

AGENDA

COMMITTEE ON AUDIT

Meeting: 10:05 a.m., Wednesday, January 31, 2018
Glenn S. Dumke Auditorium

Douglas Faigin, Chair
Hugo N. Morales, Vice Chair
Silas H. Abrego
Lillian Kimbell
Peter J. Taylor

- Consent**
1. Approval of Minutes of the Meeting of November 8, 2017, *Action*
 2. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
- Discussion**
3. Calendar Year 2018 Plan for Audits, Advisory Services, and Investigations, *Action*
 4. Report of the Systemwide Financial Statements and Single Audit of Federal Awards Including the Report to Management, *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 8, 2017

Members Present

Hugo N. Morales, Vice Chair
Silas H. Abrego
Lillian Kimbell
Peter J. Taylor
Rebecca Eisen, Chair of the Board
Timothy P. White, Chancellor

Trustee Douglas Faigin called the meeting to order.

Approval of Minutes

The minutes of September 20, 2017, were approved as submitted.

Status Report on Current and Follow-up Internal Audit Assignments

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

Report on Implementation of the New Organization Structure of the Office of Audit and Advisory Services

Mr. Larry Mandel, vice chancellor and chief audit officer, provided a status update on the new organization structure, which was developed in response to recommendations contained in the 2014 quality assurance review of the Office of Audit and Advisory Services. Mr. Mandel provided updates on functional and organizational changes that have been either completed, initiated, or are on-going. Mr. Mandel shared that the previously separate teams for campus and auxiliary organization audits have been combined into four audit teams, the risk assessment process has been changed from a systemwide risk assessment approach to a campus-specific approach, custom audit plans have been created for each campus and the chancellor's office, a continuous auditing initiative is being developed, and a dedicated sponsored programs audit function has been created.

Aud.
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President Tomás D. Morales spoke to how the new organization structure has further benefited the audit relationship with California State University, San Bernardino. President Leslie E. Wong provided remarks as to how the new organization structure and approach to campus audits has served San Francisco State University.

Trustee Peter Taylor noted he is pleased to hear about the use of data analytics. Trustee Taylor asked if the CSU has considered a program to identify high performing staff and rotate them through internal audit and expose them to the advisory function within internal audit. Mr. Mandel noted that it has been considered in the past but not recently.

Trustee Hugo Morales asked what prompted the changes. Mr. Mandel replied that the 2014 quality assurance review recommendations prompted the organization and functional changes.

Trustee Faigin echoed Trustee Taylor's comments about the importance of the advisory nature of internal audit and provided a reminder that audit reports can be found on the Cal State website.

Trustee Faigin adjourned the Committee on Audit.

COMMITTEE ON AUDIT

Status Report on Current and Follow-up Internal Audit Assignments

Presentation By

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

Summary

This item includes both a status report on the 2017 audit plan and follow-up on past assignments. For the 2017 year, assignments were made to develop and execute individual campus audit plans, as well as to conduct audits of Information Technology (IT), Sponsored Programs and Construction; and to provide advisory services and investigation reviews. Follow-up on current and past assignments was also being conducted on approximately 30 completed campus reviews. Attachment A summarizes the audit assignments in tabular form.

AUDITS

Campus Audits

The new organization structure provides for individual campus audit plans that are better aligned with campus and auxiliary organization risks. Risk assessments and initial audit plans have been completed for all campuses. Thirty-one campus reports have been completed, seven reports are awaiting a campus response prior to finalization, and report writing is being completed for four campuses.

Information Technology Audits

The initial audit plan indicated that reviews of Information Security, Logical Access and Security, IT Disaster Recovery and General Computer Controls 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. Eight campus reports have been completed, one campus report is awaiting a campus response prior to finalization, and report writing is being completed for three campuses.

Sponsored Programs

The initial audit plan indicated that reviews of post award activities based on recent changes in federal regulations, as well as a systemwide review of campus policies, procedures, and practices relating to indirect cost recovery would be performed. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues relating to sponsored programs activities. Two campus reports have been completed, and three campus reports are awaiting a campus response prior to finalization.

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 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, one campus report is awaiting a campus response prior to finalization, and report writing is being completed for one project.

ADVISORY SERVICES

The Office of 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

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

COMMITTEES/SPECIAL PROJECTS

The Office of Audit and Advisory Services is periodically called upon to provide consultation to the campuses and/or to participate on committees such as those related to information systems implementation and policy development, and to perform special projects.

AUDIT SUPPORT

Annual Risk Assessment

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

Administration

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

**Status Report on Current and Past
Audit Assignments
(as of 1/25/2018)**

Campus	Audit Topic	Audit Plan Year	Audit Status	Follow-up on Current and Past Audit Assignments	
				*Recs	**Mo.
Bakersfield	Emergency Management	2017	AC	5/5	-
	Athletic Fund-Raising	2017	AI		
Channel Islands	Const. - West Hall	2017	AC	2/2	-
	Fund-Raising and Gift Processing	2017	AC	1/9	5
Chico	Const. - Taylor II Replacement Building	2017	AC	4/4	-
	Student Activities	2017	AC	2/2	-
	Logical Access and Security	2017	AC	0/3	3
	Facilities Management	2017	AI		
Dominguez Hills	Information Security	2017	AC	8/10	7
	Business Continuity	2017	AC	1/2	5
	Student Organizations	2017	AI		
East Bay	Emergency Management	2016	AC	8/8	-
	Cashiering	2017	AC	5/5	-
	Sponsored Programs - Post Award	2017	AI		
Fresno	Sponsored Programs - Post Award	2017	AC	3/3	-
	Cashiering	2017	AC	3/3	-
	Hazardous Materials Management	2017	AC	0/7	3
	Const. - Jordan Research Building	2017	RW		
Fullerton	International Activities	2017	AC	6/6	-
	Academic Department Fiscal Review	2017	AC	2/4	4
	Cashiering	2017	AI		
Humboldt	Logical Access and Security	2017	AC	1/1	-
	Extended Education	2017	AC	0/5	1
Long Beach	Counseling and Psychological Services	2017	AC	3/3	-
	IT Disaster Recovery	2017	AC	0/0	-
	Sponsored Programs - Post Award	2017	AC	1/4	5
Los Angeles	Cashiering	2017	AC	4/4	-
	Student Health Services	2017	AI		
	Student Organizations	2017	AI		
Maritime Academy	Information Security	2017	AC	4/7	5
	Police Services	2017	AC	3/4	3
Monterey Bay	Cashiering	2017	AC	3/3	-
	Police Services	2017	AC	4/6	4
Northridge	Const. - Extended Learning Building	2017	AC	0/0	-
	Facilities Management	2017	AC	3/4	3
	Student Organizations and Sport Clubs	2017	RW		
Pomona	IT Disaster Recovery	2017	AC	2/2	-
	Student Disability Support	2017	AC	7/8	5
	Emergency Management	2017	RW		
Sacramento	Information Security	2017	AC	0/11	4
	Centers and Institutes	2017	AI		

**Status Report on Current and Past
Audit Assignments
(as of 1/25/2018)**

Campus	Audit Topic	Audit Plan Year	Audit Status	Follow-up on Current and Past Audit Assignments	
				*Recs	**Mo.
San Bernardino	Cashiering	2017	AC	5/5	-
	Police Services	2017	AI		
	Logical Access and Security	2017	RW		
San Diego	Information Security	2015	AC	7/7	-
	Facilities Management	2017	AC	5/7	7
	Instructionally Related Activity Fees	2017	AC	0/0	-
	Const. - Open Air Theater Improvements and Confucius Institute Renovation	2017	AI		
San Francisco	International Activities	2017	AC	1/2	6
	Academic Department Fiscal Review	2017	AC	0/4	2
	Special Investigation	2017	AC	0/2	4
	Decentralized Computing	2017	RW		
San Jose	Associated Students	2017	AC	3/5	4
	Tower Foundation	2017	AC	1/3	1
	Sponsored Programs - Post Award	2017	AI		
San Luis Obispo	Information Security	2016	AC	6/6	-
	Hazardous Materials Management	2017	AC	7/7	-
	Cashiering	2017	AC	4/4	-
San Marcos	International Activities	2017	AC	6/6	-
	Information Security	2017	AC	0/5	1
	Service Learning and Internships	2017	AC	0/2	2
Sonoma	Cashiering	2017	AC	2/3	7
	Information Security	2017	AI		
Stanislaus	IT Disaster Recovery	2016	AC	8/8	-
	Service Learning and Internships	2017	AC	0/3	3
	Student Disability Support	2017	RW		
Chancellor's Office	IT Disaster Recovery	2016	AC	3/3	-
	Credit Cards	2017	AC	6/6	-
	Special Investigation	2017	AC	3/5	6
	Information Security	2017	RW		
Systemwide	Emergency Management	2016	AC	1/1	-
	Sponsored Programs - Indirect Costs	2017	AI		

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.

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

COMMITTEE ON AUDIT

Calendar Year 2018 Plan for Audits, Advisory Services, and Investigations

Presentation By

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

Summary

The Office of Audit and Advisory Services presents its audit plan for the calendar year at the January meeting of the Board of Trustees, Committee on Audit. At the November 2017 meeting of the Committee on Audit, the Office of Audit and Advisory Services provided an update on the status of the implementation of the new organization structure, which is being phased in over a four-year period. The following is an audit plan for calendar year 2018, which is year two of the new organization structure phase-in period.

AUDITS - 72% of Plan

Campus Audits (55%)

The new organization structure provides for individual campus audit plans that are better aligned with campus and auxiliary organization risks, as well as the implementation of continuous auditing techniques for more focused and higher quality audits. 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. In-person interviews with campus management have been completed to build upon information learned in the 2017 risk assessment in order to identify campus specific/unique topics to be reviewed. Once the campus audit plans are finalized, audit programs will be developed and executed. In addition, continuous audit techniques will be used to review credit card data for twelve campuses to identify potential risks and to evaluate compliance with policies and procedures.

Information Technology Audits (9%)

The audit plan includes reviews of Information Security and other campus information technology topics. Areas to be reviewed include, but are not limited to Information Technology Disaster Recovery, Cloud Computing, and Decentralized Computing. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues and will be performed at those campuses where a greater degree of risk was perceived for each of these areas.

Sponsored Programs (4%)

The audit plan includes reviews of both post-award and pre-award activities. Post-award reviews will 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 will 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.

Construction (4%)

The audit plan includes reviews of recently completed construction projects, including activities performed by the campus, general contractor, and selected subcontractors. Areas to be reviewed include, 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.

ADVISORY SERVICES - 12% of Plan

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

INVESTIGATIONS - 6% of Plan

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

COMMITTEES/SPECIAL PROJECTS - 1% of Plan

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

AUDIT SUPPORT - 9% of Plan

Annual Risk Assessment

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

Administration

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

The following resolution is recommended for approval:

RESOLVED, By the Committee on Audit of the California State University Board of Trustees that the Calendar Year 2018 Plan for Audits, Advisory Services, and Investigations, as detailed in Agenda Item 3 of the Committee on Audit at the January 29-31, 2018 meeting, be approved.

COMMITTEE ON AUDIT

Report of the Systemwide Financial Statements and Single Audit of Federal Awards Including the Report to Management

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Mary Ek
Assistant Vice Chancellor/Controller
Financial Services

Summary

Financial statements audits are performed annually for the California State University system as a whole, and for its discretely presented component units (i.e., auxiliary organizations) that separately issue stand-alone audited financial statements, by 18 certified public accounting firms. The CSU systemwide financial statements for the fiscal year ended June 30, 2017 were issued with an unmodified opinion on November 17, 2017, and are included as Attachment A to this item.

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

Additionally, federal awards received by the CSU, including student financial aid, are subject to both compliance and internal control audit procedures as required by the Office of Management and Budget Compliance Supplement and the Uniform Guidance. The CSU Single Audit Report was issued on November 17, 2017 and is included as Attachment B to this item. There were three audit findings identified in the Single Audit Report. Two findings related to internal controls over administration of federal financial aid programs at several campuses and one related to internal control over verification of Student Aid Application Information at one campus. The two findings related to administration of financial aid programs were essentially repeat findings from the previous year, but at different campus locations sampled in the current year. Corrective actions are underway and a status update will be provided at a future board meeting.



CALIFORNIA STATE UNIVERSITY
Financial Statements and Supplementary Information
June 30, 2017
(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY

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LETTER FROM THE EXECUTIVE VICE CHANCELLOR, CHIEF FINANCIAL OFFICER

The California State University is an extraordinary system of 23 campuses providing an outstanding education to over 472,000 students in the college year 2016-17. The University is dedicated to providing opportunities and opening doors for our students to learn and grow. As the nation's largest and most diverse university, it has become the economic engine for California; creating jobs, companies, and innovation. With more than three million degrees awarded since inception, the majority of California's leaders and policymakers received their degrees from one of the 23 campuses of the California State University.

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

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

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

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

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



STEVE RELYEA
EXECUTIVE VICE CHANCELLOR, CFO
THE CALIFORNIA STATE UNIVERSITY



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

Independent Auditors' Report

The Board of Trustees
California State University:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the California State University (the University), an agency of the State of California (the State), as of and for the year ended June 30, 2017, 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 96% 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 46 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, 2017, 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 5–31, and the Schedules of University's proportionate share of the net pension liability and employer contributions in Schedules 1 and 2, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 3 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Schedules 4 and 5 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 November 17, 2017 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
November 17, 2017

CALIFORNIA STATE UNIVERSITY
Management's Discussion and Analysis
June 30, 2017
(Unaudited)

The Management's Discussion and Analysis provides an overview of the financial position and performance of the California State University (the University) as of and for the year ended June 30, 2017, 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 opportunity and a high-quality education that prepares students to become leaders in the changing workforce, making the University a vital economic engine for California.

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

The discretely presented component units of the University are primarily recognized auxiliary organizations. These are nonprofit organizations which 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 or food services
- Philanthropic activities

Financial Statements

The financial statements of the University as of and for the year ended June 30, 2017 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.

CALIFORNIA STATE UNIVERSITY
Management's Discussion and Analysis
June 30, 2017
(Unaudited)

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

Statement of Net Position

The Statement of Net Position is the University's balance sheet. It presents information on all of the University's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between these four is 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.

CALIFORNIA STATE UNIVERSITY
Management's Discussion and Analysis
June 30, 2017
(Unaudited)

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

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

Financial 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 is as follow:

	<u>University</u>		<u>Discretely presented component units</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	(In thousands)			
Assets:				
Current assets	\$ 3,579,682	3,412,561	1,250,207	1,197,643
Capital assets, net	8,569,643	8,307,666	826,412	815,871
Other noncurrent assets	2,469,600	1,755,095	2,308,958	2,060,350
Total assets	<u>14,618,925</u>	<u>13,475,322</u>	<u>4,385,577</u>	<u>4,073,864</u>
Deferred outflows of resources	<u>1,829,367</u>	<u>922,449</u>	<u>29,972</u>	<u>19,721</u>
Liabilities:				
Current liabilities	1,385,123	1,271,242	340,458	320,475
Noncurrent liabilities	15,007,323	12,942,137	981,540	1,005,036
Total liabilities	<u>16,392,446</u>	<u>14,213,379</u>	<u>1,321,998</u>	<u>1,325,511</u>
Deferred inflows of resources	<u>17,394</u>	<u>143,167</u>	<u>13,058</u>	<u>16,263</u>
Net position:				
Net investment in capital assets	3,443,607	3,522,905	264,544	227,166
Restricted:				
Nonexpendable	1,746	8,653	1,174,814	1,057,270
Expendable	256,809	119,896	1,001,637	893,104
Unrestricted	<u>(3,663,710)</u>	<u>(3,610,229)</u>	<u>639,498</u>	<u>574,271</u>
Total net position	<u>\$ 38,452</u>	<u>41,225</u>	<u>3,080,493</u>	<u>2,751,811</u>

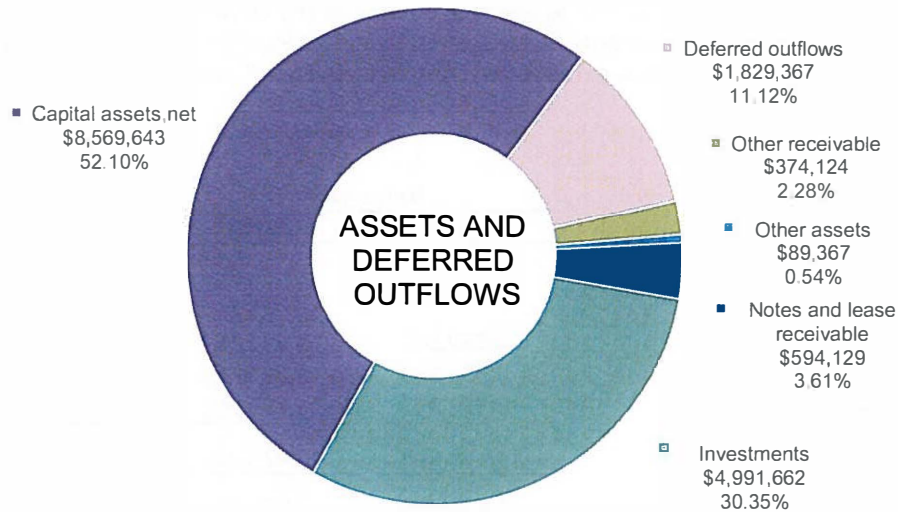
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The University's Financial Position

Assets and Deferred Outflows of Resources

Total assets increased from \$13.48 billion in 2016 to \$14.62 billion in 2017. Deferred outflows of resources increased from \$922.45 million in 2016 to \$1.83 billion in 2017.

Assets and Deferred Outflows of Resources
 June 30, 2017
 (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, leases receivable, student loans receivable, pledges receivable, prepaid expenses, and other assets.

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Capital Assets, Net

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

	<u>2017</u>	<u>2016</u>
	(In thousands)	
Land and land improvements	\$ 268,821	268,821
Buildings and building improvements	6,432,766	6,052,778
Improvements other than buildings	202,100	181,290
Infrastructure	654,440	633,175
Equipment	225,538	228,774
Library books and materials	32,178	34,422
Works of art and historical treasures	44,713	38,833
Intangible assets	50,961	39,272
Construction work in progress	658,126	830,301
Total	<u>\$ 8,569,643</u>	<u>8,307,666</u>

Total capital assets, net of accumulated depreciation and amortization, increased by \$261.98 million as a result of additions on various capital projects, including the following:

- Completion of the \$126.52 million San Jose Campus Village, Phase 2
- Completion of the \$132.96 million San Jose Student Union Expansion and Renovation
- Completion of the \$49.65 million Channel Islands Student Housing, Phase 3
- Completion of the \$42.13 million Pomona Parking Structure II
- Construction in progress on the \$142.70 million San Diego South Campus Plaza
- Construction in progress on the \$131.63 million San Jose Student Recreation and Aquatics Center
- Construction in progress on the \$126.46 million Pomona Administration Replacement Facility (Seismic)
- Construction in progress on the \$93.96 million San Bernardino Student Housing and Dining Commons
- Construction in progress on the \$80.49 million San Francisco Recreation Wellness Center
- Construction in progress on the \$79.60 million San Diego Engineering and Interdisciplinary Sciences Complex

Investments

The University invests its funds mainly through the CSU Consolidated Investment Pool, whose objective is to maximize current income while ensuring asset safety and liquidity. In addition, funds are invested in Surplus Money Investment Fund (SMIF), which is managed by the State Treasurer to invest funds in a short-term pool.

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Investments increased by \$917.04 million due to an overall increase in operating resources provided by the State through noncapital appropriations and proceeds from the issuance of SRB Series 2017A, 2017B, and 2017C. Endowment investments comprise \$1.75 million of the total investments, a decrease of \$6.9 million from the prior year due to transfer of endowments from the University to the discretely presented component units (mainly Foundations).

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

Under SB 1412, the University is required to create an investment advisory committee reporting to the Board of Trustees. The total amount invested under the new investment authority shall not exceed: \$200 million in fiscal year 2017, \$400 million in fiscal year 2018, \$600 million in fiscal year 2019, and 30% of total investment in fiscal year 2020 and thereafter. The investment advisory committee was formed and approved by the Board of Trustees in September 2017.

All additional earnings from investment under the new authority shall be used only for capital outlay or maintenance, and shall not be used for ongoing operations. As of June 30, 2017, the University has not invested in securities allowed under the new investment authority.

Notes and Leases Receivable

The University has a program utilizing discretely presented component units to support a broad range of functions. In certain cases, the discretely presented component units are involved in the financing of campus facilities as well as off-campus facilities serving the needs of the campus. These facilities are mostly financed or refinanced 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 unit pursuant to a loan agreement. Under the terms of the loan agreement, in return for the loan from the University, the component unit agrees to acquire, construct and/or maintain the facility and to repay the loan to the University. The outstanding loan balance is carried by the University as notes receivable.

Notes receivable from discretely presented component units increased from \$290.91 million in 2016 to \$341.25 million in 2017. It increased by \$50.34 million due mainly to the new loan agreement with the University Corporation at Monterey Bay for \$60.14 million. Current year notes receivable collections were \$9.82 million.

In a lease arrangement, the financed lease facility is leased from the University, as lessor, to discretely presented component, as lessee. Under the lease arrangement, the lessee agrees to operate the facility and to make certain rental payment to the University.

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The leases receivable from discretely presented component units decreased from \$333.71 million in 2016 to \$242.71 million in 2017. This is due to California State University Channel Islands Site Authority's advance lease payment of \$76.76 million after the sale of the financed capital assets and \$3.93 million due to refunding. The remainder of the decrease is due to the current year leases receivable collections.

Other Receivable

Other receivable includes accounts receivable, student loans receivable, and pledges receivable. The other receivable increased from \$362.93 million in 2016 to \$374.12 million in 2017.

The accounts receivable from State Public Works Board (SPWB) Lease Revenue Bond program for the capital outlay projects amounted to \$66.31 million and \$90.92 million as of June 30, 2017 and 2016, respectively. The decrease of \$24.61 million is due to the claims of funds used for current year construction for SPWB approved capital projects.

The accounts receivable from the State for capital and noncapital appropriations increased from \$33.96 million in 2016 to \$54.95 million in 2017. The increase is mainly from the current year appropriations amounted to \$35 million for the University's deferred maintenance and infrastructure needs.

Accounts receivable from student accounts increased from \$53.41 million in 2016 to \$68.44 million in 2017. Student loans receivable, on the other hand, decreased from \$81.25 million in 2016 to \$77.24 million in 2017.

Other Assets

Other assets include cash and cash equivalents, restricted cash and cash equivalents, and prepaid expenses and other current assets. The other assets decreased from \$96.42 million in 2016 to \$89.37 million in 2017. The construction reserves under the SPWB Lease Revenue Bonds program were released to fund construction costs which resulted to the decrease.

Deferred Outflows of Resources

Deferred outflows of resources are consumption of net assets that is applicable to a future reporting period, which has a positive effect on the net position. The University's deferred outflows of resources consist of unamortized loss on debt refundings and the changes in pension related items, as discussed below.

Deferred outflows of resources increased by \$906.92 million from \$922.45 million in 2016 to \$1.83 billion in 2017. The deferred outflows of resources related to pension represent 87.95% in 2016 and 94.34% in 2017 of the total account balance. The increase is due to the following:

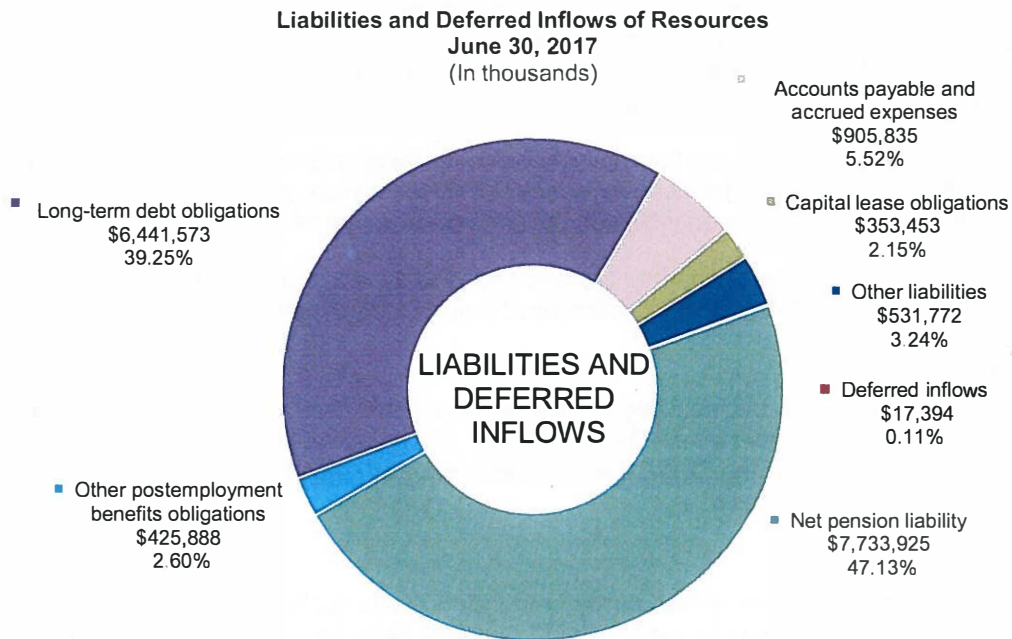
- Increase due to recognition of the differences between projected and actual earnings on California Public Employees' Retirement System (CalPERS) pension plan investments used in determining the net pension liability;
- Increase in the University's retirement contributions subsequent to the measurement date; and
- Increase in the University's proportionate share in the State's pension plans.

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The increase is offset by the current year amortization of the deferred outflows of resources related to pension and loss on debt refunding, and the gain on current refunding of SRB Series 2007A and 2007D by SRB Series 2017A, 2017B, and 2017C.

Liabilities and Deferred Inflows of Resources

Total liabilities of \$16.39 billion represent an increase of \$2.18 billion compared to \$14.21 billion in 2016. Deferred inflows of resources related to pension decreased from \$143.17 million in 2016 to \$17.39 million in 2017.



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, other postemployment benefits (OPEB) obligations, capital lease obligations, and other liabilities.

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Net Pension Liability

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

The net pension liability increased from \$6.58 billion in 2016 to \$7.73 billion in 2017. The \$1.15 billion increase is due to the following:

- Increase in the proportionate share of the University;
- Recognition of the service cost, interest on total pension liability, and administrative costs for the measurement period;

These were offset by the following:

- Retirement contributions from the University and its employees;
- Actual pension plan assets earnings; and
- Difference between expected and actual experience.

The University recognized \$704 million of the increase in net pension liability as pension expense in 2017 while \$1.11 billion will be recognized as pension expense over an amortization period in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pension*. The University as the employer contributed \$659.33 million for measurement period ended June 30, 2016 using primarily funds provided by the State through general fund appropriations.

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Long-Term Debt Obligations

The University's capital assets are financed using the State's capital appropriations, SRB, leases, and equity contributions. Bond anticipation notes (BANs) provide short-term financing for capital assets during the construction period. The University's total long-term debt obligations increased by \$979.83 million in 2017. The University's long-term debt obligations are summarized as follows:

	2017	2016
	(In thousands)	
Systemwide revenue bonds	\$ 5,826,473	4,944,168
Bond anticipation notes	600	4,640
Other long-term debt obligations	8,583	6,180
Total	5,835,656	4,954,988
Unamortized net bond premium	605,917	506,760
Total long-term debt obligations	6,441,573	5,461,748
Less current portion	(122,026)	(112,404)
Long-term debt obligations, net of current portion	\$ 6,319,547	5,349,344

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.

In July 2014, the State Legislature passed SB 860, which changed the State's approach to funding nonrevenue generating capital facilities at the University, such as campus infrastructure projects, academic and administrative buildings, and other capital facilities that are essential to the University's operations (collectively referred to as academic facilities). Historically, the State has funded academic facilities with proceeds from issuance of SPWB Lease Revenue Bonds and State General Obligation (GO) Bonds for which, in each case, the State made all debt service payments directly or through appropriations to the University.

SB 860 provided the University with statutory authority to issue bonds to finance academic facilities, as well as providing the University with the ability to pledge additional revenues to support its debt obligations, including but not limited to student tuition fees. The student tuition fees were added to the gross revenues pledged to secure outstanding SRB.

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

In March 2017, the University issued its SRB Series 2017A (Tax-Exempt), Series 2017B (Taxable), and Series 2017C (Tax-Exempt). The proceeds amounted to \$1.34 billion (including a bond premium of \$127.43 million, net of \$14.14 million bond premium recorded by certain discretely presented component units). The proceeds of the new bonds were used for the following:

- New construction projects
- Redemption of BANs
- Refunding of SRB Series 2007A and 2007D
- Capital interest for future debt service obligations

The above increase in SRB was offset by the refunding of SRB Series 2007A and 2007D, repayment of annual debt service of \$129.03 million, early redemption of a portion of SRB Series 2007A of \$77.19 million, and the current year amortization of net bond premiums of \$27.08 million.

Bond Anticipation Notes

New issuances of BANs amounted to \$200.13 million. Proceeds were used as short-term financing to acquire and construct capital assets. Certain BANs were also redeemed by SRB Series 2017A and 2017B. The redemptions and repayments totaled \$204.17 million.

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 \$2.46 billion in 2016 to \$2.32 billion in 2017. As a result of SB 860, the University's share continues to decrease as bonds are paid by the State with no new debt issued for capital facilities.

Accounts Payable and Accrued Expenses

Accrued expenses for salaries, benefits, and compensated absences increased from \$595.61 million in 2016 to \$638.34 million in 2017. This is primarily due to increase in salary rates and employee headcount.

Accounts payable increased from \$230.50 million in 2016 to \$267.49 million in 2017. The increase of \$36.99 million is due mainly to the increase in the number of capital projects that are currently in progress. These capital projects were primarily funded by SRB. Accounts payable to third-party vendors for capital projects increased by \$13.28 million. The remainder of the increase is due to timing difference in the payments of invoices compared to the prior year.

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Capital Lease Obligations

The University has capital leases for campus facilities including computer, energy efficiency, and telecommunications equipment. The majority of the capital lease obligations are with the SPWB Lease Revenue Bond program for academic campus facilities. Capital lease obligations of the University decreased by \$35.93 million in 2017 due to current year payments of \$44.89 million and amortization of related premiums of \$0.96 million, offset by new capital lease obligations of \$9.92 million.

Other Post-Employment Benefits Obligations

OPEB obligations include the University's estimated funding liability of the State administered and sponsored plan as of the fiscal year end. The State's actuary has employed methods and assumptions considered reasonable and appropriate given the information currently available. Given the inherent uncertainty in the nature of such estimates, future amounts may deviate from those estimates.

The State provides retiree healthcare benefits to statewide employees, including the University employees, through programs administered by CalPERS. The responsibility for funding the employer's share of healthcare premium is shared between the State and the University based on the "billable" and "nonbillable" accounts. The University funds the healthcare costs of the billable accounts which have special revenue sources such as fees, licenses, penalties, assessments, and interest. The University is responsible for paying the cost of dental benefits for all the University's retirees using funds provided by the billable accounts and State through general fund appropriation.

OPEB obligations increased from \$368.80 million in 2016 to \$425.89 million in 2017. The net increase is mainly due to the current year annual required contribution of \$95.07 million less current year contributions of \$37.98 million.

Effective in 2018, the OPEB obligations will be measured using the provision of GASB Statement No. 75, *Financial Reporting for Postemployment-Benefit Plans Other Than Pension Plans*. The University will measure, recognize, display and disclose the long-term obligations and annual costs arising from the promise to provide OPEB to retired employees. The impact of the implementation of this new accounting standard has not yet been determined.

Other Liabilities

Other liabilities include unearned revenues, grants refundable, and depository accounts, decreased from \$589.14 million in 2016 to \$531.77 million in 2017.

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Unearned revenues, which represents the advance collections of student tuition and fees for the 2017 Fall enrollment, increased from \$304.03 million in 2016 to \$327.95 million in 2017. The Board of Trustees approved the tuition fee increase of approximately 5% for undergraduate courses effective in 2017 Fall enrollment. This resulted in the increase in the unearned revenues.

The decrease in the grants refundable and depository accounts totaled to \$4.65 million. The Federal Perkins and Nursing Loan Programs are reported as agency transactions. Any cash, investments, and receivable balances that are carried in these programs at the end of the fiscal year are considered to represent a refundable grant liability to the Federal government, as they must be repaid to the government if they are not continually loaned out to students. The Perkins Loan Program Extension Act of 2015 ended the University's authority to make new Perkins Loans to undergraduate students on September 30, 2017.

Deferred Inflows of Resources

Deferred inflows of resources related to certain changes in the net pension liability decreased from \$143.17 million in 2016 to \$17.39 million in 2017. In 2016, the cumulative actual earnings on CalPERS' pension plan investments was higher than the projected earnings resulting to deferred inflows of resources of \$143.17 million. However, this changed in 2017 as the actual earnings were lower than the projected earnings which reduced the deferred inflows of resources by \$143.17 million.

The favorable difference between the expected and actual experience for the State Miscellaneous Plan resulted to \$17.39 million of deferred inflows of resources in fiscal year 2017.

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 decreased from \$41.23 million in 2016 to \$38.45 million in 2017. Net position by category is as follows:

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Net Investment in Capital Assets

The net position category "Net investment in capital assets" represents the University's capital assets, net of accumulated depreciation and amortization, and also net of outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets and any related deferred outflows of resources. The University uses these capital assets in its day-to-day operations. The net investment in capital assets decreased from \$3.52 billion in 2016 to \$3.44 billion in 2017 as a result of depreciation of capital assets at a faster rate than repayment of the long-term debt obligations.

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,

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and debt service funds. The restricted net position category consists of two subcategories: "Restricted nonexpendable" and "Restricted expendable".

i. Restricted Nonexpendable

The restricted nonexpendable net position is made up of the permanent endowment funds, the corpus of which may not be expendable. Generally speaking, the University's foundations, which are discretely presented component units, hold the significant majority of the University-related endowments. The restricted nonexpendable net position decreased from \$8.65 million in 2016 to \$1.75 million in 2017 due to the donor-approved transfer of endowment investments to discretely presented component units.

ii. Restricted Expendable

Restricted expendable net position represents resources that are subject to external restrictions on how they may be used. Such restrictions are primarily related to scholarships and fellowships, research, loans, capital projects, and debt service funds. The restricted expendable net position increased from \$119.90 million in 2016 to \$256.81 million in 2017. This is mainly due to increase in investments restricted for capital projects and debt service use. These were primarily proceeds from the issuance of SRB Series 2017A and 2017B for funding new capital projects.

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, as further explained in the following paragraphs.

As of June 30, 2017, the unrestricted net position (in thousands) consists of the following:

Designated resources	\$	1,398,910
Undesignated resources		<u>(5,062,620)</u>
Total unrestricted net position	\$	<u><u>(3,663,710)</u></u>

The designated resources are derived from fee collections and other activities that are designated for very specific purposes and are not to be repurposed and spent for other activities. For example, students pay fees, including housing, parking, and campus activities fees, all of which are to be used for specific designated purposes as described in the State of California Education Code. The University also has certain designated resources that represent amounts pledged to support the SRB program.

The undesignated resources are mainly from the operating fund. However, the undesignated resources is in a deficit position due to the recognition of the University's net pension liability.

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Discretely Presented Component Units' Financial Position

In 2017, the discretely presented component units managed \$4.39 billion, representing 23.08% of the University's \$19 billion combined total assets. In 2016, \$4.07 billion of assets were managed by the discretely presented component units, representing 23.21% 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 \$1.52 billion in 2016 to \$1.73 billion in 2017. This represents 9.12% and 8.64% of the combined total assets for 2017 and 2016, respectively.

The claims liability for losses and loss adjustment expenses decreased from of \$82.12 million in 2016 to \$74.57 million in 2017. 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 \$2.18 billion, representing 89.38% of the combined restricted net position in 2017. In 2016, the restricted net position of discretely presented component units was \$1.95 billion, representing 93.82% of the combined restricted net position.

The combined University and discretely presented component units' net position was \$3.12 billion in 2017 and \$2.79 billion in 2016.

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 is as follows:

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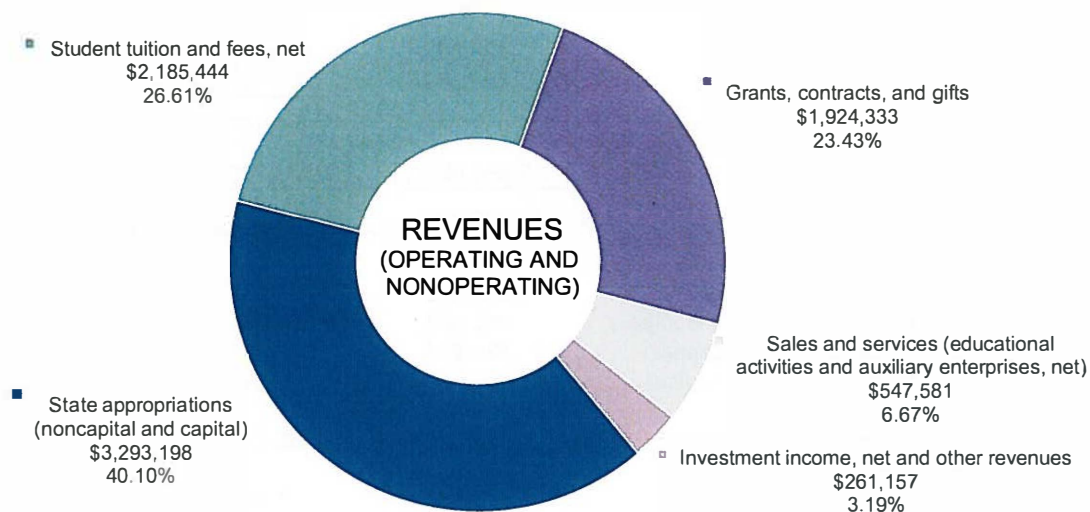
	<u>University</u>		<u>Discretely presented component units</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	(In thousands)			
Operating revenues:				
Student tuition and fees, net	\$ 2,185,444	2,204,940	193,227	194,337
Grants and contracts, noncapital	71,277	73,161	526,196	514,867
Sales and services of educational activities	48,198	48,869	49,997	41,907
Sales and services of auxiliary enterprises, net	499,383	485,090	526,139	500,000
Other operating revenues	208,480	200,497	284,413	243,049
Total operating revenues	<u>3,012,782</u>	<u>3,012,557</u>	<u>1,579,972</u>	<u>1,494,160</u>
Operating expenses	<u>7,986,652</u>	<u>7,328,256</u>	<u>1,723,859</u>	<u>1,621,855</u>
Operating loss	<u>(4,973,870)</u>	<u>(4,315,699)</u>	<u>(143,887)</u>	<u>(127,695)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	3,258,252	3,007,533	—	—
Federal financial aid grants, noncapital	992,007	994,954	1,630	1,221
State financial aid grants, noncapital	720,865	668,871	1,077	908
Local financial aid grants, noncapital	—	—	155	104
Nongovernmental and other financial aid grants, noncapital	38,391	35,826	977	300
Other federal nonoperating grants, noncapital	3,887	4,304	—	1,043
Gifts, noncapital	54,526	68,010	197,152	190,390
Investment income, net	52,662	65,962	91,231	3,298
Endowment income, net	15	58	121,341	(24,785)
Interest expense	(204,095)	(229,573)	(19,001)	(23,694)
Other nonoperating expenses, net	(23,739)	(168,114)	(24,262)	(32,380)
Net nonoperating revenues	<u>4,892,771</u>	<u>4,447,831</u>	<u>370,300</u>	<u>116,405</u>
Income (loss) before other revenues and (expenses)	(81,099)	132,132	226,413	(11,290)
State appropriations, capital	34,946	25,757	—	—
Grants and gifts, capital	50,256	61,007	11,372	28,540
Additions (reductions) to permanent endowments	(6,876)	(1,951)	90,897	79,749
Change in net position	(2,773)	216,945	328,682	96,999
Net position – beginning of year	<u>41,225</u>	<u>(175,720)</u>	<u>2,751,811</u>	<u>2,654,812</u>
Net position – end of year	<u>\$ 38,452</u>	<u>41,225</u>	<u>3,080,493</u>	<u>2,751,811</u>

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Revenues (Operating and Nonoperating)

The University's two largest sources of revenues are state appropriations and student tuition and fees, net, which accounted for a combined 66.72% and 65.95% of total revenues in 2017 and 2016, respectively. State appropriations are received for both noncapital and capital purposes.

Revenues (Operating and Nonoperating)
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	<u>2017</u> (In thousands)	<u>Percentage of total</u>	<u>2016</u> (In thousands)	<u>Percentage of total</u>
State appropriations (noncapital and capital)	\$ 3,293,198	40.10 %	\$ 3,033,290	38.19 %
Student tuition and fees, net	2,185,444	26.61	2,204,940	27.76
Grants, contracts, and gifts	1,924,333	23.43	1,904,182	23.97
Sales and services (educational activities and auxiliary enterprises), net	547,581	6.67	533,959	6.72
Investment income, net and other revenues	<u>261,157</u>	<u>3.19</u>	<u>266,517</u>	<u>3.36</u>
Total revenues (operating and nonoperating)	<u>\$ 8,211,713</u>	<u>100.00 %</u>	<u>\$ 7,942,888</u>	<u>100.00 %</u>

State Appropriations (Noncapital and Capital)

The state noncapital appropriations increased from \$3.01 billion in 2016 to \$3.26 billion in 2017. The \$250.72 million increase consists of the following:

- \$69.55 million to pay employee compensation increases
- \$43.83 million for retirement costs adjustments
- \$35.08 million for employer-paid healthcare premiums
- \$35 million to fund the Graduation Initiative 2025
- \$30.17 million to fund student enrollment growth
- \$27.21 million to fund the Student Success and Completion Program
- \$7.87 million to pay SPWB capital lease obligation debt service
- \$2.01 million for other items

The state capital appropriations increased from \$25.76 million in 2016 to \$34.95 million in 2017. The current year appropriation includes \$35 million funding for deferred maintenance projects.

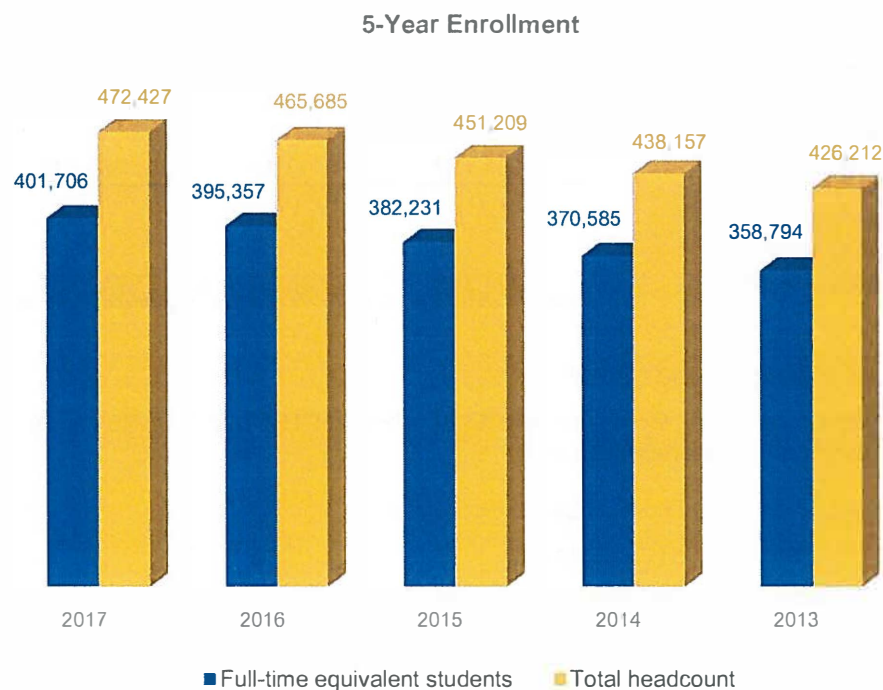
Student Tuition and Fees, Net

Gross student tuition and fees increased from \$3.68 billion in 2016 to \$3.74 billion in 2017. The increase is due mainly to student enrollment growth. Headcount enrollment grew by 1.45% from 465,685 in 2016 to 472,427 in 2017, as reflected in the following chart. As a result, Full-Time Equivalent Students grew by 1.61% from 395,357 in 2016 to 401,706 in 2017.

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For the sixth consecutive year, the 2016-2017 systemwide undergraduate and graduate tuition rates remained unchanged. In March 2017, the Trustees approved an increase in tuition and fees for the academic year 2017-2018. The increase will depend on the student level and degree or certificate program. Revenue from the tuition and fees increase will be used for purposes of student achievement and success, as outlined in the University's Graduation Initiative 2025.

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



The increase in gross student tuition and fees was offset by an increase in scholarship allowances. The net student and tuition fees decreased by \$19.50 million.

Scholarship allowances, mainly financial aid, are the difference between the tuition and fees and the amount paid by the student and third parties on behalf of the student and are reported as an offset to the gross student tuition and fees. This includes State University Grant (SUG), which is a needs-based awards administered by the University for eligible students. The University's support budget for fiscal year 2018 includes an increase in SUG to reduce the impact of the approved tuition increase. Scholarship allowances of \$1.55 billion and \$1.48 billion in 2017 and 2016, respectively, were netted against student tuition and fees. The increase is a combination of the effect of increases in eligible students and allowable aid per student.

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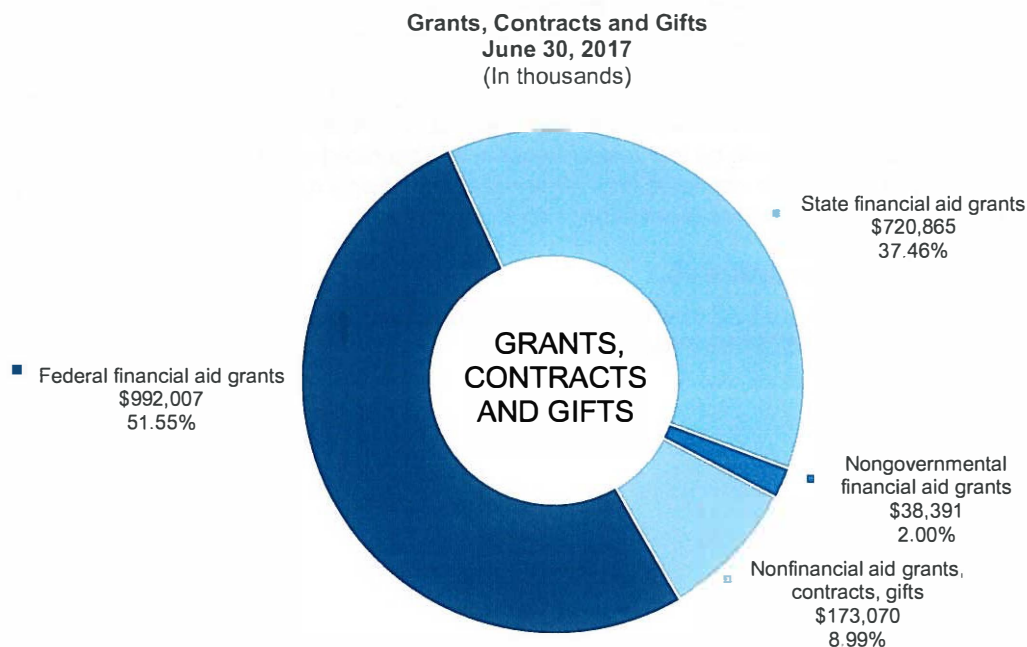
Sales and Services (Educational Activities and Auxiliary Enterprise)

Sales and services of educational activities include (1) revenues related incidentally to the conduct of instruction, research, and public service, and (2) 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 \$48.20 million, a slight decrease from \$48.87 million in 2016.

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 \$499.38 million, which is a \$14.29 million increase when compared to 2016. The increase is due mainly to new student housing facilities which operated for the first time in 2017 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 Teacher Education Assistance. Major state financial aid grants came from Cal Grants and Middle Class Scholarship.



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Student financial aid grants of \$1.75 billion represents 91.01% of the University's total grants, contracts, and gifts revenues of \$1.92 billion for 2017. Federal and state agencies contributed \$1.71 billion representing 97.81% of the University's total student financial aid grants in 2017 and \$1.66 billion representing 97.89% in 2016. State financial aid grants increased by \$51.99 million as there are more eligible students and higher aid per student. Federal student financial aid grants slightly decreased by \$2.95 million, offset by an increase in nongovernmental student financial aid grants of \$2.57 million.

The remainder of the grants, contracts and gifts include nonfinancial aid grants, contracts, changes to permanent endowments, and gifts (capital and noncapital), which amounted to \$173.07 million, or 8.99%, of total grants, contracts, and gifts. It decreased by \$31.46 million due mainly to decline in nonfinancial aid grants, gifts (capital and noncapital), and reductions in endowment investments. This is primarily due to one-time grants and gifts from third parties received in 2016. Further, gifts received from discretely presented component units amounted to \$79.70 million, which is \$5.50 million lower compared to 2016. The University transferred endowment investments of \$4.93 million more than the prior year to its discretely presented component units.

Investment Income, Net and Other Revenues

Other operating revenues for the fiscal year of \$208.48 million is an increase of \$7.98 million compared to the prior year. The increase is mainly due to certain revenues from student organizations being recognized by the University (some student organizations' revenues are recorded by discretely presented component units) starting in 2017. Additionally, there was also an increase in revenues from cost recoveries from discretely presented component units and from special noncapital related projects.

Investment income for the fiscal year is \$52.66 million, which is \$13.30 million lower when compared to the prior year. This includes the return on investments from the CSU Consolidated Investment Pool and SMIF investments, realized gains or losses on the sale of securities, unrealized gains or losses in the fair value of securities, investment income from capital leases receivable, and capital related loans with discretely presented component units, and is offset by investment service charges.

Expenses (Operating and Nonoperating)

The University's total expenses of \$8.21 billion comprises of operating expenses of \$7.99 billion, or 97.22%, and nonoperating expenses of \$227.83 million, or 2.78%.

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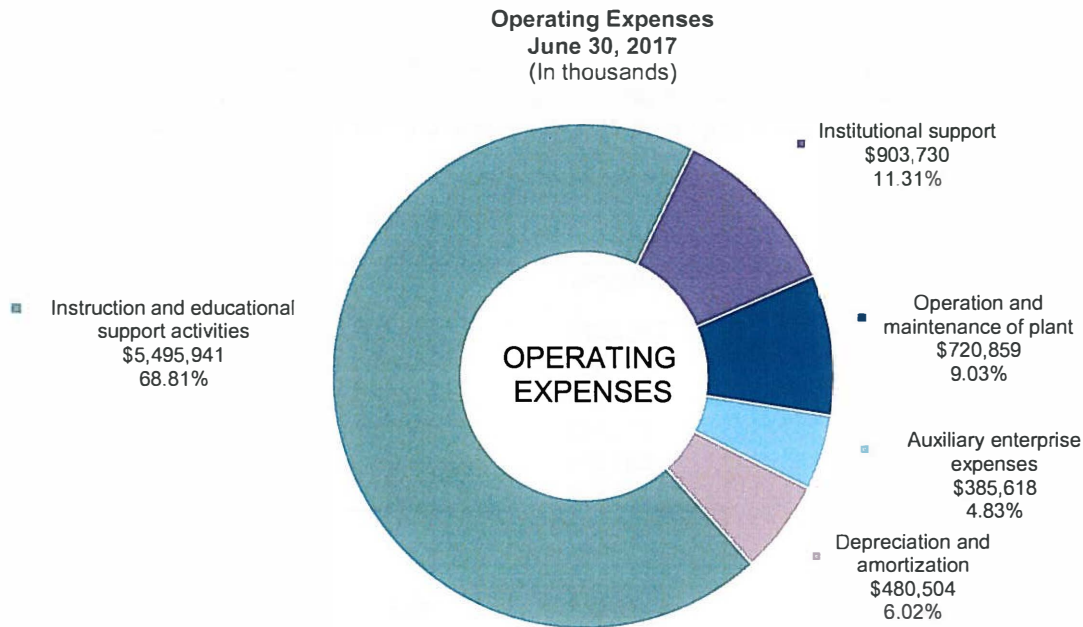
Operating Expenses

When the mission-critical educational support activities of student services, academic support, student grants and scholarships, public service, and research are added to direct classroom instruction, the total instruction and educational support activities account for 68.81% of the total operating expenses of the University, as shown below:

	<u>2017</u>	<u>Percentage of total</u>	<u>2016</u>	<u>Percentage of total</u>
	(In thousands)		(In thousands)	
Instruction	\$ 2,853,923	35.73%	2,503,564	34.16%
Research	54,468	0.68	51,691	0.71
Public service	47,013	0.59	57,376	0.78
Academic support	810,610	10.15	762,920	10.41
Student services	885,908	11.09	812,010	11.08
Student grants and scholarships	<u>844,019</u>	<u>10.57</u>	<u>881,578</u>	<u>12.03</u>
Total instruction and educational support activities	5,495,941	68.81	5,069,139	69.17
Institutional support	903,730	11.31	795,550	10.86
Operation and maintenance of plant	720,859	9.03	648,618	8.85
Auxiliary enterprise expenses	385,618	4.83	357,030	4.87
Depreciation and amortization	<u>480,504</u>	<u>6.02</u>	<u>457,919</u>	<u>6.25</u>
Total operating expenses	<u>\$ 7,986,652</u>	<u>100.00%</u>	<u>7,328,256</u>	<u>100.00%</u>

The operating expenses increased by \$658.40 million in 2017. This is primarily due to the increase in salaries of \$231.05 million, and benefits of \$358.73 million. The increase in benefits is mainly related to pension expense.

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Salaries

The University's salaries increased from \$3.14 billion in 2016 to \$3.37 billion in 2017. The increase of \$231.05 million is mainly comprises of \$202.42 million, or 87.61%, for instruction and educational support; \$13.92 million, or 6.02%, for institutional support; \$9.83 million, or 4.25%, for operation and maintenance of plant; and \$4.88 million, or 2.11%, for auxiliary enterprise.

The combination of increases in salary rates and employee headcount contributed to the increase in salary expenses.

Benefits

The University's benefits increased from \$1.44 billion in 2016 to \$1.79 billion in 2017. The increase of \$358.73 million is mainly comprised of \$244.27 million, or 68.09%, for instruction and educational support; \$80.60 million, or 22.47%, for institutional support; \$30.19 million, or 8.42%, for operation and maintenance of plant; and \$3.67 million, or 1.02%, for auxiliary enterprise.

The employer-paid healthcare premiums increased effective January 2016. The full year impact of the increase in healthcare benefits expenses and a higher employee headcount in 2017 contributed to the increase in benefits expenses. The combination of increases in benefits rates and employee headcount, contributed to the increase in benefits expenses.

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The pension expense increased from \$571.95 million in 2016 to \$872.60 million in 2017. The increase is due to higher service costs and interest on the total pension liability, and higher amortization expense of deferred outflows/inflows of resources. The deferred outflows and inflows of resources are recognized as pension expense over an amortization period in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pension*.

Scholarship and Fellowships

The University's scholarship and fellowships expenses decreased from \$881.58 million in 2016 to \$844.02 million in 2017. The decrease of \$37.56 million is mainly due to more scholarships applied against tuition and fees reducing the amounts paid out to students as scholarship expense.

Supplies and Services

The University's supplies and services increased from \$1.41 billion in 2016 to \$1.49 billion in 2017. The increase of \$83.59 million is mainly comprised of \$17.66 million, or 21.13%, for instruction and educational support; \$13.67 million, or 16.35%, for institutional support; \$32.22 million, or 38.54%, for operation and maintenance of plant; and \$20.04 million, or 23.97%, for auxiliary enterprise.

New borrowings to fund capital and special projects, including deferred maintenance projects, contributed to the increase in supplies and services in the operation and maintenance of plant functional category.

Depreciation and Amortization

The depreciation and amortization expense increased from \$457.92 million in 2016 to \$480.50 million in 2017. The increase of \$22.58 million was due to the completion of construction projects for building, building improvements, improvements other than building, and infrastructure.

Other Nonoperating Expenses, Net

The University's other nonoperating expenses, net decreased from \$168.11 million in 2016 to \$23.74 million in 2017. The other non-operating expenses decreased due to the gains resulting from the restructuring of the agreements with SPWB.

Discretely Presented Component Units' Results of Operations

The discretely presented component units managed \$2.10 billion of revenues, representing 20.33% of the University's \$10.31 billion combined total operating revenues. This is higher compared to the 18.26% in prior year due to increase in endowment income of \$146.13 million. The discretely presented component units can invest in a wider range of securities than the University.

The discretely presented component units managed \$738.56 million grants contracts, and gifts revenues, representing 27.31% of the \$2.70 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.

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Factors Impacting Future Periods

University Support Budget Plan for fiscal year 2017–2018

The University's \$6.40 billion total budget is funded primarily from two sources: \$3.39 billion from State general fund appropriations and \$3.01 billion of net tuition and fee revenues. The fiscal year 2017–2018 budget includes an augmentation of \$314.01 million for the following:

- \$141.10 million for employee compensation
- \$75 million for the Graduation Initiative 2025
- \$39.56 million for State University Grants
- \$20.68 million for mandatory cost increases (e.g., health and dental benefits, retirement, new facilities, and Federal and State mandates)
- \$26.48 million increase in funded enrollment
- \$5.07 million for SPWB capital lease obligation debt service
- \$3.34 million for healthcare and dental premiums
- \$2.78 million for other items

Graduation Initiative 2025

The University's support budget for fiscal year 2017–2018 includes \$75 million for Graduation Initiative 2025. These resources will allow campuses to prioritize the investments they make to improve time to complete a degree, eliminate student achievement gaps, and ensure every student has access to the tools, resources, and guidance needed to achieve goals. The University aims to graduate more than one million students with baccalaureate degrees between 2015 and 2025. Below are the five priority areas for Graduation Initiative 2025:

- **Tenure-Track Faculty Hiring:** Campuses will continue to prioritize the hiring of tenure-track faculty and to improve the ratio of tenure and tenure-track faculty to lecturers, as well as improve student/faculty ratios. These funds will enable campuses to hire more tenured and tenure-track faculty systemwide. This increase will provide opportunities to offer more sections of high-demand courses.
- **Improved Course Taking Opportunities:** Campuses will develop infrastructure to accurately predict student demand for course sections, will organize the schedule of classes to prioritize the delivery of courses required for degree completion and will strategically allocate campus resources to align with demand throughout the college year.
- **Enhanced Advising and Education Plans:** Through the hiring of more professional staff advisors and investing in the use of technology to provide clear and accurate education plans, the University has prioritized these critical components of academic and student success. These will improve opportunities for students to focus on specific academic and career goals, improving both student services and institutional efficiency.
- **Academic and Student Support:** By identifying and supporting academic and student services and programs, which have systemic, campus-wide impact, campuses will scale-up a range of successful strategies to improve retention and completion.

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- **Actively Leveraging Data:** Campuses will continue investment in improving student information systems and the use of available data to facilitate more strategic and intentional campus decision making.

Subsequent Events

BANs Issuance

The University issued \$48.2 million of BANs subsequent to June 30, 2017. \$21.97 million of these BANs were issued to finance the San Diego State University Tula/Tenochca Replacement Project and \$26.23 million were issued to finance the California Polytechnic State University, San Luis Obispo – Cal Poly Corporation Vista Grande Replacement Building Project.

CALIFORNIA STATE UNIVERSITY

Statement of Net Position

June 30, 2017

(In thousands)

Assets	University	Discretely presented component units	Total
Current assets:			
Cash and cash equivalents	\$ 9,024	252,580	261,604
Short-term investments	3,321,256	689,838	4,011,094
Accounts receivable, net	169,409	202,330	371,739
Capital lease receivable, current portion	11,055	1,683	12,738
Notes receivable, current portion	10,727	2,513	13,240
Pledges receivable, net	2,240	66,327	68,567
Prepaid expenses and other current assets	55,971	34,936	90,907
Total current assets	<u>3,579,682</u>	<u>1,250,207</u>	<u>4,829,889</u>
Noncurrent assets:			
Restricted cash and cash equivalents	745	34,934	35,679
Accounts receivable, net	124,992	18,724	143,716
Capital lease receivable, net of current portion	241,333	63,168	304,501
Notes receivable, net of current portion	331,014	21,558	352,572
Student loans receivable, net	77,243	963	78,206
Pledges receivable, net	240	127,804	128,044
Endowment investments	1,746	1,504,146	1,505,892
Other long-term investments	1,668,660	500,898	2,169,558
Capital assets, net	8,569,643	826,412	9,396,055
Other assets	23,627	36,763	60,390
Total noncurrent assets	<u>11,039,243</u>	<u>3,135,370</u>	<u>14,174,613</u>
Total assets	<u>14,618,925</u>	<u>4,385,577</u>	<u>19,004,502</u>
Deferred Outflows of Resources			
Deferred outflows of resources	<u>1,829,367</u>	<u>29,972</u>	<u>1,859,339</u>
Liabilities			
Current liabilities:			
Accounts payable	267,491	94,529	362,020
Accrued salaries and benefits	376,708	27,019	403,727
Accrued compensated absences, current portion	140,963	14,911	155,874
Unearned revenues	317,108	80,944	398,052
Capital lease obligations, current portion	43,737	11,177	54,914
Long-term debt obligations, current portion	122,026	13,501	135,527
Claims liability for losses and loss adjustment expenses, current portion	—	22,031	22,031
Depository accounts	10,763	12,427	23,190
Other liabilities	106,327	63,919	170,246
Total current liabilities	<u>1,385,123</u>	<u>340,458</u>	<u>1,725,581</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	120,673	5,302	125,975
Unearned revenues	10,840	9,537	20,377
Grants refundable	78,470	2,716	81,186
Capital lease obligations, net of current portion	309,716	261,990	571,706
Long-term debt obligations, net of current portion	6,319,547	400,343	6,719,890
Claims liability for losses and loss adjustment expenses, net of current portion	—	52,543	52,543
Depository accounts	3,065	20,489	23,554
Other postemployment benefits obligations	425,888	103,433	529,321
Net pension liability	7,733,925	73,658	7,807,583
Other liabilities	5,199	51,529	56,728
Total noncurrent liabilities	<u>15,007,323</u>	<u>981,540</u>	<u>15,988,863</u>
Total liabilities	<u>16,392,446</u>	<u>1,321,998</u>	<u>17,714,444</u>
Deferred Inflows of Resources			
Deferred inflows of resources	<u>17,394</u>	<u>13,058</u>	<u>30,452</u>

CALIFORNIA STATE UNIVERSITY

Statement of Net Position

June 30, 2017

(In thousands)

Net Position	University	Discretely presented component units	Total
Net position:			
Net investment in capital assets	\$ 3,443,607	264,544	3,708,151
Restricted for:			
Nonexpendable – endowments	1,746	1,174,814	1,176,560
Expendable:			
Scholarships and fellowships	17,178	254,130	271,308
Research	116	19,747	19,863
Loans	16,738	2,037	18,775
Capital projects	136,154	88,595	224,749
Debt service	67,956	3,096	71,052
Others	18,667	634,032	652,699
Unrestricted	<u>(3,663,710)</u>	<u>639,498</u>	<u>(3,024,212)</u>
Total net position	<u>\$ 38,452</u>	<u>3,080,493</u>	<u>3,118,945</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY
Statement of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2017
(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 \$1,552,684)	\$ 2,185,444	193,227	(15,583)	2,363,088
Grants and contracts, noncapital:				
Federal	39,824	356,310	(286)	395,848
State	15,357	87,896	—	103,253
Local	3,872	14,502	—	18,374
Nongovernmental	12,224	67,488	(2,440)	77,272
Sales and services of educational activities	48,198	49,997	(3,257)	94,938
Sales and services of auxiliary enterprises (net of University scholarship allowances of \$97,899)	499,383	526,139	(132)	1,025,390
Other operating revenues	208,480	284,413	(1,486)	491,407
Total operating revenues	<u>3,012,782</u>	<u>1,579,972</u>	<u>(23,184)</u>	<u>4,569,570</u>
Expenses:				
Operating expenses:				
Instruction	2,853,923	175,371	(1,811)	3,027,483
Research	54,468	208,600	(56)	263,012
Public service	47,013	173,107	(3,144)	216,976
Academic support	810,610	73,049	(3,438)	880,221
Student services	885,908	200,707	(10,098)	1,076,517
Institutional support	903,730	240,905	(31,203)	1,113,432
Operation and maintenance of plant	720,859	38,600	(758)	758,701
Student grants and scholarships	844,019	64,420	(35,771)	872,668
Auxiliary enterprise expenses	385,618	496,098	(20,477)	861,239
Depreciation and amortization	480,504	53,002	—	533,506
Total operating expenses	<u>7,986,652</u>	<u>1,723,859</u>	<u>(106,756)</u>	<u>9,603,755</u>
Operating loss	<u>(4,973,870)</u>	<u>(143,887)</u>	<u>83,572</u>	<u>(5,034,185)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	3,258,252	—	—	3,258,252
Federal financial aid grants, noncapital	992,007	1,630	(30)	993,607
State financial aid grants, noncapital	720,865	1,077	—	721,942
Local financial aid grants, noncapital	—	155	—	155
Nongovernmental and other financial aid grants, noncapital	38,391	977	(20,878)	18,490
Other federal nonoperating grants, noncapital	3,887	—	—	3,887
Gifts, noncapital	54,526	197,152	(50,473)	201,205
Investment income, net	52,662	91,231	—	143,893
Endowment income	15	121,341	—	121,356
Interest expense	(204,095)	(19,001)	—	(223,096)
Other nonoperating expenses	(23,739)	(24,262)	17,037	(30,964)
Net nonoperating revenues	<u>4,892,771</u>	<u>370,300</u>	<u>(54,344)</u>	<u>5,208,727</u>
Income (loss) before other revenues (expenses)	(81,099)	226,413	29,228	174,542
State appropriations, capital	34,946	—	—	34,946
Grants and gifts, capital	50,256	11,372	(29,228)	32,400
Additions (reductions) to permanent endowments	(6,876)	90,897	—	84,021
Increase (decrease) in net position	<u>(2,773)</u>	<u>328,682</u>	<u>—</u>	<u>325,909</u>
Net position:				
Net position at beginning of year	41,225	2,751,811	—	2,793,036
Net position at end of year	<u>\$ 38,452</u>	<u>3,080,493</u>	<u>—</u>	<u>3,118,945</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2017

(In thousands)

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 2,191,142
Federal grants and contracts	36,719
State grants and contracts	17,739
Local grants and contracts	3,333
Nongovernmental grants and contracts	11,017
Payments to suppliers	(1,476,689)
Payments to employees	(4,951,735)
Payments to students	(847,354)
Collections of student loans	3,497
Sales and services of educational activities	49,280
Sales and services of auxiliary enterprises	501,095
Other receipts	206,440
	<hr/>
Net cash used in operating activities	(4,255,516)
Cash flows from noncapital financing activities:	
State appropriations	3,258,422
Federal financial aid grants	992,376
State financial aid grants	721,545
Nongovernmental and other financial aid grants	38,431
Other federal nonoperating grants	4,010
Gifts and grants received for other than capital purposes	55,399
Federal loan program receipts	1,515,654
Federal loan program disbursements	(1,516,494)
Monies received on behalf of others	152,285
Monies disbursed on behalf of others	(152,646)
Transfers to escrow agent	(43,973)
Proceeds from long-term debt	64,457
Principal paid on long-term debt	(15,191)
Interest paid on long-term debt	(19,561)
Issuance of notes receivable	(60,140)
Issuance of capital leases receivable	(34,890)
Principal collections on capital leases	123,166
Interest collections on capital leases	15,379
Principal collections on notes receivable	10,710
Interest collections on notes receivable	13,701
Other noncapital financing activities	(100,760)
	<hr/>
Net cash provided by noncapital financing activities	5,021,880
Cash flows from capital and related financing activities:	
Proceeds from capital debt	1,403,131
State appropriations	16,670
State appropriations – SPWB Lease Revenue Bond program	24,681
Capital grants and gifts	35,696
Proceeds from sale of capital assets	2,064
Acquisition of capital assets	(680,915)
Transfers to escrow agent	(86,874)
Principal paid on capital debt and leases	(353,068)
Interest paid on capital debt and leases	(244,012)
Principal collection on capital leases	727
Interest collection on capital leases	1,030
	<hr/>
Net cash provided by capital and related financing activities	119,130

CALIFORNIA STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2017

(In thousands)

	<u>University</u>
Cash flows from investing activities:	
Proceeds from sales of investments	\$ 8,965,189
Purchases of investments	(9,904,594)
Investment income proceeds	54,492
Net cash used in investing activities	<u>(884,913)</u>
Net increase in cash and cash equivalents	581
Cash and cash equivalents at beginning of year	<u>9,188</u>
Cash and cash equivalents at end of year	<u>\$ 9,769</u>
Summary of cash and cash equivalents at end of year:	
Cash and cash equivalents	\$ 9,024
Restricted cash and cash equivalents	<u>745</u>
Total cash and cash equivalents at end of year	<u>\$ 9,769</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (4,973,870)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	480,504
Change in assets and liabilities:	
Accounts receivable, net	(18,564)
Student loans receivable, net	(1,245)
Prepaid expenses and other current assets	(3,123)
Other assets	(4,152)
Deferred outflows of resources	(914,528)
Accounts payable	23,082
Accrued salaries and benefits	24,465
Accrued compensated absences	18,241
Unearned revenues	24,373
Depository accounts	62
Other postemployment benefits obligations	57,085
Net pension liability	1,155,731
Other liabilities	2,196
Deferred inflows of resources	<u>(125,773)</u>
Net cash used in operating activities	<u>\$ (4,255,516)</u>
Supplemental schedule of noncash transactions:	
Revenues resulting from restructuring agreement with SPWB	87,270
BAN proceeds paid directly to escrow agent by bank	68,915
Amortization of net bond premium	28,040
Decrease in SPWB construction reserve funds held by State	14,902
Contributed capital assets	14,801
Change in accrued capital asset purchases	13,284
Acquisition of capital assets through capital lease	9,092
Amortization of loss on debt refundings	6,114
Gifts in kind	1,683

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY

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(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, 2017:

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

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

(2) Summary of Significant Accounting Policies

(a) Financial Reporting Entity

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

In addition, the accompanying financial statements include the accounts of the 90 discretely presented component units, which are primarily University-related recognized auxiliary organizations. These discretely presented component units are legally separate entities that provide services primarily to the University and its students. Recognized auxiliary organizations include foundations, associated students, student unions, food service entities, bookstores, and similar organizations. Foundations, whose net position comprises approximately 78.54% of the discretely presented component unit totals, carry out a variety of campus-related activities. Such activities consist primarily of administering grants from governmental and private agencies for research, as well as soliciting and accepting donations, gifts, and bequests for University-related use. Separate financial statements are issued for each of the discretely presented component units and may be obtained from the individual campuses.

The recognized discretely presented component units are as follows:

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

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

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

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

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

All significant nonexchange transactions have been eliminated.

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

CALIFORNIA STATE UNIVERSITY

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(In thousands)

accounting principles. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split Interest Agreements*, effective for the University's fiscal year beginning July 1, 2017. This Statement requires that a government that receives resources pursuant to an irrevocable split interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The University has not yet determined the impact of GASB Statement No. 81 on the University's financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the University's fiscal year beginning July 1, 2016. This Statement addresses issues regarding (1) the presentation of payroll related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contribution requirements. For disclosures on pension plan and liabilities, refer to note 12(a).

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for the University's fiscal year beginning July 1, 2018. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset

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retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The University has not yet determined the impact of GASB Statement No. 83 on the University's financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for the University's fiscal year beginning July 1, 2018. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The University has not yet determined the impact of GASB Statement No. 84 on the University's financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, effective for the University's fiscal year beginning July 1, 2017. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). The University has not yet determined the impact of GASB Statement No. 85 on the University's financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, effective for the University's fiscal year beginning July 1, 2017. This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The University has not yet determined the impact of GASB Statement No. 86 on the University's financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*, effective for the University's fiscal year beginning July 1, 2019. This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. 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 has not yet determined the impact of GASB Statement No. 87 on the University's financial statements.

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(In thousands)

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

The University considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the Statement of Net Position date. Liabilities that reasonably can be expected, as part of normal University business operations, to be liquidated within 12 months of the Statement of Net Position date are considered to be current. All other assets and liabilities are considered noncurrent. For classification of current and noncurrent investments, refer to note 2(f).

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

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

(f) Investments

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

Investments that are used for current operations are classified as short-term investments. Investments that are restricted from withdrawal or use for other than current operations, designated or restricted for the acquisition or construction of noncurrent assets, designated or restricted for the liquidation of the noncurrent portion of long-term debt 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 type of receivables and expectations of repayment. In establishing the required allowance, management considers one or more of the following: type of receivable, state guidelines, historical losses adjusted to take into account current market conditions, the amount of receivable in dispute, the current receivable aging, and current payment patterns. The University reviews its allowance for doubtful accounts annually. Past-due balances over 90 days and over a specified amount are reviewed individually for collectibility.

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(In thousands)

(h) Capital Assets

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

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

(i) Unearned Revenues

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

(j) Compensated Absences

Compensated absences are recognized when the right to receive the compensation is earned by the employees. Vacation is accrued on a monthly basis. The University uses an employee's current pay rate as of July 1, 2017 to calculate the liability for accrued compensated absences. The University provides vacation based on length of service and job classifications.

(k) Grants Refundable

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

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(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, 2017. 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.

(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

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(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.

(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) Other Postemployment Benefits Obligations

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

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(In thousands)

(q) Net Pension Liability

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

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

(r) Grant Revenues and Expenses

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

(s) Internal Services Activities

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

(t) Income Taxes

The University is an agency of the State and is treated as a governmental entity for tax purposes. As such, the University is generally not subject to federal or state income taxes pursuant to Internal Revenue Code (IRC) §115. The component units are either governmental entities exempt pursuant to IRC §115 or not-for-profit organizations exempt under IRC Section 501(c)(3). However, the University and its component units remain subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded. If there is net income from any unrelated trade or business, such provision, in the opinion of management, is not material to the financial statements taken as a whole.

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Notes to Financial Statements

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(In thousands)

(u) Eliminations

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

(v) Use of Estimates

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

(3) Cash, Cash Equivalents, and Investments

The University's cash, cash equivalents, and investments as of June 30, 2017 are classified in the accompanying Statement of Net Position as follows:

Cash and cash equivalents	\$ 9,024
Restricted cash and cash equivalents	745
Total cash and cash equivalents	9,769
Short-term investments	3,321,256
Endowment investments	1,746
Other long-term investments	1,668,660
Total investments	4,991,662
Total cash, cash equivalents, and investments	\$ 5,001,431

(a) Cash and Cash Equivalents

At June 30, 2017, cash and cash equivalents consist of demand deposits held at the State Treasury, commercial banks, and petty cash. Total cash and cash equivalents of \$9,769 had a corresponding carrying balance with the State Treasury and commercial banks of \$9,878 at June 30, 2017. 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.

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(In thousands)

(b) Investments

At June 30, 2017, the University's investment portfolio consists primarily of investments in the CSU Consolidated Investment Pool and SMIF. Separate accounting is maintained as to the amounts allocable to the various University funds and programs.

(i) Investment Policy

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

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

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

Under SB 1412, the University is required to create an investment advisory committee reporting to the Board of Trustees. The total amount invested under the new investment authority shall not exceed \$200 million in fiscal year 2017, \$400 million in fiscal year 2018, \$600 million in fiscal year 2019, and 30% of total investment in fiscal year 2020 and thereafter.

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

CALIFORNIA STATE UNIVERSITY

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(In thousands)

(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. 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, 2017 are presented in the following table:

<u>Investment type</u>	<u>Fair value</u>	<u>Duration</u>
Money market funds	\$ 19,694	—
Repurchase agreements	10,391	0.00813
Certificates of deposit	156,581	0.28861
U.S. agency securities	1,332,652	1.33882
U.S. Treasury securities	825,378	1.37675
Municipal bonds	16,726	1.97600
Corporate bonds	1,017,548	1.26804
Asset-backed securities	315,780	1.53413
Mortgage-backed securities	365	1.93128
SMIF	<u>1,296,547</u>	0.53151
Total	<u>\$ 4,991,662</u>	

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

(iii) Credit Risk

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

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(In thousands)

By law, the University invests in low credit risk securities such as U.S. government securities, securities of federally sponsored agencies, highly rated domestic corporate bonds, prime-rated commercial paper, repurchase and reverse repurchase agreements, banker's acceptance, and negotiable certificates of deposit. Therefore, the occurrence of credit risk is remote. Ratings of the University's investment portfolio for each investment type as of June 30, 2017 are presented in the following table.

Investment type	Fair value	Rating as of year-end			Not rated
		AAA	AA	A	
Money market funds	\$ 19,694	3,838	—	5,717	10,139
Repurchase agreements	10,391	—	—	2,455	7,936
Certificates of deposit	156,581	66,045	19,644	70,892	—
U.S. agency securities	1,332,652	20,468	1,312,184	—	—
U.S. Treasury securities	825,378	—	825,378	—	—
Municipal bonds	16,726	—	16,726	—	—
Corporate bonds	1,017,548	10,235	237,782	769,531	—
Asset-backed securities	315,780	315,780	—	—	—
Mortgage-backed securities	365	—	365	—	—
SMIF	1,296,547	—	—	—	1,296,547
Total	\$ 4,991,662	416,366	2,412,079	848,595	1,314,622

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, 2017, 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 (\$458,528 or 9.19%) and Federal National Mortgage Association, Inc. (\$390,608 or 7.83%).

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(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 for Investments*

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

(vii) *Fair Value Measurements*

The University uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine the fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The University groups its assets and liabilities measured at fair value in three levels, based on markets in which the asset and liabilities are traded and the reliability of the assumptions used to determine fair value. The level in the fair value hierarchy with 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.

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(In thousands)

The following table presents investments that are measured at fair value on a recurring basis at June 30, 2017:

<u>Investment type</u>	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>
Money market funds	\$ 19,694	3,839	—	15,855
Repurchase agreements	10,391	—	10,391	—
Certificates of deposit	156,581	—	156,581	—
U.S. agency securities	1,332,652	672,859	659,793	—
U.S. Treasury securities	825,378	—	825,378	—
Municipal bonds	16,726	—	16,726	—
Corporate bonds	1,017,548	135,868	881,680	—
Asset-backed securities	315,780	315,780	—	—
Mortgage-backed securities	365	—	365	—
	3,695,115	\$ 1,128,346	2,550,914	15,855
SMIF	1,296,547			
Total	\$ 4,991,662			

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) during 2017.

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.

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(In thousands)

(viii) *Discretely Presented Component Units' Investments*

Investments of the discretely presented component units at fair value consisted of the following at June 30, 2017:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Money market funds	\$ 32,835	12,087	44,922
Repurchase agreements	190	3	193
Certificates of deposit	20,042	61,956	81,998
U.S. agency securities	32,528	20,248	52,776
U.S. Treasury securities	20,830	111,452	132,282
Municipal bonds	2,185	8,762	10,947
Corporate bonds	65,079	87,365	152,444
Asset-backed securities	5,883	4,756	10,639
Mortgage-backed securities	2,272	11,429	13,701
Local Agency Investment Fund (LAIF)	185,217	1,555	186,772
SMIF	2	—	2
Mutual funds	224,675	895,602	1,120,277
Exchange-traded funds	7,998	72,088	80,086
Equity securities	71,843	469,036	540,879
Alternative investments:			
Private equity (including limited partnerships)	8,883	46,781	55,664
Hedge funds	3,621	64,176	67,797
Real estate investments (including Real Estate Investment Trust)	2,374	34,768	37,142
Commodities	81	9,941	10,022
Other alternative investments	2,875	28,949	31,824
Other external investment pools	370	24,709	25,079
Other investments	55	39,381	39,436
	<u>\$ 689,838</u>	<u>2,005,044</u>	<u>2,694,882</u>

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(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, 2017:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Money market funds	\$ 44,922	36,339	7,035	—	1,548
Repurchase agreements	193	—	193	—	—
Certificates of deposit	81,998	53,383	28,615	—	—
U.S. agency securities	52,776	18,033	34,743	—	—
U.S. Treasury securities	132,282	25,323	106,959	—	—
Municipal bonds	10,947	1,885	9,062	—	—
Corporate bonds	152,444	87,605	63,683	1,156	—
Asset-backed securities	10,639	5,639	5,000	—	—
Mortgage-backed securities	13,701	6,036	7,665	—	—
Mutual funds	1,120,277	1,037,691	82,586	—	—
Exchange-traded funds	80,086	80,086	—	—	—
Equity securities	540,879	525,720	14,241	918	—
Alternative investments:					
Private equity (including limited partnerships)	55,664	1,487	498	15,232	38,447
Hedge funds	67,797	1,156	11,795	19,642	35,204
Real estate investments (including Real Estate Investment Trust)	37,142	8,453	1,478	26,207	1,004
Commodities	10,022	3,646	—	6,376	—
Other alternative investments	31,824	25,970	1,248	2,398	2,208
Other external investment pools	25,079	535	4,041	20,503	—
Other investments	39,436	34,037	1,776	3,603	20
	<u>2,508,108</u>	<u>\$ 1,953,024</u>	<u>380,618</u>	<u>96,035</u>	<u>78,431</u>
LAIF	186,772				
SMIF	<u>2</u>				
	<u>\$ 2,694,882</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 \$52,697 are invested under contractual agreements on behalf of the discretely presented component units of the University.

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(In thousands)

(4) Accounts Receivable

Accounts receivable of the University at June 30, 2017 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 2,496	52,450	54,946
State appropriations – SPWB Lease			
Revenue Bond program	—	66,310	66,310
Discretely presented component units	39,929	1,298	41,227
Student accounts	68,436	—	68,436
Government grants and contracts	23,537	—	23,537
Others	43,426	5,402	48,828
	<u>177,824</u>	<u>125,460</u>	<u>303,284</u>
Less allowance for doubtful accounts	<u>(8,415)</u>	<u>(468)</u>	<u>(8,883)</u>
Total	<u>\$ 169,409</u>	<u>124,992</u>	<u>294,401</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 \$242,705. Interest rates range from 1.50% to 5.55%. Lease payments are due twice a year on May 1 and November 1. Under the lease agreements, payments are due to the University as follows:

Fiscal year ending June 30:		
2018	\$	24,662
2019		20,452
2020		20,468
2021		20,419
2022		20,662
2023–2027		108,545
2028–2032		93,894
2033–2037		45,575
2038–2042		14,885
2043–2047		<u>6,765</u>
Total minimum lease payments to be received		376,327
Less amounts representing interest		<u>(123,939)</u>
Present value of future minimum lease payments to be received		252,388
Less current portion		<u>(11,055)</u>
Capital lease receivable, net of current portion	\$	<u>241,333</u>

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(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 \$341,255. Interest rates range from 1.50% to 6.48%. Note payments are due twice a year, on May 1 and November 1.

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

Fiscal year ending June 30:	
2018	\$ 27,764
2019	27,699
2020	27,383
2021	27,088
2022	26,966
2023–2027	131,089
2028–2032	121,907
2033–2037	93,535
2038–2042	54,508
2043–2047	<u>28,104</u>
Total minimum note payments to be received	566,043
Less amounts representing interest	<u>(224,302)</u>
Present value of future minimum note payments to be received	341,741
Less current portion	<u>(10,727)</u>
Notes receivable, net of current portion	<u><u>\$ 331,014</u></u>

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(In thousands)

(7) Capital Assets

Capital assets activity for the University for the year ended June 30, 2017 consisted of the following:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending balance</u>
Nondepreciable/nonamortizable capital assets:					
Land and land improvements	\$ 268,821	—	—	—	268,821
Works of art and historical treasures	38,833	5,880	—	—	44,713
Construction work in progress	830,301	627,835	(6,653)	(793,357)	658,126
Intangible assets	18,570	13,130	(149)	(627)	30,924
Total nondepreciable/ nonamortizable capital assets	<u>1,156,525</u>	<u>646,845</u>	<u>(6,802)</u>	<u>(793,984)</u>	<u>1,002,584</u>
Depreciable/amortizable capital assets:					
Buildings and building improvements	11,244,160	22,366	(288)	702,028	11,968,266
Improvements other than buildings	636,479	4,727	(634)	43,456	684,028
Infrastructure	1,110,514	14,687	(2,481)	45,500	1,168,220
Personal property:					
Equipment	814,293	50,006	(25,830)	2,375	840,844
Library books and materials	393,699	5,345	(8,171)	—	390,873
Intangible assets	261,680	8,056	(4,557)	625	265,804
Total depreciable/ amortizable capital assets	<u>14,460,825</u>	<u>105,187</u>	<u>(41,961)</u>	<u>793,984</u>	<u>15,318,035</u>
Total cost	<u>15,617,350</u>	<u>752,032</u>	<u>(48,763)</u>	<u>—</u>	<u>16,320,619</u>
Less accumulated depreciation/ amortization:					
Buildings and building improvements	(5,191,382)	(344,261)	143	—	(5,535,500)
Improvements other than buildings	(455,189)	(27,192)	453	—	(481,928)
Infrastructure	(477,339)	(37,977)	1,536	—	(513,780)

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	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending balance</u>
Personal property:					
Equipment	\$ (585,519)	(54,359)	24,572	—	(615,306)
Library books and materials	(359,277)	(7,408)	7,990	—	(358,695)
Intangible assets	(240,978)	(9,307)	4,518	—	(245,767)
Total accumulated depreciation/ amortization	(7,309,684)	(480,504)	39,212	—	(7,750,976)
Net capital assets	\$ <u>8,307,666</u>	<u>271,528</u>	<u>(9,551)</u>	<u>—</u>	<u>8,569,643</u>

Capital assets activity of the discretely presented component units of the University for the year ended June 30, 2017 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	\$ 126,305	2,444	(304)	—	128,445
Works of art and historical treasures	10,300	1,094	(3,463)	—	7,931
Construction work in progress	20,684	28,858	(2,683)	(19,236)	27,623
Intangible assets	5,098	53	—	(53)	5,098
Total nondepreciable/ nonamortizable capital assets	<u>162,387</u>	<u>32,449</u>	<u>(6,450)</u>	<u>(19,289)</u>	<u>169,097</u>
Depreciable/amortizable capital assets:					
Buildings and building improvements	803,888	69,479	(99,495)	934	774,806
Improvements other than buildings	128,383	20,904	(2,244)	12,554	159,597
Infrastructure	67,693	—	—	—	67,693
Personal property:					
Equipment	207,909	12,130	(12,098)	5,718	213,659
Intangible assets	9,336	1,240	(400)	83	10,259
Total depreciable/ amortizable capital assets	<u>1,217,209</u>	<u>103,753</u>	<u>(114,237)</u>	<u>19,289</u>	<u>1,226,014</u>
Total cost	<u>1,379,596</u>	<u>136,202</u>	<u>(120,687)</u>	<u>—</u>	<u>1,395,111</u>

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	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending balance</u>
Less accumulated depreciation/ amortization:					
Buildings and building improvements	\$ (318,996)	(27,239)	45,708	—	(300,527)
Improvements other than buildings	(64,612)	(18,878)	1,897	—	(81,593)
Infrastructure	(19,137)	(1,718)	—	—	(20,855)
Personal property:					
Equipment	(153,459)	(15,349)	11,849	—	(156,959)
Intangible assets	(7,521)	(1,546)	302	—	(8,765)
Total accumulated depreciation/ amortization	<u>(563,725)</u>	<u>(64,730)</u>	<u>59,756</u>	<u>—</u>	<u>(568,699)</u>
Net capital assets	<u>\$ 815,871</u>	<u>71,472</u>	<u>(60,931)</u>	<u>—</u>	<u>826,412</u>

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

(8) Lease Obligations

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

- The University and the State of California Department of Finance agree to the construction of one or more facilities to be funded by SPWB bonds. The projects are approved as part of the University's capital outlay budget.
- The SPWB approves the sale of bonds for the project(s) and the University agrees to execute certain legal documents in connection with the financing, including a site lease to the SPWB, a construction agreement to construct the facility for the SPWB, and a facility lease to lease the completed facility from the SPWB for annual rental payments.
- Prior to the execution of the facility lease, the University receives a short-term loan from the State of California Pooled Money Investment Board to provide working capital for initial phases of the construction, and in some cases, the entire construction.

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- Generally, during the construction phase of the project, the bonds are sold by the SPWB, the construction loan is repaid, and site leases and facility leases are executed requiring semiannual lease payments, beginning upon completion of the facilities, by the Trustees that are used to pay principal and interest on the bonds.

As part of the annual budget process, the State of California Department of Finance augments the University's operating budget to provide additional funds for the required lease payments.

The capital lease obligations related to the SPWB Lease Revenue Bond program amounted to \$181,717. The University also enters into capital leases with financial institutions and via commercial paper issued by the California State University Institute (the Institute), a discretely presented component unit of the University.

Overall capital leases consist primarily of leases of campus facilities, but also include certain computer, energy efficiency, and telecommunications equipment. Total assets related to capital leases have a carrying value of \$462,987 at June 30, 2017. The leases bear interest at rates ranging from 1.39% to 9% and have terms expiring in various years through 2041.

Operating leases consist primarily of leases for the use of real property. The University's operating leases expire in various years through 2099. The leases can be canceled if the State does not provide adequate funding. Some of these leases are with discretely presented component units for the rental of office space used in the operations of the University. Total operating lease expenditures for the year ended June 30, 2017 were \$30,340 of which \$16,469 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, 2017 are as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2018	\$ 61,803	26,421
2019	35,728	17,797
2020	34,181	16,053
2021	33,257	15,246
2022	32,226	11,914
2023–2027	143,701	28,413
2028–2032	125,477	15,401
2033–2037	71,504	3,135
2038–2042	10,263	2,085
2043–thereafter	—	1,024
Total minimum lease payments	<u>548,140</u>	<u>137,489</u>

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	<u>Capital leases</u>
Less amount representing interest	\$ (195,539)
Present value of future minimum lease payments	<u>352,601</u>
Unamortized net premium	<u>852</u>
Total capital lease obligations	353,453
Less current portion	<u>(43,737)</u>
Capital lease obligations, net of current portion	<u><u>\$ 309,716</u></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 the obligation of the State and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. The total General Obligation Bonds carried by the State related to the University projects is approximately \$2,315,413 as of June 30, 2017.

(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 several sources of revenue as the security for the debt. The University's total outstanding balance of revenue bond indebtedness under the SRB program was \$5,826,473 at June 30, 2017.

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

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

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Systemwide Revenue Bonds are not secured by mortgages on the facilities constructed or acquired and therefore the facilities do not act as security for the debt. Revenues pledged under the SRB program include program fees from continuing education, health center facilities, housing, parking, and student union; student tuition fees (effective in 2017); and designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$6,908,568 in SRB issued through 2017.

(c) Bond Anticipation Notes

The Trustees have authorized the issuance of BANs to provide short-term financing to the University for certain projects. The BANs are purchased by the Institute with proceeds from the commercial paper issued by the Institute. The BANs are generally issued for periods of up to three years in anticipation of issuing permanent revenue bonds at a future date. State law was amended in 2008 to allow BAN maturities to extend beyond three years and the maturity date for the issuance of BANs to be determined by the Trustees. In 2010, the Trustees authorized three projects for financing with maturities beyond three years and they will remain in BANs until the debt is retired. BAN interest is variable and changes based upon the cost of the Institute's commercial paper program. The maximum and minimum weighted average interest rates for the year ended June 30, 2017 were 0.88% and 0.45%, respectively. The University's BANs totaled \$600 at June 30, 2017. The not-to-exceed amounts related to the outstanding amounts totaled \$16,930, of which \$1,215 has not been issued and \$15,115 has been issued and paid back.

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Long-term debt obligations of the University as of June 30, 2017 consisted of the following:

<u>Description</u>	<u>Interest rate percentage</u>	<u>Final maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
Systemwide Revenue Bonds,				
Housing Series J-K	3.00%	2019/20	\$ 8,558	1,063
Housing Series L-M	3.00	2020/21	5,510	920
Housing Series N, P & Q	3.00	2021/22	6,695	1,365
Series 2007A	4.50	2044/45	48,810	13,540
Series 2007B	5.27-5.55	2037/38	13,165	10,245
Series 2007C	5.00	2028/29	63,275	39,400
Series 2008A	4.00-5.00	2039/40	375,160	20,040
Series 2009A	4.00-5.00	2018/19	454,240	19,145
Series 2010A	3.00-5.00	2031/32	146,950	103,205
Series 2010B	5.45-6.48	2041/42	205,145	205,145
Series 2011A	2.50-5.25	2042/43	429,855	363,160
Series 2012A	3.00-5.00	2042/43	436,220	418,970
Series 2012B	2.79-4.17	2036/37	16,700	15,250
Series 2013A	3.00-5.00	2026/27	308,855	274,635
Series 2014A	3.00-5.00	2044/45	747,740	735,050
Series 2015A	2.00-5.00	2047/48	1,032,920	998,995
Series 2015B	0.98-4.41	2035/36	29,305	26,880
Series 2016A	2.00-5.00	2045/46	1,133,105	1,133,105
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 2017A	3.00-5.00	2047/48	812,030	812,030
Series 2017B	0.95-3.90	2047/48	335,155	335,155
Series 2017C	2.00-5.00	2037/38	49,175	49,175
			<u>\$ 6,908,568</u>	<u>5,826,473</u>
Bond Anticipation Notes	Various			600
Others	Various			8,583
Total				5,835,656
Unamortized net bond premium				605,917
Total long-term debt				6,441,573
Less current portion				(122,026)
Long-term debt, net of current portion				\$ 6,319,547

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

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2018	\$ 122,026	279,327
2019	135,932	265,681
2020	148,691	259,081
2021	156,146	252,043
2022	164,085	244,143
2023–2027	892,884	1,095,695
2028–2032	1,120,169	852,039
2033–2037	1,143,418	574,320
2038–2042	952,730	325,177
2043–2047	714,605	131,515
2048–2052	284,970	20,392
	<u>\$ 5,835,656</u>	<u>4,299,413</u>

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

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

As of June 30, 2017, the Board had approved SRB and BAN that were authorized but unissued in the aggregate principal amount of \$923,780, for projects including academic, infrastructure, housing, and parking facilities. In addition, as of June 30, 2017, there are approximately \$470,840 of remaining authorized and unissued debt for the purpose of refunding certain bonds of the SPWB not previously refunded.

(10) Long-Term Debt Refunding

Current Year Refunding

In March 2017, the University issued SRB Series 2017A (Tax-Exempt), 2017B (Taxable) and 2017C (Tax-Exempt). A portion of the proceeds of SRB Series 2017A was applied to refund a portion of SRB Series 2007A. A portion of the proceeds of SRB Series 2017A and 2017B were applied to refund all of the remaining SRB Series 2007D. The entire proceeds of Series 2017C was applied to refund a portion of the SRB Series 2007A.

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The University placed these proceeds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. The proceeds were used to purchase U.S. federal, state, and local government securities that were placed in escrow accounts. The investments and fixed earnings from the investments are considered sufficient to fully service the refunded debt until the debt is called or matured.

The defeasance will reduce the University's total financing cost by approximately \$17,593 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 \$15,674. 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 \$127,835. The entire outstanding balance was paid as of June 30, 2017.

The University recognized a gain on the debt refunding for SRB Series 2017A, 2017B, and 2017C of \$1,190. The gain on debt refunding is the difference between the reacquisition price and the net carrying amount of the old debt, together with any unamortized difference from the prior refunding. The gain on debt refunding is deferred and amortized over the shorter of the old debt (or original amortization period remaining in the prior refunding) or the life of the latest refunding debt. The unamortized gain on debt refunding is included in deferred outflows of resources in the statement of net position and amounted to \$1,184 as of June 30, 2017.

Prior Year Refunding

In prior years, the University refunded certain SRB by placing the proceeds from the issuance of SRB refunding bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the defeased bonds. The proceeds were used to purchase U.S. federal, state, and local government securities that were placed in escrow accounts. The investments and fixed earnings from the investments are considered sufficient to fully service the refunded debt until the debt is called or matured. Accordingly, the trust account assets and liability for the refunded bonds are not included in the University's financial statements. The amount of refunded bonds outstanding, excluding those bonds refunded in the current year, totaled \$689,135 as of June 30, 2017.

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(In thousands)

(11) Long-Term Liabilities Activity

Long-term liabilities activity of the University for the year ended June 30, 2017 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 243,362	156,602	(138,328)	261,636	140,963
Capital lease obligations (note 8)	389,385	9,917	(45,849)	353,453	43,737
Long-term debt obligations (note 9):					
Systemwide revenue bonds	4,944,168	1,196,360	(314,055)	5,826,473	120,370
Bond anticipation notes	4,640	200,125	(204,165)	600	400
Other	6,180	5,772	(3,369)	8,583	1,256
	<u>4,954,988</u>	<u>1,402,257</u>	<u>(521,589)</u>	<u>5,835,656</u>	<u>122,026</u>
Unamortized net bond premium	<u>506,760</u>	<u>127,427</u>	<u>(28,270)</u>	<u>605,917</u>	<u>—</u>
Total long-term debt obligations	<u>5,461,748</u>	<u>1,529,684</u>	<u>(549,859)</u>	<u>6,441,573</u>	<u>122,026</u>
Total long-term liabilities	<u>\$ 6,094,495</u>	<u>1,696,203</u>	<u>(734,036)</u>	<u>7,056,662</u>	<u>306,726</u>

Long-term liabilities activity of the aggregated discretely presented component units of the University for the year ended June 30, 2017 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 19,776	15,410	(14,973)	20,213	14,911
Claims liability for losses and loss adjustment expenses	82,119	28,309	(35,854)	74,574	22,031
Capital lease obligations	360,832	40,653	(128,318)	273,167	11,177
Long-term debt obligations:					
Revenue bonds	22,420	1,585	(920)	23,085	965
Commercial paper	5,964	608,427	(613,791)	600	400
Notes payable	234,600	60,140	(10,000)	284,740	9,170
Other	81,026	2,350	(6,938)	76,438	2,966
	<u>344,010</u>	<u>672,502</u>	<u>(631,649)</u>	<u>384,863</u>	<u>13,501</u>
Unamortized net bond premium	<u>21,851</u>	<u>9,489</u>	<u>(2,359)</u>	<u>28,981</u>	<u>—</u>
Total long-term debt obligations	<u>365,861</u>	<u>681,991</u>	<u>(634,008)</u>	<u>413,844</u>	<u>13,501</u>
Total long-term liabilities	<u>\$ 828,588</u>	<u>766,363</u>	<u>(813,153)</u>	<u>781,798</u>	<u>61,620</u>

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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, for the discretely presented component units amounting to \$284,740 included in notes payable and \$55,015 in other long-term debt obligations as of June 30, 2017.

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 \$241,288 as of June 30, 2017.

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

(12) Pension Plan and Postretirement Benefits

(a) Pension Plan

(i) Plan Description

The University, as an agency of the State, contributes to CalPERS. The State's plans with CalPERS are agent multiple-employer defined-benefit pension plans and CalPERS functions as an investment and administrative agent for its members. For the University, the plans act as cost sharing multiple-employer defined-benefit pension plan, which provide a defined-benefit pension and postretirement program for substantially all eligible University employees. The plans also provide survivor, death, and disability benefits. Eligible employees are covered by the Public Employees' Medical and Hospital Care Act (PEMHCA) for medical benefits.

A full description of the pension plans regarding numbers of employees covered, benefit provision, assumptions, and membership information are listed in the June 30, 2015 Annual Actuarial Valuation Reports. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation reports.

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 CalPERS's website or from the California Public Employees' Retirement System Executive Office, 400 P Street, Sacramento, CA 95814.

(ii) Pensionable Compensation

The schedule of pensionable compensation is prepared by the State to provide the total pensionable compensation. This amount was used to calculate the University's proportionate share of pension amounts. The schedule of pensionable compensation and the schedule of pension amounts have the same measurement period of July 1, 2015 through June 30, 2016.

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(iii) Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between actuarially determined rate and the contribution rate of employees. 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, 2016, the average active employee contribution rates for State Miscellaneous and Peace Officer and Firefighters Plans are 6.67% and 11.31% of annual pay, respectively. For the measurement period ended June 30, 2016, the State's contribution rates for State Miscellaneous and Peace Officer and Firefighters Plans are 25.15% and 38.91% 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 member is 6.50% 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 is 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 were equal to the required contributions and were as follows:

2015	\$	602,995
2016		659,326
2017		757,170

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(In thousands)

(iv) *Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

As of June 30, 2017, the University reported a liability of \$7,733,925 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined based on an actuarial valuation as of June 30, 2015 rolled forward to the measurement date. The University's proportion of the State's net pension liability was calculated based on its proportionate share of the State's pensionable compensation. The State considered this a practical, systematic, and a rational approach. At June 30, 2016, the University's proportionate share of the total State net pension liability for the State Miscellaneous and Peace Officers and Firefighters Plans (collectively the Plans) were 22.87662% and 1.15882%, respectively.

For the year ended June 30, 2017, the University recognized pension expense of \$850,207 for State Miscellaneous Plan and \$22,393 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, 2017. Deferred outflows of resources are recognized for the University's retirement contributions made subsequent to the measurement date, the difference between expected and actual experience, aggregate difference between projected and actual earnings on pension plan investments arising in different measurement periods and changes in the University's proportionate share of pensionable compensation. Deferred inflows of resources are recognized for the difference between expected and actual experience.

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
University retirement contribution subsequent to the measurement date	\$ 757,170	—
Difference between expected and actual experience	79,510	17,394
Difference due to change in proportionate share	35,352	—
Net difference between projected and actual earnings on pension plan investments	<u>853,829</u>	<u>—</u>
Total	<u>\$ 1,725,861</u>	<u>17,394</u>

The \$757,170 of deferred outflows of resources related to pension resulting from the University's contributions subsequent to the measurement date of June 30, 2016 will be recognized as a reduction of the net pension liability as of the measurement date of June 30, 2017.

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(In thousands)

The deferred outflows 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 (years)	Increase in pension expense arising from the recognition of the effects of differences between expected and actual experience (measurement dates)					Total
			2017	2018	2019	2020	2021	
Miscellaneous Plan:								
2015	\$ 158,681	3.9	\$ 40,687	36,619	—	—	—	77,306
Peace Officers and Firefighters Plan:								
2015	3,344	5.1	656	656	656	64	—	2,032
2016	213	5.2	41	41	41	41	8	172
Net increase in pension expense			\$ 41,384	37,316	697	105	8	79,510

(vi) *Schedule of Change in Proportionate Share*

Measurement period ended June 30	Initial differences*	Recognition period (years)	Increase in pension expense arising from the recognition of the effects of change in properties share (measurement dates)					Total
			2017	2018	2019	2020	2021	
Miscellaneous Plan:								
2015	\$ 34,438	3.9	\$ 8,830	7,947	—	—	—	16,777
2016	7,628	4.0	1,907	1,907	1,907	—	—	5,721
Peace Officers and Firefighters Plan:								
2015	7,537	5.1	1,478	1,478	1,478	148	—	4,582
2016	10,242	5.2	1,970	1,970	1,970	1,970	392	8,272
Net increase in pension expense			\$ 14,185	13,302	5,355	2,118	392	35,352

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

Measurement period ended June 30	Initial differences*	Recognition period (years)	Increase in pension expense arising from the recognition of the differences between projected and actual earnings on pension plan investments (measurement dates)					Total
			2017	2018	2019	2020	2021	
Miscellaneous Plan:								
2014	\$ (1,344,501)	5	\$ (268,900)	(268,900)	—	—	—	(537,800)
2015	832,081	5	166,416	166,416	166,417	—	—	499,249
2016	1,094,241	5	218,848	218,848	218,848	218,849	—	875,393
Peace Officers and Firefighters Plan:								
2014	(26,039)	5	(5,208)	(5,208)	—	—	—	(10,416)
2015	16,421	5	3,285	3,285	3,285	—	—	9,855
2016	21,937	5	4,387	4,387	4,387	4,387	—	17,548
Net increase in pension expense			\$ 118,828	118,828	392,937	223,236	—	853,829

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(In thousands)

* *Adjusted for any changes in University's proportionate share*

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

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

Measurement period ended June 30	Initial differences*	Recognition period (years)	Recognition of the effects of differences between expected and actual experience (measurement dates)			
			2017	2018	2019	Total
Miscellaneous Plan: 2016	\$ (23,193)	4	\$ (5,798)	(5,798)	(5,798)	(17,394)
Net decrease in pension expense			\$ (5,798)	(5,798)	(5,798)	(17,394)

* *Adjusted for any changes in University's proportionate share*

(ix) *Actuarial Assumptions*

For the measurement period ended June 30, 2016, the total pension liability was determined by rolling forward the June 30, 2015 total pension liability. The June 30, 2016 and 2015 total pension liability were based on the following actuarial methods and assumptions:

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

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

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All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study report can be obtained from CalPERS' website.

(x) *Discount Rate*

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, the plans do not exhaust assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund. The stress test result is presented in the GASB Crossover Testing Report, which can be obtained from CalPERS' website under the GASB Statement No. 68 section.

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

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

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The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board of Administration effective on July 1, 2015.

<u>Asset class</u>	<u>Current target allocation</u>	<u>Real return years 1–10¹</u>	<u>Real return years 11+²</u>
Global equity	47.00%	5.25%	5.71%
Global fixed income	19.00	0.99	2.43
Inflation sensitive	6.00	0.45	3.36
Private equity	12.00	6.83	6.95
Real estate	11.00	4.50	5.13
Infrastructure and forestland	3.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

In December 2016, the CalPERS Board of Administration voted to lower the discount rate used in its actuarial assumptions from 7.65% to 7.15% (including administrative expenses) effective July 1, 2017 over three year period. As shown in the table below, a similar reduction to the discount rate in accordance with GASB Statement No. 68 will increase the net pension liability. This increase will be amortized over the expected remaining service lives of all employees provided with benefits through the pension plans.

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

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

<u>Plan</u>	<u>Discount rate -1% (6.65%)</u>	<u>Current discount rate (7.65%)</u>	<u>Discount rate + 1% (8.65%)</u>
Miscellaneous Plan	\$ 10,312,941	7,575,326	5,277,051
Peace Officers and Firefighters Plan	223,425	158,599	105,373
Net pension liability	\$ <u>10,536,366</u>	<u>7,733,925</u>	<u>5,382,424</u>

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(xii) 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. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance included as assets. These amounts are excluded for rate setting purposes in your funding actuarial valuation.

(b) Postretirement Healthcare Plan

(i) Plan Description

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

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

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.

(ii) Funding Policy

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

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

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2017

(In thousands)

(iii) *Annual OPEB Cost and Net OPEB Obligation*

The following table shows the components of the total annual required contribution (ARC) for the University's allocated portion of the postretirement healthcare plan, the amount contributed to the plan by the University, and changes in the University's net OPEB obligation (NOO) for the fiscal years ended 2017, 2016, and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual required contribution (ARC):			
Billable accounts	\$ 53,324	50,349	40,931
Nonbillable accounts (dental only)	41,742	40,862	38,765
Total ARC	<u>95,066</u>	<u>91,211</u>	<u>79,696</u>
Contributions:			
Billable accounts	(19,970)	(18,665)	(16,293)
Nonbillable accounts (dental only)	(18,011)	(17,103)	(17,056)
Total contributions	<u>(37,981)</u>	<u>(35,768)</u>	<u>(33,349)</u>
Increase in net OPEB obligation (NOO)	57,085	55,443	46,347
NOO – beginning of year	368,803	313,360	267,013
NOO – end of year:			
Billable accounts	216,984	183,630	151,946
Nonbillable accounts (dental only)	208,904	185,173	161,414
Total NOO	<u>\$ 425,888</u>	<u>368,803</u>	<u>313,360</u>
Percentage of annual OPEB cost contributed during the years ended June 30, 2017, 2016, and 2015	39.95%	39.21%	41.85%

(iv) *Actuarial Methods and Assumptions and Plan Funding Information*

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

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2017

(In thousands)

Projections of benefits for financial statement reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the State and the plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective. In the June 30, 2016 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.25% investment rate of return and 4.25% discount rate. Both rates included a 2.75% annual inflation assumption. Annual wage inflation is assumed to be 3.00%. The unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis over a 30-year period.

Funding progress information specifically related to the University's portion of the statewide OPEB plan is not available. For more details about the actuarial methods and assumptions used by the State, as well as the statewide plans' funding progress and status, refer to the State of California's Comprehensive Annual Financial Report.

(13) Deferred Outflows and Inflows of Resources

The composition of deferred outflows and inflows of resources at June 30, 2017 is summarized as follows:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Related to net pension liability	\$ 1,725,861	17,394
Net loss on debt refundings:		
Systemwide revenue bonds	103,449	—
SPWB capital lease obligations	<u>57</u>	<u>—</u>
Total	<u>\$ 1,829,367</u>	<u>17,394</u>

(14) Claims Liability for Losses and Loss Adjustment Expenses

The University and certain auxiliary organizations have established the CSURMA, a discretely presented component unit of the University, to centrally manage workers' compensation, general liability, industrial and nonindustrial disability, unemployment insurance coverage, and other risk-related programs. The claims liability included in the discretely presented component unit column reflects the estimated ultimate cost of settling claims related to events that have occurred on or before June 30, 2017. 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, 2017.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2017

(In thousands)

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

(15) Commitments and Contingencies

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

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

Authorized but unexpended costs for construction projects as of June 30, 2017 totaled \$567,510. These expenditures will be funded primarily by State appropriations and bond proceeds.

In order to secure access to natural gas and electricity used for normal operation, the University participates in forward purchase contracts of natural gas and electricity operated by the Department of General Service and Shell Energy North America, respectively. The University's obligation under these special purchase arrangements requires it to purchase an estimated total of \$1,497 and \$28,759 of natural gas and electricity at fixed prices through June 2018 and December 2019, respectively. The University estimates that the special purchase contracts in place represent approximately 7.19% and 14.31% of its total annual natural gas and electricity expenses, respectively.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2017

(In thousands)

(16) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the Statement of Revenues, Expenses, and Changes in Net Position, and to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2017, operating expenses by natural classification consisted of the following:

	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships expense</u>	<u>Supplies and other services</u>	<u>Depreciation and amortization</u>	<u>Total operating expenses</u>
Instruction	\$ 1,777,139	859,563	—	217,221	—	2,853,923
Research	28,338	8,828	—	17,302	—	54,468
Public service	27,781	3,654	—	15,578	—	47,013
Academic support	401,456	209,258	—	199,896	—	810,610
Student services	419,421	233,183	—	233,304	—	885,908
Institutional support	413,228	259,734	—	230,768	—	903,730
Operation and maintenance of plant	223,989	151,493	—	345,377	—	720,859
Student grants and scholarships	—	—	844,019	—	—	844,019
Auxiliary enterprise expenses	81,849	69,837	—	233,932	—	385,618
Depreciation and amortization	—	—	—	—	480,504	480,504
Total	<u>\$ 3,373,201</u>	<u>1,795,550</u>	<u>844,019</u>	<u>1,493,378</u>	<u>480,504</u>	<u>7,986,652</u>

(17) Transactions with Related Entities

The University is an agency of the State and receives about 40.10% of total revenues through state appropriations. State appropriations allocated to the University aggregated approximately \$3,293,198 for the year ended June 30, 2017. State appropriations receivable is \$121,256 at June 30, 2017.

(18) Subsequent Events

BANs Issuance

The University issued \$48,200 of BANs subsequent to June 30, 2017. \$21,965 of these BANs are issued to finance San Diego State University Tula/Tenochca Replacement Project and \$26,235 are issued to finance the California Polytechnic State University, San Luis Obispo – Cal Poly Corporation Vista Grande Replacement Building Project.

Schedule 1

CALIFORNIA STATE UNIVERSITY

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

June 30, 2017

(Unaudited)

(In thousands)

*Last Ten Fiscal Years*¹

	<u>2016²</u>	<u>2015²</u>	<u>2014²</u>
State of California Miscellaneous Plan			
University's proportion of the net pension liability	22.87662%	22.84970%	22.72891%
University's proportionate share of the net pension liability	\$ 7,575,326	6,453,200	5,411,439
University's covered payroll	\$ 2,567,251	2,407,821	2,209,786
University's proportionate share of the net pension liability as a percentage of covered payroll	295.07539%	268.00996%	244.88521%
Plan fiduciary net position as a percentage of the total pension liability	66.81100%	70.68274%	74.17418%
State of California Peace Officers and Firefighters Plan			
University's proportion of the net pension liability	1.15882%	1.07094%	1.00623%
University's proportionate share of the net pension liability	\$ 158,599	124,994	102,216
University's covered payroll	\$ 37,528	33,341	30,160
University's proportionate share of the net pension liability as a percentage of covered payroll	422.61507%	374.89140%	338.91247%
Plan fiduciary net position as a percentage of the total pension liability	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.

Schedule 2

CALIFORNIA STATE UNIVERSITY

Schedule of Employer Contributions

Year ended June 30, 2017

(Unaudited)

(In thousands)

*Last Ten Fiscal Years**

State of California Miscellaneous Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 737,766	641,710	588,353
Contributions in relation to the actuarially determined contributions	<u>(740,570)</u>	<u>(644,679)</u>	<u>(589,385)</u>
Contribution excess	<u>\$ (2,804)</u>	<u>(2,969)</u>	<u>(1,032)</u>
University's covered payroll	\$ 2,768,770	2,559,878	2,431,410
Contributions as a percentage of covered payroll	26.74726%	25.18397%	24.24046%

State of California Peace Officers and Firefighters Plan

Actuarially determined contribution	\$ 15,858	14,027	11,737
Contributions in relation to the actuarially determined contributions	<u>(16,600)</u>	<u>(14,647)</u>	<u>(13,610)</u>
Contribution excess	<u>\$ (742)</u>	<u>(620)</u>	<u>(1,873)</u>
University's covered payroll	\$ 39,372	37,568	33,363
Contributions as a percentage of covered payroll	42.16076%	38.98940%	40.79391%

* 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.

Schedule 2

CALIFORNIA STATE UNIVERSITY

Schedule of Employer Contributions

Year ended June 30, 2017

(Unaudited)

(In thousands)

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

Valuation date	Actuarially calculated contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.
Methods and assumption used to determine contribution rates:	
Actuarial cost method	Entry age normal in accordance with the requirement of GASB.
Amortization method/period	For details, see June 30, 2015 Funding Valuation Report.
Asset valuation method	Actuarial Value of Assets. For details, see June 30, 2015 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3%
Investment rate of return	7.5%, net of pension plan investment and administrative expenses; includes inflation.
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality is based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.
Significant factors affecting contribution rates	For details, see June 30, 2015 Funding Valuation Report.

See accompanying independent auditors' report.

Schedule 3

CALIFORNIA STATE UNIVERSITY

Systemwide Revenue Bond Program's Net Income Available for Debt Service
 Year ended June 30, 2017

Gross revenues:	
Tuition fees	\$ 3,116,566,106
Student housing	468,503,481
Student unions/recreation centers	228,922,251
Parking	119,976,698
Health centers	10,858,515
Extended and continuing education	390,084,608
Auxiliary organization ¹	597,511,899
Other related entity ²	<u>6,651,768</u>
Total gross revenues	<u>4,939,075,326</u>
Maintenance and operations expenses:	
Academic facilities	285,871,459
Student housing	297,320,239
Student unions/recreation centers	108,482,999
Parking	80,714,279
Health centers	5,295,229
Extended and continuing education	397,675,380
Auxiliary organization ¹	<u>512,656,989</u>
Total maintenance and operations expenses	<u>1,688,016,574</u>
Net income available for debt service	<u>\$ 3,251,058,752</u>
Debt service:	
Systemwide revenue bonds debt	\$ 299,433,842
Designated auxiliary organization debt	<u>2,017,374</u>
Total debt service	<u>\$ 301,451,216</u>

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

- (1) This includes gross revenues and maintenance and operations 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 loans with the Board of Trustees.
- (2) This includes gross revenues derived from lease with California State University, Channel Islands Site Authority which are used solely to pay debt service. The maintenance and operations expense are excluded as these are not paid by the pledged gross revenues.

See accompanying independent auditors' report.

Schedule 4

CALIFORNIA STATE UNIVERSITY

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

Year ended June 30, 2017

(Unaudited)

	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)
CSU, Bakersfield	\$ 5,113,532	4,722,289	391,243	576	563	374	66%
CSU, Channel Islands	17,009,107	8,431,996	8,577,111	1,528	1,571	1,520	97
CSU, Chico	24,086,864	16,676,011	7,410,853	2,128	2,222	2,131	96
CSU, Dominguez Hills	4,734,055	3,532,640	1,201,415	712	660	642	97
CSU, East Bay	12,535,321	7,761,676	4,773,645	1,296	1,716	1,440	84
CSU, Fullerton	28,343,464	13,460,063	14,883,401	1,918	1,906	1,944	102
Humboldt State University	15,265,652	7,062,929	8,202,723	2,070	2,096	1,999	95
CSU, Long Beach	22,036,701	12,461,570	9,575,131	1,826	2,049	2,010	98
CSU, Los Angeles	8,190,947	6,049,812	2,141,135	1,069	1,012	1,024	101
California Maritime Academy	9,308,998	5,793,909	3,515,089	732	732	722	99
CSU, Northridge	22,570,445	13,050,191	9,520,254	3,604	3,314	2,634	79
CSPU, Pomona	25,770,307	10,650,946	15,119,361	2,440	2,471	2,392	97
CSU, Sacramento	19,830,981	14,962,049	4,868,932	1,672	1,711	1,688	99
CSU, San Bernardino	11,286,939	7,429,277	3,857,662	1,529	1,431	1,317	92
San Diego State University	45,380,340	27,060,269	18,320,071	3,570	4,051	3,526	87
San Francisco State University (5)	57,981,085	37,235,367	20,745,718	3,713	3,819	3,675	96
San Jose State University	52,829,258	31,892,972	20,936,286	3,722	3,968	3,732	94
CPSU, San Luis Obispo	49,843,436	28,321,781	21,521,655	6,239	7,334	6,930	94
Sonoma State University	28,434,757	18,414,269	10,020,488	3,146	3,211	3,014	94
CSU, Stanislaus	5,222,735	4,339,593	883,142	460	492	486	99
	465,774,924	279,309,609	186,465,315	43,950	46,329	43,200	93%
Systemwide Offices	—	82,704	(82,704)				
Interest income	2,728,557	—	2,728,557				
Total	\$ 468,503,481	279,392,313	189,111,168				

Average annual rates per academic year (4)

	Residence Halls			Apartments		
	Single	Double	Suite	Single	Double	Suite
CSU, Bakersfield	\$ 10,800	8,803	—	—	—	—
CSU, Channel Islands	10,820	9,740	—	12,670	11,060	—
CSU, Chico	9,275	7,657	—	9,275	7,657	—
CSU, Dominguez Hills	—	—	—	—	8,712	—
CSU, East Bay	—	—	7,854	9,363	7,590	—
CSU, Fullerton	—	11,466	—	12,210	9,300	—
Humboldt State University	7,596	6,136	—	7,596	6,136	—
CSU, Long Beach	8,650	7,650	—	—	—	—
CSU, Los Angeles	—	—	—	8,346	6,446	—
California Maritime Academy	7,262	5,562	—	—	—	—
CSU, Northridge	—	—	6,335	11,125	6,569	—
CSPU, Pomona	10,350	9,027	—	—	—	—
CSU, Sacramento	7,567	7,015	—	—	7,801	8,915
CSU, San Bernardino	6,924	5,559	—	9,426	—	9,378
San Diego State University	10,984	9,512	—	9,760	8,136	—
San Francisco State University (5)	—	8,330	9,122	11,618	10,090	—
San Jose State University	9,488	8,322	—	12,948	10,292	—
CPSU, San Luis Obispo	—	7,360	—	8,516	6,812	—
Sonoma State University	8,622	6,616	—	10,206	8,158	—
CSU, Stanislaus	7,255	—	—	7,727	6,447	—
	\$ 115,593	118,755	23,311	140,786	121,206	18,293

- (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 468 apartment units that were occupied by students, faculty, and staff. The annual rates for the one-bedroom, two-bedroom, or three-bedroom units (not bed spaces) vary between \$1,500 and \$4,250.

See accompanying independent auditors' report.

Schedule 5

CALIFORNIA STATE UNIVERSITY
 Systemwide Revenue Bond Program's Statement of Insurance Coverage
 Year ended June 30, 2017
 (Unaudited)

<u>Expiration date*</u>	<u>Coverage</u>	<u>Amount</u>	<u>Company</u>	<u>Policy number</u>
July 1, 2017	CSU Master Property Policy, "All Risk" Building, Equipment, and Rental Income	\$ 1,000,000,000 per occurrence	Alliant Property Insurance Program (APIP)	017471590/03
July 1, 2017	CSU Master Property Policy, Boiler, and Machinery	100,000,000	APIP	017471590/03
July 1, 2017	Bodily Injury and Property Damage Liability (Primary)	up to 5,000,000	CSURMA (Self-insured portion)	N/A
July 1, 2017	Bodily Injury and Property Damage Liability (Reinsurance)	5,000,000	Ironshore	000541306
July 1, 2017	Bodily Injury and Property Damage Liability (Reinsurance)	10,000,000	Allied World Assurance Company	03102286
July 1, 2017	Workers Compensation and Employer's Liability	CA WC Statutes	CSC-EIA	EIA PE 16 EWC-143

* Additional insurance policies are maintained for the period from July 1, 2017 to July 1, 2018. These policies provide the same coverage indicated above.

See accompanying independent auditors' report.



CALIFORNIA STATE UNIVERSITY
Single Audit Reports
Year Ended June 30, 2017
(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY

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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, 2017, 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 November 17, 2017. Our report refers to other auditors who audited 88 of the 90 aggregate discretely presented component units, which statements reflect total assets constituting 96% and total revenues constituting 94% of the aggregate discretely presented component units totals. The reports of the other auditors have been furnished to us, and our opinion, insofar as they relate to the amounts included for the 88 aggregate discretely presented component units, are based solely on the reports of the other auditors. The financial statements of 46 discretely presented component units are not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters in accordance with *Government Auditing Standards* 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether California State University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the California State University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the California State University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Orange County, California
November 17, 2017



KPMG LLP
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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, 2017. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The University's basic financial statements include the operations of the University's discretely presented component units, which received federal awards totaling \$357,939,887, which is not included in the schedule of expenditures of federal awards for the year ended June 30, 2017. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors to perform audits in accordance with the Uniform Guidance.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the California State University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.



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 2017-001, 2017-002, and 2017-003. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-001, 2017-002, and 2017-003 that we consider to be significant deficiencies.

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

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



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

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the University, an agency of the State of California, as of and for the year ended June 30, 2017, and have issued our report thereon dated November 17, 2017, 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
November 17, 2017

CALIFORNIA STATE UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance (CFDA) number	Pass-through entity identifying number	Federal disbursements/ expenditures	Amounts provided to subrecipients
Student Financial Assistance Cluster:				
U.S. Department of Education:				
Direct programs:				
Federal Supplemental Educational Opportunity Grant	84.007		\$ 14,436,674	—
Federal Work-Study Program	84.033		16,727,445	—
Federal Perkins Loan Program	84.038		91,371,067	—
Federal Pell Grant Program	84.063		954,076,959	—
Federal Direct Student Loans	84.268		1,488,666,916	—
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379		2,787,730	—
Postsecondary Education Scholarships for Veteran's Dependents (Iraq and Afghanistan Service Grant (IASG))	84.408		5,413	—
Total U.S. Department of Education			<u>2,568,072,204</u>	<u>—</u>
U.S. Department of Health and Human Services:				
Direct program:				
Nursing Student Loans	93.364		2,443,644	—
Total U.S. Department of Health and Human Services			<u>2,443,644</u>	<u>—</u>
Total Student Financial Assistance Cluster			<u>2,570,515,848</u>	<u>—</u>
Other programs and clusters:				
U.S. Department of Agriculture:				
Direct programs:				
Higher Education Multicultural Scholars Program Passed through California Department of Education:	10.220		10,727	227
Child and Adult Care Food Program	10.558		47,514	—
Total U.S. Department of Agriculture			<u>58,241</u>	<u>227</u>
U.S. Department of Commerce:				
Direct program:				
Marine Debris Program	11.999		18,934	—
Total U.S. Department of Commerce			<u>18,934</u>	<u>—</u>
U.S. Department of Defense:				
Passed through Institute of International Education Inc.:				
		Amendment #2-0054-SFSU-8 #0054-SFSU-8- #0054-SFSU-8-PO2 Amendment 2-2340-SFSU-14 2340-SFSU-14 1-0054-SFSU-8-CHN-280-PO1		
The Language Flagship Grants to Institutions of Higher Education	12.550	SFSU-CHN	606,797	178,365
Total U.S. Department of Defense			<u>606,797</u>	<u>178,365</u>
U.S. Department of the Interior:				
Passed through California Office of Historic Preservation:				
Historic Preservation Fund Grants-in-Aid	15.904	C8960512	913	—
Passed through CSU Dominguez Hills Foundation:				
Preservation of Japanese American Confinement Sites	15.933	500020	4,050	—
Direct program:				
Cultural Resources Management	15.946		15,148	—
Total U.S. Department of the Interior			<u>20,111</u>	<u>—</u>
U.S. Department of Labor:				
Workforce Innovation and Opportunity Act (WIOA) Cluster:				
Passed through Fresno Regional Workforce Development Board:				
Workforce Investment Act (WIA)/WIOA Adult Program	17.258	CONTRACT NO. 554	25,000	—
Total WIOA Cluster			<u>25,000</u>	<u>—</u>
Direct program:				
Trade Adjustment Assistance Community College and Career Training (TAACCT) Grants	17.282		979,608	15,931
Total U.S. Department of Labor			<u>1,004,608</u>	<u>15,931</u>

CALIFORNIA STATE UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance (CFDA) number	Pass-through entity identifying number	Federal disbursements/ expenditures	Amounts provided to subrecipients
U.S. Department of Transportation:				
Passed through California Department of Transportation:				
		06A2062, 03A2168, 04A4782 04A4916, 43A0342, 04A4091		
U.S. Department of Transportation (not classified elsewhere)	20.UNK	04A4643, 04A4658	\$ 399,811	—
Direct programs:				
State Maritime Schools	20.806		818,070	—
Ballast Water Treatment Technologies	20.819		206,413	—
Total U.S. Department of Transportation			1,424,294	—
National Aeronautics and Space Administration:				
Direct program:				
Science	43.001		572	—
Passed through Association of Universities for Research in Astronomy, Incorporated:				
Science	43.001	STI-509915	293,186	—
Passed through Stanford University:				
Science	43.001	PY04430-22727-C	22,195	—
Passed through The Regents of the University of California:				
Science	43.001	012815	152	—
Subtotal CFDA 43.001			316,105	—
Direct Program:				
Education	43.008		185,632	3,576
Passed through Napa Valley College:				
Education	43.008	SSU16	127,742	—
Subtotal CFDA 43.008			313,374	3,576
Total National Aeronautics and Space Administration			629,479	3,576
National Endowment for the Humanities:				
Direct program:				
Promotion of the Humanities – Division of Preservation and Access	45.149		7,847	—
Passed through CSU Dominguez Hills Foundation:				
Promotion of the Humanities – Division of Preservation and Access	45.149	500027	1,000	—
Subtotal CFDA 45.149			8,847	—
Direct program:				
Promotion of the Humanities Fellowships and Stipends	45.160		37,825	—
Total National Endowment for the Humanities			46,672	—
National Science Foundation:				
Direct programs:				
Mathematical and Physical Sciences	47.049		18,818	—
Education and Human Resources	47.076		110,000	—
Passed through University Enterprises, Incorporated California State University, Sacramento:				
Education and Human Resources	47.076	523841, HRD – 1302873 5205-41A	42,375	—
Subtotal CFDA 47.076			152,375	—
Direct program:				
Trans-NSF Recovery Act Research Support	47.082		37	—
Subtotal CFDA 47.082			37	—
Total National Science Foundation			171,230	—
U.S. Environmental Protection Agency:				
Passed through Environmental Quality Management:				
U.S. Environmental Protection Agency (not classified elsewhere)	66.UNK	13-017_021003	216,257	—
Passed through Weston Solutions, Incorporated:				
U.S. Environmental Protection Agency (not classified elsewhere)	66.UNK	0091101_CO1	8,553	—
Subtotal CFDA 66.UNK			224,810	—
Direct program:				
Regional Wetland Program Development Grants	66.461		181,102	181,102
Total U.S. Environmental Protection Agency			405,912	181,102

CALIFORNIA STATE UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance (CFDA) number	Pass-through entity identifying number	Federal disbursements/ expenditures	Amounts provided to subrecipients
U.S. Department of Energy:				
Passed through Alliance for Sustainable Energy, LLC:				
Renewable Energy Research and Development	81.087	AFC-5-52004-02	\$ 7,088	—
Direct program:				
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		95,826	—
Total U.S. Department of Energy			<u>102,914</u>	<u>—</u>
U.S. Department of Education, excluding Student Financial Assistance Cluster:				
TRIO Cluster:				
Direct program:				
TRIO – Student Support Services	84.042		1,778,177	—
Passed through The CSU, Chico Research Foundation:				
TRIO – Student Support Services	84.042	P042A100854-15	29,500	—
Passed through California State University, Fresno Foundation:				
TRIO – Student Support Services	84.042	P042A150383, P042A150475	111,672	—
Subtotal CFDA 84.042			1,919,349	—
Direct programs:				
TRIO – Talent Search Program	84.044		623,793	—
TRIO – Upward Bound Program	84.047		1,594,716	—
TRIO – McNair Post-Baccalaureate Achievement	84.217		208,989	—
Total TRIO Cluster			<u>4,346,847</u>	<u>—</u>
Passed through University Enterprises Corporation at California State University San Bernardino:				
Undergraduate International Studies and Foreign Language Programs	84.016	GT-14130	4,650	—
Direct program:				
Higher Education-Institutional Aid	84.031		4,672,539	378,875
Passed through California State University, Long Beach Research Foundation:				
Higher Education-Institutional Aid	84.031	SG1391SUP-CO SG1391SUP_STAN	27,987 581	— —
Passed through Santa Barbara City College:				
Higher Education – Institutional Aid	84.031	12131.4070.562000.60	155,900	—
Passed through Ventura County Community College District:				
Higher Education – Institutional Aid	84.031	P0083733	46,859	—
Higher Education – Institutional Aid	84.031	P0103046	86,868	—
Passed through San Mateo County Community College District:				
Higher Education – Institutional Aid	84.031	P031C1100159	40,520	—
Subtotal CFDA 84.031			<u>5,031,254</u>	<u>378,875</u>
Direct programs:				
TRIO Staff Training Program	84.103		398,015	—
Grants to States	84.126	28592	109,506	—
Direct program:				
Rehabilitation Long-Term Training	84.129		329,283	—
Passed through Oxnard School District:				
Magnet Schools Assistance	84.165	13-176	494	—
Direct program:				
Special Education – Personnel Development to Improve Services and Results for Children with Disabilities	84.325		1,086,816	148,646
Passed through Commission on Teacher Credentialing:				
Special Education – Personnel Development to Improve Services and Results for Children with Disabilities	84.325	14STC0035	1,804	—
Subtotal CFDA 84.325			<u>1,088,620</u>	<u>148,646</u>
Direct programs:				
Special Education – Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		600,545	—
Child Care Access Means Parents in School	84.335		279,072	—
Passed through The California State University, Chico Research Foundation:				
Teacher Quality Partnership Grants	84.336	14-042, 15-034	67,833	—
Passed through California State University Dominguez Hills Foundation:				
Transition to Teaching	84.350	500011	64,706	—

CALIFORNIA STATE UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance (CFDA) number	Pass-through entity identifying number	Federal disbursements/ expenditures	Amounts provided to subrecipients
Direct program:				
English Language Acquisition State Grants	84.365		\$ 401,620	—
Passed through University of California, Santa Cruz:				
English Language Acquisition State Grants	84.365	S0183643	37,179	—
Subtotal CFDA 84.365			<u>438,799</u>	<u>—</u>
Passed through Santa Rosa City Schools:				
Mathematics and Science Partnerships	84.366	101	115,047	—
Passed through California Department of Education:				
Supporting Effective Instruction Grant (Formerly Improving Teacher Quality State Grants)	84.367	15-15196-3064-00 16-15196-3064-00	246,729	109,430
Passed through The Regents of the University of California:				
		NCLB12-CMP-SONOMA NCLB12-CISP-SONOMA NCLB13-CMP STANISLAUS NCLB13-CMP-SONOMA NCLB13-CWP TURLOCK NCLB13-CISP-SONOMA		
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	92-CA10-SEED2012 92-CA10-SEED2016	129,496	—
Passed through National Writing Project:				
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	92-CA10-SEED2016-ILI AMZA 92CA10 SEED2012	39,206	—
Subtotal CFDA 84.367			<u>415,431</u>	<u>109,430</u>
Direct Program:				
Strengthening Minority-Serving Institutions	84.382		95,287	—
Passed through California Department of Rehabilitation:				
Promoting Readiness of Minors in Supplemental Security Income	84.418	29505	581	—
Total U.S. Department of Education, excluding Student Financial Assistance Cluster			<u>13,385,970</u>	<u>636,951</u>
U.S. Department of Health and Human Services:				
477 Cluster:				
Child Care and Development Fund Cluster:				
Passed through California Department of Education:				
Child Care and Development Block Grant	93.575	CCTR-6042, CSPP-6095	59,742	—
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CCTR-6042, CSPP-6095	130,066	—
Total Child Care and Development Fund Cluster			<u>189,808</u>	<u>—</u>
Total 477 Cluster			<u>189,808</u>	<u>—</u>
Direct programs:				
Mental Health Research Grants	93.242		47,951	19,197
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243		323,826	—
Passed through University of California, San Francisco:				
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	8300SC	10,325	—
Subtotal CFDA 93.243			<u>334,151</u>	<u>—</u>
Passed through University of California, San Francisco:				
Minority Health and Health Disparities Research	93.307	7518SC	5,535	—
Passed through California Department of Education:				
Head Start	93.600	15291, 15292, 15298	444,359	—
Passed through University of California, Berkeley:				
		00009246 #15-IA-00850		
Foster Care – Title IV-E	93.658		2,189,315	—
Passed through The Regents of the University of California:				
Foster Care – Title IV-E	93.658	15-IA-00850	1,222,473	—
Subtotal CFDA 93.658			<u>3,411,788</u>	<u>—</u>
Direct program:				
Biomedical Research and Research Training	93.859		2,200,081	—
Passed through AIDS United:				
HIV Prevention Activities – Non-Governmental Organization Based	93.939	880-20172	37,995	—
Total U.S. Department of Health and Human Services			<u>6,671,668</u>	<u>19,197</u>

CALIFORNIA STATE UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance (CFDA) number	Pass-through entity identifying number	Federal disbursements/ expenditures	Amounts provided to subrecipients
Corporation for National and Community Service:				
Direct programs:				
Learn and Serve America Higher Education	94.005		\$ 79,437	—
AmeriCorps	94.006		116,913	—
Passed through Jumpstart for Young Children:				
AmeriCorps	94.006	CFDA-94.006-JS-SITE#10	6,717	—
Subtotal CFDA 94.006			123,630	—
Direct program:				
Volunteers in Service to America	94.013		9,962	—
Total Corporation for National and Community Service			213,029	—
U.S. Department of Homeland Security:				
Passed through Department of Parks and Recreation, Division of Boating and Waterways:				
Boating Safety Financial Assistance	97.012	C8956314, 11-201-014	37,886	—
Total U.S. Department of Homeland Security			37,886	—
Research and Development Cluster:				
U.S. Department of Agriculture:				
Direct program:				
Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)	10.326		76,927	25,269
Supplemental Nutrition Assistance Program (SNAP) Cluster:				
Direct program:				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		7,059	—
Total Supplemental Nutrition Assistance Program (SNAP) Cluster				
Direct program:				
Cooperative Forestry Assistance	10.664		124,326	—
Total U.S. Department of Agriculture			208,312	25,269
U.S. Department of Commerce:				
Passed through Monterey Bay Aquarium Research Institute:				
Integrated Ocean Observing System (IOOS)		1411377 1611290		
	11.012	NA11NOS0120032	114,192	—
Passed through The Regents of the University of California:				
Sea Grant Support	11.417	71780057	154,582	—
Direct program:				
Coastal Zone Management Estuarine Research Reserves	11.420		711,047	—
Passed through Merkel & Associates Incorporated:				
Coastal Zone Management Estuarine Research Reserves	11.420	GS-10F-00607/ AB-133F-14NC-1535	49,323	—
Subtotal CFDA 11.420			760,370	—
Direct program:				
Marine Sanctuary Program	11.429		43,497	—
Direct program:				
Habitat Conservation	11.463		54,420	—
Total U.S. Department of Commerce			1,127,061	—
U.S. Department of Defense:				
Passed through George Mason University:				
Department of Defense (not classified elsewhere)	12.UNK	E203705-1	7,765	—
Direct programs:				
Flood Control Projects	12.106		13,010	—
Basic and Applied Scientific Research	12.300		15,501	—
Passed through National Marine Mammal Foundation:				
Basic and Applied Scientific Research	12.300	SSU-2773	39,610	—
Subtotal CFDA 12.300			55,111	—
Direct program:				
Basic, Applied, and Advanced Research in Science and Engineering	12.630		623,350	—
Direct program:				
Air Force Defense Research Sciences Program	12.800		68,528	—
Total U.S. Department of Defense			767,764	—

CALIFORNIA STATE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance (CFDA) number	Pass-through entity identifying number	Federal disbursements/ expenditures	Amounts provided to subrecipients
U.S. Department of the Interior:				
Direct programs:				
Fish, Wildlife and Plant Conservation Resource Management	15.231		\$ 118,729	—
Challenge Cost Share	15.238		2,414	—
Fish and Wildlife Management Assistance	15.608		14,013	—
Cooperative Endangered Species Conservation Fund	15.615		30,894	7,032
Passed through Fish and Wildlife, California Department of (CDFW):				
Cooperative Endangered Species Conservation Fund	15.615	P1680007 P1680032	60,828	—
Subtotal CFDA 15.615			91,722	7,032
Passed through Fish and Wildlife, California Department of (CDFW):				
State Wildlife Grants	15.634	P1640010	486	—
Direct programs:				
Central Valley Improvement (CVI) Anadromous Fish Restoration Program (AFR)	15.648		74,255	40,337
Research Grants (Generic)	15.650		84,261	—
Earthquake Hazards Reduction Program	15.807		47,162	—
U.S. Geological Survey-Research and Data Collection	15.808		86,842	—
Passed through California Office of Historic Preservation:				
Historic Preservation Fund Grants-In-Aid	15.904	C1410019, C8957510	4,232	—
Direct program:				
Native American Graves Protection and Repatriation Act	15.922		3,839	—
Cooperative Research and Training Programs – Resources of the National Park System	15.945		20,772	—
Direct program:				
National Park Service Conservation, Protection, Outreach, and Education	15.954		25,687	—
Total U.S. Department of the Interior			574,414	47,369
National Aeronautics and Space Administration:				
Direct program:				
Science	43.001		311,455	29,800
Passed through Los Gatos Research:				
Science	43.001	SFSU-1	6,173	—
Passed through Oregon State University:				
Science	43.001	NS251A-A	65,510	—
Passed through Arizona State University, Tempe:				
Science	43.001	15-718	14,303	—
Passed through Space Telescope Science Institute:				
Science	43.001	HST-GO-12950.03-A HST-GO-13297.07-A	16,928	—
Passed through Search for Extraterrestrial Intelligence Institute:				
Science	43.001	SC3202	31,495	—
Subtotal CFDA 43.001			445,864	29,800
Passed through San Jose State University Research Foundation:				
Aeronautics	43.002	21-1614-4877-SFSU 21-1614-4877-SFSU2015	25,737	—
Total National Aeronautics and Space Administration			471,601	29,800
National Science Foundation:				
Direct programs:				
Engineering Grants	47.041		352,141	—
Mathematical and Physical Sciences	47.049		514,079	75,908
Passed through American Physical Society:				
Mathematical and Physical Sciences	47.049	APS090114	7,529	—
Passed through Brigham Young University:				
Mathematical and Physical Sciences	47.049	16-0468	6,227	—
Subtotal CFDA 47.049			527,835	75,908
Direct program:				
Geosciences	47.050		435,815	8,517
Passed through Consortium for Ocean Leadership:				
Geosciences	47.050	BA-120	18,404	—
Passed through Sonoma State University:				
Geosciences	47.050	1061530	1,584	—
Subtotal CFDA 47.050			455,803	8,517

CALIFORNIA STATE UNIVERSITY
 Schedule of Expenditures of Federal Awards
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Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance (CFDA) number	Pass-through entity identifying number	Federal disbursements/ expenditures	Amounts provided to subrecipients
Direct programs:				
Computer and Information Science and Engineering Passed through San Diego State University Research Foundation:	47.070		\$ 26,500	2,115
		SA0000426 A3 SA0000522 SA0000524 SA0000426 A4		
Computer and Information Science and Engineering	47.070		6,798	—
Subtotal CFDA 47.070			33,298	2,115
Direct program:				
Biological Sciences	47.074		1,318,913	—
Passed through University of California, Berkeley: Biological Sciences	47.074	00007925	19,276	—
Passed through Fordham University: Biological Sciences	47.074	FORD0003	5,967	—
Passed through Regents of the University of California San Francisco: Biological Sciences	47.074	9807SC	181,388	—
Subtotal CFDA 47.074			1,525,544	—
Direct programs:				
Education and Human Resources Passed through California State University Sacramento:	47.076		694,210	6,314
		523911 AMENDMENT NO. 523914 523913	17,292	—
Education and Human Resources Passed through The University Foundation at Sacramento State:	47.076			
Education and Human Resources	47.076	MOU HRD-1302873	15,000	—
Passed through Missouri State University: Education and Human Resources	47.076	16043-007	48,960	—
Passed through University Enterprises, Incorporated California State University, Sacramento: Education and Human Resources	47.076	523751, 523951 A523953	24,824	—
Passed through Northeastern University: Education and Human Resources	47.076	502277-78050	73,511	—
Passed through The Regents of the University of California: Education and Human Resources	47.076	00009400 KK1627 A00-1696S004-P056579	135,393	—
Passed through WestEd: Education and Human Resources	47.076	S00028711.0	2,864	—
Passed through University of Texas at El Paso: Education and Human Resources	47.076	226100955B	92,799	—
Subtotal CFDA 47.076			1,104,853	6,314
Direct program:				
Polar Programs	47.078		155,788	145,823
Passed through University of Nevada, Las Vegas: Office of International Science and Engineering	47.079	11-707D-F	16,541	—
Total National Science Foundation			4,171,803	238,677
U.S Department of Veterans Affairs VA Health Administration Center				
Direct program:				
Research and Development	64.054		15,501	—
Total U.S Department of Veterans Affairs VA Health Administration Center			15,501	—
U.S. Environmental Protection Agency:				
Passed through California State Coastal Conservancy: Congressionally Mandated Projects	66.202	CONTRACT NO. 10-030	123,426	—
Passed through Association of Bay Area Governments: National Estuary Program	66.456	CE 00T47801-6	52,780	—
Direct program:				
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		15,000	—
Total U.S. Environmental Protection Agency			191,206	—

CALIFORNIA STATE UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance (CFDA) number	Pass-through entity identifying number	Federal disbursements/ expenditures	Amounts provided to subrecipients
U.S. Department of Energy:				
Direct programs:				
U.S. Department of Energy (not classified elsewhere)	81.UNK		\$ 19,115	—
Office of Science Financial Assistance Program	81.049		163,540	—
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		117,617	—
Passed through Lawrence Livermore National Security, LLC:				
National Nuclear Security Administration Minority Serving Institutions Program	81.123	B620703	10,267	—
Total U.S. Department of Energy			310,539	—
U.S. Department of Education:				
Passed through San Mateo County Community College District:				
Minority Science and Engineering Improvement	84.120	P120A150014	54,291	—
Direct programs:				
Research in Special Education	84.324		792,012	446,417
Investing in Innovation (I3) Fund	84.411		586,521	—
Total U.S. Department of Education			1,432,824	446,417
U.S. Morris K. Udall Foundation:				
Direct program:				
Morris K. Udall Scholarship Program	85.400		149,921	—
Total U.S. Morris K. Udall Foundation			149,921	—
U.S. Department of Health and Human Services:				
Direct programs:				
Environmental Public Health and Emergency Response	93.070		33,750	—
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074		11,250	—
Passed through Urban Institute				
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	09349-00-00 #36200	25,086	—
Direct programs:				
Injury Prevention and Control Research and State and Community Based Programs	93.136		7,500	—
Research Related to Deafness and Communication Disorders	93.173		40,290	—
Mental Health Research Grants	93.242		353,474	56,271
Passed through Santa Clara University:				
Mental Health Research Grants	93.242	NIH008-01	32,149	—
Passed through Boston University:				
Mental Health Research Grants	93.242	4500002320	19,007	—
Subtotal CFDA 93.242			404,630	56,271
Direct programs:				
Immunization Cooperative Agreements	93.268		22,500	—
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283		160,876	—
Passed through Stanford University:				
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	60917381-114033	98,959	—
Direct programs:				
Trans-NIH Research Support	93.310		3,657,039	765,466
Behavioral Risk Factor Surveillance System	93.336		414,922	—
PPHF: Health Care Surveillance / Health Statistics – Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by Prevention and Public Health Fund	93.745		242,941	—
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757		35,846	—
Cardiovascular Diseases Research	93.837		161,802	—
Passed through University of California, San Francisco:				
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	8109SC	95,842	—
Direct program:				
Allergy and Infectious Diseases Research	93.855		345,363	32,073

CALIFORNIA STATE UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance (CFDA) number	Pass-through entity identifying number	Federal disbursements/ expenditures	Amounts provided to subrecipients
Direct program:				
Biomedical Research and Research Training	93.859		\$ 883,561	—
Passed through University of California, San Francisco:				
Biomedical Research and Research Training	93.859	A120112, 1R15GM116043-01	126,205	—
Subtotal CFDA 93.859			<u>1,009,766</u>	<u>—</u>
Direct program:				
Child Health and Human Development Extramural Research	93.865		294,764	28,344
Passed through Research Foundation for Mental Hygiene, Incorporated:				
Child Health and Human Development Extramural Research	93.865	25999	121,906	—
Subtotal CFDA 93.865			<u>416,670</u>	<u>28,344</u>
Passed through University of Southern California:				
Aging Research	93.866	57764387	133,563	—
Passed through University of California, San Francisco:				
Aging Research	93.866	9913C, 9660SC	23,822	—
Passed through Stanford University:				
Aging Research	93.866	61406136-45510	42,338	—
Subtotal CFDA 93.866			199,723	—
Passed through Stanford University:				
Medical Library Assistance	93.879	61100260-12656-A	39,587	—
Direct program:				
Assistance Programs for Chronic Disease Prevention and Control	93.945		15,000	—
Total U.S. Department of Health and Human Services			<u>7,439,342</u>	<u>882,154</u>
Total Research and Development Cluster			<u>16,860,288</u>	<u>1,669,686</u>
Total expenditures of federal awards			<u>\$ 2,612,173,881</u>	<u>2,705,035</u>

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

CALIFORNIA STATE UNIVERSITY
 Notes to Schedule of Expenditures of Federal Awards
 Year ended June 30, 2017

(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 \$77,528,396 and \$2,248,709, respectively, at June 30, 2017. 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, 2017.

(4) Administrative Cost Allowances

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

Federal Perkins Loan Program	\$	886,012
Federal Pell Grant Program		851,395
Federal Work-Study Program		467,421
Federal Supplemental Educational Opportunity Grant Program		149,548
Total administrative cost allowances	\$	2,354,376

(5) Indirect Cost Rate

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

CALIFORNIA STATE UNIVERSITY
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2017

(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 No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes No
- Noncompliance material to the financial statements noted? Yes None Reported

Federal Awards

Internal control over major programs:

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

Identification of Major Programs

CFDA number(s)	Name of federal program or cluster
84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 84.408, and 93.364	Student Financial Assistance Cluster
93.658	Foster Care Title IV-E
84.325	Special Education Personnel Development to Improve Services and Results for Children with Disabilities

Dollar threshold used to distinguish between Type A and Type B programs: \$1,249,741

Auditee qualified as low-risk auditee? Yes No

CALIFORNIA STATE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

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

None noted

(3) Findings and Questioned Costs Relating to Federal Awards

2017-001

Compliance requirement:	Disbursements To and On Behalf of Students
Campus:	Fullerton, Pomona, and Sacramento
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, 2016 through June 30, 2017

Criteria or Specific Requirement

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

Condition Found and Context

During our testwork, we haphazardly selected 65 samples of notifications for federal loan disbursements made to students from five campuses and noted the following:

- We identified 6 student notifications that were not sent to the students.
- We identified 12 student notifications that were not performed in a timely manner. The notifications were sent up to 63 days after the date of loan disbursement.

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

CALIFORNIA STATE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

Cause and Effect

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

Sampling

Not statistical

Isolated or Systemic

Systemic

Questioned Costs

None noted

Repeat Finding

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

Recommendation

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

Views of Responsible Officials

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

2017-002

Compliance requirement:	Enrollment Reporting
Campus:	Fresno, Fullerton, Pomona, Sacramento, and San Diego
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, 2016 through June 30, 2017

CALIFORNIA STATE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

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 65 students from five 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 six students where their change in status was not reported to the NSLDS within the 30/60-day reporting period. For these students, status was communicated between 5-96 days late.
- We identified nine students with status changes that were not accurately reported to NSLDS.
- We identified one student with status change that was not reported to NSLDS.

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

Cause and Effect

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

Sampling

Not statistical

Isolated or Systemic

Systemic

Questioned Costs

None noted

Repeat Finding

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

CALIFORNIA STATE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

Recommendation

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

Views of Responsible Officials

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

2017-003

Compliance requirement:	Verification
Campus:	Pomona
Cluster name/program:	Student Financial Assistance Cluster
CFDA number:	84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 84.408, and 93.364
Federal agency:	U.S. Department of Education
Passed through entity:	None
Award year:	July 1, 2016 through June 30, 2017

Criteria or Specific Requirement

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

Condition Found and Context

During our testwork, we haphazardly selected 65 students from five campuses that received Federal Financial Aid awards during the year that were also selected for verification under Sec. 668.54(a)(2) or (3) and noted the following:

- We identified one student where the student's AGI was incorrectly verified, resulting in a miscalculation of the student's EFC and an over-award of Pell grant by \$800. We verified that the campus returned the over-award amount to the Department of Education within the same academic year.

CALIFORNIA STATE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

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

Cause and Effect

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

Sampling

Not statistical

Isolated or Systemic

Isolated

Questioned Costs

Over-award of Pell Grant known amounts of \$800.

Repeat Finding

No

Recommendation

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

Views of Responsible Officials

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