-through University Enterprises, Inc.	HRD-1302873	26	-
				Pass-through Univ Enterprises, CSU Sacramento	HRD-1826490	10,000	-
				Pass-through Missouri State University	16043-007	38,246	-
				Pass-through Regents of the University of California	9400	33,697	-
	47.076 Total					91,490	-
National Science Foundation Total						180,185	-
U.S. Department of Environment Protection Agency	66.461		Regional Wetland Program Development Grants	Direct Award		49,788	-
				Pass-through Association of Bay Area Governments	CD-99T66201	5,255	-
	66.461 Total					55,043	-
	66.UNK		U.S. Department of Environment Protection Agency (not classified elsewhere)	Pass-through Environmental Quality Management Inc.	13-017_021003	3,599	-
U.S. Department of Environment Protection Agency Total						58,642	-
U.S. Department of Energy	81.087		Renewable Energy Research and Development	Pass-through Alliance for Sustainable Energy, LLC	AFC-7-70044-02	3,940	-
					AHQ-9-92092-11	9,126	-
	81.087 Total					13,066	-
	81.117		Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	Direct Award		215,856	-
U.S. Department of Energy Total						228,922	-
U.S. Department of Education	84.031		Higher Education Institutional Aid	Direct Award		6,522,835	259,515
				Pass-through Santa Barbara City College	12131.4070.562000.60	207,403	-
				Pass-through Ventura Community College District	P0103046	117,553	-
				Pass-through San Mateo County Community College District	P031S160245	226,854	-
					681233	32,333	-
	84.031 Total					7,106,978	259,515
	84.042	TRIO CLUSTER	TRIO Student Support Services	Direct Award		1,769,365	-
	84.044	TRIO CLUSTER	TRIO Talent Search	Direct Award		724,086	-
	84.047	TRIO CLUSTER	TRIO Upward Bound	Direct Award		2,341,447	-
	84.217	TRIO CLUSTER	TRIO McNair Post-Baccalaureate Achievement	Direct Award		434,213	-
		TRIO CLUSTER Total				5,269,111	-
	84.103		TRIO Staff Training Program	Direct Award		523,694	-
	84.129		Rehabilitation Long-Term Training	Direct Award		344,638	-
	84.325		Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	Direct Award		806,121	53,662
	84.326		Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Direct Award		547,024	-
	84.335		Child Care Access Means Parents in School	Direct Award		471,100	-
	84.336		Teacher Quality Partnership Grants	Pass-through CSU Chico Research Foundation	14-042	38,819	-
					15-034	2,385	-
	84.336 Total					41,204	-

CALIFORNIA STATE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended of June 30, 2019

Federal Grantor Agency	CFDA	Cluster Name	Federal Program Name	Direct Award or Pass-through Entity	Pass-through Identifying Number	Amount Expended	Amounts Provided to Subrecipients
U.S. Department of Education	84.365		English Language Acquisition State Grants	Direct Award		\$ 647,651	\$ -
	84.367		Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	Pass-through Regents of the University of California	ESSA18-CGEP-SONOMA	40,000	-
				Pass-through Regents of the University of California	ESSA18-CMP-SONOMA	26,018	-
					ESSA18-CMP-Stanislaus	24,223	-
					ESSA-18-CWP Turlock	39,082	-
	84.367 Total					129,323	-
	84.382		Strengthening Minority-Serving Institutions	Direct Award		167,418	-
	84.411		Education Innovation and Research (formerly Investing in Innovation (i3) Fund)	Direct Award		667,870	-
U.S. Department of Education Total						16,722,132	313,177
National Archives and Records Administration	89.003		National Historical Publications and Records Grants	Pass-through CSU Dominguez Hills Foundation	PO F18-008	3,000	-
National Archives and Records Administration Total						3,000	-
U.S. Department of Health and Human Services	93.157		Centers of Excellence	Pass-through The Regents of the University of California, San Francisco	11245sc	16,912	-
	93.243		Substance Abuse and Mental Health Services Projects of Regional and National Significance	Direct Award		2,882	-
	93.558	TANF CLUSTER	Temporary Assistance for Needy Families	Pass-through San Joaquin County	A-18-188	477,934	-
	93.575		Child Care and Development Block Grant	Pass-through California Department of Education	CCTR-8043	53,606	-
				Pass-through City and County of San Francisco	CSPP-8105	9,555	-
					268108	523,243	-
	93.575 Total					586,404	-
	93.596		Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Pass-through California Department of Education	CCTR-8043	116,614	-
					CSPP-8105	20,803	-
	93.596 Total					137,417	-
	93.600		Head Start	Pass-through California Department of Education	15291, 15292, 15298	190,364	-
	93.658		Foster Care Title IV-E	Pass-through Regents of UC, Berkeley	Agreement No. 00009243	50,708	-
					Agreement No. 00009894	1,279,785	-
				Pass-through The Regents of the University of California, Berkeley	9898	947,965	-
				Pass-through Regents of the University of California	16-IA-007745	7,147	-
				18-3028	1,331,926	-	
93.658 Total					3,617,531	-	
93.732		Mental and Behavioral Health Education and Training Grants	Pass-through The Regents of the University of California, Berkeley	9668	60,000	-	
93.859		Biomedical Research and Research Training	Direct Award		479,401	-	
			Pass-through The Regents of the University of California, San Francisco	10339SC	85,129	-	
93.859 Total					564,530	-	
U.S. Department of Health and Human Services Total						5,653,974	-
Corporation for National and Community Service	94.006		AmeriCorps	Direct Award		161,219	-
				Pass-through Jumpstart for Young Children, Inc.	100200	203,850	-
	94.006 Total					365,069	-
	94.013		Volunteers in Service to America	Direct Award		24,436	-
Corporation for National and Community Service Total						389,505	-
U.S. Department of Homeland Security	97.012		Boating Safety Financial Assistance	Pass-through CA Div of Boating & Waterways	C8962333	1,825	-
	97.036		Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Pass-through Historic Preservation, Office of (OHP)	C1710004	642	-
U.S. Department of Homeland Security Total						2,467	-
Other Programs and Clusters Total						\$ 25,998,640	\$ 523,461

Research and Development (R&D) Cluster

Federal Grantor Agency	CFDA	Cluster Name	Federal Program Name	Direct Award or Pass-through Entity	Pass-through Identifying Number	Amount Expended	Amounts Provided to Subrecipients
U.S. Department of Agriculture	10.326	R&D	Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)	Direct Award		\$ 65,204	\$ 21,034
	10.561	R&D	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Pass-through California Department of Public Health	16-10234	518,770	-
	10.664	R&D	Cooperative Forestry Assistance	Direct Award		34,038	-
	10.699	R&D	Partnership Agreements	Direct Award		15,896	-
	10.961	R&D	Scientific Cooperation and Research	Direct Award		1,496	-
U.S. Department of Agriculture Total						635,404	21,034

CALIFORNIA STATE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended of June 30, 2019

Federal Grantor Agency	CFDA	Cluster Name	Federal Program Name	Direct Award or Pass-through Entity	Pass-through Identifying Number	Amount Expended	Amounts Provided to Subrecipients
U.S. Department of Commerce	11.012	R&D	Integrated Ocean Observing System (IOOS)	Pass-through Monterey Bay Aquarium Research Institute	1611290	\$ 94,557	\$ -
	11.417	R&D	Sea Grant Support	Pass-through The Regents of the University of California, San Diego	71780057	407	-
	11.419	R&D	Coastal Zone Management Administration Awards	Pass-through Rhode Island Department of Environmental Management	COOP Agreement 2019	4,717	-
				Pass-through University of Michigan	SUBK00009742	106,166	-
	11.419 Total					110,883	-
	11.420	R&D	Coastal Zone Management Estuarine Research Reserves	Direct Award		570,902	-
				Pass-through Merkel & Associates, Inc.	05-024-35	41,638	-
				GS-10F-0060T/AB-133F-14NC-1535	24	-	
11.420 Total					612,564	-	
11.429	R&D	Marine Sanctuary Program	Direct Award		40,668	-	
U.S. Department of Commerce Total						859,079	-
U.S. Department of Defense	12.106	R&D	Flood Control Projects	Direct Award		(848)	-
	12.300	R&D	Basic and Applied Scientific Research	Direct Award		35,800	-
				Pass-through Regents of the University of California	A18-0896-S001-P06921	20,594	-
				Pass-through National Marine Mammal Foundation	SSU-2773	27,544	-
				Pass-through University of St. Andrews	112717 Agreement	15,643	-
	12.300 Total					99,581	-
12.630	R&D	Basic, Applied, and Advanced Research in Science and Engineering	Direct Award		71,935	-	
12.800	R&D	Air Force Defense Research Sciences Program	Pass-through George Mason University	E2043361	177,541	-	
U.S. Department of Defense Total						348,209	-
U.S. Department of the Interior	15.231	R&D	Fish, Wildlife and Plant Conservation Resource Management	Direct Award		112,365	-
	15.246	R&D	Threatened and Endangered Species	Direct Award		50,000	-
	15.608	R&D	Fish and Wildlife Management Assistance	Direct Award		108,074	55,047
	15.615	R&D	Cooperative Endangered Species Conservation Fund	Direct Award		29,078	-
				Pass-through California Department of Fish and Wildlife	P168007	316	-
					P1680032	33	-
	15.615 Total					29,427	-
	15.634	R&D	State Wildlife Grants	Pass-through California Department of Fish and Wildlife	P1640010	84,926	-
	15.650	R&D	Research Grants (Generic)	Direct Award		22,988	-
	15.657	R&D	Endangered Species Conservation – Recovery Implementation Funds	Pass-through Regents of the University of California	A18-0450-S001	31,488	-
	15.678	R&D	Cooperative Ecosystem Studies Units	Direct Award		4,556	-
	15.807	R&D	Earthquake Hazards Program Assistance	Direct Award		48,512	-
	15.808	R&D	U.S. Geological Survey Research and Data Collection	Direct Award		208,278	-
	15.923	R&D	National Center for Preservation Technology and Training	Direct Award		18,682	-
	15.945	R&D	Cooperative Research and Training Programs – Resources of the National Park System	Direct Award		33,594	-
	15.UNK	R&D	U.S. Department of the Interior (not classified elsewhere)	Direct Award		9,722	-
	U.S. Department of the Interior Total						762,612
National Aeronautics and Space Administration	43.001	R&D	Science	Direct Award		347,117	167,893
				Pass-through Space Telescope Science Institute	HST-GO-12950.03-A	11,078	-
				Pass-through Childrens' Creativity Museum	09/06/18 Agreement	40,784	-
43.001 Total					398,979	167,893	
National Aeronautics and Space Administration Total						398,979	167,893
National Endowment for the Humanities	45.129	R&D	Promotion of the Humanities Federal/State Partnership	Pass-through California Humanities	HFAP17-11	5,841	-
	45.160	R&D	Promotion of the Humanities Fellowships and Stipends	Direct Award		12,600	-
National Endowment for the Humanities Total						18,441	-
National Science Foundation	47.041	R&D	Engineering Grants	Direct Award		198,620	-
				Pass-through University of Southern California	94901347	54,525	-
	47.041 Total					253,145	-
	47.049	R&D	Mathematical and Physical Sciences	Direct Award		1,009,022	-
				Pass-through Occidental College	OXY-CURM0013	5,260	-
	47.049 Total					1,014,282	-
	47.050	R&D	Geosciences	Direct Award		514,472	-
			Pass-through Yale University	GR104085(CON-80001397)	3,540	-	
47.050 Total					518,012	-	

CALIFORNIA STATE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended of June 30, 2019

Federal Grantor Agency	CFDA	Cluster Name	Federal Program Name	Direct Award or Pass-through Entity	Pass-through Identifying Number	Amount Expended	Amounts Provided to Subrecipients
National Science Foundation	47.070	R&D	Computer and Information Science and Engineering	Direct Award		\$ 108,831	\$ 33,668
				Pass-through The University of Texas at El Paso	226100998E	28,162	-
	47.070 Total					136,993	33,668
	47.074	R&D	Biological Sciences	Direct Award		1,380,541	62,228
				Pass-through The Regents of the University of California, San Francisco	9807sc	386,012	-
	47.074 Total					1,766,553	62,228
	47.075	R&D	Social, Behavioral, and Economic Sciences	Direct Award		44,167	-
	47.076	R&D	Education and Human Resources	Direct Award		2,141,860	348,525
				Pass-through Villanova University	525838-2	38,137	-
				Pass-through Regents of the University of California	KK1627	1,095	-
				Pass-through The Regents of the University of California, San Diego	A00-1696S004-P056579	45,733	-
				Pass-through California State University, Sacramento University Enterprise	1726932	1,500	-
				Pass-through Northeastern University	533001	8,504	-
				Pass-through Smith-Kettlewell Eye Research Institute	502277-78050	151,157	-
				Pass-through University Enterprises, Inc. Sacramento State	8201301-SFSU	36,050	-
				Pass-through CSU Sacramento University Enterprises Inc	532841	15,000	-
				Pass-through University of Texas at El Paso	1826490/532851	15,000	-
					2261009558	290,346	-
	47.076 Total					2,744,382	348,525
National Science Foundation Total						6,477,534	444,421
U.S. Department of Veterans Affairs	64.054	R&D	Research and Development	Direct Award		11,947	-
U.S. Department of Veterans Affairs Total						11,947	-
U.S. Department of Environment Protection Agency	66.202	R&D	Congressionally Mandated Projects	Pass-through California Coastal Conservancy	CONTRACT NO. 10-030	18,050	-
U.S. Department of Environment Protection Agency Total						18,050	-
U.S. Department of Energy	81.049	R&D	Office of Science Financial Assistance Program	Direct Award		219,828	-
	81.117	R&D	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	Pass-through The Regents of the University of California, Lawrence Berkeley National Laboratory	7403049	21,250	-
U.S. Department of Energy Total						241,078	-
U.S. Department of Education	84.120	R&D	Minority Science and Engineering Improvement	Pass-through San Mateo County Community College District	P120A150014	22,133	-
	84.324	R&D	Research in Special Education	Direct Award		370,722	294,484
U.S. Department of Education Total						392,855	294,484
U.S. Department of Health and Human Services	93.070	R&D	Environmental Public Health and Emergency Response	Pass-through California Department of Public Health	13-20878	11,250	-
	93.084	R&D	Prevention of Disease, Disability, and Death by Infectious Diseases	Pass-through The Regents of the University of California, Davis	A18-0612-S004	24,750	-
	93.113	R&D	Environmental Health	Pass-through University of Southern California	93352808	44,194	-
	93.136	R&D	Injury Prevention and Control Research and State and Community Based Programs	Pass-through California Department of Public Health	13-20878	20,000	-
	93.143	R&D	NIEHS Superfund Hazardous Substances, Basic Research and Education	Pass-through The Regents of the University of California, Berkeley	9676	11,980	-
	93.173	R&D	Research Related to Deafness and Communication Disorders	Pass-through Boston University	4500002980	587	-
	93.242	R&D	Mental Health Research Grants	Direct Award		843,260	101,801
				Pass-through Boston University	4500002320	36,510	-
	93.242 Total					879,770	101,801
	93.243	R&D	Substance Abuse and Mental Health Services Projects of Regional and National Significance	Pass-through Regents of the University of California	10989sc	8,619	-
	93.268	R&D	Immunization Cooperative Agreements	Pass-through California Department of Public Health	13-20878	7,500	-
	93.307	R&D	Minority Health and Health Disparities Research	Direct Award		292,939	-
				Pass-through The board of Trustees of the University of Illinois	17063	15,542	-
					17233-00	27,940	-
	93.307 Total					336,421	-
	93.310	R&D	Trans-NIH Research Support	Direct Award		4,145,263	903,961
	93.732	R&D	Mental and Behavioral Health Education and Training Grants	Pass-through The Regents of the University of California, Berkeley	9668	438	-
	93.758	R&D	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	Pass-through California Department of Public Health	13-20878	319,325	-
	93.837	R&D	Cardiovascular Diseases Research	Direct Award		607,888	152,567
	93.847	R&D	Diabetes, Digestive, and Kidney Diseases Extramural Research	Pass-through The Regents of the University of California, San Francisco	8109sc	52,896	-
	93.855	R&D	Allergy and Infectious Diseases Research	Direct Award		19,800	-
				Pass-through University of Pittsburgh	0052385 (128239-1)	33,843	-
	93.855 Total					53,643	-

CALIFORNIA STATE UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended of June 30, 2019

Federal Grantor Agency	CFDA	Cluster Name	Federal Program Name	Direct Award or Pass-through Entity	Pass-through Identifying Number	Amount Expended	Amounts Provided to Subrecipients
U.S. Department of Health and Human Services	93.859	R&D	Biomedical Research and Research Training	Direct Award		\$ 2,731,958	\$ 15,177
				Pass-through St. John's University	35712	45,648	-
	93.859 Total					2,777,606	15,177
	93.865	R&D	Child Health and Human Development Extramural Research	Direct Award		122,938	-
				Pass-through Research Foundation for Mental Hygiene, Inc. Columbia University	25999	141,668	-
	93.865 Total					264,606	-
	93.866	R&D	Aging Research	Direct Award		169,034	-
				Pass-through The Regents of the University of California, San Francisco	10295SC	79,060	-
					9913C	50,475	-
				Pass-through Stanford University	61593292-45510	32,150	-
				61933281-133224	9,678	-	
93.866 Total					340,397	-	
93.879	R&D	Medical Library Assistance	Pass-through Stanford University	61100260-12656-A	91,793	-	
U.S. Department of Health and Human Services Total						9,998,928	1,173,506
Research and Development (R&D) Cluster Total						\$ 20,163,116	\$ 2,156,385
Total expenditures of federal awards						\$ 2,651,244,982	\$ 2,679,846

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



CALIFORNIA STATE UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2019

(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 \$55,320,028 and \$2,450,983, respectively, at June 30, 2019. 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, 2019.

(4) Administrative Cost Allowances

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

Federal Pell Grant Program	\$	799,325
Federal Work-Study Program		881,561
Federal Supplemental Educational Opportunity Grant Program		421,656
Total administrative cost allowances	\$	<u>2,102,542</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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS



CALIFORNIA STATE UNIVERSITY
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2019

(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
84.042, 84.044, 84.047, and 84.217	TRIO Cluster
Various	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$1,384,853

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

CALIFORNIA STATE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2019

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

2019-001

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 obligations in the amount of \$265 million. This error was not corrected in the June 30, 2019 financial statements.

Recommendation

While the University started its review of policies and procedures, we recommend that the University continues its process 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, 2019

(3) Findings and Questioned Costs Relating to Federal Awards

2019-002

Compliance requirement:	Enrollment Reporting
Campus:	Fresno, Long Beach, Pomona, Sacramento, San Francisco, and San Marcos
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
Passed through entity:	None
Award year:	July 1, 2018 through June 30, 2019

Criteria or Specific Requirement

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

Condition Found and Context

During our testwork, we 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 15 students from six campuses where their changes in status were not reported to the NSLDS within the 30/60-day reporting period. For these students, status changes were communicated between 8-239 days late.

Since this is a repeat finding and that non-compliance was identified at multiple campuses, we consider this to be a significant deficiency in internal control over the compliance requirement for enrollment status reporting.

Cause and Effect

The non-compliance with the 30/60-day reporting period was caused by not having sufficient procedures, such as queries to include all graduated and credential students and not scheduling and submitting degree transmissions on a monthly basis, and controls in place to report graduated and credential students to the National Student Clearinghouse (NSC) in a timely manner.

Sampling

Not statistical

CALIFORNIA STATE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2019

Isolated or Systemic

Systemic

Questioned Costs

None noted

Repeat Finding

Yes

Recommendation

We recommend the University update its procedures to verify that all graduated and credential students are included in the NSC submissions and that degree transmissions to NSC are made in a timely manner to comply with the 30/60-day reporting period to NSLDS.

Views of Responsible Officials

The University concurs with the recommendation. Campuses will further review and refine their policies and procedures and strengthen internal controls, to ensure the timely and accurate reporting of student status changes to NSLDS.

CALIFORNIA STATE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2019

2019-003

Compliance requirement:	Pell Reporting
Campus:	Sacramento and San Francisco
Cluster name/program:	Student Financial Assistance Cluster
CFDA number:	84.063 Federal Pell Grant Program
Federal agency:	U.S. Department of Education
Pass-through entity:	None
Award year:	July 1, 2018 through June 30, 2019

Criteria or Specific Requirement

Schools submit Pell origination records and disbursement records to the Common Origination and Disbursement (COD). Origination records can be sent well in advance of any disbursements, as early as the school chooses to submit them for any student the school reasonably believes will be eligible for a payment. A school follows up with a disbursement record for that student no earlier than (1) 7 calendar days prior to the disbursement date under the Advance or Heightened Cash Monitoring 1 payment methods, or (2) the date of the disbursement under the Reimbursement or Heightened Cash Monitoring 2 payment methods (see ED Notice, June 27, 2017, Federal Register (82 FR 29061)). The disbursement record reports the actual disbursement date and the amount of the disbursement. ED processes origination and/or disbursement records and returns acknowledgments to the school. The acknowledgments identify the processing status of each record: Rejected, Accepted with Corrections, or Accepted. In testing the Pell Payment origination and disbursement data, engagement teams should be most concerned with the data ED has categorized as accepted or accepted with corrections. Institutions must report student payment data within 15 calendar days after the school makes a payment; or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Schools may do this by reporting once every 15 calendar days, bi-weekly, weekly, or may set up their own system to ensure that changes are reported in a timely manner.

Condition Found and Context

During our testwork, we haphazardly selected 66 students from 6 campuses that had Pell disbursements where we compared the COD records to the University's records as well as verifying that the campuses reported disbursements within the 15 day reporting period. We noted the following:

- We identified 10 students from 1 campus where the Pell disbursement dates were not the same in the COD's records as they were in the University's records.
- We identified 2 students that did not have disbursement record reported within the 15 day reporting period.

Based on the number of instances of non-compliance identified, we consider this to be a significant deficiency in internal control over the compliance requirement for Pell disbursement reporting.

CALIFORNIA STATE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2019

Cause and Effect

The non-compliance with the Pell reporting was caused by not having sufficient procedures and controls around the timely submission of disbursement records when the Pell disbursement date was different than initially scheduled for that semester.

Sampling

Not statistical

Isolated or Systemic

Systemic

Questioned Costs

None noted

Repeat Finding

No

Recommendation

We recommend the University update its procedures to verify that all Pell disbursements are reported to COD in a timely manner.

Views of Responsible Officials

The University concurs with the recommendation. Campuses will review their policies and procedures and enhance internal controls, to ensure the timely and accurate reporting of Pell disbursements to COD.



CSU The California State University

401 Golden Shore, Long Beach, CA 90802

www.calstate.edu