

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting:**      **2:30 p.m., Tuesday, January 27, 2015**  
                 **Glenn S. Dumke Auditorium**

Lupe C. Garcia, Chair  
Adam Day, Vice Chair  
Steven M. Glazer  
Rebecca D. Eisen  
Hugo N. Morales

#### **Consent Items**

Approval of Minutes of Meeting of November 12, 2014

#### **Discussion Items**

1. Assignment of Functions to Be Reviewed by the Office of Audit and Advisory Services for Calendar Year 2015, *Action*
2. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
3. Report of the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management, *Information*
4. Single Audit Reports of Federal Funds, *Information*

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

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

**November 12, 2014**

## **Members Present**

Lupe C. Garcia, Chair  
Adam Day, Vice Chair  
Rebecca D. Eisen  
Steven M. Glazer  
Lou Monville, Chair of the Board  
Timothy P. White, Chancellor

Chair Garcia called the meeting to order.

## **Approval of Minutes**

The minutes of the meeting of September 9, 2014, were approved as submitted.

## **Status Report on Current and Follow-Up Internal Audit Assignments**

Mr. Larry Mandel, vice chancellor and chief audit officer, presented the Status Report on Current and Follow-up Internal Audit Assignments. He stated that there had been several updates to the status report, as displayed in green numerals, which indicate progress toward or completion of recommendations since the distribution of the agenda. He reported that while most of the recommendations are being completed timely, there are a few that are taking additional time, but noted that audit staff has been working with the campuses and the CSU Chancellor's Office to clear these items as soon as possible. He also reported that significant progress has been made toward the completion of the 2014 audit plan and added that all of the audits are expected to be completed by the January 2015 board meeting.

## **Status Report on the Implementation Plan for the Quality Assurance Review**

Mr. Mandel provided a status report on the implementation plan for the recommendations for improvement contained in the Quality Assurance Review performed on the Office of Audit and Advisory Services. As also mentioned at the July board meeting, he stated that he concurred with all of the recommendations in the review. He then proceeded to highlight a few of the more significant ones. Recommendation for Enhancement #2 suggested that the current organizational structure of the division be reviewed to determine if a reporting relationship should be established between campus auditors and the Office of Audit and Advisory Services, as it was observed that it is very difficult to adequately understand, assess, and remediate individual

campus risks with the current centralized internal audit organization model. This is the pivotal recommendation around which most of the others revolve. Mr. Mandel stated that an alternative organizational structure was discussed with the campus presidents at the August and October Council of Presidents' meetings. In addition, he met individually with several campus presidents and their senior management, as well as the chancellor and other members of the executive management team. As a result, valuable input has been received and discussions are ongoing. He indicated that the search continues for the optimum organizational structure that will not only strengthen the effectiveness of the audit function but also provide increased assurance to the chancellor and Board of Trustees that significant risks to the system and campuses are sufficiently understood and assessed, and are receiving appropriate audit coverage.

Recommendation for Enhancement #3 suggested that a separate IT audit risk assessment be prepared as part of the annual risk assessment process. He reported that a separate system IT audit risk assessment has been developed and deployed, and the results will be summarized and evaluated for inclusion in the 2015 audit plan.

Recommendation for Enhancement #4 suggested that the current risk assessment and audit planning approach be reevaluated. He indicated that the implementation plan for this item is tied to the results of the review performed for Recommendation #2. He added that as long as the status quo prevails, we are only able to make incremental changes to the current format for obtaining input to ascertain the highest risks to the system. Other models may allow for campus-specific risk assessments. He stated that because discussions are ongoing regarding Recommendation #2, the status quo prevails for implementation of this recommendation. He reported that incremental changes have been made to the risk assessment model for 2015, and as noted above, a separate IT audit risk assessment has been developed and deployed.

Recommendation for Enhancement #5 suggested that the evaluation and communication of fraud risks should be reviewed on a systemwide basis. He stated that in order to determine the current fraud management climate and how best to incorporate an assessment of fraud risk into the existing annual risk assessment process, a fraud survey was developed and deployed to each campus. Survey results are currently being analyzed and summarized.

The meeting adjourned.

## **COMMITTEE ON AUDIT**

### **Assignment of Functions to Be Reviewed by the Office of Audit and Advisory Services for Calendar Year 2015**

#### **Presentation By**

Janice Mirza  
Senior Director  
Office of Audit and Advisory Services

#### **Summary**

At the first meeting of the new year, the Committee on Audit selects the audit assignments for the Office of Audit and Advisory Services. The following is an audit plan for calendar year 2015.

### **HIGH RISK AREAS**

The Office of Audit and Advisory Services performed a risk assessment of the CSU in the last quarter of 2014. The results of that risk assessment indicated the following high risk areas to the system:

#### **Information Security**

Proposed audit scope may include review of the systems and managerial/technical measures for ongoing evaluation of data/information collected; identifying confidential, private or sensitive information; authorizing access; securing information; detecting security breaches; and security incident reporting and response.

#### **Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (Clery Act)**

Proposed audit scope may include review of campus Clery Act policies and procedures to ensure compliance with CSU and federal requirements; review and testing of processes to compile required disclosures and statistics for the Annual Security Report (ASR); verification of the availability of educational programs for security awareness, and the prevention and reporting of crime; review and testing of ASR dissemination to required parties; review of campus good-faith efforts to comply with changes to the Clery Act imposed by the Violence Against Women Reauthorization Act (VAWA) for the 2014 ASR and progress in meeting the changes by the July 2015 deadline; and review of content and delivery of training.

### **Scholarships**

Proposed audit scope may include review of campus and/or auxiliary activities pertaining to scholarships, including establishing student eligibility, awarding, and recordkeeping and protection of sensitive information; coordination between the financial aid department and awarding departments; and review of disbursement procedures for awarded scholarships.

### **Admissions**

Proposed audit scope may include review of the evaluation of student records, including residency determination; processing admission applications, including use of supplemental admission criteria for impacted majors or campuses, transfer students, and redirection of eligible applicants; security of applicant data; application fee processing and granting of fee waivers; and compliance with state legislation and CSU requirements.

### **Student Activities**

Proposed audit scope may include review of activities relating to social and co-curricular programs, recreational sports, student clubs and organizations; review of policies and procedures to ensure compliance with CSU and other agency requirements; review of campus administration and oversight of student activities; review and appropriate testing for compliance with charters, bylaws and/or other governing documents for selected student organizations, clubs and other programs; review and testing to ensure appropriate staffing of student programs by qualified individuals and volunteers, including student leaders; and assessment to determine that required policies regarding non-discrimination, alcohol and drugs, and hazing are monitored and enforced.

### **Payment Card Industry Data Security Standards Compliance**

Proposed audit scope may include review of campus and auxiliary compliance with regulations specific to Payment Card Industry (PCI) Data Security Standards related to the security and protection of credit cards systems and data. The review would specifically include compliance with the new PCI 3.0 standard.

### **Information Technology Procurement**

Proposed audit scope may include review of policies and practices related to information technology procurement. Specific goals will include determining whether administration and management of information technology procurement activities provide an effective internal control environment, adequate local policies and operational procedures, current written delegations, and observance of good business practices in compliance with CSU policy.

## **Cloud Computing**

Proposed audit scope may include review of campus and/or auxiliary activities pertaining to cloud computing, including review of policies and procedures to ensure compliance with CSU and other agency requirements; review of campus administration and oversight including but not limited to service availability, data ownership and backup and recovery, establishing contractual relationships with third-party service providers, and if sensitive data is maintained by a third party, review of involvement of campus information security personnel in the decision process; documentation of campus expectations for handling and securing the data; contract language covering security expectations; and monitoring third-party performance.

Audits will be performed at those campuses where a greater degree of risk was perceived for each of these areas. This represents 289 staff weeks of audit effort, which is approximately 28 percent of the audit plan.

## **HIGH PROFILE AREA**

Audits are periodically performed of high profile areas in order to assure the board that appropriate policies and procedures are in place to mitigate risk to the system. This year we will address the following area:

### **College Department Reviews**

Proposed audit scope may include review of college/department administrative and financial controls, such as handling of cash and cash equivalents, expenditure processing, contracting activities, acquisition and tagging of sensitive equipment, and use of trust funds; and review of faculty assigned time, release time and special payments.

The audit will be performed at those campuses where a greater degree of risk was perceived for this area. This represents 49 staff weeks of audit effort, which is approximately 4.8 percent of the audit plan.

## **AUXILIARY ORGANIZATIONS**

In order to provide assurance to the Board of Trustees that adequate oversight is being maintained over auxiliaries, the Office of Audit and Advisory Services administers an audit program covering internal compliance/internal controls. It is estimated that 31 auxiliary reviews will take place during calendar year 2015. This represents 267 staff weeks of audit effort, which is approximately 25.8 percent of the audit plan.

## ADVISORY SERVICES

The Office of Audit and Advisory Services will partner with management to identify solutions for business issues, offers opportunities to improve the efficiency and effectiveness of operating areas, and assists 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. Two hundred sixteen staff weeks have been set aside for this purpose, representing approximately 20.9 percent of the audit plan.

## CONSTRUCTION

Areas under review include design budgets and costs; the bid process; invoice processing and change orders; project management, architectural, and engineering services; contractor compliance; cost verification of major equipment and construction components; the closeout process and liquidated damages; and overall project accounting and reporting. It is estimated that six construction projects will be reviewed during calendar year 2015. This represents 47 staff weeks of audit effort, which is approximately 4.6 percent of the audit plan.

## TECHNOLOGY SUPPORT

Technology support will be provided for non-information technology specific audits and advisory services reviews. Fourteen staff weeks are planned during calendar year 2015, which is approximately 1.3 percent of the audit plan.

## INVESTIGATIONS

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

## COMMITTEES/SPECIAL PROJECTS

The Office of Audit and Advisory Services is periodically called upon to provide consultation to the campuses and/or to participate on committees such as those related to information systems implementation and policy development, and to perform special projects. Special projects for 2015 will include the implementation of automated working papers in the Office of Audit and Advisory Services. Forty staff weeks have been set aside for this purpose, representing approximately 3.8 percent of the audit plan.

## FOLLOW-UPS

The purpose of this category is to follow-up on prior audit recommendations. The Office of Audit and Advisory Services reviews the responsiveness of the corrective action taken for each recommendation and determines whether additional action may be required. In certain instances, it may be necessary to revisit the campus to ascertain whether the corrective action taken is achieving the desired results. All recommendations are tracked until each is satisfactorily addressed. Reports of follow-up activity are made at each meeting of the Committee on Audit. Fifteen staff weeks have been set aside for this purpose, representing approximately 1.5 percent of the audit 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. Eight staff weeks have been set aside for this purpose, representing approximately 0.8 percent of the audit plan.

## ADMINISTRATION

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

The following resolution is recommended for approval:

**RESOLVED**, By the Committee on Audit of the California State University Board of Trustees that the 2015 internal audit plan, as detailed in Agenda Item 1 of the Committee on Audit at the January 27-28, 2015 meeting, be approved.



## **COMMITTEE ON AUDIT**

### **Status Report on Current and Follow-up Internal Audit Assignments**

#### **Presentation By**

Janice Mirza  
Senior Director  
Office of Audit and Advisory Services

#### **Summary**

This item includes both a status report on the 2014 audit plan and follow-up on past assignments. For the 2014 year, assignments were made to conduct reviews of Auxiliary Organizations, high-risk areas (Information Security, Accessible Technology, and Conflict of Interest), high profile areas (Sponsored Programs – Post Awards, Continuing Education, and Executive Travel), core financial area (Lottery Funds), and Construction. In addition, follow-up on current/past assignments (Special Audit, Auxiliary Organizations, Sensitive Data Security, Sponsored Programs, Student Health Services, Conflict of Interest, Lottery Funds, Accessible Technology, Executive Travel, and Information Security) was being conducted on approximately 32 prior campus/auxiliary reviews. Attachment A summarizes the reviews in tabular form. An up-to-date Attachment A will be distributed at the committee meeting.

### **Status Report on Current and Follow-up Internal Audit Assignments**

#### *Auxiliary Organizations*

The initial audit plan indicated that approximately 273 staff weeks of activity (26.6 percent of the plan) would be devoted to auditing internal compliance/internal control at eight campuses/29 auxiliaries. Four campus/15 auxiliary reports have been completed, two campus/nine auxiliary reports are awaiting a campus response prior to finalization, and report writing is being completed for two campuses/five auxiliaries.

#### *High-Risk Areas*

#### Information Security

The initial audit plan indicated that approximately 51 staff weeks of activity (5.0 percent of the plan) would be devoted to a review of the systems and managerial/technical measures for ongoing evaluation of data/information collected; identifying confidential, private or sensitive information; authorizing access; securing information; detecting security breaches; and security

incident reporting and response. Six campuses will be reviewed. One report has been completed, three reports are awaiting a campus response prior to finalization, and report writing is being completed at two campuses.

#### Accessible Technology

The initial audit plan indicated that approximately 51 staff weeks of activity (5.0 percent of the plan) would be devoted to a review of compliance with laws and regulations specific to the Americans with Disabilities Act of 1990 as it applies to accessible technology requirements and program access. Six campuses will be reviewed. Six reports have been completed.

#### Conflict of Interest

The initial audit plan indicated that approximately 53 staff weeks of activity (5.1 percent of the plan) would be devoted to a review of the process for identification of designated positions; monitoring, tracking, and review of disclosures relating to conflicts of interest, such as research disclosures; faculty and CSU-designated officials reporting; employee/vendor relationships; ethics training; and patent and technology transfer. Six campuses will be reviewed. Six reports have been completed, and a systemwide report has been issued.

#### *High Profile Areas*

##### Sponsored Programs – Post Awards

The initial audit plan indicated that approximately 50 staff weeks of activity (4.9 percent of the plan) would be devoted to a review of contract/grant budgeting and financial planning; indirect cost administration including cost allocation, cost sharing/matching, and transfer processes; effort-reporting, fiscal reporting, and progress reporting; approval of project expenditures; sub-recipient monitoring; and management and security of information systems. Six campuses will be reviewed. Four reports have been completed, and two reports are awaiting a campus response prior to finalization.

##### Continuing Education

The initial audit plan indicated that approximately 50 staff weeks of activity (4.9 percent of the plan) would be devoted to a review of the processes for administration of continuing education and extended learning operations as self-supporting entities; budgeting procedures, fee authorizations, and selection and management of courses; faculty workloads and payments to faculty and other instructors; enrollment procedures and maintenance of student records; and reporting of continuing education activity and maintenance of CERF contingency reserves. Six

campuses will be reviewed. Four reports are awaiting a campus response prior to finalization, and report writing is being completed for two campuses.

### Executive Travel

The initial audit plan indicated that approximately 50 staff weeks of activity (4.9 percent of the plan) would be devoted to a review of campus travel policies and procedures to ensure alignment and compliance with CSU requirements; review of internal campus processes for monitoring, reviewing, and approving travel expense claims; and examination of senior management travel and travel expense claims for proper approvals and compliance with campus and CSU travel policy. Six campuses will be reviewed. Three reports have been completed, and three reports are awaiting a campus response prior to finalization.

### *Core Financial Area*

#### Lottery Funds

The initial audit plan indicated that approximately 51 staff weeks of activity (4.9 percent of the plan) would be devoted to a review of campus lottery fund allocation and expenditure policies and procedures to ensure compliance with CSU and state requirements; review of internal campus processes for monitoring, reviewing, and approving campus discretionary allocations to specific programs; and examination of specific programs receiving lottery funding to confirm the expenditures are in conformance with state and CSU restrictions. Six campuses will be reviewed. Six reports have been completed, and a systemwide report is awaiting a response prior to finalization.

### *Construction*

The initial audit plan indicated that approximately 39 staff weeks of activity (3.8 percent of the plan) would be devoted to a review of design budgets and costs; the bid process; invoice processing and change orders; project management, architectural, and engineering services; contractor compliance; cost verification of major equipment and construction components; the closeout process and liquidated damages; and overall project accounting and reporting. Five projects will be reviewed. Two reports have been completed, two reports are awaiting a campus response prior to finalization, and report writing is being completed for one project.

### *Advisory Services*

The initial audit plan indicated that approximately 209 staff weeks of activity (20.3 percent of the plan) would be devoted to partnering with management to identify solutions for business issues, offering opportunities to improve the efficiency and effectiveness of operating areas, and assisting with special requests, while ensuring the consideration of related internal control issues. Reviews are ongoing.

### *Information Systems*

The initial audit plan indicated that approximately 13 staff weeks of activity (1.3 percent of the plan) would be devoted to technology support for all high-risk and auxiliary audits. Reviews and training are ongoing.

### *Investigations*

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

### *Committees/Special Projects*

The Office of Audit and Advisory Services is periodically called upon to provide consultation to the campuses and/or to perform special audit requests made by the chancellor. Twenty-nine staff weeks have been set aside for this purpose, representing approximately 2.8 percent of the audit plan.

### *Follow-ups*

The audit plan indicated that approximately 16 staff weeks of activity (1.6 percent of the plan) would be devoted to follow-up on prior audit recommendations. The Office of Audit and Advisory Services is currently tracking approximately 32 current/past assignments (Auxiliary Organizations, Sensitive Data Security, Sponsored Programs, Student Health Services, Conflict of Interest, Lottery Funds, Accessible Technology, Executive Travel, and Information Security) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

*Annual Risk Assessment*

The Office of Audit and Advisory Services annually conducts a risk assessment to determine the areas of highest risk to the system. Five staff weeks have been set aside for this purpose, representing approximately 0.5 percent of the audit plan.

*Administration*

Day-to-day administration of the Office of Audit and Advisory Services represents approximately 4.1 percent of the audit plan.

Status Report on Current and Follow-Up Internal Audit Assignments  
(as of 1/22/2015)

2014 ASSIGNMENTS										FOLLOW-UP PAST/CURRENT ASSIGNMENTS				
Aux Orgs	Conflict of Interest	Lottery Funds	Access Tech	Exec Travel	Spon Prog-Post	Info Security	Cont Educ	Special Audit	Auxiliary Organizations	Sen. Data Sec./Protect.	*Recs	**Mo.	*Recs	**Mo.
BAK	AC	AC				AI			4		4	12/35	4	
CHI	AC					AI			4		4	25/25	-	
CI	AC			AC	AI				3		3	0/32	5	8/8
DH			AC						3		3	19/19	-	9/9
EB	AC	AC					AC		3		3	31/31	-	
FRE	AI	AC							6					
FUL	AC						AI		4			28/28	-	
HUM		AC				AC			4		4	30/30	-	
LB				AC		AI			3		3	27/27	-	6/6
LA			AC						4		4	18/18	-	
MA	RW				AC	RW			2					
MB	RW	AC							3					
NOR							AI		5			22/22	-	
POM			AC	AI	AC				2			11/11	-	
SAC	AC	AC							5			28/41	8	
SB						RW	AC		4			28/28	-	14/14
SD			AC	AC					4			21/21	-	
SF			AC		AC		RW		5			19/19	-	10/10
SJ				AC				13/18	3			26/26	-	
SLO	AI								3					
SM			AC						4			22/22	-	
SON		AC			AC				3			5/5	-	
STA					AC		RW		4			14/14	-	
CO	AC	AC		AI					2			5/5	-	12/12
SYS	AC	AI											1/2	4

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

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

Status Report on Current and Follow-Up Internal Audit Assignments  
(as of 1/22/2015)

FOLLOW-UP PAST/CURRENT ASSIGNMENTS																
	Sponsored Programs		Student Health Svcs.		Conflict of Interest		Lottery Funds		Accessible Technology		Executive Travel		Information Security		Continuing Education	
	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK							2/2	-								
CHI	6/6	-			3/3	-										
CI												0/6	3			
DH									1/6	5						
EB							2/2	-							0/3	1
FRE					1/1	-	3/3	-								
FUL	10/10	-			2/2	-										
HUM							0/1	8					0/4	2		
LB			6/6	-							0/3	4				
LA									5/5	-						
MA	0/7	2														
MB	3/3	-			1/1	-										
NOR	8/8	-														
POM	1/3	3					0/7	5								
SAC			9/9	-	4/5	5									0/7	2
SB																
SD			14/14	-			7/7	-	0/6	1						
SF	4/4	-					1/1	-								
SJ			17/17	-					9/9	-						
SLO	7/7	-														
SM							0/4	3								
SON	0/0	-	7/7	-			1/1	-								
STA	6/7	5	6/6	-												
CO					1/1	-	0/7	4								
SYS			0/4	5	0/6	3										

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

\*\* The number of months recommendations have been outstanding.

• The number of auxiliary organizations reviewed.

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

[illegible]



## **COMMITTEE ON AUDIT**

### **Report of the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

George Ashkar  
Assistant Vice Chancellor/Controller  
Financial Services

#### **Summary**

State law and Federal regulations require the California State University system be subject to financial statement audits. Annually, financial statement audits are performed for the CSU system as a whole, and also for discretely presented component units (i.e., auxiliary organizations) that separately issue their stand-alone financial statements. In addition, a separate audit is also performed each year on the financial statements of the CSU Systemwide Revenue Bond (SRB) program. All of these financial statement audits covering the University and component units are performed by more than 20 Certified Public Accounting firms across the State of California.

The CSU systemwide financial statements for the 2013-2014 fiscal year were issued with an unmodified (i.e., clean) opinion in mid-October 2014, and are included as an attachment 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 financial statements of the auxiliary organizations. The Chancellor's Office is following up on those auxiliary organizations' audit findings to make sure appropriate corrective actions are taken and will report to the board on their status until they are completed.

In summary, the fiscal year ending June 30, 2014 was a successful year from an audit perspective. All financial reports were completed on schedule and received clean opinions. Representatives from KPMG, the systemwide audit firm, will be present to answer questions.



**CALIFORNIA STATE UNIVERSITY**

**Financial Statements**

**June 30, 2014**

**(With Independent Auditors' Report Thereon)**

# CALIFORNIA STATE UNIVERSITY

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Suite 700  
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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, 2014, 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 90 of the 92 aggregate discretely presented component units, which statements reflect total assets constituting 91.2% and total revenues constituting 94.2% of the aggregate discretely presented 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 90 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.

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, 2014, 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 3 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014 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**

October 15, 2014

# **CALIFORNIA STATE UNIVERSITY**

## **Management's Discussion and Analysis**

June 30, 2014

(Unaudited)

The following discussion and analysis provides an overview of the financial position and performance of the California State University as of and for the year ended June 30, 2014, including 23 campuses and the Office of the Chancellor (together referred to as the University), and 92 discretely presented component units (primarily recognized auxiliary organizations). The discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. Separate financial statements are issued for each of the discretely presented component units and may be obtained from the individual campuses.

The financial statements of the University as of and for the year ended June 30, 2014 have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities*. For reporting purposes, the University is considered a special-purpose government engaged in business-type activities.

### **Financial Statements**

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

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

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

- Net investment in capital assets
- Restricted
- Unrestricted

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

The Statement of Revenues, Expenses, and Changes in Net Position is the University's income statement. Revenues earned and expenses incurred during the 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

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requires classification of state appropriations, a significant revenue stream to fund current operations, as nonoperating revenue.

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 of cash flows. The statement breaks out the sources and uses of the University's cash and cash equivalents into four categories:

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

The University's routine activities appear in the operating and noncapital financing categories. Capital and related financing sources include debt proceeds, state capital appropriations, capital grants and gifts, proceeds from sale of capital assets, principal and interest payments received on capital leases, and notes receivable. Within the capital and related financing activities, uses of funds consist of acquisition of capital assets, debt repayments, and issuance of notes receivable. Sales and purchases of investments are part of investing activities.

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

#### **Financial Highlights**

The noncapital state appropriation for the University in fiscal year 2014 was \$2.35 billion, \$277.3 million higher than in fiscal year 2013. This increase consists of \$125.0 million to restore the University's revenue loss from the fiscal year 2013 tuition fee rollback, \$125.0 million increase in general noncapital operating budget support, and \$27.3 million for other items.

The student tuition fee revenues increased by \$42.0 million in fiscal year 2014, mainly due to student enrollment growth. Headcount enrollment increased from 426,212 in fiscal year 2013 to 438,157 in fiscal year 2014, as reflected in the chart on the following page. At the same time, Full-Time Equivalent Students increased from 358,794 in fiscal year 2013 to 370,585 in fiscal year 2014.

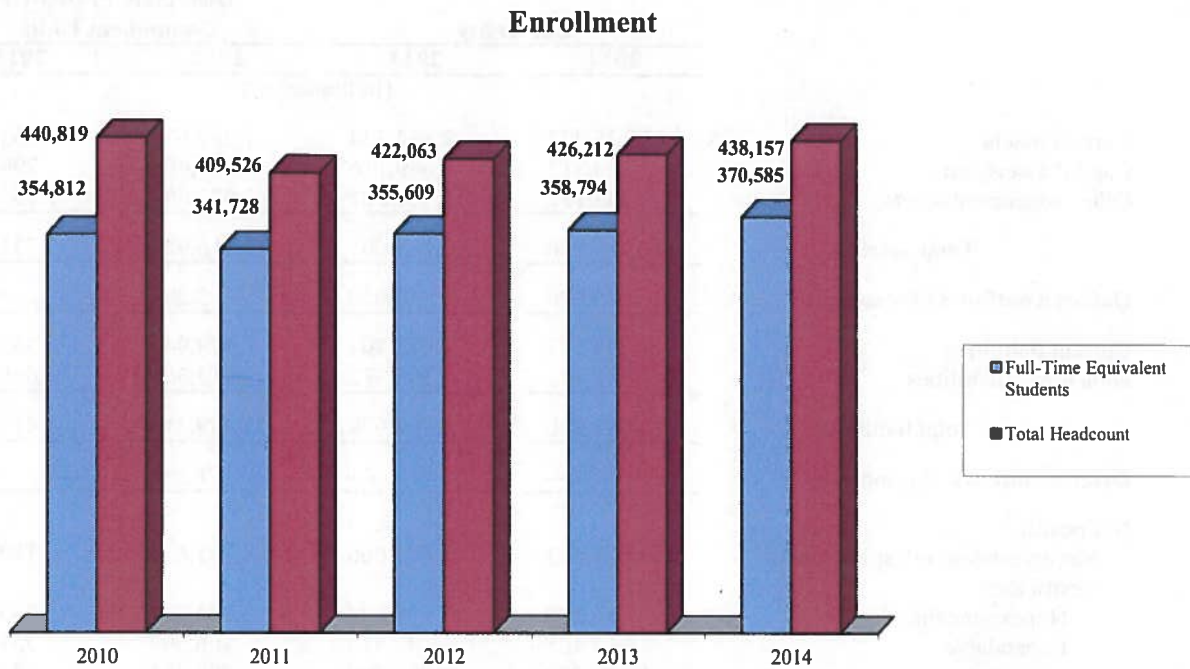
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The following chart displays the University's historical enrollment data by fiscal year:



### Financial Analysis

The following sections provide additional details on the University's financial position and activities for fiscal years 2014 and 2013 and a look ahead at economic conditions that are expected to affect the University in the future:

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



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### I. Condensed Schedules of Net Position

	University		Discretely Presented Component Units	
	2014	2013	2014	2013
	(In thousands)			
Current assets	\$ 3,125,495	2,862,724	1,227,635	1,065,568
Capital assets, net	7,820,312	7,689,116	811,405	796,835
Other noncurrent assets	1,435,131	1,568,821	2,077,887	1,869,282
<b>Total assets</b>	<b>12,380,938</b>	<b>12,120,661</b>	<b>4,116,927</b>	<b>3,731,685</b>
Deferred outflows of resources	45,426	32,020	5,204	5,071
Current liabilities	1,294,577	1,073,707	479,949	352,489
Noncurrent liabilities	5,388,743	5,395,972	1,019,365	1,059,656
<b>Total liabilities</b>	<b>6,683,320</b>	<b>6,469,679</b>	<b>1,499,314</b>	<b>1,412,145</b>
Deferred inflows of resources	—	—	1,561	2,481
Net position:				
Net investment in capital assets	3,625,543	3,693,066	181,825	182,928
Restricted:				
Nonexpendable	16,218	20,627	924,853	847,651
Expendable	114,485	87,510	906,097	759,064
Unrestricted	1,986,798	1,881,799	608,481	532,487
<b>Total net position</b>	<b>\$ 5,743,044</b>	<b>5,683,002</b>	<b>2,621,256</b>	<b>2,322,130</b>

### Current and Other Noncurrent Assets

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

The total current and other noncurrent assets of \$4.56 billion for the University represents an increase of \$129.1 million compared to \$4.43 billion in fiscal year 2013. Investments represent 70.4% of the total current and other noncurrent assets. The University invests its funds mainly through the California State University (CSU) Consolidated Investment Pool whose objective is to maximize current income while preserving and prioritizing asset safety and liquidity. In addition, funds are invested in Surplus Money Investment Fund (SMIF), which is managed by the State Treasurer to invest funds in a short-term pool. The total investment increased by \$168.3 million due to an overall increase in operating resources provided by the State of California (the State) through noncapital appropriation as previously discussed.

The other major factors contributing to the increase in current and other noncurrent assets include the \$23.0 million increase in notes receivable. Majority of the net increase in notes receivable are the proceeds from

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the issuance of new Bond Anticipation Notes (BAN) loaned to certain discretely presented component units amounting to \$46.7 million and collection of \$22.0 million during the year. The other assets increased by \$18.2 million mainly due to the new construction reserve funds held by the State Public Works Board (SPWB) in connection with the new capital leases under the SPWB Lease Revenue Bonds Program. These increases were offset by the \$70.6 million decrease in accounts receivable, which is mainly due to collection of funds from the State utilized for operations and capital related projects including those under the SPWB Lease Revenue Bonds Program. These are offset by the net decrease of \$9.8 million in other items.

Current and other noncurrent assets for the discretely presented component units increased by \$370.7 million mainly due to \$265.8 million increase in gifts and contributions to endowments managed mostly by Foundations. The endowment investments are mostly given to and managed by the discretely presented component units to maximize the return on these investments. The accounts receivable also increased by \$85.7 million due to issuance of BANs by the California State University Institute, which increased its accounts receivable by \$122.0 million and offset by net decrease of \$36.3 million on receivables of the other discretely presented component units. The cash and cash equivalents increased by \$28.7 million increase, which is attributable to increase in gifts noncapital. These are offset by the net decrease of \$9.5 million in other items.

### Capital Assets, Net

The University's capital assets, net of accumulated depreciation and amortization, as of June 30, 2014 and 2013, comprise the following:

	2014	2013
	(In thousands)	
Land and land improvements	\$ 261,990	256,976
Buildings and building improvements	6,028,032	5,823,857
Improvements other than buildings	167,728	166,195
Infrastructure	583,453	587,858
Equipment	210,875	202,809
Library books and materials	37,163	39,196
Works of art and historical treasures	30,341	28,697
Intangible assets	31,426	29,551
Construction work in progress	469,304	553,977
Total	\$ 7,820,312	7,689,116

Total capital assets, net of accumulated depreciation and amortization, increased by \$131.2 million during fiscal year 2014 as a result of additions on various capital projects including the following:

- Completion of the \$119.0 million San Luis Obispo Center for Science
- Completion of the \$102.4 million San Diego Aztec Center Student Union
- Completion of the \$62.3 million Sonoma Student Center

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- Construction in progress on the \$89.0 million San Jose Student Union Expansion and Renovation
- Construction in progress on the \$63.1 million San Diego Storm/Nasatir Halls Renovation
- Construction in progress on the \$63.8 million San Jose Spartan Complex Renovation
- Construction in progress on the \$56.6 million Pomona Recreation Center

#### Deferred Outflows of Resources

Deferred outflows of resources are consumption of net assets that is applicable to a future reporting period, which has a positive effect on the net position. The University's deferred outflows of resources consist of unamortized loss on debt refunding in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective as of June 30, 2013. The unamortized loss on debt refunding increased by \$13.4 million from \$32.0 million in fiscal year 2013 to \$45.4 million in fiscal year 2014, mainly due to the partial refunding of Systemwide Revenue Bonds Series 2005A and 2005C through the issuance of Series 2013A in July 2013 amounting to \$18.3 million offset by the current year amortization.

#### Current and Noncurrent Liabilities

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

Current and noncurrent liabilities of \$6.68 billion for the University represent an increase of \$213.6 million compared to \$6.47 billion in fiscal year 2013. This is mainly due to the \$104.6 million increase in capitalized lease obligation related to the SPWB and \$58.4 million increase in long-term debt from issuance of BANs. Other major factors include the \$48.0 million increase in other postemployment benefits obligations allocated from the State, \$31.3 million combined increase in accrued salaries and benefits and accrued compensated balance due to increase in salary and benefit rates, \$11.9 million in unearned revenues due to the increase in student enrollment, offset by \$40.6 million decrease mainly in other liabilities for future obligations related to SPWB.

Current and other noncurrent liabilities for the discretely presented component units increased by \$87.2 million mainly due to \$94.7 million increase in long-term debt obligations, \$12.2 million increase in claims liability for losses and loss adjustment expenses, \$13.1 million increase in capitalized lease obligations and offset by \$27.0 million in other liabilities, and \$5.8 million net decrease in other items.

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### Long-Term Debt Obligations

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

	2014	2013
	(In thousands)	
Systemwide Revenue Bonds	\$ 3,507,043	3,604,708
Bond Anticipation Notes	168,511	27,055
Other	72,898	80,352
Total	3,748,452	3,712,115
Unamortized bond net premium	156,073	133,989
Total long-term debt obligations	3,904,525	3,846,104
Less current portion	(260,601)	(98,747)
Long-term debt obligations, net of current portion	\$ 3,643,924	3,747,357

The University's total long-term debt obligations increased by \$58.4 million in fiscal year 2014, mainly due to the issuance of Systemwide Revenue Bonds Series 2013A of \$351.0 million, issuance of Bond Anticipation Notes of \$153.3 million to finance capital related projects, new debt of \$5.3 million, which were offset by the \$323.1 million advance debt refunding of Systemwide Revenue Bonds Series 2005A and 2005C, \$114.0 million debt repayment, and \$14.1 million amortization of bond premium.

The table above does not include the University's capitalized lease obligations. Capitalized lease obligations for the University increased by \$104.6 million in fiscal year 2014, consisting primarily of new capital lease obligations of \$174.9 million with the SPWB, offset by current year repayments and amortization of premium.

In addition, the State General Obligation Bond program has provided capital funding for various projects of the University. The debt related to these projects is not allocated to the University by the State and thus is not recorded in the University's financial statements. The total General Obligation Bond debt carried by the State related to University projects at June 30, 2014 and 2013 is approximately \$2.60 billion.

No fundamental changes occurred in the revenues and expenditures of the revenue bond programs during fiscal year 2014. Repayment of specific programmatic revenue bonds is legally limited to the sources of revenue from operations of the projects including specific mandatory fees pledged to the revenue bond programs. For the Systemwide Revenue Bonds, revenues pledged generally include student housing fees, parking fees, student union fees, health center facilities fees, and continuing education fees, as well as other revenues designated by the Trustees for inclusion in the Systemwide Revenue Bonds program.

Moody's Investors Service currently provides an intrinsic rating of Aa2, with a stable outlook, for the Systemwide Revenue Bonds. Standard & Poor's Ratings Services currently provides an intrinsic rating of AA-, with a positive outlook, for the Systemwide Revenue Bonds. With the exception of certain maturities of Series 2008A, and Series 2009A, and all maturities of Series 2010A, Series 2010B, Series 2011A, Series 2012A, Series 2012B, and Series 2013A, all Systemwide Revenue Bonds are insured. Since the middle of fiscal year 2008,

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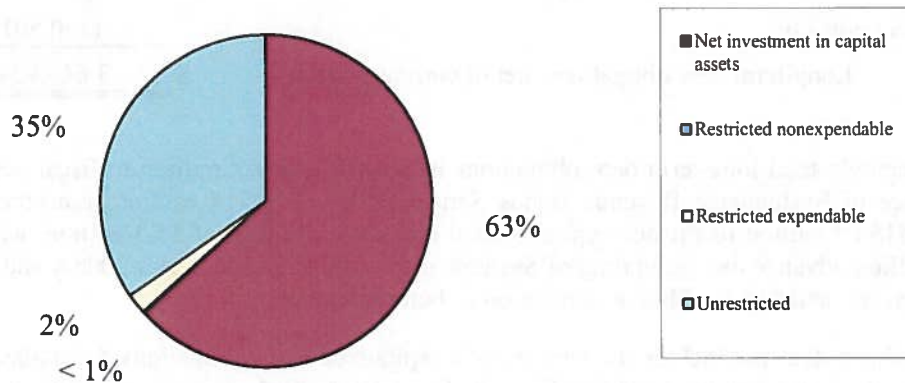
(Unaudited)

some providers of insurance for Systemwide Revenue Bonds have been downgraded to ratings below Aaa/AAA. Those bonds that are uninsured bear the intrinsic ratings of the Systemwide Revenue Bonds, which are Aa2 from the Moody's Investors Service and AA- from the Standard & Poor's Ratings Services.

#### Net Position

As noted earlier, net position may serve over time as a useful indicator of the University's financial position. As of June 30, 2014, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5.74 billion for the University, an increase of \$60.0 million from prior year.

**University Net Position  
June 30, 2014**



**Total Net Position: \$5,743,044,000**

#### *Net investment in capital assets*

The net position category "Net investment in capital assets" represents the University's capital assets, net of accumulated depreciation, and also net of outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets and any related deferred outflows of resources. The University uses these capital assets in its day-to-day operations. This category is the largest portion of the University's net position year-over-year. The net investment in capital assets decreased by \$67.5 million as a result of depreciation of capital assets at a faster rate than repayment of the long-term debt.

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#### ***Restricted***

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

##### **i. Restricted nonexpendable**

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

##### **ii. Restricted expendable**

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

#### ***Unrestricted***

The unrestricted net position represents all other net resources available to the University for general and educational obligations. Under U.S. generally accepted accounting principles, net position that is not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although unrestricted net position is not subject to externally imposed restrictions per accounting definitions, the predominant portions of the unrestricted net position are designated for specific programs or projects related to certain revenue sources, as further explained in the following paragraphs. The unrestricted net position for the University increased by \$105.0 million to \$1.99 billion as of June 30, 2014, which consists of \$1.30 billion designated resources from various funds and \$691.0 million undesignated resources mainly from the operating fund. The undesignated resources provide a prudent reserve for contingencies, such as the uncertain direction of future state appropriations, as well as the effects of an uncertain economic environment.

Within the unrestricted net position category, the designated resources are derived from fee collections and other activities that are designated for very specific purposes and are not to be repurposed and spent for other activities. For example, students pay fees including Housing and Parking fees, campus activities fees, all of which are to be used for specific designated purposes as described in the Education Code. The University also has certain designated resources that represent amounts pledged to support the Systemwide Revenue Bonds program.

Of the \$1.30 billion in designated unrestricted net position, approximately 62.7% was designated for supporting enterprise activities (i.e., Continuing Education, Housing, Parking, and Student Union), 12.3% was designated for campus-based projects or programs, and 10.6% was designated for special capital projects. The remaining 14.4% was designated for supporting activities related to education, financial aid, and other programs.

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

	University		Discretely presented component units	
	2014	2013	2014	2013
	(In thousands)			
Operating revenues:				
Student tuition and fees, net	\$ 2,123,212	2,081,251	170,703	185,213
Grants and contracts, noncapital	73,343	91,361	475,835	476,416
Sales and services of educational activities	42,227	35,355	34,458	28,595
Sales and services of auxiliary enterprises, net	416,300	402,626	476,237	459,091
Other operating revenues	178,657	187,155	233,327	228,771
Total operating revenues	2,833,739	2,797,748	1,390,560	1,378,086
Operating expenses	6,534,506	6,208,408	1,509,773	1,490,919
Operating loss	(3,700,767)	(3,410,660)	(119,213)	(112,833)
Nonoperating revenues (expenses):				
State appropriations, noncapital	2,345,755	2,068,465	—	—
Federal financial aid grants, noncapital	885,327	810,838	1,198	1,541
State financial aid grants, noncapital	521,796	437,517	1,310	1,333
Local financial aid grants, noncapital	—	—	269	233
Nongovernmental and other financial aid grants, noncapital	34,784	30,831	325	172
Other federal nonoperating grants, noncapital	3,925	3,326	—	—
Gifts, noncapital	39,636	47,861	182,424	168,392
Investment income, net	43,610	41,522	94,335	59,102
Endowment income, net	86	129	136,027	85,241
Interest expense	(226,268)	(244,187)	(27,047)	(29,547)
Other nonoperating revenues (expenses)	66,417	79,702	(19,858)	(26,420)
Net nonoperating revenues	3,715,068	3,276,004	368,983	260,047
Income (loss) before other revenues and expenses	14,301	(134,656)	249,770	147,214

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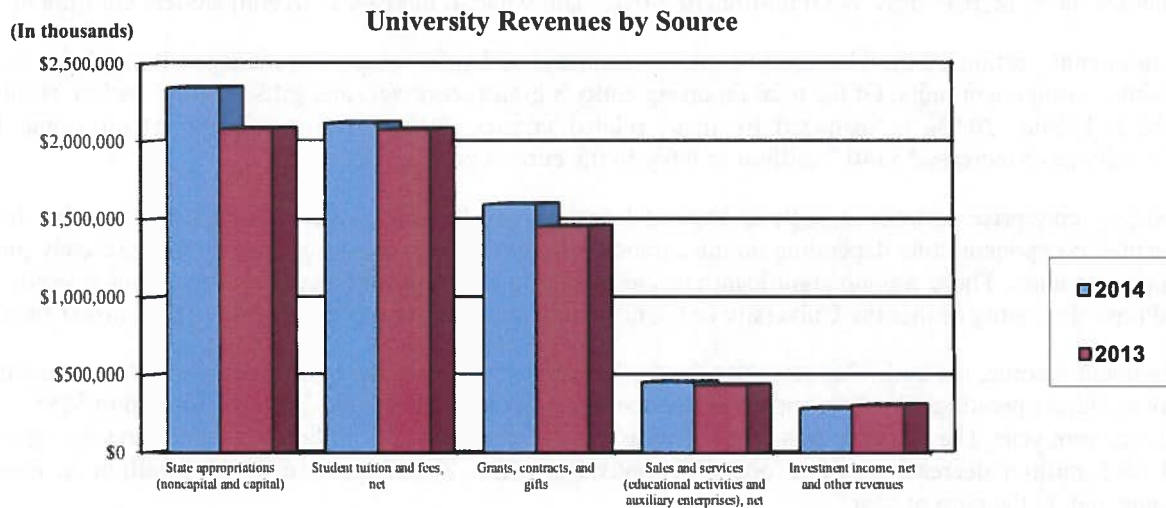
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	University		Discretely presented component units	
	2014	2013	2014	2013
	(In thousands)			
State appropriations, capital	\$ 1,896	16,983	—	—
Grants and gifts, capital	45,728	40,832	8,166	17,021
Additions (reductions) to permanent endowments	(1,883)	(576)	47,392	56,211
Change in net position	60,042	(77,417)	305,328	220,446
Net position – beginning of year, as previously reported	5,683,002	5,818,777	2,322,130	2,050,840
Restatements	—	(58,358)	(6,202)	50,844
Net position – beginning of year, as restated	5,683,002	5,760,419	2,315,928	2,101,684
Net position – end of year	\$ 5,743,044	5,683,002	2,621,256	2,322,130

### Revenues (Operating and Nonoperating)

The following chart displays the components of the University's revenues for fiscal years 2014 and 2013:





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	<b>2014</b>	<b>Percentage of total</b>	<b>2013</b>	<b>Percentage of total</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
State appropriations (noncapital and capital)	\$ 2,347,651	34.4%	2,085,448	32.7%
Student tuition and fees, net	2,123,212	31.1	2,081,251	32.7
Grants, contracts, and gifts	1,602,656	23.5	1,461,990	22.9
Sales and services (educational activities and auxiliary enterprises), net	458,527	6.7	437,981	6.9
Investment income, net and other revenues	288,770	4.3	308,508	4.8
<b>Total revenues (operating and nonoperating)</b>	<b>\$ 6,820,816</b>	<b>100.0%</b>	<b>6,375,178</b>	<b>100.0%</b>

The two largest components of revenues are state appropriations and student tuition and fees, net, which accounted for a combined 65.5% of the University's revenues in fiscal year 2014. State appropriations are received for both noncapital and capital purposes. Noncapital appropriations increased by \$277.3 million, or 13.4%, from \$2.07 billion to \$2.35 billion in the current year. Capital appropriations decreased by \$15.1 million, or 88.8%, from \$17.0 million to \$1.9 million in the current year. The student tuition and fees net of scholarship and allowances, increased by \$42.0 million, or 2.0%, mainly due to increase in overall student enrollment.

A significant portion of the University's grants, contracts and gifts revenue is managed through its discretely presented component units. Of the total reporting entity's grants, contracts and gifts revenue (before elimination) of \$2.32 billion, 30.9% is managed by these related entities. Grants, contracts, and gifts revenue for the University have increased \$140.7 million or 9.6% in the current year.

Auxiliary enterprise operations such as student housing may be run by the University or by the discretely presented component units depending on the campus, whereas student unions are run by the discretely presented component units. There was no significant change in sales and services of auxiliary enterprises revenue for the total reporting entity (either the University or the discretely presented component units) in the current fiscal year.

Investment income, net and other revenues for the University, which consists of investment income, endowment income, other operating revenues, and other nonoperating revenues, decreased by \$19.7 million to \$288.8 million in the current year. The decrease was primarily due to a decrease of \$13.3 million in other nonoperating revenues and \$8.5 million decrease in other operating revenues, offset by an increase of \$2.1 million in investment income, net, in the current year.

The University's investment portfolio consists primarily of investments held in the State of California SMIF and the CSU Consolidated Investment Pool. The University's strategy is to continue in investing in securities with low interest rates and short maturities.

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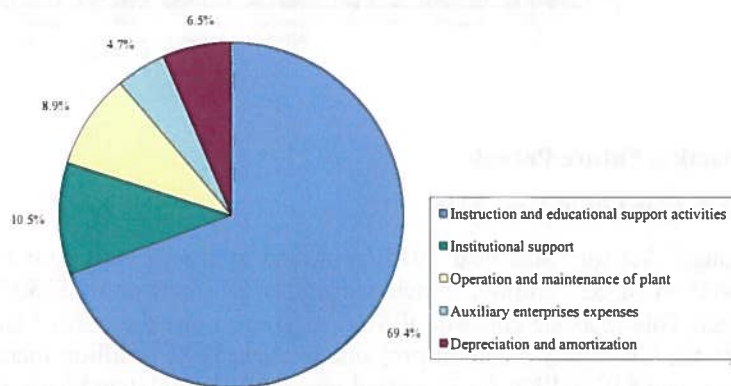
June 30, 2014

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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, total instruction and educational support activities account for 69.4% of the total operating expenses of the University as shown below:

	<u>2014</u> (In thousands)	<u>Percentage of total</u>
Instruction	\$ 2,250,218	34.4%
Research	45,306	0.7
Public service	53,834	0.8
Academic support	632,081	9.7
Student services	697,481	10.7
Student grants and scholarships	<u>857,856</u>	<u>13.1</u>
Total instruction and educational support activities	4,536,776	69.4
Institutional support	686,059	10.5
Operation and maintenance of plant	580,449	8.9
Auxiliary enterprises expenses	307,425	4.7
Depreciation and amortization	<u>423,797</u>	<u>6.5</u>
Total operating expenses	<u>\$ 6,534,506</u>	<u>100.0%</u>



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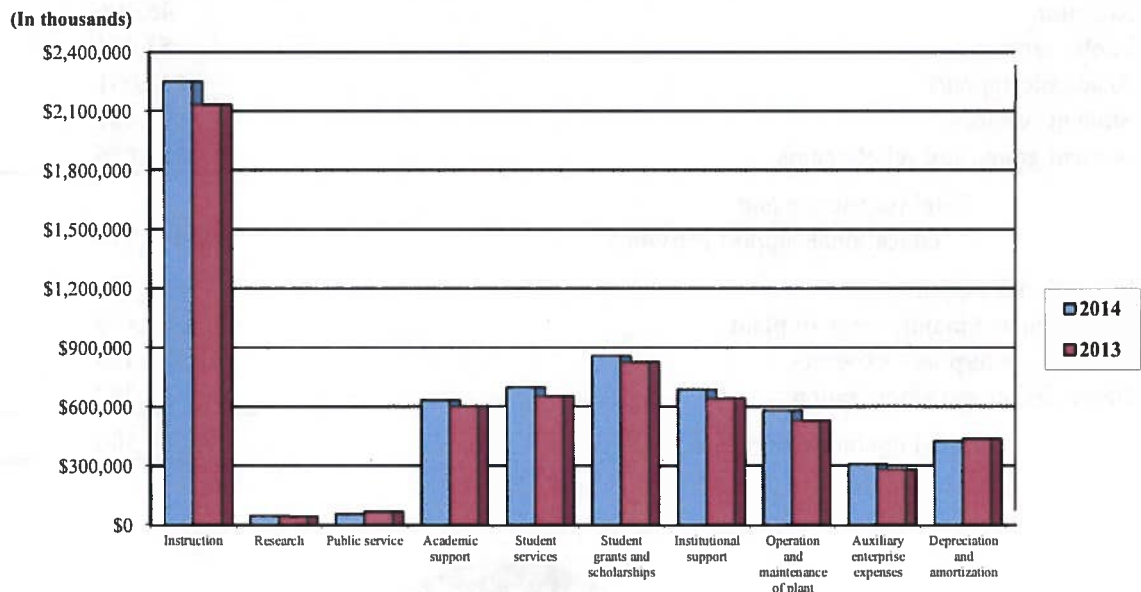
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Total operating expenses for the University increased by \$326.1 million in the current year. The increase was a result of primarily the increase in employees' salaries, employees' and retirees' benefit costs, and insurance premiums resulting in an increase of \$116.9 million in instruction expenses, \$30.9 million in academic support, \$44.3 million in student services, and \$45.6 million in institutional support. Other factors included increases in auxiliary enterprise expenses due to housing and parking lot improvements of \$26.1 million, student grants and scholarships of \$30.9 million, maintenance and repair expenses of \$51.7 million, \$11.7 million decrease in depreciation and amortization, and \$8.6 million net decrease in other items. These increases were offset by overall cost reductions measures in various functional categories. The chart below displays the University's operating expenses by program for fiscal years 2014 and 2013:

**University Operating Expenses by Program**



### Factors Impacting Future Periods

#### *State Budget Act for Fiscal Year 2015*

The State Budget Act for fiscal year 2015, approved by the Governor on June 20, 2014, resulted in noncapital state appropriation of \$2.7 billion, which represents an increase of \$350.0 million over the fiscal year 2014 enacted budget. This increase consists of \$197 million to pay the cost of General Obligation bond debt service attributable to the University's capital projects, another \$142.7 million increase in general noncapital operating budget support, and \$10 million for increased new SPWB capitalized lease bond payments and other items. The University also projects student tuition and fee revenues to increase by \$41.6 million in fiscal year 2015 primarily due to student enrollment growth.

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June 30, 2014

(Unaudited)

In June 2014, the State enacted legislation that granted additional capital financing authorities to the University. These new authorities include the ability to pledge the University's annual general fund support appropriation, less the amount of that appropriation required to meet State general obligation bond payments and SPWB capitalized lease payments, to secure the payment of debt obligations issued by the University pursuant to the State University Revenue Bond Act of 1947 (Act). No more than 12 percent of the University's annual general fund support appropriation, less the amount of that appropriation that is required to fund State General Obligation bond payments and SPWB capitalized lease payments, may be used for debt service for, or to directly fund, certain capital expenditures. These new authorities also allow the University to pledge any other revenues that the University chooses to pledge to secure the payment of debt obligations issued by the University pursuant to the Act and provide flexibility to utilize these new authorities through the Systemwide Revenue Bond program. The University is still evaluating the new authorities and has taken no action to utilize them.

#### ***New Accounting Pronouncements***

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the University's fiscal year beginning July 1, 2014. This Statement revises existing standards for employer financial statements relating to measuring and reporting pension liabilities for pension plans provided by the University to its employees. The Statement requires recognition of a liability in the University's financial statements equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's net position.

As the University participates with the State of California in California Public Employees' Retirement System (CalPERS), the University is reliant on both CalPERS and the State Controller's Office for determining the effects of implementing this Statement in future financial statements. The University has not yet determined the impact of GASB Statement No. 68 will have on the University's financial statements.

**CALIFORNIA STATE UNIVERSITY**

Statement of Net Position

June 30, 2014

	<b>Assets</b>	<b>University</b>	<b>Discretely presented component units</b>	<b>Total</b>
<b>Current assets:</b>				
Cash and cash equivalents		\$ 4,074,000	228,831,000	232,905,000
Short-term investments		2,855,578,000	576,288,000	3,431,866,000
Accounts receivable, net		144,726,000	336,804,000	481,530,000
Leases receivable, current portion		11,442,000	2,559,000	14,001,000
Notes receivable, current portion		51,319,000	3,225,000	54,544,000
Pledges receivable, net		240,000	48,009,000	48,249,000
Prepaid expenses and other assets		58,116,000	31,919,000	90,035,000
<b>Total current assets</b>		<b>3,125,495,000</b>	<b>1,227,635,000</b>	<b>4,353,130,000</b>
<b>Noncurrent assets:</b>				
Restricted cash and cash equivalents		90,000	26,725,000	26,815,000
Accounts receivable, net		298,608,000	41,382,000	339,990,000
Leases receivable, net of current portion		358,915,000	67,946,000	426,861,000
Notes receivable, net of current portion		249,367,000	24,985,000	274,352,000
Student loans receivable, net		88,251,000	1,229,000	89,480,000
Pledges receivable, net		960,000	101,701,000	102,661,000
Endowment investments		16,218,000	1,273,389,000	1,289,607,000
Other long-term investments		340,935,000	498,285,000	839,220,000
Capital assets, net		7,820,312,000	811,405,000	8,631,717,000
Other assets		81,787,000	42,245,000	124,032,000
<b>Total noncurrent assets</b>		<b>9,255,443,000</b>	<b>2,889,292,000</b>	<b>12,144,735,000</b>
<b>Total assets</b>		<b>12,380,938,000</b>	<b>4,116,927,000</b>	<b>16,497,865,000</b>
	<b>Deferred Outflows of Resources</b>			
Deferred outflows of resources		45,426,000	5,204,000	50,630,000
	<b>Liabilities</b>			
<b>Current liabilities:</b>				
Accounts payable		195,073,000	81,173,000	276,246,000
Accrued salaries and benefits		297,794,000	23,532,000	321,326,000
Accrued compensated absences, current portion		119,690,000	14,074,000	133,764,000
Unearned revenue		256,641,000	62,110,000	318,751,000
Capitalized lease obligations, current portion		70,042,000	15,906,000	85,948,000
Long-term debt obligations, current portion		260,601,000	172,542,000	433,143,000
Claims liability for losses and loss adjustment expenses, current portion		—	32,971,000	32,971,000
Depository accounts, current portion		7,264,000	12,866,000	20,130,000
Other liabilities		87,472,000	64,775,000	152,247,000
<b>Total current liabilities</b>		<b>1,294,577,000</b>	<b>479,949,000</b>	<b>1,774,526,000</b>
<b>Noncurrent liabilities:</b>				
Accrued compensated absences, net of current portion		98,553,000	3,471,000	102,024,000
Unearned revenue		11,460,000	13,051,000	24,511,000
Grants refundable		93,504,000	6,883,000	100,387,000
Capitalized lease obligations, net of current portion		1,180,232,000	360,020,000	1,540,252,000
Long-term debt obligations, net of current portion		3,643,924,000	400,151,000	4,044,075,000
Claims liability for losses and loss adjustment expenses, net of current portion		—	67,395,000	67,395,000
Depository accounts		2,125,000	13,228,000	15,353,000
Other postemployment benefits obligation		267,013,000	96,293,000	363,306,000
Other liabilities		91,932,000	58,873,000	150,805,000
<b>Total noncurrent liabilities</b>		<b>5,388,743,000</b>	<b>1,019,365,000</b>	<b>6,408,108,000</b>
<b>Total liabilities</b>		<b>6,683,320,000</b>	<b>1,499,314,000</b>	<b>8,182,634,000</b>
	<b>Deferred Inflows of Resources</b>			
Deferred inflows of resources		—	1,561,000	1,561,000
	<b>Net Position</b>			
<b>Net position:</b>				
Net investment in capital assets		3,625,543,000	181,825,000	3,807,368,000
Restricted for:				
Nonexpendable – endowments		16,218,000	924,853,000	941,071,000
Expendable:				
Scholarships and fellowships		14,671,000	248,176,000	262,847,000
Research		35,000	31,388,000	31,423,000
Loans		14,310,000	1,943,000	16,253,000
Capital projects		64,778,000	40,150,000	104,928,000
Debt service		139,000	9,987,000	10,126,000
Other		20,552,000	574,453,000	595,005,000
Unrestricted		1,986,798,000	608,481,000	2,595,279,000
<b>Total net position</b>		<b>\$ 5,743,044,000</b>	<b>2,621,256,000</b>	<b>8,364,300,000</b>

See accompanying notes to financial statements.

# CALIFORNIA STATE UNIVERSITY

## Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2014

	University	Discretely presented component units	Eliminations	Total
<b>Revenues:</b>				
<b>Operating revenues:</b>				
Student tuition and fees (net of scholarship allowances of \$1,234,193,000)	\$ 2,123,212,000	170,703,000	(11,413,000)	2,282,502,000
Grants and contracts, noncapital:				
Federal	42,917,000	329,793,000	(189,000)	372,521,000
State	15,360,000	79,046,000	(13,000)	94,393,000
Local	7,109,000	13,215,000	—	20,324,000
Nongovernmental	7,957,000	53,781,000	(1,602,000)	60,136,000
Sales and services of educational activities	42,227,000	34,458,000	—	76,685,000
Sales and services of auxiliary enterprises (net of scholarship allowances of \$71,734,000)	416,300,000	476,237,000	(7,094,000)	885,443,000
Other operating revenues	178,657,000	233,327,000	(2,257,000)	409,727,000
<b>Total operating revenues</b>	<b>2,833,739,000</b>	<b>1,390,560,000</b>	<b>(22,568,000)</b>	<b>4,201,731,000</b>
<b>Expenses:</b>				
<b>Operating expenses:</b>				
Instruction	2,250,218,000	154,318,000	(3,568,000)	2,400,968,000
Research	45,306,000	211,179,000	(726,000)	255,759,000
Public service	53,834,000	146,517,000	(2,429,000)	197,922,000
Academic support	632,081,000	63,466,000	(1,810,000)	693,737,000
Student services	697,481,000	162,706,000	(31,290,000)	828,897,000
Institutional support	686,059,000	185,399,000	(6,911,000)	864,547,000
Operation and maintenance of plant	580,449,000	47,099,000	(13,428,000)	614,120,000
Student grants and scholarships	857,856,000	51,190,000	(26,489,000)	882,557,000
Auxiliary enterprise expenses	307,425,000	439,513,000	(13,149,000)	733,789,000
Depreciation and amortization	423,797,000	48,386,000	—	472,183,000
<b>Total operating expenses</b>	<b>6,534,506,000</b>	<b>1,509,773,000</b>	<b>(99,800,000)</b>	<b>7,944,479,000</b>
<b>Operating loss</b>	<b>(3,700,767,000)</b>	<b>(119,213,000)</b>	<b>77,232,000</b>	<b>(3,742,748,000)</b>
<b>Nonoperating revenues (expenses):</b>				
State appropriations, noncapital	2,345,755,000	—	—	2,345,755,000
Federal financial aid grants, noncapital	885,327,000	1,198,000	—	886,525,000
State financial aid grants, noncapital	521,796,000	1,310,000	—	523,106,000
Local financial aid grants, noncapital	—	269,000	—	269,000
Nongovernmental and other financial aid grants, noncapital	34,784,000	325,000	(17,979,000)	17,130,000
Other federal nonoperating grants, noncapital	3,925,000	—	—	3,925,000
Gifts, noncapital	39,636,000	182,424,000	(45,414,000)	176,646,000
Investment income, net	43,610,000	94,335,000	—	137,945,000
Endowment income	86,000	136,027,000	—	136,113,000
Interest expense	(226,268,000)	(27,047,000)	—	(253,315,000)
Other nonoperating revenues (expenses)	66,417,000	(19,858,000)	4,012,000	50,571,000
<b>Net nonoperating revenues</b>	<b>3,715,068,000</b>	<b>368,983,000</b>	<b>(59,381,000)</b>	<b>4,024,670,000</b>
<b>Income before other revenues and       expenses</b>	<b>14,301,000</b>	<b>249,770,000</b>	<b>17,851,000</b>	<b>281,922,000</b>
State appropriations, capital	1,896,000	—	—	1,896,000
Grants and gifts, capital	45,728,000	8,166,000	(17,851,000)	36,043,000
Additions (reduction) to permanent endowments	(1,883,000)	47,392,000	—	45,509,000
<b>Increase in net position</b>	<b>60,042,000</b>	<b>305,328,000</b>	<b>—</b>	<b>365,370,000</b>
<b>Net position:</b>				
Net position at beginning of year, as previously reported	5,683,002,000	2,322,130,000	—	8,005,132,000
Restatements	—	(6,202,000)	—	(6,202,000)
<b>Net position at beginning of year, as restated</b>	<b>5,683,002,000</b>	<b>2,315,928,000</b>	<b>—</b>	<b>7,998,930,000</b>
<b>Net position at end of year</b>	<b>\$ 5,743,044,000</b>	<b>2,621,256,000</b>	<b>—</b>	<b>8,364,300,000</b>

See accompanying notes to financial statements.

# CALIFORNIA STATE UNIVERSITY

## Statement of Cash Flows

Year ended June 30, 2014

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 2,125,685,000
Federal grants and contracts	45,937,000
State grants and contracts	21,364,000
Local grants and contracts	7,138,000
Nongovernmental grants and contracts	10,196,000
Payments to suppliers	(1,204,403,000)
Payments to employees	(3,951,506,000)
Payments to students	(863,098,000)
Collections of student loans	3,806,000
Sales and services of educational activities	39,970,000
Sales and services of auxiliary enterprises	417,656,000
Other receipts	178,298,000
Net cash used in operating activities	<u>(3,168,957,000)</u>
Cash flows from noncapital financing activities:	
State appropriations	2,345,696,000
Federal financial aid grants	887,986,000
State financial aid grants	521,801,000
Nongovernmental and other financial aid grants	34,791,000
Other federal nonoperating grants	4,108,000
Gifts and grants received for other than capital purposes	36,976,000
Federal loan program receipts	1,300,769,000
Federal loan program disbursements	(1,301,982,000)
Monies received on behalf of others	112,854,000
Monies disbursed on behalf of others	(118,561,000)
Other noncapital financing activities	75,568,000
Net cash provided by noncapital financing activities	<u>3,900,006,000</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	464,372,000
State appropriations	36,488,000
State appropriations – SPWB Lease Revenue Bonds Program	104,566,000
Capital grants and gifts	24,393,000
Proceeds from sale of capital assets	164,000
Acquisition of capital assets	(526,947,000)
Issuance of notes receivable	(6,284,000)
Transfers to escrow agent	(349,703,000)
Principal paid on capital debt and leases	(171,309,000)
Interest paid on capital debt and leases	(216,097,000)
Principal collection on capital leases	12,150,000
Interest collection on capital leases	17,595,000
Principal collection on notes receivable	6,190,000
Interest collection on notes receivable	11,543,000
Net cash used in capital and related financing activities	<u>(592,879,000)</u>

# CALIFORNIA STATE UNIVERSITY

## Statement of Cash Flows

Year ended June 30, 2014

	<u>University</u>
Cash flows from investing activities:	
Proceeds from sales of investments	\$ 7,580,114,000
Purchases of investments	(7,743,216,000)
Investment income proceeds	20,721,000
Net cash used in investing activities	(142,381,000)
Net decrease in cash and cash equivalents	(4,211,000)
Cash and cash equivalents at beginning of year	8,375,000
Cash and cash equivalents at end of year	\$ 4,164,000
Summary of cash and cash equivalents at end of year:	
Cash and cash equivalents	\$ 4,074,000
Restricted cash and cash equivalents	90,000
Total cash and cash equivalents at end of year	\$ 4,164,000
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (3,700,767,000)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	423,797,000
Change in assets and liabilities:	
Accounts receivable, net	11,217,000
Notes receivable	4,825,000
Student loans receivable, net	(1,374,000)
Pledges receivable, net	(692,000)
Prepaid expenses and other assets	(3,511,000)
Accounts payable	(4,946,000)
Accrued salaries and benefits	18,838,000
Accrued compensated absences	10,425,000
Unearned revenue	15,728,000
Depository accounts	196,000
Other postemployment benefits obligation	47,995,000
Other liabilities	9,312,000
Net cash used in operating activities	\$ (3,168,957,000)
Supplemental schedule of noncash transactions:	
Proceeds to fund new SPWB capitalized leases held by State	\$ 174,857,000
Contributed capital assets	20,588,000
Amortization of loss on debt refundings	6,572,000
Change in accrued capital asset purchases	8,914,000
Increase in SPWB construction reserve funds held by State	16,090,000
Acquisition of capital assets through capitalized lease	2,485,000
Acquisition of capital assets through long-term debt obligations	1,140,000
Gifts in kind	1,020,000
Amortization of net bond premium	16,468,000
Capitalized interest applied against debt service	19,213,000
Notes receivable forgiven	4,825,000
Issuance of notes receivable through proceeds from long-term debt	40,464,000
Collection of notes receivable used to directly pay long-term debt	11,685,000
Proceeds from long-term debt received directly by discretely presented component units	40,464,000
Payment of long-term debt made directly by discretely presented component units	11,685,000

See accompanying notes to financial statements.



# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

June 30, 2014

### **(1) Organization**

California State University (the University) was established under the State of California Education Code as a public university to offer undergraduate and graduate instruction for professional and occupational goals emphasizing a broad liberal arts education. As an agency of the State of California (the State), the University is also included in the State's financial statements. Responsibility for the University is vested in the Trustees of California State University (the Trustees) who, in turn, appoint the Chancellor, the chief executive officer of the University, and the University Presidents, 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, 2014:

- 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 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 Jose State University
- California Polytechnic State University, San Luis Obispo
- California State University, San Marcos
- Sonoma State University
- California State University, Stanislaus

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

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 92 discretely presented component units, which are primarily University-related recognized auxiliary organizations. There are four discretely presented component units that are not auxiliary organizations (identified by asterisk (\*) below). These discretely presented component units are legally separate entities that provide services primarily to the University and its students. Such organizations include foundations, associated students, student unions, food service entities, bookstores, and similar organizations. Foundations, whose net position comprises approximately 79.0% 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**

## **Notes to Financial Statements**

**June 30, 2014**

- California State University Channel Islands Site Authority\*
- 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, 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.
- Titan Student Centers Associated Students California State University, Fullerton, Inc.
- CSU Fullerton Housing Authority
- 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

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

**June 30, 2014**

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

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

**June 30, 2014**

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

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

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

All significant nonexchange transactions have been eliminated.

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

### **(b) Basis of Presentation**

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

As a public institution, the University is considered a special-purpose government under the provisions of GASB Statement 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 effect of internal activities between funds or groups of funds has been eliminated from these financial statements.

### **(c) New Accounting Pronouncements**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the University's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the University to its employees. This Statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (amendment of GASB Statement No. 68)*. This is effective for the University's fiscal year beginning July 1, 2014. This Statement states that if it is not practical to determine the beginning balances for deferred inflows of resources and deferred outflows of resources these should not be reported on the year of implementation of the standard.

The University is evaluating the effect that GASB Statement Nos. 68 and 71 will have on its financial statements.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

**(d) Discretely Presented Component Units Restatements**

The beginning net position of the discretely presented component units has been restated by \$6.2 million for reasons explained below. A summary of those restatements to net position at the beginning of the year related to the discretely presented component units is as follows:

Net position as of June 30, 2013, as previously reported	\$ 2,322,130,000
Adjustment due to ineligible grant claims for post retirement health benefits	(4,510,000)
Adjustment in OPEB obligation due to conversion from FASB to GASB	(1,120,000)
Other adjustments	<u>(572,000)</u>
Net position at beginning of year, as restated	<u>\$ 2,315,928,000</u>

**(e) 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(g).

**(f) 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 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 transactions recorded as revenue or expenses in the accompanying Statement of Revenues, Expenses, and Changes in Net Position include transactions between the University and its discretely presented component units that are also participants in the CSU Consolidated Investment Pool. The University considers changes in the respective participant's equity in the CSU Consolidated Investment Pool resulting from these transactions to represent cash flows of the University in the accompanying Statement of Cash Flows.

**(g) Investments**

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

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

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

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**(h) *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.

**(i) *Capital Assets***

Capital assets are stated at cost or estimated historical cost if purchased, or, if donated, at estimated fair value 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 fair market value 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.

**(j) *Unearned Revenue***

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

**(k) *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, 2014 to calculate the liability for accrued compensated absences. The University employee's pay rates are based on length of service and job classifications.

**(l) *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



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## Notes to Financial Statements

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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.

### **(m) *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, 2014. 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.

### **(n) *Net Position***

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

- Net Investment in Capital Assets: Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets and any related deferred outflows of resources.
- Restricted:
  - Nonexpendable: Net position subject to externally imposed conditions that the University retains in perpetuity. Net position in this category consists of endowments held by the University or its related auxiliaries.
  - 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

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## Notes to Financial Statements

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designated to support future operations in these areas. University housing programs are a primary example of operations that have unrestricted net position with designated uses.

**(o) *Classification of Revenues and Expenses***

The University considers operating revenues and expenses in the Statement of Revenues, Expenses, and Changes in Net Position to be those revenues and expenses that result from exchange transactions and from other activities that are connected directly to the University's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services. Certain other transactions are reported as nonoperating revenues and expenses in accordance with GASB Statement No. 35. These nonoperating activities include the University's capital and noncapital appropriations from the State, financial aid, net investment income, noncapital gifts, interest expense, and capital grants and gifts.

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

Student tuition and fee 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 amounts are paid directly to, or refunded to, the student and are reflected as expenses.

**(p) *Other Postemployment Benefits***

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

**(q) *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 after the expenditures are incurred, in amounts equal to the expenditures.

**(r) *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 year.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

**(s) 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 IRC §115. However, the University remains 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.

**(t) 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.

**(u) 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, 2014 are classified in the accompanying Statement of Net Position as follows:

Cash and cash equivalents	\$ 4,074,000
Restricted cash and cash equivalents	<u>90,000</u>
Total cash and cash equivalents	<u>4,164,000</u>
Short-term investments	2,855,578,000
Endowment investments	16,218,000
Other long-term investments	<u>340,935,000</u>
Total investments	<u>3,212,731,000</u>
Total cash, cash equivalents, and investments	<u>\$ 3,216,895,000</u>

**(a) Cash and Cash Equivalents**

At June 30, 2014, cash and cash equivalents consisted of demand deposits held at the State Treasury and commercial banks, and petty cash. Total cash and cash equivalents of \$4,164,000 had a corresponding carrying balance with the State Treasury and commercial banks of \$15,825,000 at June 30, 2014. The difference was primarily related to deposits in transit and outstanding checks.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

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

### **Custodial Credit Risk for Deposits**

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

### **(b) Investments**

At June 30, 2014, the University's investment portfolio consists primarily of investments in the State of California SMIF and the CSU Consolidated Investment Pool. For the CSU Consolidated Investment Pool, separate accounting is maintained as to the amounts allocable to the various University funds and programs.

### **Investment Policy**

State law and regulations require that surplus monies of the University must be invested. The primary objective of the University's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the University. The third objective is to return an acceptable yield. The University's investment policy authorizes funds held in local trust accounts under Education Code Sections 89721 and 89724 to be invested in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, subject to certain limitations. In general, the University's investment policy permits investments in obligations of the Federal and California state governments, certificates of deposit, high quality domestic corporate and fixed income securities, and certain other investment instruments.

### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The University's investment guidelines manage its interest rate risk. The guidelines include limits on the maximum maturity of any individual investment in the portfolio and average duration of the portfolio. The effective maturity date reflects a bond with features 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 fixed income investment relative to changes in interest rates. 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 the cash flow and liquidity needed for operations. Weighted average maturity is the average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount of the asset. As a result, the interest rate risk is remote. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2014 is presented in the table on the following page.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

### 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.

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's allocated share of the CSU Consolidated Investment Pool and the SMIF as of June 30, 2014:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end			
			AAA	AA	A	Not rated
Money market	\$ 31,629,000	0.06	\$ 1,087,000	—	21,306,000	9,236,000
Repurchase agreements	2,274,000	—	—	—	2,042,000	232,000
Certificates of deposit	180,184,000	0.66	—	18,093,000	162,091,000	—
Commercial paper	3,646,000	0.03	—	—	3,646,000	—
U.S. agency securities	742,877,000	1.55	—	742,877,000	—	—
State of California:						
Surplus Money						
Investment Fund	441,900,000	0.64	—	—	—	441,900,000
Corporate and fixed income securities	1,011,356,000	2.08	210,093,000	221,929,000	579,334,000	—
U.S. Treasury securities	774,713,000	1.58	—	—	—	774,713,000
Municipal securities	21,856,000	2.02	—	21,856,000	—	—
Mortgage-backed securities	2,296,000	7.62	—	2,296,000	—	—
<b>Total</b>	<b>\$ 3,212,731,000</b>		<b>\$ 211,180,000</b>	<b>1,007,051,000</b>	<b>768,419,000</b>	<b>1,226,081,000</b>

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. As a result, the credit risk is remote.

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

### Concentration of Credit Risk

Concentration of credit risk rises as investments become concentrated relative to a portfolio characteristic such as issuance, issuer, market sector, counter-party, 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 of credit risk is remote.

## **CALIFORNIA STATE UNIVERSITY**

### **Notes to Financial Statements**

**June 30, 2014**

As of June 30, 2014, 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 National Mortgage Association notes (\$254,651,000 or 7.9%), and Federal Home Loan Mortgage Corporation (\$227,281,000 or 7.1%).

#### **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 such changes could materially affect the amounts reported in the statement of net position.

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

#### **Custodial Credit Risk for Investments**

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. 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.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

### Discretely Presented Component Units' Investments

Investments of the discretely presented component units at fair value consisted of the following at June 30, 2014:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State of California Local Agency			
Investment Fund	\$ 174,654,000	2,073,000	176,727,000
CSU Consolidated Investment Pool	77,331,000	734,000	78,065,000
Money market funds	64,745,000	12,220,000	76,965,000
Certificates of deposit	16,605,000	27,990,000	44,595,000
Mutual funds	151,937,000	897,835,000	1,049,772,000
Exchange traded funds	—	25,290,000	25,290,000
Common fund	1,595,000	20,292,000	21,887,000
Debt securities	25,837,000	110,469,000	136,306,000
Equity securities	35,332,000	231,725,000	267,057,000
Fixed income securities	17,130,000	225,732,000	242,862,000
Partnership interests	6,288,000	29,671,000	35,959,000
Alternative investments	937,000	80,562,000	81,499,000
Hedge funds	1,061,000	21,828,000	22,889,000
Real estate	955,000	41,527,000	42,482,000
Agency pass-through	969,000	—	969,000
Others	912,000	43,726,000	44,638,000
Total	<u>\$ 576,288,000</u>	<u>1,771,674,000</u>	<u>2,347,962,000</u>

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

Approximately \$40.5 million of the investments reported by the University in the Statement of Net Position at June 30, 2014 are invested under contractual agreements on behalf of the discretely presented component units of the University.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

### (4) Accounts Receivable

Accounts receivable of the University at June 30, 2014 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 1,581,000	16,914,000	18,495,000
State appropriation – SPWB Lease			
Revenue Bond program	3,641,000	278,158,000	281,799,000
Auxiliary organizations	36,091,000	2,542,000	38,633,000
Student accounts	43,451,000	—	43,451,000
Government grants and contracts	20,294,000	—	20,294,000
Others	45,738,000	994,000	46,732,000
	<u>150,796,000</u>	<u>298,608,000</u>	<u>449,404,000</u>
Less allowance for doubtful accounts	(6,070,000)	—	(6,070,000)
Total	<u>\$ 144,726,000</u>	<u>298,608,000</u>	<u>443,334,000</u>

### (5) Leases Receivable

The University has entered into capital lease agreements with certain discretely presented component units to lease existing and newly constructed facilities to the discretely presented component units. 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, lease payments are due to the University as follows:

Fiscal year ending:	
2015	\$ 29,305,000
2016	26,639,000
2017	26,930,000
2018	27,014,000
2019	27,039,000
2020–2024	144,956,000
2025–2029	145,181,000
2030–2034	114,458,000
2035–2039	36,895,000
2040–2044	22,465,000
2045–2049	4,495,000
Total minimum lease payments to be received	605,377,000
Less amounts representing interest	(235,020,000)
Present value of future minimum lease payments to be received	370,357,000
Less current portion	(11,442,000)
Lease receivable, net of current portion	<u>\$ 358,915,000</u>



# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

### (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. Interest rates range from 0.39% to 5.45%. Note payments are due twice a year, on May 1 and November 1.

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

Fiscal year ending:	
2015	\$ 63,526,000
2016	32,794,000
2017	19,302,000
2018	19,308,000
2019	19,317,000
2020–2024	93,563,000
2025–2029	87,268,000
2030–2034	72,738,000
2035–2039	43,478,000
2040–2044	<u>6,497,000</u>
Total minimum note payments to be received	457,791,000
Less amounts representing interest	<u>(157,105,000)</u>
Present value of future minimum note payments to be received	300,686,000
Less current portion	<u>(51,319,000)</u>
Notes receivable, net of current portion	<u>\$ 249,367,000</u>

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

### (7) Capital Assets

Capital assets activity for the University for the year ended June 30, 2014 consisted of the following:

	Beginning balance	Additions	Retirements	Transfers	Ending balance
Nondepreciable/nonamortizable capital assets:					
Land and land improvements	\$ 256,976,000	4,979,000	—	35,000	261,990,000
Works of art and historical treasures	28,697,000	1,647,000	(36,000)	33,000	30,341,000
Construction work in progress	553,977,000	393,143,000	(1,830,000)	(475,986,000)	469,304,000
Intangible assets	6,691,000	7,606,000	(97,000)	(3,171,000)	11,029,000
Total nondepreciable/ nonamortizable capital assets	846,341,000	407,375,000	(1,963,000)	(479,089,000)	772,664,000
Depreciable/amortizable capital assets:					
Buildings and building improvements	10,070,239,000	88,824,000	(15,794,000)	432,978,000	10,576,247,000
Improvements other than buildings	547,003,000	8,367,000	(25,000)	16,227,000	571,572,000
Infrastructure	974,641,000	12,283,000	(6,018,000)	16,803,000	997,709,000
Personal property:					
Equipment	712,195,000	47,839,000	(24,587,000)	9,846,000	745,293,000
Library books and materials	387,838,000	6,335,000	(2,518,000)	—	391,655,000
Intangible assets	312,454,000	5,123,000	(3,040,000)	3,235,000	317,772,000
Total depreciable/ amortizable capital assets	13,004,370,000	168,771,000	(51,982,000)	479,089,000	13,600,248,000
Total cost	13,850,711,000	576,146,000	(53,945,000)	—	14,372,912,000
Less accumulated depreciation/ amortization:					
Buildings and building improvements	(4,246,382,000)	(303,127,000)	1,294,000	—	(4,548,215,000)
Improvements other than buildings	(380,808,000)	(23,036,000)	—	—	(403,844,000)
Infrastructure	(386,783,000)	(31,655,000)	4,182,000	—	(414,256,000)
Personal property:					
Equipment	(509,386,000)	(47,312,000)	22,280,000	—	(534,418,000)
Library books and materials	(348,642,000)	(8,442,000)	2,592,000	—	(354,492,000)
Intangible assets	(289,594,000)	(10,225,000)	2,444,000	—	(297,375,000)
Total accumulated depreciation/ amortization	(6,161,595,000)	(423,797,000)	32,792,000	—	(6,552,600,000)
Net capital assets	\$ 7,689,116,000	152,349,000	(21,153,000)	—	7,820,312,000

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

Capital assets activity of the discretely presented component units of the University for the year ended June 30, 2014 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	\$ 105,671,000	13,630,000	(7,823,000)	267,000	111,745,000
Works of art and historical treasures	8,264,000	44,000	—	93,000	8,401,000
Construction work in progress	14,077,000	14,236,000	(3,269,000)	(15,153,000)	9,891,000
Intangible assets	<u>5,082,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,082,000</u>
Total nondepreciable/nonamortizable capital assets	<u>133,094,000</u>	<u>27,910,000</u>	<u>(11,092,000)</u>	<u>(14,793,000)</u>	<u>135,119,000</u>
Depreciable/amortizable capital assets:					
Buildings and building improvements	754,338,000	38,698,000	(18,530,000)	7,356,000	781,862,000
Improvements other than buildings	114,451,000	5,390,000	(10,162,000)	4,830,000	114,509,000
Infrastructure	67,575,000	—	(11,000)	—	67,564,000
Personal property:					
Equipment	187,636,000	17,694,000	(15,314,000)	5,461,000	195,477,000
Library books and materials	3,018,000	—	—	(3,018,000)	—
Intangible assets	<u>10,790,000</u>	<u>446,000</u>	<u>(729,000)</u>	<u>179,000</u>	<u>10,686,000</u>
Total depreciable/amortizable capital assets	<u>1,137,808,000</u>	<u>62,228,000</u>	<u>(44,746,000)</u>	<u>14,808,000</u>	<u>1,170,098,000</u>
Total cost	<u>1,270,902,000</u>	<u>90,138,000</u>	<u>(55,838,000)</u>	<u>15,000</u>	<u>1,305,217,000</u>
Less accumulated depreciation/amortization:					
Buildings and building improvements	(248,426,000)	(26,818,000)	4,394,000	(337,000)	(271,187,000)
Improvements other than buildings	(56,073,000)	(5,751,000)	8,203,000	(258,000)	(53,879,000)
Infrastructure	(14,067,000)	(1,689,000)	—	—	(15,756,000)
Personal property:					
Equipment	(147,746,000)	(13,265,000)	15,423,000	595,000	(144,993,000)
Intangible assets	<u>(7,755,000)</u>	<u>(806,000)</u>	<u>579,000</u>	<u>(15,000)</u>	<u>(7,997,000)</u>
Total accumulated depreciation/amortization	<u>(474,067,000)</u>	<u>(48,329,000)</u>	<u>28,599,000</u>	<u>(15,000)</u>	<u>(493,812,000)</u>
Net capital assets	<u>\$ 796,835,000</u>	<u>41,809,000</u>	<u>(27,239,000)</u>	<u>—</u>	<u>811,405,000</u>

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

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 is a result of the University's participation with the State in the State Public Works Board (SPWB) Lease Revenue Bond program. The University has participated in this program since 1986 in connection with the construction of campus facilities and related equipment. Current California law permits the SPWB to authorize the sale of bonds to construct certain state facilities if there is a revenue stream that can be pledged to repay the obligations. The process in general is described in brief as follows:

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

The capital lease obligation related to the SPWB Lease Revenue Bond Program amounted to \$1,132,015,000. The University also enters into capital leases with financial institutions and via commercial paper issued by the California State University Institute (the Institute), a discretely presented component unit of the University.

Overall capital leases consist primarily of leases of campus facilities, but also include certain computer, energy efficiency, and telecommunications equipment. Total assets related to capital leases have a carrying value of \$808,064,000 at June 30, 2014. The leases bear interest at rates ranging from 2.00% to 12.62% 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 fiscal years through 2099. The leases can be canceled if the State does not provide adequate funding. Some of these leases are with related auxiliary organizations for the rental of office space used in the operations of the University. Total operating lease expenditures for the year ended

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

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June 30, 2014 were \$27,387,000 of which \$15,117,000 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, 2014 are as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2015	\$ 132,459,000	23,737,000
2016	132,086,000	17,625,000
2017	127,679,000	16,501,000
2018	127,196,000	13,842,000
2019	103,219,000	10,551,000
2020–2024	439,038,000	30,890,000
2025–2029	385,756,000	16,373,000
2030–2034	347,503,000	9,941,000
2035–2039	149,000,000	3,031,000
2040–2044	4,775,000	968,000
2045–2049	—	397,000
2050–2054	—	178,000
2055–2059	—	32,000
2060–2099	—	257,000
Total minimum lease payments	1,948,711,000	\$ 144,323,000
Less amount representing interest	(731,807,000)	
Present value of future minimum lease payments	1,216,904,000	
Unamortized net premium	33,370,000	
Total capital lease obligation	1,250,274,000	
Less current portion	(70,042,000)	
Capital lease obligation, net of current portion	\$ 1,180,232,000	

### (9) Long-Term Debt Obligations

#### (a) General Obligation Bond Program

The General Obligation Bond program of the State has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds, which is allocated on a project-by-project basis among the University, the University of California, and the Community Colleges. Financing provided to the University through State of California 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

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

Obligation Bond debt carried by the State related to the University projects is approximately \$2,604,535,000 as of June 30, 2014.

### **(b) Revenue Bond Programs**

The Revenue Bond Act of 1947 provides the Trustees with the ability to issue revenue bonds to fund specific self-supporting programs. The statute has enabled the Trustees to finance student housing, student unions, parking facilities, health facilities, continuing education facilities, and designated auxiliary organization facilities.

The Systemwide Revenue Bond program, formerly the Housing Revenue Bond program, was approved by the Trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at certain campuses within the University system as specified by the individual bond documents. It is designed to provide lower cost debt and greater flexibility to finance revenue bond projects at the University. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the revenue-producing projects. The University's total outstanding balance of revenue bond indebtedness under the Systemwide Revenue Bond program was \$3,507,043,000 at June 30, 2014.

The University has pledged future continuing education, healthcare facilities, housing, parking, and student union revenues plus designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$4,204,868,000 in Systemwide Revenue Bonds issued through fiscal year 2014.

### **(c) Bond Anticipation Notes (BANs)**

The Trustees have authorized the issuance of BANs to provide short-term financing to the University System 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 fiscal year 2010, the Trustees authorized three projects for financing with maturities beyond three years and they will remain in BANs until the debt is retired. BAN interest is variable and changes based upon the cost of the Institute's commercial paper program. The maximum and minimum weighted average interest rates for the year ended June 30, 2014 were 0.17% and 0.07%, respectively. The University's BANs totaled \$168,511,000 at June 30, 2014. The not-to-exceed amounts related to the outstanding amounts totaled \$254,225,000 of which \$71,899,000 has not been issued and \$13,815,000 has been issued and paid back.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

Long-term debt obligations of the University as of June 30, 2014 consisted of the following:

Description	Interest rate percentage	Final maturity date	Original issue amount	Amount outstanding
Systemwide Revenue Bonds, Housing Series J – Q	3.00%	2019/20–2021/22	\$ 17,273,000	5,663,000
Systemwide Revenue Bonds, Series 2004A	3.50–5.25	2018/19–2026/27	57,435,000	34,665,000
Systemwide Revenue Bonds, Series 2005A	3.75–5.00	2016/17–2037/38	658,635,000	373,605,000
Systemwide Revenue Bonds, Series 2005B	5.00	2015/16–2021/22	134,805,000	61,380,000
Systemwide Revenue Bonds, Series 2005C	4.50–5.25	2017/18–2038/39	540,900,000	365,800,000
Systemwide Revenue Bonds, Series 2007A	4.00–5.00	2024/25–2044/45	254,770,000	239,395,000
Systemwide Revenue Bonds, Series 2007B	5.27–5.55	2027/28–2037/38	13,165,000	11,375,000
Systemwide Revenue Bonds, Series 2007C	5.00	2020/21–2028/29	63,275,000	50,875,000
Systemwide Revenue Bonds, Series 2007D	4.00–5.00	2037/38	80,360,000	73,105,000
Systemwide Revenue Bonds, Series 2008A	3.50–5.00	2022/23–2039/40	375,160,000	342,945,000
Systemwide Revenue Bonds, Series 2009A	3.50–6.00	2015/16–2040/41	465,365,000	441,265,000
Systemwide Revenue Bonds, Series 2010A	3.00–5.00	2019/20–2031/32	146,950,000	127,255,000
Systemwide Revenue Bonds, Series 2010B	5.45–6.48	2035/36–2041/42	205,145,000	205,145,000
Systemwide Revenue Bonds, Series 2011A	2.50–5.25	2020/21–2042/43	429,855,000	413,815,000
Systemwide Revenue Bonds, Series 2012A	0.39–5.00	2021/22–2042/43	436,220,000	435,550,000
Systemwide Revenue Bonds, Series 2012B	2.79–4.17	2036/37	16,700,000	16,350,000
Systemwide Revenue Bonds, Series 2013A	1.50–5.00	2024/25 – 2026/27	308,855,000	308,855,000
			4,204,868,000	3,507,043,000
Bond Anticipation Notes	Variable	2014/15 – 2018/19	182,326,000	168,511,000
Others	Variable	Various	122,057,000	72,898,000
Total			\$ 4,509,251,000	3,748,452,000

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

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Description	Interest rate percentage	Final maturity date	Original issue amount	Amount outstanding
Unamortized bond net premium				\$ 156,073,000
Total long-term debt				3,904,525,000
Less current portion				(260,601,000)
Long-term debt, net of current portion				\$ 3,643,924,000

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

	Principal	Interest
2015	\$ 260,601,000	173,866,000
2016	122,824,000	169,315,000
2017	115,442,000	164,380,000
2018	120,135,000	159,281,000
2019	124,397,000	153,958,000
2020–2024	651,890,000	676,577,000
2025–2029	736,617,000	505,922,000
2030–2034	805,920,000	309,247,000
2035–2039	610,830,000	125,581,000
2040–2044	195,400,000	17,795,000
2045–2049	4,396,000	99,000
	\$ 3,748,452,000	2,456,021,000

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 auxiliary organizations, refer to their separately issued financial statements.

### (10) Advanced Refundings

#### (a) Current Year Refundings

In July 2013, the University partially defeased certain (Series 2005A and 2005C) Systemwide Revenue Bonds by placing a portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2013A refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. The proceeds from the Series 2013A refunding bonds were used to purchase U.S. federal, state, and local government securities that were placed in escrow accounts. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matured. These transactions will reduce the University's total financing cost by approximately \$22,391,000 over the life of the bonds. The economic gain



# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

(difference between net present values of the debt service payments on the old debt and new debt) from these transactions was approximately \$19,188,000. Accordingly, the refunded bonds have been considered defeased and, therefore, removed as a liability from the accompanying financial statements. The amount of defeased bonds outstanding as of date of refunding totaled \$317,130,000.

The unamortized loss on the refundings of \$44,680,000 was included in deferred outflows of resources in the Statement of Net Position. The loss represents the difference between the proceeds of the new bond issue, as adjusted for premium or discount, and the principal amounts of the bonds being defeased. The loss is being amortized over the life of the new bond issuance or the old bond issuance, whichever is shorter.

### (11) Long-Term Liabilities Activity

Long-term liabilities activity of the University for the year ended June 30, 2014 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 205,815,000	134,513,000	(122,085,000)	218,243,000	119,690,000
Capitalized lease obligations (note 8)	1,145,638,000	177,397,000	(72,761,000)	1,250,274,000	70,042,000
Long-term debt obligations (note 9):					
Systemwide Revenue Bonds	3,604,708,000	308,863,000	(406,528,000)	3,507,043,000	96,090,000
Bond Anticipation Notes	27,055,000	153,271,000	(11,815,000)	168,511,000	153,541,000
Others	80,352,000	5,291,000	(12,745,000)	72,898,000	10,970,000
	3,712,115,000	467,425,000	(431,088,000)	3,748,452,000	260,601,000
Unamortized bond premium	133,989,000	42,137,000	(20,053,000)	156,073,000	—
Total long-term debt obligations	<u>3,846,104,000</u>	<u>509,562,000</u>	<u>(451,141,000)</u>	<u>3,904,525,000</u>	<u>260,601,000</u>
Total long-term liabilities	<u>\$ 5,197,557,000</u>	<u>821,472,000</u>	<u>(645,987,000)</u>	<u>5,373,042,000</u>	<u>450,333,000</u>

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

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Long-term liabilities activity of the aggregated discretely presented component units of the University for the year ended June 30, 2014 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Current portion
Accrued compensated absences	\$ 17,525,000	12,103,000	(12,083,000)	17,545,000	14,074,000
Claims liability for losses					
and loss adjustment expenses	88,157,000	53,198,000	(40,989,000)	100,366,000	32,971,000
Capitalized lease obligations	385,824,000	11,777,000	(21,675,000)	375,926,000	15,906,000
Long-term debt obligations:					
Revenue bonds	45,535,000	—	(5,025,000)	40,510,000	2,253,000
Commercial paper	83,176,000	811,825,000	(713,851,000)	181,150,000	160,895,000
Notes payable	214,090,000	46,748,000	(22,010,000)	238,828,000	7,110,000
Others	103,026,000	6,978,000	(7,259,000)	102,745,000	2,284,000
	445,827,000	865,551,000	(748,145,000)	563,233,000	172,542,000
Unamortized bond premium	9,697,000	381,000	(618,000)	9,460,000	—
Total long-term debt obligations	455,524,000	865,932,000	(748,763,000)	572,693,000	172,542,000
Total long-term liabilities	\$ 947,030,000	943,010,000	(823,510,000)	1,066,530,000	235,493,000

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

## (12) Pension Plan and Postretirement Benefits

### (a) Pension Plan

#### Plan Description

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

CalPERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the California Public Employees' Retirement System Executive Office, 400 P Street, Sacramento, CA 95814.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

### Funding Policy

University personnel are required to contribute 5.0% of their annual earnings in excess of \$513 per month to CalPERS. Effective January 1, 2013, all new employees that are considered “new members” to CalPERS are required to contribute 50% of the normal cost for their category (e.g., State Miscellaneous Member is 6.0% of their annual earnings per month to CalPERS). The University is required to contribute at an actuarially determined rate; the current rate for State Miscellaneous is approximately 24.3% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS. The contractual maximum contribution required for the University is determined by the annual CalPERS compensation limit(s) which are based on provisions of Assembly Bill (AB) 340 and the Internal Revenue Code (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:

2012	\$ 411,926,000
2013	462,607,000
2014	493,922,000

### (b) *Postretirement Healthcare Plan*

In accordance with GASB pronouncements, the University is required to recognize the cost of other postemployment benefits (OPEB) on an accrual basis.

#### Plan Description

The State provides retiree healthcare benefits to statewide employees, including the University employees, through the programs administered by CalPERS. The State’s substantive 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 5 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.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

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### 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.

### 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 2014, 2013, and 2012 :

	2014	2013	2012
Annual required contribution (ARC):			
Billable accounts	\$ 38,942,000	35,602,000	32,802,000
Nonbillable accounts (dental only)	40,057,000	40,055,000	39,710,000
Total ARC	78,999,000	75,657,000	72,512,000
Contributions:			
Billable accounts	(14,584,000)	(13,175,000)	(12,385,000)
Nonbillable accounts (dental only)	(16,420,000)	(16,051,000)	(16,085,000)
Total contributions	(31,004,000)	(29,226,000)	(28,470,000)
Increase in net OPEB obligation (NOO)	47,995,000	46,431,000	44,042,000
NOO – beginning of year	219,018,000	172,587,000	128,545,000
NOO – end of year:			
Billable accounts	127,308,000	102,950,000	80,523,000
Nonbillable accounts (dental only)	139,705,000	116,068,000	92,064,000
Total NOO	\$ 267,013,000	219,018,000	172,587,000
Percentage of annual OPEB cost contributed during the years ended June 30, 2014, 2013 and 2012	39.2%	38.6%	39.3%

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

### **Actuarial Methods and Assumptions and Plan Funding Information**

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

Projections of benefits for financial statement reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the State and the plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective. In the June 30, 2013 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 (CAFR) for the fiscal year ended 2014.

### **(13) 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, 2014. 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, 2014.

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.

### **(14) Commitments and Contingencies**

The State is a defendant in multiple lawsuits involving University matters not covered by the CSURMA as discussed in note 13. 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.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2014

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 expenditures for construction projects as of June 30, 2014 totaled \$265,118,000. These expenditures will be funded primarily by State appropriations and bond proceeds.

In order to secure access to natural gas and electricity used for normal operation, the University participates in forward purchase contracts of natural gas and electricity operated by the Department of General Service and Shell Energy North America, respectively. The University's obligation under these special purchase arrangements requires it to purchase an estimated total of \$22,728,000 and \$21,195,000 of natural gas and electricity at fixed prices through June 2017 and December 2015, respectively. The University estimates that the special purchase contracts in place represent approximately 28.0% and 13.5% of its total annual natural gas and electricity expenses, respectively.

### (15) 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, 2014, operating expenses by natural classification consisted of the following:

	Salaries	Benefits	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	Total
Functional classification:						
Instruction	\$ 1,455,211,000	598,769,000	—	196,238,000	—	2,250,218,000
Research	20,213,000	7,752,000	—	17,341,000	—	45,306,000
Public service	29,596,000	7,962,000	—	16,276,000	—	53,834,000
Academic support	328,708,000	145,603,000	—	157,770,000	—	632,081,000
Student services	345,835,000	157,785,000	—	193,861,000	—	697,481,000
Institutional support	346,344,000	160,130,000	—	179,585,000	—	686,059,000
Operation and maintenance of plant	186,267,000	104,416,000	—	289,766,000	—	580,449,000
Student grants and scholarships	—	—	857,856,000	—	—	857,856,000
Auxiliary enterprise expenses	69,185,000	51,877,000	—	186,363,000	—	307,425,000
Depreciation and amortization	—	—	—	—	423,797,000	423,797,000
Total	\$ 2,781,359,000	1,234,294,000	857,856,000	1,237,200,000	423,797,000	6,534,506,000

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

June 30, 2014

### **(16) Transactions with Related Entities**

The University is an agency of the State and receives about 34.4% of total revenues through state appropriations. State appropriations allocated to the University aggregated approximately \$2,347,651,000 for the year ended June 30, 2014. State appropriations receivable aggregated \$300,294,000 at June 30, 2014.

### **(17) Subsequent Events**

In August 2014, the University issued its Systemwide Revenue Bonds Series 2014A with a par amount of \$747,740,000 and net proceeds of \$850,450,000. The proceeds were used to refund certain maturities of Systemwide Revenue Bonds Series 2004A, 2005A, and 2005C of \$496,377,000, fund new capital projects of \$178,468,000, payment of Bond Anticipation Notes of \$153,168,000, refund outstanding bond indebtedness issued by the discretely presented component unit of \$2,896,000, capitalized interest of \$18,541,000, and cost of issuance of \$1,000,000.

## **COMMITTEE ON AUDIT**

### **Single Audit Reports of Federal Funds**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

George Ashkar  
Assistant Vice Chancellor/Controller  
Financial Services

#### **Summary**

Federal awards received by the California State University (CSU), including student financial aid, are subject to both compliance and internal control audit procedures as required by Office of Management and Budget Circular A-133.

The CSU A-133 Single Audit Reports were issued in mid-October with an unmodified (i.e., clean) opinion, and are included as an attachment to this item. There was one audit finding (2014-001), which was not a material weakness, relating to internal controls over federal procurement and suspension and debarment requirements at a campus. Corrective action is in progress and a status update will be provided at the board meeting in March 2015.

In summary, the fiscal year ending June 30, 2014 was a successful year from an audit perspective. Representatives from KPMG, the Systemwide audit firm, will be present to answer questions.





CALIFORNIA STATE UNIVERSITY

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The University of California, Berkeley, is a public research university located in Berkeley, California. It is one of the nine research universities that make up the University of California system. The university was founded in 1868 and is the oldest public university in the United States. It is known for its research, teaching, and campus activities. The university is a member of the Association of American Universities and the Association of Public Research Universities. It is also a member of the Association of American Colleges and Universities. The university is a member of the Association of American Universities and the Association of Public Research Universities. It is also a member of the Association of American Colleges and Universities.

## **CALIFORNIA STATE UNIVERSITY**

### **Single Audit Reports**

**Year ended June 30, 2014**

# CALIFORNIA STATE UNIVERSITY

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KPMG LLP  
Suite 1500  
550 South Hope Street  
Los Angeles, CA 90071-2629

**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 (the State), as of and for the year ended June 30, 2014, 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 October 15, 2014. Our report refers to the other auditors who audited 90 of the 92 aggregate discretely presented component units, which statements reflect total assets constituting 91% and total revenues constituting 94% of the aggregate discretely presented totals. The reports of the other auditors have been furnished to us, and our opinions, insofar as they relate to the amounts included for the 90 aggregate discretely presented component units, are based solely on the reports of the other auditors. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters in accordance with *Government Auditing Standards* that are reported on separately by those auditors.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered California State University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of California State University's internal control. Accordingly, we do not express an opinion on the effectiveness of California State University's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 California State University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

October 15, 2014



KPMG LLP  
Suite 1500  
550 South Hope Street  
Los Angeles, CA 90071-2629

**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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations***

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 Circular A-133 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, 2014. 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 \$329,793,000, which is not included in the schedule of expenditures of federal awards for the year ended June 30, 2014. 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 OMB Circular A-133.

***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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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, 2014.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to these matters.

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

### ***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 OMB Circular A-133, 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 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 item 2014-001, which we consider to be significant deficiencies.





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

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited 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 (the State), as of and for the year ended June 30, 2014, 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 October 15, 2014, 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 OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

**KPMG LLP**

Los Angeles, California  
October 15, 2014

**CALIFORNIA STATE UNIVERSITY**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

<b>Federal grantor/pass-through agency/program title</b>	<b>Catalog of federal domestic assistance (CFDA) number</b>	<b>Pass-through entity identifying number</b>	<b>Federal disbursements/ expenditures</b>
<b>Student Financial Assistance Cluster:</b>			
<b>U.S. Department of Education:</b>			
Direct programs:			
Federal Supplemental Educational Opportunity Grant Program	84.007		\$ 11,221,630
Federal Work-Study Program	84.033		14,968,364
Federal Perkins Loan Program	84.038		13,800,653
Federal Pell Grant Program	84.063		855,341,927
Federal Direct Student Loans	84.268		1,497,976,517
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379		1,105,676
Total U.S. Department of Education			2,394,414,767
<b>U.S. Department of Health and Human Services:</b>			
Direct programs:			
Nurse Faculty Loan Program	93.264		7,681
Nursing Student Loan Program	93.364		365,410
Total U.S. Department of Health and Human Services			373,091
Total Student Financial Assistance Cluster			2,394,787,858
<b>Other program and clusters:</b>			
<b>U.S. Department of Agriculture:</b>			
<b>Child Nutrition Cluster:</b>			
Passed through California Department of Education:			
Summer Food Service Program for Children	10.559	37-7806-8V	13,953
Total Child Nutrition Cluster			13,953
Passed through California Department of Education:			
Child and Adult Care Food Program	10.558	04346-CCSP	50,464
Child and Adult Care Food Program	10.558	04347-CACFP-38-HU-SOIC	8,534
Subtotal CFDA 10.558			58,998
Direct program:			
Forestry Research	10.652		85,646
Total U.S. Department of Agriculture			158,597
<b>U.S. Department of Commerce:</b>			
Direct program:			
Sea Grant Support	11.417		10,000
Total U.S. Department of Commerce			10,000
<b>U.S. Department of Defense:</b>			
Passed through Institute of International Education Incorporated:			
The Language Flagship Grants to Institutions of Higher Education	12.550	NSEP-U631073-SFSU-CHN	376,860
Passed through California State University, Long Beach:			
Congressionally Directed Assistance	12.599	S124910100SFMAN	957
Congressionally Directed Assistance	12.599	S124910100SFPER	440
Subtotal CFDA 12.599			1,397
Total U.S. Department of Defense			378,257



**CALIFORNIA STATE UNIVERSITY**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

<b>Federal grantor/pass-through agency/program title</b>	<b>Catalog of federal domestic assistance (CFDA) number</b>	<b>Pass-through entity identifying number</b>	<b>Federal disbursements/expenditures</b>
<b>U.S. Department of the Interior:</b>			
Direct programs:			
Department of Interior (not classified elsewhere)	15.000		\$ 28,304
Fish and Wildlife Management Assistance	15.608		3,635
Passed through Office of Historic Preservation:			
Historic Preservation Fund Grants-in-Aid	15.904	C1210018	10,040
Historic Preservation Fund Grants-in-Aid	15.904	C8954518	380
Subtotal CFDA 15.904			<u>10,420</u>
Direct programs:			
Native American Graves Protection and Repatriation Act	15.922		24,673
Cultural Resources Management	15.946		89,182
National Park Service Conservation, Protection, Outreach, and Education	15.954		<u>25,781</u>
Total U.S. Department of the Interior			<u>181,995</u>
<b>U.S. Department of Labor:</b>			
Passed through Growth Sector:			
H-1B Job Training Grants	17.268	MOU	40,418
Passed through South Bay Workforce Investment Consortium, Incorporated:			
Workforce Investment Act (WIA) National Emergency Grants	17.277	None	9,695
Passed through City and County of San Francisco:			
Workforce Innovation Fund	17.283	None	<u>81,412</u>
Total U.S. Department of Labor			<u>131,525</u>
<b>U.S. Department of Transportation:</b>			
Passed through California Department of Transportation:			
Department of Transportation (not classified elsewhere)	20.000	04A3889	2,794
Department of Transportation (not classified elsewhere)	20.000	04A3355	30,870
Department of Transportation (not classified elsewhere)	20.000	C C07E0014	120,200
Department of Transportation (not classified elsewhere)	20.000	06A1761	385
Department of Transportation (not classified elsewhere)	20.000	04A4091	194,839
Department of Transportation (not classified elsewhere)	20.000	03A2168	<u>2,765</u>
Subtotal CFDA 20.000			<u>351,853</u>
Direct programs:			
Ballast Water Treatment Technologies	20.819		<u>519,602</u>
Total U.S. Department of Transportation			<u>871,455</u>
<b>National Aeronautics and Space Administration:</b>			
Direct program:			
Science	43.001		212,564
Passed through University of California, San Diego:			
Science	43.001	NNX10AT93H	9,728
Passed through Stanford University:			
Science	43.001	PY04430-22727-C	310,638
Passed through California Institute of Technology:			
Science	43.001	44A-1085525	<u>145,043</u>
Subtotal CFDA 43.001			<u>677,973</u>
Direct Program:			
Education	43.008		<u>393,287</u>
Total National Aeronautics and Space Administration			<u>1,071,260</u>

**CALIFORNIA STATE UNIVERSITY**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

<b>Federal grantor/pass-through agency/program title</b>	<b>Catalog of federal domestic assistance (CFDA) number</b>	<b>Pass-through entity identifying number</b>	<b>Federal disbursements/ expenditures</b>
<b>National Endowment for the Arts:</b>			
Direct program:			
Promotion of the Arts_ Grants to Organizations and Individuals	45.024		\$ 9,955
Total National Endowment for the Arts			9,955
<b>National Endowment for the Humanities:</b>			
Passed through California Humanities:			
Promotion of the Humanities_ Federal/State Partnership	45.129	COS12-353	1,413
Total National Endowment for the Humanities			1,413
<b>National Science Foundation:</b>			
Direct programs:			
Geosciences	47.050		221,538
Biological Sciences	47.074		1,214
Education and Human Resources	47.076		698,921
Passed through University Enterprises, Incorporated			
California State University, Sacramento:			
Education and Human Resources	47.076	HRD-0802628	5,105
Education and Human Resources	47.076	HRD-1302873	12,642
Education and Human Resources	47.076	520541A	(1,920)
Passed through California State University, East Bay			
Foundation, Incorporated:			
Education and Human Resources	47.076	10000115-134	(16,095)
Passed through University Enterprises Corporation at			
California State University, San Bernardino:			
Education and Human Resources	47.076	SA GT 10184	(6,126)
Passed through The Regents of the University of California:			
Education and Human Resources	47.076	DUE-0631188	3,500
Passed through California State University, Sacramento:			
Education and Human Resources	47.076	HRD-0802628-515401	7,245
Education and Human Resources	47.076	523911	14,850
Education and Human Resources	47.076	515405	960
Subtotal CFDA 47.076			719,082
Direct program:			
ARRA – Trans – NSF Recovery Act Research Support	47.082		207,188
Total National Science Foundation			1,149,022
<b>Environmental Protection Agency:</b>			
Passed through Environmental Quality Management:			
Environmental Protection Agency (not classified elsewhere)	66.000	13.017	48,978
Environmental Protection Agency (not classified elsewhere)	66.000	019331	158,205
Environmental Protection Agency (not classified elsewhere)	66.000	019624	75,051
Passed through Weston Solutions, Incorporated:			
Environmental Protection Agency (not classified elsewhere)	66.000	0084860	55,653
Subtotal CFDA 66.000			337,887
Total Environmental Protection Agency			337,887
<b>U.S. Department of Energy:</b>			
Direct program:			
Energy Efficiency and Renewable Energy Information			
Dissemination, Outreach, Training and Technical			
Analysis/Assistance	81.117		169,463
Passed through Zimtar, Incorporated:			
Energy Efficiency and Renewable Energy Information			
Dissemination, Outreach, Training and Technical			
Analysis/Assistance	81.117	DE-EE0005492	3,908
Subtotal CFDA 81.117			173,371
Total U.S. Department of Energy			173,371

**CALIFORNIA STATE UNIVERSITY**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

<b>Federal grantor/pass-through agency/program title</b>	<b>Catalog of federal domestic assistance (CFDA) number</b>	<b>Pass-through entity identifying number</b>	<b>Federal disbursements/ expenditures</b>
<b>U.S. Department of Education, excluding Student Financial Assistance Cluster:</b>			
<b>TRIO Cluster:</b>			
Direct program:			
TRIO Student Support Services	84.042		\$ 1,488,107
Passed through The California State University, Chico			
Research Foundation:			
TRIO Student Support Services	84.042	P042A100854-13	30,989
Passed through San Diego State University Research Foundation:			
TRIO Student Support Services	84.042	40085576	20,000
Subtotal CFDA 84.042			<u>1,539,096</u>
Direct programs:			
TRIO Talent Search Program	84.044		441,825
TRIO Upward Bound Program	84.047		1,365,722
TRIO McNair Post-Baccalaureate Achievement Program	84.217		219,078
Total TRIO Cluster			<u>3,565,721</u>
<b>Teacher Quality Partnership Grants Cluster:</b>			
Passed through California State University Bakersfield Auxiliary for Sponsored Programs Administration:			
Teacher Quality Partnership Grants	84.336	SA GRA1677	39,962
Passed through The California State University, Chico			
Research Foundation:			
Teacher Quality Partnership Grants	84.336	SUB 12-034 and 12-060	8,812
Teacher Quality Partnership Grants	84.336	SUB 12-059	39,653
Subtotal CFDA 84.336			<u>88,427</u>
Total Teacher Quality Partnership Grants Cluster			<u>88,427</u>
Passed through Virginia Commonwealth University:			
Undergraduate International Studies and Foreign Language Programs	84.016	PT108273-SCI04765	5,668
Direct programs:			
International Research and Studies	84.017		58,783
Higher Education Institutional Aid	84.031		5,241,238
Higher Education Institutional Aid – Title V Computer Engineering	84.031		861,959
Higher Education Institutional Aid – Engineering Sciences	84.031		426,710
Passed through Bakersfield College:			
Higher Education Institutional Aid – Stem and Articulation Program	84.031	GRA 1994	222,022
Passed through California State University Fullerton			
Auxiliary Services Corporation:			
Higher Education Institutional Aid	84.031	S-5261-CSU	9,460
Passed through Ventura County Community College District:			
Higher Education Institutional Aid	84.031	P0083733	125,450
Passed through San Mateo County Community College District:			
Higher Education Institutional Aid	84.031	P031C110159	106,054
Subtotal CFDA 84.031			<u>6,992,893</u>
Direct programs:			
TRIO Staff Training Program	84.103		347,192
Fund for the Improvement of Postsecondary Education	84.116		154,621
Passed through LaGuardia Community College:			
Fund for the Improvement of Postsecondary Education	84.116	46355-M	8,428
Subtotal CFDA 84.116			<u>163,049</u>

**CALIFORNIA STATE UNIVERSITY**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

<b>Federal grantor/pass-through agency/program title</b>	<b>Catalog of federal domestic assistance (CFDA) number</b>	<b>Pass-through entity identifying number</b>	<b>Federal disbursements/ expenditures</b>
Direct program:			
Minority Science and Engineering Improvement – Engineering Calculus and Outreach	84.120		\$ 232,948
Passed through California Department of Rehabilitation:			
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	27421	164,114
Direct programs:			
Rehabilitation Long-Term Training	84.129		142,554
National Institute on Disability and Rehabilitation Research	84.133		13,030
Passed through Ventura Unified School District:			
Magnet Schools Assistance	84.165	14-03146	17,952
Passed through Oxnard School District:			
Magnet Schools Assistance	84.165	13-176	15,281
Subtotal CFDA 84.165			33,233
Direct program:			
English Language Acquisition National Professional Development Program	84.195		190,348
Passed through West Contra Costa County Unified School District:			
Fund for the Improvement of Education	84.215	C1330080	19,463
Passed through Mendocino County Office of Education:			
Fund for the Improvement of Education	84.215	TAHMENDO 090112_YR3	29,240
Subtotal CFDA 84.215			48,703
Direct program:			
Special Education – Personnel Development to Improve Services and Results for Children with Disabilities	84.325		526,019
Passed through Salus University:			
Special Education – Personnel Development to Improve Services and Results for Children with Disabilities	84.325	83401	35,062
Passed through California State University, Los Angeles:			
Special Education – Personnel Development to Improve Services and Results for Children with Disabilities	84.325	SFSU-Hannan 230545	590
Subtotal CFDA 84.325			561,671
Direct program:			
Special Education – Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		520,692
Passed through San Francisco Unified School District:			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	SFUSD FY 2012-2013	279
Direct program:			
Child Care Access Means Parents in School	84.335		230,247
Passed through California State University Dominguez Hills Foundation:			
Transition to Teaching	84.350	5630	29,840
Transition to Teaching	84.350	5766	85,818
Subtotal CFDA 84.350			115,658
Direct program:			
English Language Acquisition State Grants	84.365		361,648
Passed through California Department of Education:			
English Language Acquisition State Grants	84.365	CN110387	149,537
Passed through University of California, Santa Cruz:			
English Language Acquisition State Grants	84.365	S0183643	70,989
Subtotal CFDA 84.365			582,174

**CALIFORNIA STATE UNIVERSITY**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

<b>Federal grantor/pass-through agency/program title</b>	<b>Catalog of federal domestic assistance (CFDA) number</b>	<b>Pass-through entity identifying number</b>	<b>Federal disbursements/ expenditures</b>
Passed through Bellevue School District: Mathematics and Science Partnerships	84.366	SSU-101 A2	\$ 10,246
Passed through The Regents of the University of California: Improving Teacher Quality State Grants	84.367	NCLB10-CMP-SONOMA	64,990
Improving Teacher Quality State Grants	84.367	NCLB10-CISP-SONOMA	7
Improving Teacher Quality State Grants	84.367	NCLB10-CMP-STANISLAUS	26,450
Improving Teacher Quality State Grants	84.367	NCLB10-CWP-TURLOCK	37,035
Passed through California Postsecondary Education Commission: Improving Teacher Quality State Grants	84.367	ITQ-11-800	196,193
Passed through National Writing Project: Improving Teacher Quality State Grants	84.367	92-CA-10 SEED 2012	4,255
Subtotal CFDA 84.367			328,930
Direct program: Investing in Innovation (i3) Fund	84.411		217,012
Passed through Internationals Network for Public Schools: Investing in Innovation (i3) Fund	84.411	MOU-PROJECT RISE	38,174
Subtotal CFDA 84.411			255,186
Total U.S. Department of Education, excluding Student Financial Assistance Cluster			14,651,746
<b>U.S. Department of Health and Human Services:</b>			
<b>Child Care and Development Fund Cluster:</b>			
Passed through California Department of Education: Child Care and Development Block Grant	93.575	CSPP-3096	19,557
Child Care and Development Block Grant	93.575	CCTR-3045	34,486
Subtotal CFDA 93.575			54,043
Passed through California Department of Education: Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CSPP-3096	40,999
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CCTR-3045	72,298
Subtotal CFDA 93.596			113,297
Total Child Care and Development Fund Cluster			167,340
Direct programs:			
Mental Health Research Grants	93.242		298,062
Mental Health National Research Service Awards for Research Training	93.282		3,553
Passed through University of California, San Francisco: Minority Health and Health Disparities Research	93.307	7518SC	2,639
Passed through Santa Rosa Community Health Center: Nurse Education, Practice Quality and Retention Grants	93.359	AGMT 101 AMT 1	10,424
Direct program: National Center for Research Resources	93.389		240,556
Passed through Northcoast Children's Services: Head Start (Humboldt State University)	93.600	HSUCHI	34,635
Passed through The Regents of the University of California, Berkeley: Foster Care Title IV-E	93.658	13-2010	1,015,442
Passed through University of California, Berkeley: Foster Care Title IV-E	93.658	00007950	66,182
Foster Care Title IV-E	93.658	00008305	804,344
Passed through The Regents of the University of California: Foster Care Title IV-E	93.658	7946	1,777
Foster Care Title IV-E	93.658	8301	1,207,357
Subtotal CFDA 93.658			3,095,102

**CALIFORNIA STATE UNIVERSITY**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

<b>Federal grantor/pass-through agency/program title</b>	<b>Catalog of federal domestic assistance (CFDA) number</b>	<b>Pass-through entity identifying number</b>	<b>Federal disbursements/ expenditures</b>
Passed through University of California, Davis: ARRA – State Grants to Promote Health Information Technology	93.719	201225030-09	\$ 295,840
Passed through County of Sonoma: PPHF: Community Transformation Grants – Small Communities Program financed solely by Public Prevention and Health Funds	93.737	2013-0159-A00	61,756
Passed through Stanford University: Health Careers Opportunity Program	93.822	266-76210-49878A	126,140
Direct program: Biomedical Research and Research Training	93.859		2,000,224
Passed through American Society of Cell Biology: Biomedical Research and Research Training	93.859	PAR-08-118	5,053
Subtotal CFDA 93.859			<u>2,005,277</u>
Passed through The Regents of the University of California, Los Angeles: Geriatric Education Centers	93.969	1558 G NA589	185
Total U.S. Department of Health and Human Services			<u>6,341,509</u>
<b>Corporation for National and Community Service:</b> Direct programs: Learn and Serve America Higher Education	94.005		73,463
AmeriCorps	94.006		129,989
Passed through Jumpstart for Young Children: AmeriCorps	94.006	100200	12,854
Subtotal CFDA 94.006			<u>142,843</u>
Total Corporation for National and Community Service			<u>216,306</u>
<b>U.S. Department of Homeland Security:</b> Passed through The Haskell Group: Department of Homeland Security (not classified elsewhere)	97.000	6601193-0006	19,249
Passed through California Emergency Management Agency: Non-Profit Security Program	97.008	FY 2010	6,377
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	92269	160,690
Passed through Marine Exchange of the San Francisco Bay Area Region: Port Security Grant Program	97.056	2009-PU-T9-K032	654,830
Passed through California Emergency Management Agency: Homeland Security Grant Program	97.067	2010-0085	130,026
Passed through City of Santa Ana: Homeland Security Grant Program	97.067	2007-GS-H7-0008	3,519
Subtotal CFDA 97.067			<u>133,545</u>
Passed through Ventura County Office of Emergency Services: Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111	SSOES 12-068	15,525
Total U.S. Department of Homeland Security			<u>990,216</u>
<b>Agency for International Development:</b> Passed through World Institute on Disability: United States Agency for International Development Foreign Assistance for Programs Overseas	98.001	SPANS-004	19,839
Passed through World Learning: United States Agency for International Development Foreign Assistance for Programs Overseas	98.001	SPANS-024	731,022
Subtotal CFDA 98.001			<u>750,861</u>
Total Agency for International Development			<u>750,861</u>

**CALIFORNIA STATE UNIVERSITY**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance (CFDA) number	Pass-through entity identifying number	Federal disbursements/ expenditures
<b>Research and Development Cluster:</b>			
<b>U.S. Department of Agriculture:</b>			
Passed through The California State University, Chico			
Research Foundation:			
Transit in Parks Program	10.000	Sub-12-033	\$ 880
Passed through California Department of Education:			
Agricultural Research Basic and Applied Research	10.001	37-7806-8V	34,645
Direct program:			
Hispanic Serving Institutions Education Grants	10.223		14,003
Passed through The Regents of the University of California:			
Agriculture and Food Research Initiative	10.310	8103	83,818
Passed through University of California, Santa Barbara:			
Forestry Research	10.652	KK1339	62,523
Direct program:			
National Fish and Wildlife Foundation	10.683		7,472
Total U.S. Department of Agriculture			203,341
<b>U.S. Department of Commerce:</b>			
Direct program:			
Integrated Ocean Observing System	11.012		383,812
Passed through Monterey Bay Aquarium Research Institute:			
Integrated Ocean Observing System	11.012	PO# 1111289 - A1	607,451
Subtotal CFDA 11.012			991,263
Direct programs:			
Coastal Zone Management Administration Awards	11.419		430,901
Coastal Zone Management Estuarine Research Reserves	11.420		552,067
Center for Sponsored Coastal Ocean Research –			
Coastal Ocean Program	11.478		19,748
Total U.S. Department of Commerce			1,993,979
<b>U.S. Department of Defense:</b>			
Direct programs:			
Basic and Applied Scientific Research	12.300		121,994
Air Force Defense Research Sciences Program	12.800		675,503
Passed through University of Missouri:			
Air Force Defense Research Sciences Program	12.800	C00030628-1	38,166
Subtotal CFDA 12.800			713,669
Total U.S. Department of Defense			835,663
<b>U.S. Department of the Interior:</b>			
Direct programs:			
Central Valley Project Improvement Act, Title XXXIV	15.512		1,257,715
Fish and Wildlife Coordination Act	15.517		19,515
ARRA – Fish and Wildlife Coordination Act	15.517		185,330
Subtotal CFDA 15.517			204,845
Direct programs:			
Cooperative Endangered Species Conservation Fund	15.615		1,855
Central Valley Project Improvement Anadromous Fish			
Restoration Program	15.648		117
Research Grants (Generic)	15.650		6,439
Earthquake Hazards Reduction Program	15.807		49,598
U.S. Geological Survey – Research and Data Collection	15.808		95,371
National Cooperative Geologic Mapping Program	15.810		4,597
Passed through California Office of Historic Preservation:			
Historic Preservation Fund Grants-In-Aid	15.904	C8955519	9,000
Direct programs:			
Rivers, Trails and Conservation Assistance	15.921		807
Cooperative Research and Training Programs – Resources of			
the National Park System	15.945		5,927
Total U.S. Department of the Interior			1,636,271

**CALIFORNIA STATE UNIVERSITY**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

<b>Federal grantor/pass-through agency/program title</b>	<b>Catalog of federal domestic assistance (CFDA) number</b>	<b>Pass-through entity identifying number</b>	<b>Federal disbursements/ expenditures</b>
<b>U.S. Department of Labor:</b>			
Passed through County of San Mateo Workforce Development: Incentive Grants – Workforce Investment Act Section 503	17.267	73200-12-D007	\$ 509
Total U.S. Department of Labor			509
<b>National Aeronautics and Space Administration:</b>			
Direct program:			
Science	43.001		374,214
Passed through San Mateo County Community College District:			
Science	43.001	NNX10AU75G	17,637
Passed through Oregon State University:			
Science	43.001	NS251A-A	15,566
Subtotal CFDA 43.001			407,417
Passed through San Jose State University Research Foundation:			
Aeronautics	43.002	21-1614-4877-SFSU	127,612
Passed through Georgia Institute of Technology:			
Exploration	43.003	RD224-G1	126,144
Total National Aeronautics and Space Administration			661,173
<b>National Endowment for the Arts:</b>			
Direct program:			
Promotion of the Arts_Grants to Organizations and Individuals	45.024		20,000
Total National Endowment for the Arts			20,000
<b>National Endowment for the Humanities:</b>			
Direct program:			
Promotion of the Humanities_Professional Development	45.163		21,522
Total National Endowment for the Humanities			21,522
<b>National Science Foundation:</b>			
Direct programs:			
Engineering Grants	47.041		55,415
Mathematical and Physical Sciences	47.049		1,106,164
Passed through University of Minnesota:			
Mathematical and Physical Sciences	47.049	00002006251	92,976
Passed through The Mathematical Association of America:			
Mathematical and Physical Sciences	47.049	MOU-MAA	26,436
Subtotal CFDA 47.049			1,225,576
Direct program:			
Geosciences	47.050		871,465
Passed through The Regents of the University of California:			
Geosciences	47.050	S0184227	553
Passed through University of New Hampshire:			
Geosciences	47.050	13-077	39,951
Subtotal CFDA 47.050			911,969
Direct programs:			
Computer and Information Science and Engineering	47.070		211,063
Biological Sciences	47.074		1,014,787
Passed through Los Angeles County Museum/ National Science Foundation:			
Biological Sciences	47.074	DEB-1025922	14,749
Passed through University of California, Berkeley:			
Biological Sciences	47.074	00007925	13,347
Subtotal CFDA 47.074			1,042,883



**CALIFORNIA STATE UNIVERSITY**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

<b>Federal grantor/pass-through agency/program title</b>	<b>Catalog of federal domestic assistance (CFDA) number</b>	<b>Pass-through entity identifying number</b>	<b>Federal disbursements/ expenditures</b>
Direct programs:			
Social, Behavioral, and Economic Sciences	47.075		\$ 245,242
Education and Human Resources	47.076		1,157,608
Passed through Humboldt State University			
Sponsored Programs Foundation:			
Education and Human Resources	47.076	PO 0009730651-HMSPF	59,776
Passed through University Enterprises, Incorporated			
California State University, Sacramento:			
Education and Human Resources	47.076	HRD-0802628	78
Education and Human Resources	47.076	523751	9,984
Education and Human Resources	47.076	523951	15,000
Education and Human Resources	47.076	523961	14,706
Passed through University of California, Santa Cruz:			
Education and Human Resources	47.076	S0182471	44,887
Passed through Missouri State University:			
Education and Human Resources	47.076	11052-002	52,899
Passed through Stanford Research Institute International:			
Education and Human Resources	47.076	43-000002	11,925
Subtotal CFDA 47.076			<u>1,366,863</u>
Direct program:			
Polar Programs	47.078		264,113
Passed through University of Nevada, Las Vegas:			
Office of International and Integrative Activities	47.079	11-707D-F	46,523
Direct program:			
ARRA – Trans – NSF Recovery Act Research Support	47.082		132,087
Passed through Pomona College:			
Trans – NSF Recovery Act Research Support	47.082	AST-09603 AGREEMENT 1	<u>17,515</u>
Subtotal CFDA 47.082			<u>149,602</u>
Total National Science Foundation			<u>5,519,249</u>
<b>Environmental Protection Agency:</b>			
Passed through California Coastal Conservancy:			
Congressionally Mandated Projects	66.202	10-030	<u>173,596</u>
Total Environmental Protection Agency			<u>173,596</u>
<b>U.S. Department of Energy:</b>			
Direct programs:			
Department of Energy (not classified elsewhere)	81.000		122,225
Office of Science Financial Assistance Program	81.049		188,885
Passed through Cornell University:			
Renewable Energy Research and Development	81.087	68579-10096	173,520
Passed through The Regents of the University of California:			
Renewable Energy Research and Development	81.087	7104	<u>77,314</u>
Subtotal CFDA 81.087			<u>250,834</u>
Total U.S. Department of Energy			<u>561,944</u>
<b>U.S. Department of Education:</b>			
Passed through California Postsecondary Education Commission:			
Improving Teacher Quality State Grants	84.367	ITQ-11-805	215,482
Passed through The Regents of the University of California:			
Improving Teacher Quality State Grants	84.367	E319GPA084/GQA083	<u>19,547</u>
Subtotal CFDA 84.367			<u>235,029</u>
Total U.S. Department of Education			<u>235,029</u>

**CALIFORNIA STATE UNIVERSITY**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

<b>Federal grantor/pass-through agency/program title</b>	<b>Catalog of federal domestic assistance (CFDA) number</b>	<b>Pass-through entity identifying number</b>	<b>Federal disbursements/ expenditures</b>
<b>U.S. Department of Health and Human Services:</b>			
Passed through CommonHealth Action:			
Chronic Diseases: Research, Control, and Prevention	93.068	2010-1010	\$ 982
Direct programs:			
Research Related to Deafness and Communication Disorders	93.173		103,067
Mental Health Research Grants	93.242		1,346,018
Passed through Arizona State University:			
Mental Health Research Grants	93.242	10-262	25,638
Subtotal CFDA 93.242			1,371,656
Passed through University of California, Berkeley:			
Alcohol Research Programs	93.273	7430	90,570
Passed through Research Triangle Institute International:			
Drug Abuse and Addiction Research Programs	93.279	Sub Grant #2-312-0212248	3,622
Direct programs:			
Mental Health Research Career/Scientist Development Awards	93.281		156,618
Minority Health and Health Disparities Research	93.307		183,569
Passed through San Francisco General Hospital:			
Minority Health and Health Disparities Research	93.307		11,436
Subtotal CFDA 93.307			195,005
Passed through University of California, San Francisco:			
Cancer Cause and Prevention Research	93.393	5647SC	74,660
Direct program:			
Cancer Detection and Diagnosis Research	93.394		19,949
Passed through Samuel Merritt University:			
ARRA Trans-NIH Recovery Act Research Support	93.701	2010-2013	6,801
Passed through Stanford University:			
ARRA Trans-NIH Recovery Act Research Support	93.701	24024890-12656-A	12,534
Passed through University of California, San Francisco:			
ARRA Trans-NIH Recovery Act Research Support	93.701	7109 SC	4,393
Subtotal CFDA 93.701			23,728
Passed through University of California, San Diego:			
ARRA Recovery Act – Comparative Effectiveness Research	93.715	10312723	26,747
Direct program:			
Cardiovascular Diseases Research	93.837		197,347
Passed through Medical College of Georgia:			
Cardiovascular Diseases Research	93.837	22411-2	7,977
Passed through The Regents of the University of California:			
Cardiovascular Diseases Research	93.837	1R01HL09176701A1SSU	74,288
Subtotal CFDA 93.837			279,612
Passed through University of California, San Francisco:			
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	8109 SC	1,023
Direct program:			
Allergy, Immunology and Transplantation Research	93.855		12,430
Passed through The Regents of the University of California:			
Allergy, Immunology and Transplantation Research	93.855	6125 SC	179,514
Subtotal CFDA 93.855			191,944
Direct program:			
Biomedical Research and Research Training	93.859		1,338,563
Passed through Stanford University:			
Biomedical Research and Research Training	93.859	26977560-30501-K	21,560
Passed through University of California, San Francisco:			
Biomedical Research and Research Training	93.859	7284 SC	106,326
Biomedical Research and Research Training	93.859	7754 SC	47,941
Passed through University of Washington:			
Biomedical Research and Research Training	93.859	755971	20,207
Subtotal CFDA 93.859			1,534,597

# **CALIFORNIA STATE UNIVERSITY**

## **Schedule of Expenditures of Federal Awards**

Year ended June 30, 2014

<b>Federal grantor/pass-through agency/program title</b>	<b>Catalog of federal domestic assistance (CFDA) number</b>	<b>Pass-through entity identifying number</b>	<b>Federal disbursements/ expenditures</b>
Direct program:			
Child Health and Human Development Extramural Research	93.865		\$ 893,640
Passed through University of California, Los Angeles:			
Aging Research	93.866	1920 G PA394	10,606
Passed through University of California, San Francisco:			
Aging Research	93.866	444986-31259	17,022
Subtotal CFDA 93.866			27,628
Total U.S. Department of Health and Human Services			4,995,048
Total Research and Development Cluster			16,857,324
Total Expenditures of Federal Awards			\$ 2,439,070,557

See accompanying notes to schedule of expenditures of federal awards and independent auditors' report on compliance for each major program; report on internal control over compliance; and report on schedule of expenditures of federal awards required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

## CALIFORNIA STATE UNIVERSITY

### Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

**(1) General**

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

For purposes of the Schedule, federal awards include all grants and contracts entered into directly between the University and agencies and departments of the federal government and pass-through agencies. The awards are classified into major program categories in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**(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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 were \$90,394,561 and \$1,316,017, respectively, at June 30, 2014. The amounts included in the accompanying Schedule consist of loans advanced to students and the administrative cost allowance for the year ended June 30, 2014.

**(4) Administrative Cost Allowances**

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

Federal Perkins Loan Program	\$	1,224,579
Federal Pell Grant Program		725,530
Federal Supplemental Educational Opportunity Grant Program		100,758
Federal Work-Study Program		558,258
	\$	<u>2,609,125</u>

**CALIFORNIA STATE UNIVERSITY**  
Notes to Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

**(5) Amounts Provided to Subrecipients**

Included in the Schedule are the following amounts passed through to subrecipients:

<b>Program title</b>	<b>CFDA No.</b>	<b>Amount</b>
Forestry Research	10.652	\$ 31,726
Science	43.001	24,797
Education	43.008	49,329
Geosciences	47.050	118,089
Higher Education Institutional Aid	84.031	437,999
Fund for the Improvement of Postsecondary Education	84.116	23,299
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	30,387
Improving Teacher Quality State Grants	84.367	159,976
Investing in Innovation (i3) Fund	84.411	1,509
Mental Health Research Grants	93.242	21,100
Homeland Security Grant Program	97.067	(10,294)
United States Agency for International Development Foreign Assistance for Programs Overseas	98.001	175,596
Research and Development Cluster:		
Integrated Ocean Observing System	11.012	589,399
Coastal Zone Management Administration Awards	11.419	154,067
Basic and Applied Scientific Research	12.300	31,882
Air Force Defense Research Sciences Program	12.800	101,507
Central Valley Project Improvement Act, Title XXXIV	15.512	339,693
Mathematical and Physical Sciences	47.049	86,426
Education and Human Resources	47.076	29,223
Improving Teacher Quality State Grants	84.367	189,628
Mental Health Research Grants	93.242	407,190
Child Health and Human Development Extramural Research	93.865	247,151
Total Research and Development Cluster		2,176,166
		<u>\$ 3,239,679</u>

**CALIFORNIA STATE UNIVERSITY**  
**Schedule of Findings and Questioned Costs**  
**Year ended June 30, 2014**

**(1) Summary of Auditors' Results**

***Financial Statements***

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

Internal control over financial reporting:

- Material weakness identified? \_\_\_\_\_ Yes      X   No
- Significant deficiencies in internal control were disclosed by the audit of the consolidated financial statements \_\_\_\_\_ Yes      X   No

Noncompliance material to the financial statements noted \_\_\_\_\_ Yes      X   No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified \_\_\_\_\_ Yes      X   No
- Significant deficiencies in internal control over major programs   X   Yes    \_\_\_\_\_ No

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

Any Audit Findings that are Required to be Reported in Accordance with Section 510(a) of OMB Circular A-133?   X   Yes    \_\_\_\_\_ No

***Identification of Major Programs***

<u>CFDA number(s)</u>	<u>Name of federal program or cluster</u>
84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.364, and 93.264	Student Financial Assistance Cluster
84.031	Higher Education Institutional Aid
93.658	Foster Care Title IV-E

Dollar Threshold Used to Distinguish Between Type A and Type B programs: \$1,328,481

Auditee Qualified as Low-Risk Auditee? \_\_\_\_\_ Yes      X   No

The University is not considered a low-risk auditee, solely due to administrative considerations that resulted in a late filing with the Federal Data Clearinghouse for the year ended June 30, 2012.

**CALIFORNIA STATE UNIVERSITY**  
**Schedule of Findings and Questioned Costs**  
**Year ended June 30, 2014**

**(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**

**2014-001**

<i>Campus:</i>	California State University Stanislaus
<i>Cluster name/program</i>	Higher Education Institutional Aid
<i>CFDA number:</i>	84.031
<i>Federal Agency:</i>	U.S. Department of Education
<i>Passed through entity:</i>	Not applicable
<i>Award year:</i>	July 1, 2013 through June 30, 2014
<i>Compliance Requirement</i>	Procurement and Suspension and Debarment

***Criteria***

**A. Procurement**

Title 2 Grants and Agreements. Chapter II—Office of Management and Budget Circulars and Guidance. Part 215 Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and other Non-Profit Organizations. Subpart C—Post-Award Requirements. Applicable to all procurements made with federal funds greater than \$100,000.

- Sec. 215.43 Competition. All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.
- Sec. 215.45 Cost and price analysis. Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action.
- Sec. 215.46 Procurement Records. Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (a) Basis for contractor selection; (b) Justification for lack of competition when competitive bids or offers are not obtained; and (c) Basis for award cost or price.

**CALIFORNIA STATE UNIVERSITY**  
**Schedule of Findings and Questioned Costs**  
**Year ended June 30, 2014**

**B. Suspension and Debarment**

- Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

***Condition Found and Context***

During our testwork over procurement requirements, we selected seven contracts totaling \$874,419, for which federal funds were expended during the year ended June 30, 2014. Current year expenditures related to these contracts totaled \$465,276. We were not provided with procurement records that included the basis for contractor selection or the justification for lack of competition for four of the contracts selected that represented procurements in excess of \$100,000, totaling \$757,557 (including \$347,304 of current year expenditures).

During our testwork over suspension and debarment requirements, for the seven sample items selected, we were not provided with documentation that the University checked the Excluded Party List System (EPLS), or performed other procedures to verify that covered transactions are not awarded to suspended or debarred parties.

***Cause and Effect***

The University has a written policy consistent with federal requirements for procurement and suspension and debarment. However, the policies do not appear to have been referenced by the University during the procurements described above. Consequently, it appears that the controls in place were ineffective in ensuring compliance with federal requirements. Noncompliance with procurement requirements could result in expenditures that are not responsive to a solicitation or the most advantageous to the University with respect to price, quality and other factors. Moreover, lack of compliance with suspension and debarment policies could result in disbursement of federal funds to suspended or debarred vendors.

***Questioned Costs***

None noted.

***Recommendation***

We recommend that the University strengthen its current processes and controls to ensure compliance with federal procurement and suspension and debarment requirements.



**CALIFORNIA STATE UNIVERSITY**  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2014

***Views of Responsible Officials***

We concur. The University will improve compliance with federal procurement guidelines for competitive bidding. For suspension and debarment, a certification clause will be added to the CSU procurement general contract provisions where contractors will certify that they are not debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from participation in this transaction by any federal department or agency.

