

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting:**     **11:15 a.m., Tuesday, March 8, 2016**  
                  **Glenn S. Dumke Auditorium**

Lupe C. Garcia, Chair  
Douglas Faigin, Vice Chair  
Adam Day  
Hugo N. Morales  
Peter J. Taylor

#### **Consent Items**

Approval of Minutes of the Meeting of January 26, 2016

1. Report on Compliance with National Collegiate Athletic Association Requirements for Financial Data Reporting, *Information*

#### **Discussion Items**

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**

**January 26, 2016**

## **Members Present**

Lupe C. Garcia, Chair  
Douglas Faigin, Vice Chair  
Adam Day  
Peter J. Taylor  
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 November 17, 2015, were approved as submitted.

## **Assignment of Functions to Be Reviewed by the Office of Audit and Advisory Services for Calendar Year 2016**

Mr. Larry Mandel, vice chancellor and chief audit officer, stated that each year at the January meeting of the Board of Trustees, the Committee on Audit reviews the audit assignments for the Office of Audit and Advisory Services (OAAS) and approves the audit plan for the year. He indicated that the OAAS performs an annual risk assessment that includes input from campuses, executive management, and the Committee on Audit and a separate information technology (IT) risk assessment that incorporates input from campus chief information officers. He stated that the results of the aforementioned risk assessments were used to develop the 2016 audit plan.

Mr. Mandel presented the various areas included in the audit plan. Delegations of Authority is a mandated audit required by the legislature to be performed every five years and represents approximately 5 percent of the audit plan. This is a heavy-duty procurement audit that also includes motor vehicle inspections and real and personal property transactions. Operational/financial reviews represent approximately 21 percent of the audit plan and include Academic Department Fiscal Review, Emergency Management, International Activities, Construction, and three Student Activities audits that have been carried over from the 2015 audit plan. Mr. Mandel explained that Academic Department Fiscal Review is essentially the same audit topic from 2015 entitled College Department Reviews. This audit area continues to be a high-profile area; the name of the audit topic was changed to better reflect the campus area of review.

Technology, specifically, Information Security, Cloud Computing, and Information Technology Disaster Recovery Planning, represents approximately 11 percent of the audit plan. Mr. Mandel stated that Information Security audits were performed as part of the 2014 and 2015 audit plans, and the area continues to be identified as high risk in both the non-IT specific and IT specific risk assessments, such that audits at additional campuses will be performed in 2016. He added that Cloud Computing has been carried forward from the 2015 audit plan. Technology support is provided for non-IT audits and advisory services reviews.

Mr. Mandel stated that as per previous direction of the Board, auxiliary organizations audits are conducted at each campus on a three-year cycle. This year's audit plan includes 29 auxiliaries at eight different campuses, which represents approximately 26 percent of the audit plan. He added that Investigations represent approximately 4 percent of the audit plan.

Mr. Mandel reminded the Trustees that advisory services was introduced as a new function in 2013 and continues to be well received within the system. He explained that its goal is to essentially prevent risk, rather than conducting audits to detect problems after the fact. Approximately 22 percent of the audit plan is dedicated to advisory services. Mr. Mandel indicated that the remainder of the audit plan includes staff time for committees/special projects (4 percent) and audit support (7 percent).

Chair Garcia called for a motion to approve the committee resolution (RAUD 01-16-01). A motion was then made, and the resolution was passed unanimously to approve the audit plan for calendar year 2016.

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

Mr. Mandel reported that almost all of the 2015 audit assignments have either been completed, are currently in the report-writing phase, or are awaiting a campus response prior to finalization. He reiterated that three Student Activities audits will be completed in the first quarter of 2015, while the audit of Cloud Computing has been carried forward to the 2016 audit plan. He stated that due to resource constraints, one construction project review has also been carried forward to the 2016 audit plan. Mr. Mandel commented that the campuses and CSU Chancellor's Office continue to do a good job completing recommendations on a timely basis. He reminded the Trustees that updates to the status report are displayed in green numerals and indicate progress toward or completion of recommendations since the distribution of the agenda book. He noted that OAAS staff is working with the Long Beach campus to clear the remaining recommendation from the Information Security audit. He added that both the reviews and associated recommendations for 2015 construction projects are also being completed timely.

Trustee Taylor inquired about the two open recommendations noted in the California State Auditor *Report on Recommendations Not Fully Implemented After One Year* and asked whether they would be completed within this fiscal year.

Mr. Mandel stated that the two such recommendations are open for valid reasons. He indicated that the legislature had to pass certain statutes before the CSU Chancellor's Office could begin working on one of the recommendations. He anticipated completion of the recommendations within this fiscal year.

### **2014 Quality Assurance Review – Status Report**

Mr. Mandel provided a status report on the quality assurance review of the OAAS performed in 2014. He reported that five of the seven recommendations for enhancement have been completed. Actions taken included implementation of a separate IT audit risk assessment and an additional IT staff resource; deployment of a fraud survey and the ongoing inclusion of fraud-related questions and issues in the annual risk assessment; implementation of an electronic workpaper system; and the provision of advanced training in Microsoft Excel to department staff where necessary.

Mr. Mandel indicated that recommendation #2 suggested that the current organizational structure of the division be reviewed to determine if a reporting relationship should be established between the campus auditors and the OAAS, as it was observed that it is very difficult to sufficiently understand, assess, and remediate individual campus risks with the current centralized internal audit organization model. He stated that OAAS management continues to review alternate organization structures to support the system and will bring the results of this review to a future meeting of the Committee on Audit.

Mr. Mandel indicated that recommendation #4 suggested that the current risk assessment and audit planning approach be re-evaluated. It was specifically observed that not all campus managers and staff are included in the risk assessment process, and a large percentage of audit resources are utilized on auxiliary organizations audits that are required per a 1999 Board policy. He reported that while incremental changes have been made to the risk assessment process, further changes to the risk assessment will be considered in conjunction with the evaluation of alternative organizational models referenced in the status of recommendation #2. He added that the evaluation will also consider alternative approaches to audits of auxiliary organizations.

The meeting was adjourned.

## **COMMITTEE ON AUDIT**

### **Report on Compliance with National Collegiate Athletic Association Requirements for Financial Data Reporting**

#### **Presentation By**

Mary Ek  
Assistant Vice Chancellor/Controller  
Financial Services

#### **Summary**

Colleges and universities with intercollegiate athletic programs in the National Collegiate Athletic Association (NCAA) are required to submit financial data detailing operating revenues and expenses related to their intercollegiate athletics programs to the NCAA by January 15 following the end of the fiscal year. The financial data is subject to agreed-upon procedures performed by a qualified independent accountant and must be submitted to the president or chancellor prior to submission to the NCAA.

Nine California State University campuses are in NCAA Division I, eleven campuses are in NCAA Division II, and three campuses do not have athletic programs in the NCAA. Division I schools are required to issue the agreed-upon procedures and submit financial data to the NCAA annually. Division II schools are required to issue the agreed-upon procedures report every three years, but must submit financial data to the NCAA annually.

All nine Division I campuses issued the agreed-upon procedures report and submitted related financial data to the NCAA for fiscal year ended June 30, 2015. One campus elected to use audited financial statements from the campus Athletic Corporation in lieu of the university's report, and conducted additional verification required by the NCAA during the audit.

One of the eleven campuses in Division II issued the agreed-upon procedures report for fiscal year ended June 30, 2015. Ten of the eleven campuses in Division II were not required to issue the report for fiscal year ended June 30, 2015 due to the three year cycle. All eleven campuses submitted the financial data to the NCAA.

Based on the review of the submitted reports by Audit and Advisory Services as well as Financial Services staff at the Office of the Chancellor, all campuses are in compliance with the NCAA financial reporting requirements.

## **COMMITTEE ON AUDIT**

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

#### **Presentation By**

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

#### **Summary**

This item includes both a status report on the 2016 audit plan and follow-up on past assignments. For the 2016 year, assignments were made to conduct reviews of Auxiliary Organizations, Delegations of Authority, Academic Departments, Emergency Management, International Activities, Construction, Student Activities, Information Security, Cloud Computing, and Information Technology (IT) Disaster Recovery Planning. In addition, follow-up on current/past assignments (Auxiliary Organizations, Information Security, IT Procurement, College Reviews, Clery Act, Admissions, PCI, and Scholarships) was being conducted on approximately 40 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 267 staff weeks of activity (26.1 percent of the plan) would be devoted to auditing internal compliance/internal control at eight campuses/29 auxiliaries. Fieldwork is being conducted for one campus/two auxiliaries, and report writing is being completed for one campus/four auxiliaries.

#### Delegations of Authority

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

*Operational/Financial Reviews*

Academic Department Fiscal Review

The initial audit plan indicated that approximately 47 staff weeks of activity (4.7 percent of the plan) would be devoted to a review of college/department administrative and financial controls. Six campuses will be reviewed. Fieldwork is being conducted at one campus.

Emergency Management

The initial audit plan indicated that approximately 50 staff weeks of activity (4.8 percent of the plan) would be devoted to a review of campus emergency management policies and procedures to ensure compliance with CSU and state and federal compliance requirements. Six campuses will be reviewed.

International Activities

The initial audit plan indicated that approximately 50 staff weeks of activity (4.8 percent of the plan) would be devoted to a review of campus international programs and activities to ensure compliance with CSU policies and other regulatory requirements. Six campuses will be reviewed.

Construction

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

Student Activities

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

## *Information Technology Reviews and Support*

### Information Security

The initial audit plan indicated that approximately 46 staff weeks of activity (4.5 percent of the plan) would be devoted to a review of the activities and measures undertaken to protect the confidentiality, integrity, access to, and availability of information. Six campuses will be reviewed. Fieldwork is being conducted at one campus.

### Cloud Computing

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

### Information Technology Disaster Recovery Planning

The initial audit plan indicated that approximately 26 staff weeks of activity (2.6 percent of the plan) would be devoted to a review of program and facility readiness and resource planning for the recovery of data processing services following a catastrophic event. Four campuses will be reviewed.

### Technology Support

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

### *Advisory Services*

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



### *Investigations*

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

### *Committees/Special Projects*

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

### *Audit Support*

#### Audit Follow-up

The audit plan indicated that approximately 16 staff weeks of activity (1.6 percent of the plan) would be devoted to follow-up on prior audit recommendations. The Office of Audit and Advisory Services is currently tracking approximately 40 current/past assignments (Auxiliary Organizations, Information Security, IT Procurement, College Reviews, Clery Act, Admissions, PCI, and Scholarships) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

#### Annual Risk Assessment

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

#### Administration

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

| 2016 ASSIGNMENTS |               |                    |              |                         |               |                 |              |            |                       | FOLLOW-UP PAST/CURRENT ASSIGNMENTS |             |                      |   |  |
|------------------|---------------|--------------------|--------------|-------------------------|---------------|-----------------|--------------|------------|-----------------------|------------------------------------|-------------|----------------------|---|--|
| Aux Orgs         | Info Security | Student Activities | Cloud Comptg | Acad Dept Fiscal Review | Deleg of Auth | Intl Activities | IT Dis Recov | Emerg Mgmt | Special Investigation | Auxiliary Organizations            |             | Information Security |   |  |
|                  |               |                    |              |                         |               |                 |              |            | *Recs **Mo.           | ●No.                               | *Recs **Mo. | *Recs **Mo.          |   |  |
| BAK              |               |                    |              |                         |               |                 |              |            |                       | 4                                  | 35/35       | 10/10                | - |  |
| CHI              |               |                    |              |                         |               |                 |              |            |                       | 3                                  | 25/25       | 21/21                | - |  |
| CI               |               | RW                 |              |                         |               |                 |              |            |                       | 3                                  | 32/32       |                      |   |  |
| DH               |               |                    |              |                         |               |                 |              |            |                       | 3                                  | 19/19       |                      |   |  |
| EB               |               |                    |              |                         |               |                 |              |            |                       | 3                                  | 31/31       |                      |   |  |
| FRE              |               |                    |              |                         |               |                 |              |            | 0/5 1                 | 6                                  | 36/36       | 11/11                | - |  |
| FUL              |               |                    | FW           |                         |               |                 |              |            |                       | 4                                  | 28/28       |                      |   |  |
| HUM              |               |                    |              |                         |               |                 |              |            |                       | 4                                  | 30/30       | 4/4                  | - |  |
| LB               |               |                    |              | FW                      |               |                 |              |            |                       | 4                                  | 17/18       | 7 6/6                | - |  |
| LA               |               |                    |              |                         |               |                 |              |            |                       | 4                                  | 18/18       |                      |   |  |
| MA               |               |                    |              |                         |               |                 |              |            |                       | 2                                  | 13/13       | 7/7                  | - |  |
| MB               |               |                    |              |                         |               |                 |              |            |                       | 2                                  | 23/23       |                      |   |  |
| NOR              | FW            |                    |              |                         |               |                 |              |            |                       | 5                                  | 7/19        | 4                    |   |  |
| POM              |               | RW                 |              |                         |               |                 |              |            |                       | 2                                  | 11/11       |                      |   |  |
| SAC              |               |                    |              |                         |               |                 |              |            |                       | 5                                  | 41/41       |                      |   |  |
| SB               |               |                    |              |                         |               |                 |              |            |                       | 4                                  | 22/23       | 10 10/10             | - |  |
| SD               |               |                    |              |                         |               |                 |              |            |                       | 4                                  | 21/21       |                      |   |  |
| SF               |               |                    |              |                         | FW            |                 |              |            |                       | 3                                  | 17/17       | 0/9 1                |   |  |
| SJ               |               |                    |              |                         |               |                 |              |            |                       | 5                                  | 26/26       | - 17/17              | - |  |
| SLO              |               |                    |              |                         |               |                 |              |            |                       | 3                                  | 11/11       |                      |   |  |
| SM               | RW            |                    |              |                         |               |                 |              |            |                       | 4                                  |             |                      |   |  |
| SON              |               |                    |              |                         |               |                 |              |            |                       | 3                                  | 1/4         | 2                    |   |  |
| STA              |               |                    |              |                         |               |                 |              |            |                       | 4                                  | 14/14       | - 0/21               | 4 |  |
| CO               | FW            |                    |              |                         |               |                 |              |            |                       | 2                                  |             |                      |   |  |
| SYS              |               |                    |              |                         |               |                 |              |            |                       |                                    |             |                      |   |  |

FW = Field Work In Progress

RW = Report Writing in Progress

AI = Audit Incomplete (awaiting formal exit conference and/or campus response)

AC = Audit Complete

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

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

● The number of auxiliary organizations reviewed.

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

| FOLLOW-UP PAST/CURRENT ASSIGNMENTS |                |       |                 |       |           |       |            |       |       |       |              |       |
|------------------------------------|----------------|-------|-----------------|-------|-----------|-------|------------|-------|-------|-------|--------------|-------|
|                                    | IT Procurement |       | College Reviews |       | Clery Act |       | Admissions |       | PCI   |       | Scholarships |       |
|                                    | *Recs          | **Mo. | *Recs           | **Mo. | *Recs     | **Mo. | *Recs      | **Mo. | *Recs | **Mo. | *Recs        | **Mo. |
| BAK                                |                |       |                 |       |           |       |            |       | 0/1   | 5     | 0/3          | 2     |
| CHI                                |                |       | 4/5             | 8     |           |       |            |       |       |       |              |       |
| CI                                 |                |       |                 |       |           |       | 0/7        | 5     |       |       |              |       |
| DH                                 |                |       |                 |       |           |       |            |       |       |       | 0/3          | 4     |
| EB                                 |                |       |                 |       | 6/6       | -     |            |       |       |       |              |       |
| FRE                                |                |       |                 |       |           |       | 8/8        | -     |       |       |              |       |
| FUL                                | 0/0            | -     |                 |       |           |       |            |       |       |       |              |       |
| HUM                                |                |       |                 |       | 1/3       | 7     |            |       |       |       |              |       |
| LB                                 |                |       |                 |       |           |       | 0/0        | -     | 0/1   | 2     |              |       |
| LA                                 |                |       | 4/4             | -     | 3/3       | -     |            |       |       |       | 0/2          | 1     |
| MA                                 |                |       |                 |       | 2/3       | 6     |            |       |       |       |              |       |
| MB                                 |                |       |                 |       |           |       | 5/6        | 5     |       |       |              |       |
| NOR                                |                |       | 4/4             | -     |           |       |            |       |       |       | 0/3          | 1     |
| POM                                | 0/0            | -     | 3/3             | -     |           |       |            |       |       |       |              |       |
| SAC                                |                |       | 8/8             | -     |           |       |            |       |       |       |              |       |
| SB                                 | 2/2            | -     |                 |       |           |       | 5/5        | -     |       |       |              |       |
| SD                                 |                |       |                 |       | 3/4       | 7     |            |       |       |       |              |       |
| SF                                 |                |       |                 |       |           |       |            |       |       |       |              |       |
| SJ                                 |                |       |                 |       |           |       | 5/7        | 5     |       |       | 0/3          | 2     |
| SLO                                |                |       |                 |       | 3/3       | -     |            |       |       |       | 1/1          | -     |
| SM                                 |                |       |                 |       |           |       |            |       |       |       |              |       |
| SON                                | 0/0            | -     |                 |       |           |       |            |       |       |       |              |       |
| STA                                |                |       |                 |       |           |       |            |       |       |       |              |       |
| CO                                 | 1/3            | 6     |                 |       |           |       |            |       |       |       |              |       |
| SYS                                |                |       | 1/1             | -     |           |       |            |       |       |       |              |       |

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

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

• The number of auxiliary organizations reviewed.

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

[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

Mary Ek  
Assistant Vice Chancellor/Controller  
Financial Services

#### **Summary**

Annually, financial statement audits are performed for the California State University system as a whole, and also for discretely presented component units (i.e., auxiliary organizations) that separately issue stand-alone audited financial statements. In addition, a separate audit is also performed each year on the financial statements of the CSU Systemwide Revenue Bond program. Financial statement audits covering the University and component units are performed by more than 20 certified public accounting firms.

The CSU systemwide financial statements for the fiscal year ended June 30, 2015 were issued with an unmodified opinion on February 15, 2016, and are included as Attachment A to this item. The issuance of the CSU audited financial statements was delayed this year due to technical issues related to Governmental Accounting Standards Board Statements No. 68 and 71 (Accounting and Financial Reporting for Pensions).

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



**CALIFORNIA STATE UNIVERSITY**  
**Financial Statements and Supplementary Information**  
**June 30, 2015**  
**(With Independent Auditors' Report Thereon)**

## **CALIFORNIA STATE UNIVERSITY**

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## LETTER FROM THE EXECUTIVE VICE CHANCELLOR, CHIEF FINANCIAL OFFICER

The California State University is an extraordinary system of 23 campuses providing an outstanding education to over 450,000 students in the academic year 2014-15. The University is dedicated to providing opportunities and opening doors for our students to learn and grow. As the nation's largest and most diverse university, it has become the economic engine for California; creating jobs, companies, and innovation. With more than three million degrees awarded since inception, the majority of California's leaders and policymakers received their degrees from one of the 23 campuses of the California State University.

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

Recent estimates by the California Public Policy Institute suggest that the state will require an additional 1,000,000 baccalaureates by 2030, well above current levels. Additional investments in the California State University will increase access to an excellent education and help meet the need for an educated workforce critical to California's success.

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

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

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



STEVE RELYEA  
EXECUTIVE VICE CHANCELLOR & CFO  
THE CALIFORNIA STATE UNIVERSITY





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## **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, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of 88 of the 90 aggregate discretely presented component units, which reflect total assets constituting 92% and total revenues constituting 94% of the aggregate discretely presented component units totals. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the 88 discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of 46 discretely presented component units are not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***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, 2015, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended, in accordance with U.S. generally accepted accounting principles.

***Emphasis of a Matter***

***Adoption of New Accounting Pronouncements***

As discussed in the note 2 to the financial statements, in fiscal year 2015, the California State University and its discretely presented component units adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (amendment of GASB Statement No. 68)*. Our opinions are not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4–19, and the schedules of University's proportionate share of the net pension liability and employer contributions on pages 61–62, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

**KPMG LLP**

Irvine, California  
February 15, 2016

## CALIFORNIA STATE UNIVERSITY

### Management's Discussion and Analysis

June 30, 2015

(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, 2015, including 23 campuses and the Office of the Chancellor (together referred to as the University), and 90 discretely presented component units (primarily recognized auxiliary organizations). The discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. Separate financial statements are issued for each of the discretely presented component units and may be obtained from the individual campuses.

The financial statements of the University as of and for the year ended June 30, 2015 have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. For reporting purposes, the University is considered a special-purpose government engaged in business-type activities.

#### Financial Statements

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

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

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

- Net investment in capital assets
- Restricted
- Unrestricted

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

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

## CALIFORNIA STATE UNIVERSITY

### Management's Discussion and Analysis

June 30, 2015

(Unaudited)

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

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

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

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

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

### Financial Highlights

Effective July 1, 2014, the University changed its pension accounting policies with the implementation of new accounting standards, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (amendment of GASB Statement No. 68). Changes in accounting policies for pensions are designed to improve transparency regarding pension liability by requiring recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position for the University's defined-benefit plans. This standard requires recognition of pension expense using systematic method, designed to match the cost of pension benefits with service periods for eligible employees. The net position, without the changes in accounting policies, would have been \$5.82 billion. The accounting changes related to net pension liability reduced the net position by \$5.99 billion resulting to a net deficit of \$175.72 million as of June 30, 2015. These accounting policy changes do not impact the University's funding requirements for the pension plans.

The noncapital state appropriation for the University in fiscal year 2015 was \$2.76 billion, \$416.26 million higher than in fiscal year 2014. This increase consists of \$197.24 million to pay the cost of State's General Obligation Bond debt service attributable to the University's capital projects, \$142.66 million increase in general noncapital operating budget support, \$66.26 million for employer-paid retirement costs, \$9.72 million for State Public Works Board (SPWB) capitalized lease bond payments, and \$0.38 million for other items.



## CALIFORNIA STATE UNIVERSITY

### Management's Discussion and Analysis

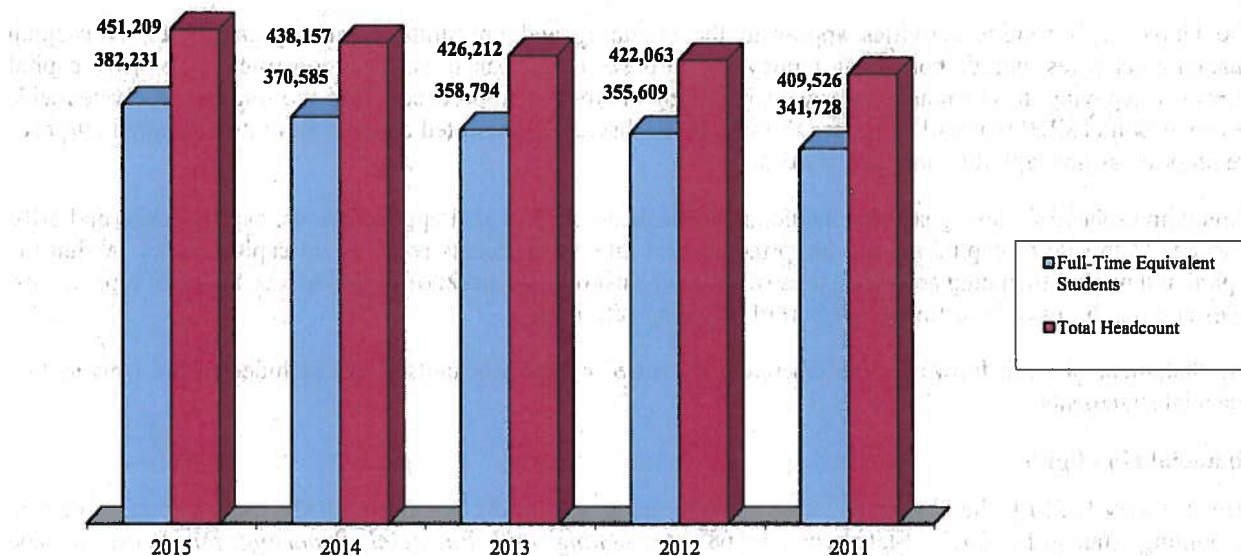
June 30, 2015

(Unaudited)

The student tuition fee revenues increased by \$26.57 million in fiscal year 2015, mainly due to student enrollment growth. Headcount enrollment increased from 438,157 in fiscal year 2014 to 451,209 in fiscal year 2015, as reflected in the following chart. At the same time, Full-Time Equivalent Students increased from 370,585 in fiscal year 2014 to 382,231 in fiscal year 2015.

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

**Enrollment**



### Financial Analysis

The following sections provide additional details on the University's financial position and activities for fiscal years 2015 and 2014:

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

# **CALIFORNIA STATE UNIVERSITY**

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

June 30, 2015

(Unaudited)

### **I. Condensed Schedules of Net Position**

|                                  | <b>University</b>   |                   | <b>Discretely presented component units</b> |                  |
|----------------------------------|---------------------|-------------------|---|------------------|
|                                  | <b>2015</b>         | <b>2014</b>       | <b>2015</b>                                 | <b>2014</b>      |
|                                  | (In thousands)      |                   |   |                  |
| Current assets                   | \$ 3,212,249        | 3,125,495         | 1,248,946                                   | 1,227,635        |
| Capital assets, net              | 8,046,000           | 7,820,312         | 813,195                                     | 811,405          |
| Other noncurrent assets          | 1,515,826           | 1,435,131         | 2,098,681                                   | 2,077,887        |
| <b>Total assets</b>              | <b>12,774,075</b>   | <b>12,380,938</b> | <b>4,160,822</b>                            | <b>4,116,927</b> |
| Deferred outflows of resources   | 648,757             | 45,426            | 10,091                                      | 5,204            |
| Current liabilities              | 1,384,897           | 1,294,577         | 489,131                                     | 479,949          |
| Noncurrent liabilities           | 11,126,911          | 5,388,743         | 1,011,072                                   | 1,019,365        |
| <b>Total liabilities</b>         | <b>12,511,808</b>   | <b>6,683,320</b>  | <b>1,500,203</b>                            | <b>1,499,314</b> |
| Deferred inflows of resources    | 1,086,744           | —                 | 15,898                                      | 1,561            |
| <b>Net position:</b>             |                     |                   |   |                  |
| Net investment in capital assets | 3,614,410           | 3,625,543         | 191,711                                     | 181,825          |
| Restricted:                      |                     |                   |   |                  |
| Nonexpendable                    | 13,448              | 16,218            | 981,900                                     | 924,853          |
| Expendable                       | 82,280              | 114,485           | 914,518                                     | 906,097          |
| Unrestricted                     | (3,885,858)         | 1,986,798         | 566,683                                     | 608,481          |
| <b>Total net position</b>        | <b>\$ (175,720)</b> | <b>5,743,044</b>  | <b>2,654,812</b>                            | <b>2,621,256</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 \$4.73 billion for the University represents an increase of \$167.45 million compared to \$4.56 billion in fiscal year 2014. Investments represent 74.97% of the total current and other noncurrent assets. The University invests its funds mainly through the California State University (CSU) Consolidated Investment Pool whose objective is to maximize current income while preserving and prioritizing asset safety and liquidity. In addition, funds are invested in Surplus Money Investment Fund (SMIF), which is managed by the State Treasurer to invest funds in a short-term pool.

Total investments increased by \$331.70 million due to an overall increase in operating resources provided by the State of California (the State) through noncapital appropriation as previously discussed. In addition, new issuances of notes receivable of \$46.53 million contributed to the increase in total current and other noncurrent assets.

# **CALIFORNIA STATE UNIVERSITY**

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

June 30, 2015

(Unaudited)

This increase is offset by the decrease of \$132.93 million in accounts receivable, which is mainly due to the collection of funds from the State utilized for operations and capital-related projects (including those under the SPWB Lease Revenue Bonds program), \$55.37 million of collections of notes receivable, a decrease of \$13.33 million in prepaid expenses and other assets due to the amortization of capitalized interest related to SPWB capital lease obligations, a \$5.68 million net collection of leases receivable, a \$2.86 million net collection of student loans receivable, and a net decrease of \$0.61 million in other items.

Current and other noncurrent assets for the discretely presented component units increased by \$42.11 million mainly due to the increase in gifts and contributions to endowments managed mostly by Foundations. The endowment investments increased by \$41.78 million. In addition, nonendowment investments increased by \$21.44 million. Other assets also increased by \$21.74 million. This is offset by a \$12.61 million decrease in pledges receivable, the net collection of Bond Anticipation Notes (BANs) issued by the California State University Institute of \$26.71 million and a decrease in other items of \$3.53 million.

### **Capital Assets, Net**

The University's capital assets, net of accumulated depreciation and amortization, as of June 30, 2015 and 2014, comprise the following:

|                                       | <b>2015</b>         | <b>2014</b>      |
|---------------------------------------|---------------------|------------------|
|                                       | (In thousands)      |                  |
| Land and land improvements            | \$ 271,059          | 261,990          |
| Buildings and building improvements   | 6,050,976           | 6,028,032        |
| Improvements other than buildings     | 170,916             | 167,728          |
| Infrastructure                        | 596,876             | 583,453          |
| Equipment                             | 223,108             | 210,875          |
| Library books and materials           | 35,997              | 37,163           |
| Works of art and historical treasures | 33,719              | 30,341           |
| Intangible assets                     | 31,210              | 31,426           |
| Construction work in progress         | 632,139             | 469,304          |
| <b>Total</b>                          | <b>\$ 8,046,000</b> | <b>7,820,312</b> |

Total capital assets, net of accumulated depreciation and amortization, increased by \$225.69 million during fiscal year 2015 as a result of additions on various capital projects including the following:

- Completion of the \$41.31 million Bakersfield Student Housing Northeast Phase 1
- Completion of the \$39.33 million Maritime Academy Physical Education Replacement Building
- Completion of the \$56.60 million Pomona Recreation Center
- Construction in progress on the \$142.70 million San Diego South Campus Plaza
- Construction in progress on the \$126.19 million San Jose Campus Village, Phase 2
- Construction in progress on the \$90.55 million San Jose Student Union Expansion and Renovation

## CALIFORNIA STATE UNIVERSITY

### Management's Discussion and Analysis

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- Construction in progress on the \$63.80 million San Jose Spartan Complex Renovation
- Construction in progress on the \$55.69 million Chico Taylor II Replacement Building
- Construction in progress on the \$53.29 million San Diego Zura Hall Renovation

#### 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*, and the pension contributions made by the University subsequent to the measurement date of the net pension liability in accordance with GASB Statement No. 68 as amended by GASB Statement No. 71 effective in fiscal year 2015.

The deferred outflows of resources increased by \$603.33 million from fiscal year 2014. The increase is due mainly to the deferred outflows of resources of \$602.99 million of University's pension contributions subsequent to the measurement date of the net pension liability. The unamortized loss on debt refunding increased slightly by \$0.34 million due to the partial refunding of SRB Series 2004A, 2005A, and 2005C through the issuance of SRB Series 2014A in August 2014 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 benefits obligations, net pension liability, and other liabilities.

Current and noncurrent liabilities of \$12.51 billion for the University represent an increase of \$5.83 billion compared to \$6.68 billion in fiscal year 2014. This is mainly due to the \$5.51 billion net pension liability recognized in accordance with GASB Statements Nos. 68 and 71 effective as of July 1, 2014. The other major factors include \$221.75 million increase in long-term debt obligations as further discussed in the following paragraphs, \$46.35 million increase in other postemployment benefits obligations, \$40.08 million combined increase in accrued salaries and benefits and accrued compensated balance due to increase in salary and benefit rates, \$28.66 million increase in unearned revenues due to the increase in student enrollment, and \$17.86 million increase in other items. Capitalized lease obligations for the University decreased by \$39.87 million in fiscal year 2015, consisting primarily of new capital lease obligations of \$33.41 million (not related to SPWB), offset by current year repayments of \$70.99 million, and amortization of net premium of \$2.29 million.

Current and other noncurrent liabilities for the discretely presented component units increased by \$0.89 million mainly due to \$71.13 million increase in net pension liability. Grants refundable also increased by \$2.19 million and \$1.64 million in other items. These are offset by a decrease in long-term debt of \$37.28 million due to repayments, in other liabilities of \$12.10 million, in other postemployment benefits obligations of \$11.30 million, in capitalized lease obligations of \$8.14 million, and in claims liability for losses and loss adjustment expenses of \$5.25 million.



# **CALIFORNIA STATE UNIVERSITY**

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

June 30, 2015

(Unaudited)

### **Long-Term Debt Obligations**

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

|   | <b>2015</b>           | <b>2014</b>      |
|---|-----------------------|------------------|
|   | <b>(In thousands)</b> |                  |
| Systemwide Revenue Bonds (SRB)                            | \$ 3,687,508          | 3,507,043        |
| Bond Anticipation Notes (BANs)                            | 149,285               | 168,511          |
| Others  | 65,988                | 72,898           |
| <b>Total</b>  | <b>3,902,781</b>      | <b>3,748,452</b> |
| Unamortized net bond premium                              | 223,491               | 156,073          |
| <b>Total long-term debt obligations</b>                   | <b>4,126,272</b>      | <b>3,904,525</b> |
| Less current portion                                      | (259,535)             | (260,601)        |
| <b>Long-term debt obligations, net of current portion</b> | <b>\$ 3,866,737</b>   | <b>3,643,924</b> |

The University's total long-term debt obligations increased by \$221.75 million in fiscal year 2015, mainly due to the issuance of SRB Series 2014A of \$844.09 million (including premium of \$96.35 million), issuance of BANs of \$134.41 million to finance capital-related projects, new debt of \$4.68 million, which were offset by the \$484.11 million (including \$14.74 million unamortized premium) debt refunding of SRB Series 2004A, 2005A, and 2005C, \$263.14 million debt repayment, and \$14.18 million amortization of net bond premium.

In addition, the State's General Obligation Bond program has provided capital funding for various projects of the University. The debt related to these projects is not allocated to the University by the State and thus is not recorded in the University's financial statements. The total General Obligation Bond debt carried by the State related to University projects at June 30, 2015 and 2014 is approximately \$2.53 billion and \$2.60 billion, respectively.

No fundamental changes occurred in the revenues and expenditures of the revenue bond programs during fiscal year 2015. 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 SRB, revenues pledged generally include student housing fees, parking fees, student union fees, health center facilities fees, and continuing education fees, as well as other revenues designated by the Trustees of California State University (Trustees) for inclusion in the SRB program.

Moody's Investors Service currently provides an intrinsic rating of Aa2, with a stable outlook, for the SRB. Standard & Poor's Ratings Services currently provides an intrinsic rating of AA-, with a stable outlook, for the SRB. All maturities in SRB Series 2005A, Series 2005B, Series 2005C, Series 2007A, Series 2007B, Series 2007C, and Series 2007D and certain maturities in 2008A and 2009A were insured. Since the middle of fiscal year 2008, some providers of insurance for SRB have been downgraded to ratings below Aaa/AAA. Those bonds that are uninsured bear the intrinsic ratings of the SRB, which are Aa2 from the Moody's Investors Service and AA-, from the Standard & Poor's Ratings Services.

# **CALIFORNIA STATE UNIVERSITY**

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(Unaudited)

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

### **Deferred Inflows of Resources**

Deferred inflows of resources are related to the University's changes in the net pension liability. Deferred inflows of resources in fiscal year 2015 increased by \$1.09 billion due to higher than expected earnings on pension plan investments.

### **Net Position**

As noted earlier, net position may serve over time as a useful indicator of the University's financial position. Net position represents the residual interest in the University's assets and deferred outflows of resources after all liabilities and deferred inflows of resources are deducted. As of June 30, 2015, the net position is in a deficit position of \$175.72 million. The deficit is mainly due to the recognition of net pension liability. Net position for fiscal year 2014 was restated and reduced by \$6.18 billion as a result of adopting GASB Statement Nos. 68 and 71.

### **University Net Position June 30, 2015 (in thousands)**

|                                  |             |
|----------------------------------|-------------|
| Net investment in capital assets | \$3,614,410 |
| Restricted nonexpendable         | \$13,448    |
| Restricted expendable            | \$82,280    |
| (\$3,885,858) Unrestricted       |             |

**Total Net Position: (\$175,720,000)**

### **Net Investment in Capital Assets**

The net position category "Net investment in capital assets" represents the University's capital assets, net of accumulated depreciation and amortization, and also net of outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets and any related deferred outflows of resources. The University uses these capital assets in its day-to-day operations. This category is the largest portion of the University's net position year-over-year. The net investment in capital assets decreased by \$11.13 million as a result of depreciation of capital assets at a faster rate than repayment of the long-term debt.

## CALIFORNIA STATE UNIVERSITY

### Management's Discussion and Analysis

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(Unaudited)

#### ***Restricted***

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

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

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

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

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

#### ***Unrestricted***

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

As of June 30, 2015, the unrestricted net position is in a deficit position of \$3.89 billion, mainly due to the recognition of net pension liability. Unrestricted net position as of June 30, 2014 was restated and reduced by \$6.18 billion as a result of adopting the new accounting standards.

The unrestricted net position consists of \$1.07 billion designated resources from various funds and deficit of \$4.96 billion in undesignated resources mainly from the operating fund. The undesignated resources would generally provide a prudent reserve for contingencies, such as the uncertain direction of future state appropriations, as well as the effects of an uncertain economic environment. However, the net undesignated resources is in deficit position due mainly to the adoption of the new accounting standards.

## CALIFORNIA STATE UNIVERSITY

### Management's Discussion and Analysis

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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 SRB program.

Of the \$1.07 billion in designated unrestricted net position, approximately 63.00% was designated for supporting enterprise activities (i.e., Continuing Education, Housing, Parking, and Student Union), 9.29% was designated for campus-based projects or programs, and 12.00% was designated for special capital projects. The remaining 15.71% was designated for supporting activities related to education, financial aid, and other programs.

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

|  | University     |             | Discretely presented component units |           |
|--|----------------|-------------|--------------------------------------|-----------|
|  | 2015           | 2014        | 2015                                 | 2014      |
|  | (In thousands) |             |                                      |           |
| Operating revenues:  |                |             |                                      |           |
| Student tuition and fees, net                              | \$ 2,149,786   | 2,123,212   | 179,383                              | 170,703   |
| Grants and contracts, noncapital                           | 99,545         | 73,343      | 477,309                              | 475,835   |
| Sales and services of educational activities               | 41,797         | 42,227      | 32,802                               | 34,458    |
| Sales and services of auxiliary enterprises, net           | 451,993        | 416,300     | 504,282                              | 476,237   |
| Other operating revenues                                   | 194,216        | 178,657     | 241,490                              | 233,327   |
| Total operating revenues                                   | 2,937,337      | 2,833,739   | 1,435,266                            | 1,390,560 |
| Operating expenses   | 6,868,506      | 6,534,506   | 1,570,435                            | 1,509,773 |
| Operating loss   | (3,931,169)    | (3,700,767) | (135,169)                            | (119,213) |
| Nonoperating revenues (expenses):                          |                |             |                                      |           |
| State appropriations, noncapital                           | 2,762,018      | 2,345,755   | —                                    | —         |
| Federal financial aid grants, noncapital                   | 953,931        | 885,327     | 1,167                                | 1,198     |
| State financial aid grants, noncapital                     | 627,321        | 521,796     | 1,185                                | 1,310     |
| Local financial aid grants, noncapital                     | —              | —           | 89                                   | 269       |
| Nongovernmental and other financial aid grants, noncapital | 30,605         | 34,784      | 486                                  | 325       |
| Other federal nonoperating grants, noncapital              | 3,944          | 3,925       | —                                    | —         |
| Gifts, noncapital  | 48,060         | 39,636      | 167,918                              | 182,424   |

# **CALIFORNIA STATE UNIVERSITY**

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June 30, 2015

(Unaudited)

|  | <b>University</b>   |                  | <b>Discretely presented component units</b> |                  |
|--|---------------------|------------------|---|------------------|
|  | <b>2015</b>         | <b>2014</b>      | <b>2015</b>                                 | <b>2014</b>      |
|  | (In thousands)      |                  |   |                  |
| Investment income, net                                   | \$ 42,851           | 43,610           | 15,338                                      | 94,335           |
| Endowment income, net                                    | 61                  | 86               | 1,006                                       | 136,027          |
| Interest expense   | (223,034)           | (226,268)        | (24,579)                                    | (27,047)         |
| Other nonoperating revenues (expenses)                   | (105,944)           | 66,417           | (35,001)                                    | (19,858)         |
| Net nonoperating revenues                                | <u>4,139,813</u>    | <u>3,715,068</u> | <u>127,609</u>                              | <u>368,983</u>   |
| Income (loss) before other revenues (expenses)           | 208,644             | 14,301           | (7,560)                                     | 249,770          |
| State appropriations, capital                            | 5,766               | 1,896            | —   | —                |
| Grants and gifts, capital                                | 50,492              | 45,728           | 38,216                                      | 8,166            |
| Additions (reductions) to permanent endowments           | (1,996)             | (1,883)          | 51,646                                      | 47,392           |
| Change in net position                                   | <u>262,906</u>      | <u>60,042</u>    | <u>82,302</u>                               | <u>305,328</u>   |
| Net position – beginning of year, as previously reported | 5,743,044           | 5,683,002        | 2,621,256                                   | 2,322,130        |
| Restatements   | <u>6,181,670</u>    | <u>—</u>         | <u>(48,746)</u>                             | <u>(6,202)</u>   |
| Net position – beginning of year, as restated            | <u>(438,626)</u>    | <u>5,683,002</u> | <u>2,572,510</u>                            | <u>2,315,928</u> |
| Net position – end of year                               | <u>\$ (175,720)</u> | <u>5,743,044</u> | <u>2,654,812</u>                            | <u>2,621,256</u> |

# CALIFORNIA STATE UNIVERSITY

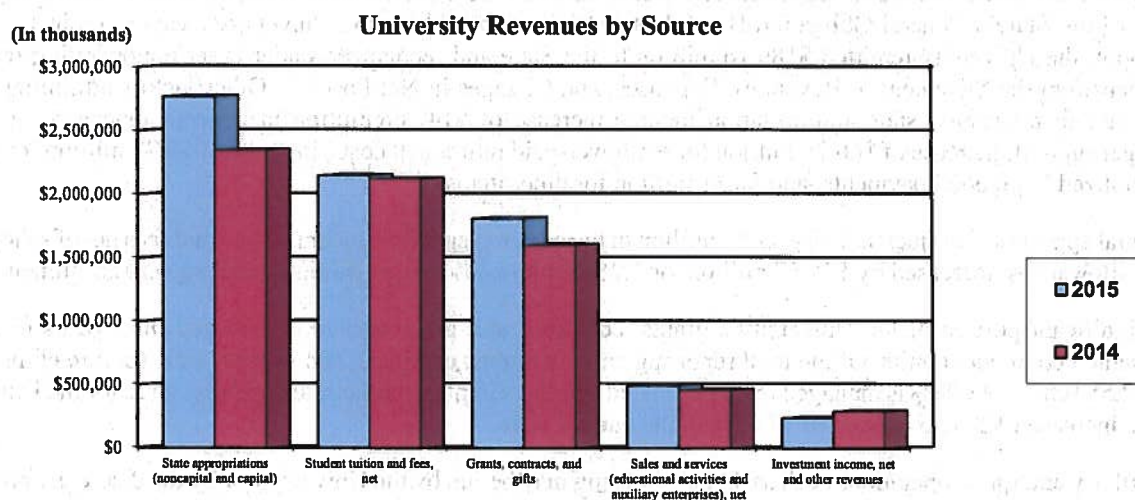
## Management's Discussion and Analysis

June 30, 2015

(Unaudited)

### Revenues (Operating and Nonoperating)

The following chart displays the components of the University's revenues for fiscal years 2015 and 2014:



|  | 2015<br>(In thousands) | Percentage<br>of total | 2014<br>(In thousands) | Percentage<br>of total |
|--|------------------------|------------------------|------------------------|------------------------|
| State appropriations (noncapital and capital)                              | \$ 2,767,784           | 37.10%                 | \$ 2,347,651           | 34.42%                 |
| Student tuition and fees, net  | 2,149,786              | 28.82                  | 2,123,212              | 31.13                  |
| Grants, contracts, and gifts   | 1,811,902              | 24.29                  | 1,602,656              | 23.50                  |
| Sales and services (educational activities and auxiliary enterprises), net | 493,790                | 6.62                   | 458,527                | 6.72                   |
| Investment income, net and other revenues                                  | 237,128                | 3.17                   | 288,770                | 4.23                   |
| <b>Total revenues (operating and nonoperating)</b>                         | <b>\$ 7,460,390</b>    | <b>100.00%</b>         | <b>\$ 6,820,816</b>    | <b>100.00%</b>         |

## CALIFORNIA STATE UNIVERSITY

### Management's Discussion and Analysis

June 30, 2015

(Unaudited)

The two largest components of revenues are state appropriations and student tuition and fees, net, which accounted for a combined 65.92% of the University's revenues in fiscal year 2015. State appropriations are received for both noncapital and capital purposes. The noncapital state appropriation for the University in fiscal year 2015 was \$2.76 billion, \$416.26 million higher than in fiscal year 2014. This increase consists of \$197.24 million to pay the cost of the State's General Obligation Bond debt service attributable to the University's capital projects. Of this amount, the University remitted \$189.16 million to the State and recognized under other nonoperating revenues (expense) in the Statement of Revenues, Expenses, and Changes in Net Position. Other factors attributing to the increase in noncapital state appropriation include increase of \$142.66 million in general noncapital operating budget support, increase of \$66.26 million for employer-paid retirement costs, increase of \$9.72 million for SPWB capitalized lease bond payments, and \$0.38 million for other items.

Capital appropriations increased by \$3.87 million in the current year. The student tuition and fees net of scholarship and allowances, increased by \$26.57 million, or 1.25%, mainly due to growth 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 \$2.55 billion, 28.94% is managed by these related entities. Grants, contracts, and gifts revenue for the University have increased \$209.25 million or 13.06% 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 revenue, decreased by \$51.64 million to \$237.13 million in the current year.

In fiscal year 2014, there was a net other nonoperating revenues of \$66.42 million. In fiscal year 2015, however, there was no net other nonoperating revenue. Instead, there was net other nonoperating expense of \$105.94 million as a result of the University's payment of the State's General Obligation Bonds of \$189.16 million. Further, the investments and endowment income decreased by \$0.78 million, offset by an increase of \$15.56 million in other operating revenues.

Endowment investments are managed by discretely presented component units (mostly Foundations). Endowment income decreased by \$135.02 million in fiscal year 2015 compared to fiscal year 2014 due to changes in investment market conditions.



# CALIFORNIA STATE UNIVERSITY

## Management's Discussion and Analysis

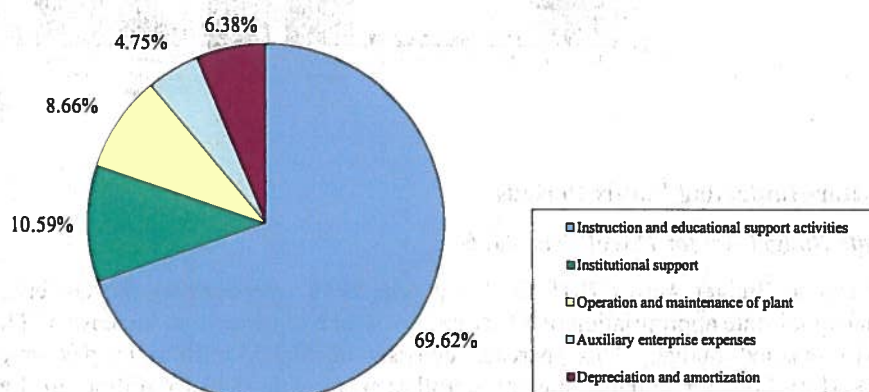
June 30, 2015

(Unaudited)

### 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 69.62% of the total operating expenses of the University as shown below:

|   | 2015<br>(In thousands) | Percentage<br>of total |
|---|------------------------|------------------------|
| Instruction   | \$ 2,348,698           | 34.20%                 |
| Research  | 47,467                 | 0.69                   |
| Public service  | 55,436                 | 0.81                   |
| Academic support  | 709,642                | 10.33                  |
| Student services  | 731,830                | 10.65                  |
| Student grants and scholarships                             | 888,558                | 12.94                  |
| <b>Total instruction and educational support activities</b> | <b>4,781,631</b>       | <b>69.62</b>           |
| Institutional support                                       | 727,274                | 10.59                  |
| Operation and maintenance of plant                          | 594,999                | 8.66                   |
| Auxiliary enterprise expenses                               | 326,271                | 4.75                   |
| Depreciation and amortization                               | 438,331                | 6.38                   |
| <b>Total operating expenses</b>                             | <b>\$ 6,868,506</b>    | <b>100.00%</b>         |





## CALIFORNIA STATE UNIVERSITY

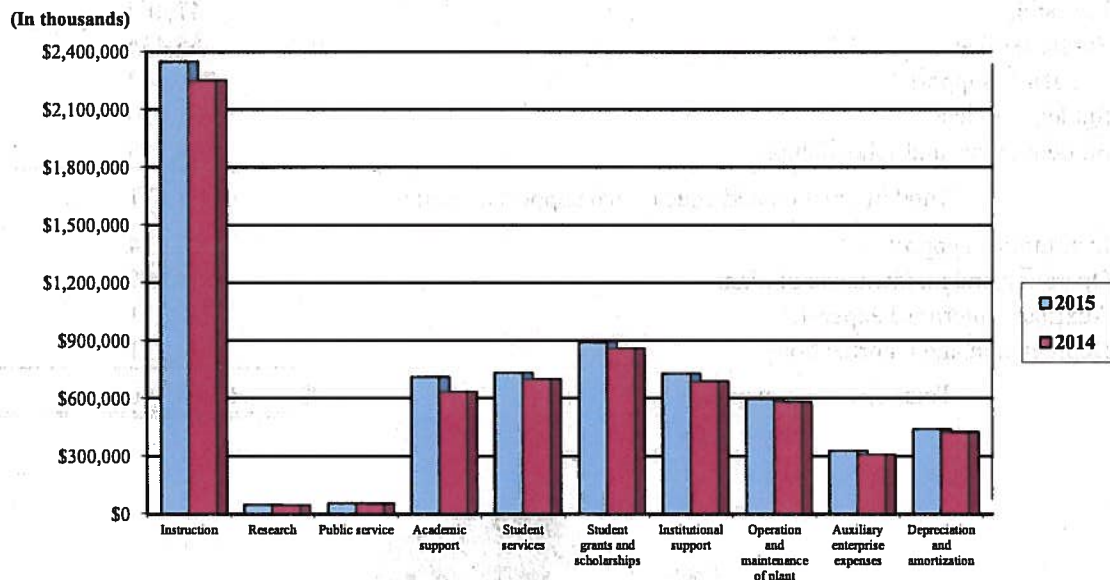
### Management's Discussion and Analysis

June 30, 2015

(Unaudited)

Total operating expenses for the University increased by \$334.00 million in the current year. The increase was a result of primarily the increase in employees' salaries, employees' and retirees' benefit costs, resulting in an increase of \$98.48 million in instruction expenses, \$77.56 million in academic support, \$41.21 million in institutional support, and \$34.35 million in student services. Other factors included increases in auxiliary enterprise expenses due to housing and parking lot maintenance of \$18.85 million, student grants and scholarships of \$30.70 million, maintenance and repair expenses of \$14.55 million, \$14.54 million increase in depreciation and amortization, and \$3.76 million net increase in other items. The following chart displays the University's operating expenses by program for fiscal years 2015 and 2014.

**University Operating Expenses by Program**



### Factors Impacting Future Periods

#### *State Budget Act for Fiscal Year 2016*

The State Budget Act of 2015 for fiscal year 2016, approved by the Governor on June 24, 2015, resulted in noncapital state appropriation of \$2.99 billion, which represents an increase of \$225.05 million over the fiscal year 2015 enacted budget. This increase consists of \$65.53 million to pay employee compensation increases, \$58.91 million for funded student enrollment growth, \$49.15 million to fund Systemwide Initiatives and Performance Program, \$20.00 million to fund Student Success and Completion Program, \$11.04 million for employer-paid Health Care Premiums, \$7.00 million for retirement costs adjustments, \$7.63 million to pay SPWB capital lease obligation debt service, \$5.04 million for operations and maintenance of new space, and \$0.75 million for other items.

## **CALIFORNIA STATE UNIVERSITY**

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

**June 30, 2015**

**(Unaudited)**

#### ***Changes in Capital Financing Authorities***

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's 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 (the Act). No more than 12% of the University's annual general fund support appropriation, less the amount of that appropriation that is required to fund State's 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 SRB program. The University has taken no action to utilize them in fiscal year 2015.

# CALIFORNIA STATE UNIVERSITY

## Statement of Net Position

June 30, 2015

|  | Assets              | University              | Discretely presented component units | Total                 |
|--|---------------------|-------------------------|--------------------------------------|-----------------------|
| <b>Current assets:</b>   |                     |                         |                                      |                       |
| Cash and cash equivalents  |                     | \$ 3,574,000            | 225,876,000                          | 229,450,000           |
| Short-term investments   |                     | 2,958,316,000           | 585,948,000                          | 3,544,264,000         |
| Accounts receivable, net   |                     | 156,922,000             | 173,502,000                          | 330,424,000           |
| Leases receivable, current portion   |                     | 13,915,000              | 1,783,000                            | 15,698,000            |
| Notes receivable, current portion  |                     | 27,115,000              | 155,572,000                          | 182,687,000           |
| Pledges receivable, net  |                     | 360,000                 | 47,761,000                           | 48,121,000            |
| Prepaid expenses and other current assets  |                     | 52,047,000              | 58,504,000                           | 110,551,000           |
| <b>Total current assets</b>  |                     | <b>3,212,249,000</b>    | <b>1,248,946,000</b>                 | <b>4,461,195,000</b>  |
| <b>Noncurrent assets:</b>  |                     |                         |                                      |                       |
| Restricted cash and cash equivalents   |                     | 103,000                 | 29,185,000                           | 29,288,000            |
| Accounts receivable, net   |                     | 153,481,000             | 19,944,000                           | 173,425,000           |
| Leases receivable, net of current portion  |                     | 350,760,000             | 67,109,000                           | 417,869,000           |
| Notes receivable, net of current portion   |                     | 264,732,000             | 29,433,000                           | 294,165,000           |
| Student loans receivable, net  |                     | 85,389,000              | 1,035,000                            | 86,424,000            |
| Pledges receivable, net  |                     | 720,000                 | 89,338,000                           | 90,058,000            |
| Endowment investments  |                     | 13,448,000              | 1,315,172,000                        | 1,328,620,000         |
| Other long-term investments  |                     | 572,670,000             | 510,061,000                          | 1,082,731,000         |
| Capital assets, net  |                     | 8,046,000,000           | 813,195,000                          | 8,859,195,000         |
| Other assets   |                     | 74,523,000              | 37,404,000                           | 111,927,000           |
| <b>Total noncurrent assets</b>   |                     | <b>9,561,826,000</b>    | <b>2,911,876,000</b>                 | <b>12,473,702,000</b> |
| <b>Total assets</b>  |                     | <b>12,774,075,000</b>   | <b>4,160,822,000</b>                 | <b>16,934,897,000</b> |
| <b>Deferred Outflows of Resources</b>  |                     |                         |                                      |                       |
| Deferred outflows of resources   |                     | 648,757,000             | 10,091,000                           | 658,848,000           |
|  | <b>Liabilities</b>  |                         |                                      |                       |
| <b>Current liabilities:</b>  |                     |                         |                                      |                       |
| Accounts payable   |                     | 210,684,000             | 79,094,000                           | 289,778,000           |
| Accrued salaries and benefits  |                     | 324,928,000             | 25,118,000                           | 350,046,000           |
| Accrued compensated absences, current portion                                    |                     | 127,694,000             | 15,560,000                           | 143,254,000           |
| Unearned revenue   |                     | 283,549,000             | 68,873,000                           | 352,422,000           |
| Capitalized lease obligations, current portion                                   |                     | 74,718,000              | 13,880,000                           | 88,598,000            |
| Long-term debt obligations, current portion                                      |                     | 259,535,000             | 185,530,000                          | 445,065,000           |
| Claims liability for losses and loss adjustment expenses, current portion        |                     | —                       | 26,730,000                           | 26,730,000            |
| Depository accounts  |                     | 10,051,000              | 13,413,000                           | 23,464,000            |
| Other liabilities  |                     | 93,738,000              | 60,933,000                           | 154,671,000           |
| <b>Total current liabilities</b>   |                     | <b>1,384,897,000</b>    | <b>489,131,000</b>                   | <b>1,874,028,000</b>  |
| <b>Noncurrent liabilities:</b>   |                     |                         |                                      |                       |
| Accrued compensated absences, net of current portion                             |                     | 103,494,000             | 2,801,000                            | 106,295,000           |
| Unearned revenue   |                     | 13,213,000              | 6,632,000                            | 19,845,000            |
| Grants refundable  |                     | 92,659,000              | 9,070,000                            | 101,729,000           |
| Capitalized lease obligations, net of current portion                            |                     | 1,135,691,000           | 353,906,000                          | 1,489,597,000         |
| Long-term debt obligations, net of current portion                               |                     | 3,866,737,000           | 349,884,000                          | 4,216,621,000         |
| Claims liability for losses and loss adjustment expenses, net of current portion |                     | —                       | 68,385,000                           | 68,385,000            |
| Depository accounts  |                     | 2,210,000               | 13,651,000                           | 15,861,000            |
| Other postemployment benefits obligations  |                     | 313,360,000             | 84,993,000                           | 398,353,000           |
| Net pension liability  |                     | 5,513,655,000           | 71,132,000                           | 5,584,787,000         |
| Other liabilities  |                     | 85,892,000              | 50,618,000                           | 136,510,000           |
| <b>Total noncurrent liabilities</b>  |                     | <b>11,126,911,000</b>   | <b>1,011,072,000</b>                 | <b>12,137,983,000</b> |
| <b>Total liabilities</b>   |                     | <b>12,511,808,000</b>   | <b>1,500,203,000</b>                 | <b>14,012,011,000</b> |
| <b>Deferred Inflows of Resources</b>   |                     |                         |                                      |                       |
| Deferred inflows of resources  |                     | 1,086,744,000           | 15,898,000                           | 1,102,642,000         |
|  | <b>Net Position</b> |                         |                                      |                       |
| <b>Net position:</b>   |                     |                         |                                      |                       |
| Net investment in capital assets   |                     | 3,614,410,000           | 191,711,000                          | 3,806,121,000         |
| Restricted for:  |                     |                         |                                      |                       |
| Nonexpendable – endowments   |                     | 13,448,000              | 981,900,000                          | 995,348,000           |
| Expendable:  |                     |                         |                                      |                       |
| Scholarships and fellowships   |                     | 14,523,000              | 233,256,000                          | 247,779,000           |
| Research   |                     | 37,000                  | 24,743,000                           | 24,780,000            |
| Loans  |                     | 14,072,000              | 1,834,000                            | 15,906,000            |
| Capital projects   |                     | 25,883,000              | 61,109,000                           | 86,992,000            |
| Debt service   |                     | 6,102,000               | 18,774,000                           | 24,876,000            |
| Others   |                     | 21,663,000              | 574,802,000                          | 596,465,000           |
| Unrestricted   |                     | (3,885,858,000)         | 566,683,000                          | (3,319,175,000)       |
| <b>Total net position</b>  |                     | <b>\$ (175,720,000)</b> | <b>2,654,812,000</b>                 | <b>2,479,092,000</b>  |

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Year ended June 30, 2015**

|  | University              | Discretely<br>presented<br>component<br>units | Eliminations         | Total                  |
|--|-------------------------|---|----------------------|------------------------|
| <b>Revenues:</b>   |                         |   |                      |                        |
| <b>Operating revenues:</b>   |                         |   |                      |                        |
| Student tuition and fees (net of scholarship allowances<br>of \$1,392,151,000)                 | \$ 2,149,786,000        | 179,383,000                                   | (15,631,000)         | 2,313,538,000          |
| <b>Grants and contracts, noncapital:</b>   |                         |   |                      |                        |
| Federal  | 41,571,000              | 321,860,000                                   | (59,000)             | 363,372,000            |
| State  | 34,406,000              | 84,532,000                                    | (1,695,000)          | 117,243,000            |
| Local  | 5,655,000               | 14,660,000                                    | —                    | 20,315,000             |
| Nongovernmental  | 17,913,000              | 56,257,000                                    | (5,126,000)          | 69,044,000             |
| Sales and services of educational activities   | 41,797,000              | 32,802,000                                    | —                    | 74,599,000             |
| Sales and services of auxiliary enterprises (net of<br>scholarship allowances of \$86,397,000) | 451,993,000             | 504,282,000                                   | (7,787,000)          | 948,488,000            |
| Other operating revenues   | 194,216,000             | 241,490,000                                   | (1,555,000)          | 434,151,000            |
| <b>Total operating revenues</b>  | <u>2,937,337,000</u>    | <u>1,435,266,000</u>                          | <u>(31,853,000)</u>  | <u>4,340,750,000</u>   |
| <b>Expenses:</b>   |                         |   |                      |                        |
| <b>Operating expenses:</b>   |                         |   |                      |                        |
| Instruction  | 2,348,698,000           | 165,472,000                                   | (9,330,000)          | 2,504,840,000          |
| Research   | 47,467,000              | 199,075,000                                   | (265,000)            | 246,277,000            |
| Public service   | 55,436,000              | 158,466,000                                   | (3,197,000)          | 210,705,000            |
| Academic support   | 709,642,000             | 66,294,000                                    | (3,387,000)          | 772,549,000            |
| Student services   | 731,830,000             | 168,693,000                                   | (26,646,000)         | 873,877,000            |
| Institutional support  | 727,274,000             | 201,634,000                                   | (11,861,000)         | 917,047,000            |
| Operation and maintenance of plant   | 594,999,000             | 40,327,000                                    | (365,000)            | 634,961,000            |
| Student grants and scholarships  | 888,558,000             | 48,640,000                                    | (28,540,000)         | 908,658,000            |
| Auxiliary enterprise expenses  | 326,271,000             | 472,108,000                                   | (30,991,000)         | 767,388,000            |
| Depreciation and amortization  | 438,331,000             | 49,726,000                                    | —                    | 488,057,000            |
| <b>Total operating expenses</b>  | <u>6,868,506,000</u>    | <u>1,570,435,000</u>                          | <u>(114,582,000)</u> | <u>8,324,359,000</u>   |
| <b>Operating loss</b>  | <u>(3,931,169,000)</u>  | <u>(135,169,000)</u>                          | <u>82,729,000</u>    | <u>(3,983,609,000)</u> |
| <b>Nonoperating revenues (expenses):</b>   |                         |   |                      |                        |
| State appropriations, noncapital   | 2,762,018,000           | —   | —                    | 2,762,018,000          |
| Federal financial aid grants, noncapital   | 953,931,000             | 1,167,000                                     | —                    | 955,098,000            |
| State financial aid grants, noncapital   | 627,321,000             | 1,185,000                                     | —                    | 628,506,000            |
| Local financial aid grants, noncapital   | —                       | 89,000  | —                    | 89,000                 |
| Nongovernmental and other financial aid grants, noncapital                                     | 30,605,000              | 486,000                                       | (17,394,000)         | 13,697,000             |
| Other federal nonoperating grants, noncapital  | 3,944,000               | —   | —                    | 3,944,000              |
| Gifts, noncapital  | 48,060,000              | 167,918,000                                   | (39,502,000)         | 176,476,000            |
| Investment income, net   | 42,851,000              | 15,338,000                                    | —                    | 58,189,000             |
| Endowment income   | 61,000                  | 1,006,000                                     | —                    | 1,067,000              |
| Interest expense   | (223,034,000)           | (24,579,000)                                  | —                    | (247,613,000)          |
| Other nonoperating expenses  | (105,944,000)           | (35,001,000)                                  | 7,040,000            | (133,905,000)          |
| <b>Net nonoperating revenues</b>   | <u>4,139,813,000</u>    | <u>127,609,000</u>                            | <u>(49,856,000)</u>  | <u>4,217,566,000</u>   |
| <b>Income (loss) before other revenues (expenses)</b>  | <u>208,644,000</u>      | <u>(7,560,000)</u>                            | <u>32,873,000</u>    | <u>233,957,000</u>     |
| State appropriations, capital  | 5,766,000               | —   | —                    | 5,766,000              |
| Grants and gifts, capital  | 50,492,000              | 38,216,000                                    | (32,873,000)         | 55,835,000             |
| Additions (reductions) to permanent endowments   | (1,996,000)             | 51,646,000                                    | —                    | 49,650,000             |
| <b>Increase in net position</b>  | <u>262,906,000</u>      | <u>82,302,000</u>                             | <u>—</u>             | <u>345,208,000</u>     |
| <b>Net position:</b>   |                         |   |                      |                        |
| Net position at beginning of year, as restated   | (438,626,000)           | 2,572,510,000                                 | —                    | 2,133,884,000          |
| <b>Net position at end of year</b>   | <u>\$ (175,720,000)</u> | <u>2,654,812,000</u>                          | <u>—</u>             | <u>2,479,092,000</u>   |

See accompanying notes to financial statements.

# CALIFORNIA STATE UNIVERSITY

## Statement of Cash Flows

Year ended June 30, 2015

|   | <u>University</u>      |
|---|------------------------|
| Cash flows from operating activities:                     |                        |
| Student tuition and fees                                  | \$ 2,167,648,000       |
| Federal grants and contracts                              | 44,000,000             |
| State grants and contracts                                | 31,595,000             |
| Local grants and contracts                                | 3,014,000              |
| Nongovernmental grants and contracts                      | 16,466,000             |
| Payments to suppliers                                     | (1,357,241,000)        |
| Payments to employees                                     | (4,297,931,000)        |
| Payments to students                                      | (885,899,000)          |
| Collections of student loans                              | 2,650,000              |
| Sales and services of educational activities              | 42,026,000             |
| Sales and services of auxiliary enterprises               | 454,279,000            |
| Other receipts  | 197,447,000            |
| Net cash used in operating activities                     | <u>(3,581,946,000)</u> |
| Cash flows from noncapital financing activities:          |                        |
| State appropriations                                      | 2,762,350,000          |
| Federal financial aid grants                              | 953,502,000            |
| State financial aid grants                                | 629,323,000            |
| Nongovernmental and other financial aid grants            | 31,024,000             |
| Other federal nonoperating grants                         | 4,045,000              |
| Gifts and grants received for other than capital purposes | 47,016,000             |
| Federal loan program receipts                             | 1,312,167,000          |
| Federal loan program disbursements                        | (1,309,835,000)        |
| Monies received on behalf of others                       | 172,179,000            |
| Monies disbursed on behalf of others                      | (169,855,000)          |
| Transfers to escrow agent                                 | (28,754,000)           |
| Proceeds from long-term debt                              | 96,341,000             |
| Principal paid on long-term debt                          | (62,742,000)           |
| Interest paid on long-term debt                           | (15,607,000)           |
| Issuance of notes receivable                              | (42,233,000)           |
| Issuance of capital leases receivable                     | (7,200,000)            |
| Principal collections on capital leases                   | 20,213,000             |
| Interest collections on capital leases                    | 14,002,000             |
| Principal collections on notes receivable                 | 56,247,000             |
| Interest collections on notes receivable                  | 12,724,000             |
| Other noncapital financing activities                     | (115,200,000)          |
| Net cash provided by noncapital financing activities      | <u>4,359,707,000</u>   |
| Cash flows from capital and related financing activities: |                        |
| Proceeds from capital debt                                | 912,241,000            |
| State appropriations                                      | 6,387,000              |
| State appropriations – SPWB Lease Revenue Bond program    | 143,153,000            |
| Capital grants and gifts                                  | 14,509,000             |
| Proceeds from sale of capital assets                      | 2,434,000              |
| Acquisition of capital assets                             | (602,465,000)          |
| Transfers to escrow agent                                 | (468,954,000)          |
| Principal paid on capital debt and leases                 | (271,219,000)          |
| Interest paid on capital debt and leases                  | (210,672,000)          |
| Principal collection on capital leases                    | 633,000                |
| Interest collection on capital leases                     | 3,361,000              |
| Net cash used in capital and related financing activities | <u>(470,592,000)</u>   |

**CALIFORNIA STATE UNIVERSITY**

**Statement of Cash Flows**

**Year ended June 30, 2015**

|   | <u><b>University</b></u>  |
|---|---------------------------|
| Cash flows from investing activities:   |                           |
| Proceeds from sales of investments  | \$ 8,859,787,000          |
| Purchases of investments  | (9,189,606,000)           |
| Investment income proceeds  | 22,163,000                |
| Net cash used in investing activities   | <u>(307,656,000)</u>      |
| Net decrease in cash and cash equivalents   | (487,000)                 |
| Cash and cash equivalents at beginning of year                                    | 4,164,000                 |
| Cash and cash equivalents at end of year  | <u>\$ 3,677,000</u>       |
| Summary of cash and cash equivalents at end of year:                              |                           |
| Cash and cash equivalents   | \$ 3,574,000              |
| Restricted cash and cash equivalents  | 103,000                   |
| Total cash and cash equivalents at end of year                                    | <u>\$ 3,677,000</u>       |
| Reconciliation of operating loss to net cash used in operating activities:        |                           |
| Operating loss  | \$ (3,931,169,000)        |
| Adjustments to reconcile operating loss to net cash used in operating activities: |                           |
| Depreciation and amortization   | 438,331,000               |
| Change in assets and liabilities:   |                           |
| Accounts receivable, net  | (6,459,000)               |
| Student loans receivable, net   | 131,000                   |
| Prepaid expenses and other current assets   | (2,560,000)               |
| Other assets  | (58,000)                  |
| Accounts payable  | (7,382,000)               |
| Accrued salaries and benefits   | 27,136,000                |
| Accrued compensated absences  | 12,940,000                |
| Unearned revenue  | 29,766,000                |
| Depository accounts   | 84,000                    |
| Other postemployment benefits obligations   | 46,347,000                |
| Net pension liability   | (184,267,000)             |
| Other liabilities   | (4,786,000)               |
| Net cash used in operating activities   | <u>\$ (3,581,946,000)</u> |
| Supplemental schedule of noncash transactions:                                    |                           |
| Contributed capital assets  | \$ 36,232,000             |
| Amortization of net bond premium  | 16,465,000                |
| Change in accrued capital asset purchases   | 15,458,000                |
| Capitalized interest applied against debt service                                 | 14,942,000                |
| Amortization of loss on debt refundings   | 5,699,000                 |
| Issuance of notes receivable through proceeds from long-term debt                 | 4,548,000                 |
| Acquisition of capital assets through capitalized lease                           | 2,658,000                 |
| Gifts in kind   | 1,157,000                 |

See accompanying notes to financial statements.

## **CALIFORNIA STATE UNIVERSITY**

### **Notes to Financial Statements**

**June 30, 2015**

#### **(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, 2015:

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

## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

June 30, 2015

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

#### (2) Summary of Significant Accounting Policies

##### (a) Financial Reporting Entity

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

In addition, the accompanying financial statements include the accounts of the 90 discretely presented component units, which are primarily University-related recognized auxiliary organizations. There are five 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 except for one component unit identified by <sup>(1)</sup> below. Although not a legally separate entity, it is considered as a discretely presented component unit in accordance with GASB. Recognized auxiliary organizations include foundations, associated students, student unions, food service entities, bookstores, and similar organizations. Foundations, whose net position comprises approximately 79.65% 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**

### **Notes to Financial Statements**

**June 30, 2015**

- California State University Channel Islands Financing Authority\*
- 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.\*<sup>(1)</sup>
- 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, 2015**

- 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, 2015**

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

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

All significant nonexchange transactions have been eliminated.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2015

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

### (b) *Basis of Presentation*

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

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

### (c) *New Accounting Pronouncements*

In 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 effect of the changes from the implementation of GASB Statement Nos. 68 and 71 on the University's financial statements for the year ended June 30, 2015 was as follows:

|   |                         |
|---|-------------------------|
| Net position as of June 30, 2014, as previously reported          | \$ 5,743,044,000        |
| Adjustment due to implementation of GASB Statement Nos. 68 and 71 | (6,181,670,000)         |
| Net position at beginning of year, as restated                    | <u>\$ (438,626,000)</u> |

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for the University's fiscal year beginning July 1, 2015. This Statement defines fair value and

## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

June 30, 2015

describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. The University has not yet determined the impact of GASB Statement No. 72 on the University's financial statements.

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

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles (GAAP) for State and Local Governments*, effective for the University's fiscal year beginning July 1, 2015, and should be applied retroactively. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The University has not yet determined the impact of GASB Statement No. 76 on the University's financial statements.

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

The beginning net position of the discretely presented component units has been restated by \$48.75 million. A summary of those restatements to beginning net position is as follows:

|   |                         |
|---|-------------------------|
| Net position as of June 30, 2014, as previously reported          | \$ 2,621,256,000        |
| Adjustment due to implementation of GASB Statement Nos. 68 and 71 | (51,463,000)            |
| Other restatements, net   | <u>2,717,000</u>        |
| Net position at beginning of year, as restated                    | <u>\$ 2,572,510,000</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 California State University (CSU) Consolidated Investment Pool to be investments. The Statement of Cash Flows does not include the cash flows of the discretely presented component units. Certain discretely presented component units are also participants in the CSU Consolidated Investment Pool. The University

## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

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considers changes in the equity in the CSU Consolidated Investment Pool as investing cash flows of the University in the accompanying Statement of Cash Flows.

**(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 net investment income.

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

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

**(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

## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

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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, 2015 to calculate the liability for accrued compensated absences. The University provides vacation 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 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, 2015. 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

## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

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information currently available. Given the inherent uncertainty in the nature of such estimates, future losses may deviate from those estimates.

#### **(n) *Deferred Outflows of Resources and Deferred Inflows of Resources***

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

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

#### **(o) *Net Position***

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

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

#### **(p) *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.



## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

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

Student tuition and fees revenue, and sales and services of auxiliary enterprises, including revenues from student housing programs, are presented net of scholarships and fellowships applied to student accounts. Certain other scholarship amounts are paid directly to, or refunded to, the student and are reflected as expenses.

**(q) Other Postemployment Benefits Obligations**

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

**(r) Net Pension Liability**

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

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

**(s) 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.

**(t) 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

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

**June 30, 2015**

expense in the internal service sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the fiscal year.

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

### **(v) 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.

### **(w) 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, 2015 are classified in the accompanying Statement of Net Position as follows:

|   |    |                             |
|---|----|-----------------------------|
| Cash and cash equivalents                     | \$ | 3,574,000                   |
| Restricted cash and cash equivalents          |    | <u>103,000</u>              |
| Total cash and cash equivalents               |    | <u>3,677,000</u>            |
| Short-term investments                        |    | 2,958,316,000               |
| Endowment investments                         |    | 13,448,000                  |
| Other long-term investments                   |    | <u>572,670,000</u>          |
| Total investments                             |    | <u>3,544,434,000</u>        |
| Total cash, cash equivalents, and investments | \$ | <u><u>3,548,111,000</u></u> |

## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

June 30, 2015

**(a) Cash and Cash Equivalents**

At June 30, 2015, cash and cash equivalents consists of demand deposits held at the State Treasury and commercial banks, and petty cash. Total cash and cash equivalents of \$3,677,000 had a corresponding carrying balance with the State Treasury and commercial banks of \$11,283,000 at June 30, 2015. The difference was primarily related to deposits in transit and outstanding checks.

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

**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, 2015, the University's investment portfolio consists primarily of investments in the CSU Consolidated Investment Pool and SMIF. Separate accounting is maintained as to the amounts allocable to the various University funds and programs.

**Investment Policy**

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

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

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

June 30, 2015

### **Interest Rate Risk**

Interest rate risk is the risk that fluctuations in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The University's investment guidelines manage its interest rate risk by limiting an eligible investment to maximum effective maturity and by limiting the average duration of the portfolio. The effective maturity date reflects a bond with embedded options such as a call, put or reset date, and prepayment speed resulting in the maturity of a bond being less than the final maturity date. Duration is a measure of the sensitivity of the price of an investment relative to fluctuations in market interest rates. Durations of the University's investment portfolio for each investment type, except for SMIF in which weighted average life is used, as of June 30, 2015 are presented in the following table.

| <b>Investment type</b>     | <b>Fair value</b>       | <b>Duration</b> |
|----------------------------|-------------------------|-----------------|
| Money market funds         | \$ 55,698,000           | —               |
| Repurchase agreements      | 8,137,000               | 0.00274         |
| Certificates of deposit    | 147,278,000             | 0.19372         |
| U.S. agency securities     | 1,114,073,000           | 1.60424         |
| SMIF                       | 339,860,000             | 0.65479         |
| U.S. Treasury securities   | 714,326,000             | 1.51918         |
| Municipal bonds            | 22,112,000              | 1.00814         |
| Corporate bonds            | 927,517,000             | 1.12087         |
| Asset-backed securities    | 213,850,000             | 1.18643         |
| Mortgage-backed securities | 1,583,000               | 2.40316         |
| <b>Total</b>               | <b>\$ 3,544,434,000</b> |                 |

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

### **Credit Risk**

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

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

June 30, 2015

By law, the University invests in low credit risk securities such as: U.S. government securities, securities of federally sponsored agencies, highly rated domestic corporate bonds, prime-rated commercial paper, repurchase and reverse repurchase agreements, banker's acceptance, and negotiable certificates of deposit. Therefore, the occurrence of credit risk is remote. Ratings of the University's investment portfolio for each investment type as of June 30, 2015 are presented in the following table.

| Investment type            | Fair value       | Rating as of year-end |               |             |               |
|----------------------------|------------------|-----------------------|---------------|-------------|---------------|
|                            |                  | AAA                   | AA            | A           | Not rated     |
| Money market funds         | \$ 55,698,000    | 28,501,000            | —             | 1,219,000   | 25,978,000    |
| Repurchase agreements      | 8,137,000        | —                     | —             | 5,174,000   | 2,963,000     |
| Certificates of deposit    | 147,278,000      | —                     | 10,581,000    | 136,697,000 | —             |
| U.S. agency securities     | 1,114,073,000    | —                     | 1,114,073,000 | —           | —             |
| SMIF                       | 339,860,000      | —                     | —             | —           | 339,860,000   |
| U.S. Treasury securities   | 714,326,000      | —                     | —             | —           | 714,326,000   |
| Municipal bonds            | 22,112,000       | —                     | 22,112,000    | —           | —             |
| Corporate bonds            | 927,517,000      | 24,197,000            | 202,465,000   | 700,855,000 | —             |
| Asset-backed securities    | 213,850,000      | 213,850,000           | —             | —           | —             |
| Mortgage-backed securities | 1,583,000        | —                     | 1,583,000     | —           | —             |
| Total                      | \$ 3,544,434,000 | 266,548,000           | 1,350,814,000 | 843,945,000 | 1,083,127,000 |

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

### **Concentration Risk**

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

As of June 30, 2015, the following investments (excluding U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolio: Federal Home Loan Banks (\$478,471,000 or 13.50%), Federal National Mortgage Association, Inc. (\$251,464,000 or 7.09%), Federal Home Loan Mortgage Corporation (\$203,699,000 or 5.75%), and Federal Farm Credit Banks Funding Corporation (\$181,351,000 or 5.12%).

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

June 30, 2015

### **Risk and Uncertainties**

The University may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that the changes could materially affect the amounts reported in the Statement of Net Position.

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

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

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

### **Discretely Presented Component Units' Investments**

Investments of the discretely presented component units at fair value consisted of the following at June 30, 2015:

|                                  | <u>Current</u> | <u>Noncurrent</u> | <u>Total</u>  |
|----------------------------------|----------------|-------------------|---------------|
| State of California Local Agency |                |                   |               |
| Investment Fund                  | \$ 160,878,000 | 4,919,000         | 165,797,000   |
| Money market funds               | 26,194,000     | 11,814,000        | 38,008,000    |
| Repurchase agreements            | 131,000        | 4,000             | 135,000       |
| Certificates of deposit          | 13,304,000     | 38,925,000        | 52,229,000    |
| U.S. agency securities           | 26,782,000     | 36,747,000        | 63,529,000    |
| SMIF                             | 12,882,000     | —                 | 12,882,000    |
| Corporate bonds                  | 41,608,000     | 123,030,000       | 164,638,000   |
| U.S. Treasury securities         | 21,747,000     | 73,928,000        | 95,675,000    |
| Municipal bonds                  | 1,314,000      | 32,534,000        | 33,848,000    |
| Mortgage-backed securities       | 1,928,000      | 19,705,000        | 21,633,000    |
| Asset-backed securities          | 3,569,000      | 12,122,000        | 15,691,000    |
| Mutual funds                     | 178,721,000    | 889,201,000       | 1,067,922,000 |
| Exchange traded funds            | 7,906,000      | 33,425,000        | 41,331,000    |
| Equity securities                | 67,589,000     | 331,141,000       | 398,730,000   |

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

**June 30, 2015**

|   | <u><b>Current</b></u> | <u><b>Noncurrent</b></u> | <u><b>Total</b></u>  |
|---|-----------------------|--------------------------|----------------------|
| Alternative investments:                        |                       |                          |                      |
| Private equity (including limited partnerships) | \$ 10,947,000         | 47,290,000               | 58,237,000           |
| Hedge funds                                     | 6,139,000             | 54,474,000               | 60,613,000           |
| Real estate investments (including REITs)       | 852,000               | 31,004,000               | 31,856,000           |
| Commodities                                     | 960,000               | 12,814,000               | 13,774,000           |
| Derivatives                                     | —                     | 7,386,000                | 7,386,000            |
| Other alternative investments                   | 2,282,000             | 26,858,000               | 29,140,000           |
| Other external investment pools                 | —                     | 14,815,000               | 14,815,000           |
| Others  | 215,000               | 23,097,000               | 23,312,000           |
| <b>Total</b>                                    | <b>\$ 585,948,000</b> | <b>1,825,233,000</b>     | <b>2,411,181,000</b> |

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

Investments reported by the University of \$42,243,000 are invested under contractual agreements on behalf of the discretely presented component units of the University.

### **(4) Accounts Receivable**

Accounts receivable of the University at June 30, 2015 consisted of the following:

|  | <u><b>Current</b></u> | <u><b>Noncurrent</b></u> | <u><b>Total</b></u> |
|--|-----------------------|--------------------------|---------------------|
| State appropriations                                   | \$ 4,890,000          | 16,293,000               | 21,183,000          |
| State appropriations – SPWB Lease Revenue Bond program | —                     | 134,078,000              | 134,078,000         |
| Discretely presented component units                   | 34,245,000            | 1,929,000                | 36,174,000          |
| Student accounts                                       | 46,325,000            | —                        | 46,325,000          |
| Government grants and contracts                        | 21,889,000            | —                        | 21,889,000          |
| Others   | 55,689,000            | 1,181,000                | 56,870,000          |
|  | 163,038,000           | 153,481,000              | 316,519,000         |
| Less allowance for doubtful accounts                   | (6,116,000)           | —                        | (6,116,000)         |
| <b>Total</b>   | <b>\$ 156,922,000</b> | <b>153,481,000</b>       | <b>310,403,000</b>  |

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

**June 30, 2015**

### **(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:

|   |                |
|---|----------------|
| 2016  | \$ 31,497,000  |
| 2017  | 27,285,000     |
| 2018  | 27,351,000     |
| 2019  | 27,355,000     |
| 2020  | 50,207,000     |
| 2021–2025   | 149,273,000    |
| 2026–2030   | 132,368,000    |
| 2031–2035   | 90,394,000     |
| 2036–2040   | 26,028,000     |
| 2041–2045   | 20,219,000     |
| Total minimum lease payments to be received                   | 581,977,000    |
| Less amounts representing interest                            | (217,302,000)  |
| Present value of future minimum lease payments to be received | 364,675,000    |
| Less current portion  | (13,915,000)   |
| Lease receivable, net of current portion                      | \$ 350,760,000 |



# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

June 30, 2015

### **(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 1.50% to 6.48%. 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:

|  |                       |
|--|-----------------------|
| 2016   | \$ 40,332,000         |
| 2017   | 21,868,000            |
| 2018   | 21,874,000            |
| 2019   | 21,882,000            |
| 2020   | 21,644,000            |
| 2021–2025  | 105,492,000           |
| 2026–2030  | 98,220,000            |
| 2031–2035  | 78,238,000            |
| 2036–2040  | 46,414,000            |
| 2041–2045  | <u>13,174,000</u>     |
| Total minimum note payments to be received                   | 469,138,000           |
| Less amounts representing interest                           | <u>(177,291,000)</u>  |
| Present value of future minimum note payments to be received | 291,847,000           |
| Less current portion   | <u>(27,115,000)</u>   |
| Notes receivable, net of current portion                     | <u>\$ 264,732,000</u> |

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2015

### (7) Capital Assets

Capital assets activity for the University for the year ended June 30, 2015 consisted of the following:

|   | Beginning<br>balance    | Additions            | Retirements         | Transfers            | Ending<br>balance      |
|---|-------------------------|----------------------|---------------------|----------------------|------------------------|
| <b>Nondepreciable/nonamortizable capital assets:</b>      |                         |                      |                     |                      |                        |
| Land and land improvements \$                             | 261,990,000             | 9,069,000            | —                   | —                    | 271,059,000            |
| Works of art and historical treasures                     | 30,341,000              | 3,572,000            | (194,000)           | —                    | 33,719,000             |
| Construction work in progress                             | 469,304,000             | 498,898,000          | (5,632,000)         | (330,431,000)        | 632,139,000            |
| Intangible assets   | 11,029,000              | 3,615,000            | (114,000)           | (477,000)            | 14,053,000             |
| <b>Total nondepreciable/nonamortizable capital assets</b> | <b>772,664,000</b>      | <b>515,154,000</b>   | <b>(5,940,000)</b>  | <b>(330,908,000)</b> | <b>950,970,000</b>     |
| <b>Depreciable/amortizable capital assets:</b>            |                         |                      |                     |                      |                        |
| Buildings and building improvements                       | 10,576,247,000          | 63,229,000           | (2,932,000)         | 278,283,000          | 10,914,827,000         |
| Improvements other than buildings                         | 571,572,000             | 10,032,000           | (3,463,000)         | 19,550,000           | 597,691,000            |
| Infrastructure  | 997,709,000             | 16,296,000           | (1,196,000)         | 28,897,000           | 1,041,706,000          |
| Personal property:  |                         |                      |                     |                      |                        |
| Equipment   | 745,293,000             | 60,942,000           | (23,754,000)        | 3,466,000            | 785,947,000            |
| Library books and materials                               | 391,655,000             | 6,644,000            | (6,293,000)         | —                    | 392,006,000            |
| Intangible assets   | 317,772,000             | 5,530,000            | (10,614,000)        | 712,000              | 313,400,000            |
| <b>Total depreciable/amortizable capital assets</b>       | <b>13,600,248,000</b>   | <b>162,673,000</b>   | <b>(48,252,000)</b> | <b>330,908,000</b>   | <b>14,045,577,000</b>  |
| <b>Total cost</b>   | <b>14,372,912,000</b>   | <b>677,827,000</b>   | <b>(54,192,000)</b> | <b>—</b>             | <b>14,996,547,000</b>  |
| <b>Less accumulated depreciation/amortization:</b>        |                         |                      |                     |                      |                        |
| Buildings and building improvements                       | (4,548,215,000)         | (316,829,000)        | 1,193,000           | —                    | (4,863,851,000)        |
| Improvements other than buildings                         | (403,844,000)           | (23,301,000)         | 370,000             | —                    | (426,775,000)          |
| Infrastructure  | (414,256,000)           | (30,970,000)         | 396,000             | —                    | (444,830,000)          |
| Personal property:  |                         |                      |                     |                      |                        |
| Equipment   | (534,418,000)           | (50,011,000)         | 21,590,000          | —                    | (562,839,000)          |
| Library books and materials                               | (354,492,000)           | (8,083,000)          | 6,566,000           | —                    | (356,009,000)          |
| Intangible assets   | (297,375,000)           | (9,137,000)          | 10,269,000          | —                    | (296,243,000)          |
| <b>Total accumulated depreciation/amortization</b>        | <b>(6,552,600,000)</b>  | <b>(438,331,000)</b> | <b>40,384,000</b>   | <b>—</b>             | <b>(6,950,547,000)</b> |
| <b>Net capital assets</b>                                 | <b>\$ 7,820,312,000</b> | <b>239,496,000</b>   | <b>(13,808,000)</b> | <b>—</b>             | <b>8,046,000,000</b>   |

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2015

Capital assets activity of the discretely presented component units of the University for the year ended June 30, 2015 consisted of the following:

|   | <u>Beginning<br/>balance</u> | <u>Additions</u>    | <u>Retirements</u>  | <u>Transfers</u>    | <u>Ending<br/>balance</u> |
|---|------------------------------|---------------------|---------------------|---------------------|---------------------------|
| <b>Nondepreciable/nonamortizable<br/>capital assets:</b>  |                              |                     |                     |                     |                           |
| Land and land improvements                                | \$ 111,745,000               | 16,971,000          | (3,628,000)         | 100,000             | 125,188,000               |
| Works of art and historical<br>treasures                  | 8,401,000                    | 1,659,000           | (101,000)           | —                   | 9,959,000                 |
| Construction work in<br>progress                          | 9,891,000                    | 21,300,000          | (3,707,000)         | (11,252,000)        | 16,232,000                |
| Intangible assets   | <u>5,082,000</u>             | <u>16,000</u>       | <u>—</u>            | <u>—</u>            | <u>5,098,000</u>          |
| Total nondepreciable/<br>nonamortizable<br>capital assets | <u>135,119,000</u>           | <u>39,946,000</u>   | <u>(7,436,000)</u>  | <u>(11,152,000)</u> | <u>156,477,000</u>        |
| <b>Depreciable/amortizable<br/>capital assets:</b>        |                              |                     |                     |                     |                           |
| Buildings and building<br>improvements                    | 781,862,000                  | 14,739,000          | (15,302,000)        | 4,695,000           | 785,994,000               |
| Improvements other than<br>buildings                      | 114,509,000                  | 6,065,000           | (3,014,000)         | 3,328,000           | 120,888,000               |
| Infrastructure  | 67,564,000                   | 10,000              | (1,000)             | —                   | 67,573,000                |
| Personal property:  |                              |                     |                     |                     |                           |
| Equipment   | 195,477,000                  | 11,215,000          | (12,365,000)        | 2,976,000           | 197,303,000               |
| Intangible assets   | <u>10,686,000</u>            | <u>206,000</u>      | <u>(1,785,000)</u>  | <u>153,000</u>      | <u>9,260,000</u>          |
| Total depreciable/<br>amortizable<br>capital assets       | <u>1,170,098,000</u>         | <u>32,235,000</u>   | <u>(32,467,000)</u> | <u>11,152,000</u>   | <u>1,181,018,000</u>      |
| Total cost  | <u>1,305,217,000</u>         | <u>72,181,000</u>   | <u>(39,903,000)</u> | <u>—</u>            | <u>1,337,495,000</u>      |
| <b>Less accumulated depreciation/<br/>amortization:</b>   |                              |                     |                     |                     |                           |
| Buildings and building<br>improvements                    | (271,187,000)                | (27,240,000)        | 5,442,000           | —                   | (292,985,000)             |
| Improvements other than<br>buildings                      | (53,879,000)                 | (6,307,000)         | 2,435,000           | —                   | (57,751,000)              |
| Infrastructure  | (15,756,000)                 | (1,689,000)         | —                   | —                   | (17,445,000)              |
| Personal property:  |                              |                     |                     |                     |                           |
| Equipment   | (144,993,000)                | (13,766,000)        | 9,662,000           | —                   | (149,097,000)             |
| Intangible assets   | <u>(7,997,000)</u>           | <u>(653,000)</u>    | <u>1,628,000</u>    | <u>—</u>            | <u>(7,022,000)</u>        |
| Total accumulated<br>depreciation/<br>amortization        | <u>(493,812,000)</u>         | <u>(49,655,000)</u> | <u>19,167,000</u>   | <u>—</u>            | <u>(524,300,000)</u>      |
| Net capital assets  | <u>\$ 811,405,000</u>        | <u>22,526,000</u>   | <u>(20,736,000)</u> | <u>—</u>            | <u>813,195,000</u>        |

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

## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

June 30, 2015

#### (8) Lease Obligations

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

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

The capitalized lease obligation related to the SPWB Lease Revenue Bond program amounted to \$1,073,186,000. 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 \$912,842,000 at June 30, 2015. The leases bear interest at rates ranging from 1.39% to 14.72% and have terms expiring in various years through fiscal year 2041.

Operating leases consist primarily of leases for the use of real property. The University's operating leases expire in various years through fiscal year 2099. The leases can be canceled if the State does not provide adequate funding. Some of these leases are with related auxiliary organizations for the rental of office space used in the operations of the University. Total operating lease expenditures for the year ended June 30, 2015 were \$27,808,000 of which \$15,087,000 was paid to related discretely presented component units.

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

**June 30, 2015**

Future minimum lease payments under capital and operating leases having remaining terms in excess of one year as of June 30, 2015 are as follows:

|  | <b>Capital<br/>leases</b> | <b>Operating<br/>leases</b> |
|--|---------------------------|-----------------------------|
| <b>Year ending June 30:</b>                                  |                           |                             |
| 2016   | \$ 135,130,000            | 21,261,000                  |
| 2017   | 130,853,000               | 18,845,000                  |
| 2018   | 130,122,000               | 16,116,000                  |
| 2019   | 105,569,000               | 12,098,000                  |
| 2020   | 99,841,000                | 18,139,000                  |
| 2021–2025  | 430,212,000               | 23,115,000                  |
| 2026–2030  | 397,082,000               | 17,333,000                  |
| 2031–2035  | 336,380,000               | 8,214,000                   |
| 2036–2040  | 96,677,000                | 3,980,000                   |
| 2041–2045  | 2,387,000                 | 441,000                     |
| 2046–2050  | —                         | 397,000                     |
| 2051–2055  | —                         | 33,000                      |
| 2056–2060  | —                         | 33,000                      |
| 2061–2100  | —                         | 250,000                     |
| <b>Total minimum lease payments</b>                          | <b>1,864,253,000</b>      | <b>\$ 140,255,000</b>       |
| <b>Less amount representing interest</b>                     | <b>(684,935,000)</b>      |                             |
| <b>Present value of future minimum lease payments</b>        | <b>1,179,318,000</b>      |                             |
| <b>Unamortized net premium</b>                               | <b>31,091,000</b>         |                             |
| <b>Total capitalized lease obligations</b>                   | <b>1,210,409,000</b>      |                             |
| <b>Less current portion</b>                                  | <b>(74,718,000)</b>       |                             |
| <b>Capitalized lease obligations, net of current portion</b> | <b>\$ 1,135,691,000</b>   |                             |

## **(9) Long-Term Debt Obligations**

### **(a) State's General Obligation Bond Program**

The General Obligation Bond program of the State has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds, which is allocated on a project-by-project basis among the University, the University of California, and the Community Colleges. Financing provided to the University through State's General Obligation Bonds is not allocated to the University by the State. This debt remains the obligation of the State and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. The total General Obligation Bonds carried by the State related to the University projects is approximately \$2,528,838,000 as of June 30, 2015.

## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

June 30, 2015

Effective in fiscal year 2015, the University's state appropriation noncapital includes an additional amount required to meet the State's General Obligation Bond payments for projects related to the University. The payment of the State's General Obligation Bonds of \$189,159,000 for fiscal year 2015 was recognized as other nonoperating expenses. The flow of these resources and debt repayments through the University is a result of the Omnibus Higher Education Trailer Bill, SB 860.

**(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 hall facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at certain campuses within the University 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 \$3,687,508,000 at June 30, 2015.

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 \$4,403,043,000 in Systemwide Revenue Bonds issued through fiscal year 2015.

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

The Trustees have authorized the issuance of BANs to provide short-term financing to the University for certain projects. The BANs are purchased by the Institute with proceeds from the commercial paper issued by the Institute. The BANs are generally issued for periods of up to three years in anticipation of issuing permanent revenue bonds at a future date. State law was amended in 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, 2015 were 0.18% and 0.04%, respectively. The University's BANs totaled \$149,285,000 at June 30, 2015. The not-to-exceed amounts related to the outstanding amounts totaled \$315,820,000 of which \$152,320,000 has not been issued and \$14,215,000 has been issued and paid back.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2015

Long-term debt obligations of the University as of June 30, 2015 consisted of the following:

| Description                            | Interest rate<br>percentage | Final<br>maturity date | Original<br>issue amount | Amount<br>outstanding   |
|--|-----------------------------|------------------------|--------------------------|-------------------------|
| Systemwide Revenue Bonds,              |                             |                        |                          |                         |
| Housing Series J – Q                   | 3.00%                       | 2019/20–2021/22        | \$ 20,763,000            | 4,908,000               |
| Series 2005A                           | 3.80–5.00                   | 2016/17–2032/33        | 163,015,000              | 126,890,000             |
| Series 2005B                           | 5.00                        | 2015/16–2021/22        | 134,805,000              | 52,620,000              |
| Series 2005C                           | 4.50–5.25                   | 2015/16–2038/39        | 540,900,000              | 148,465,000             |
| Series 2007A                           | 4.50–5.00                   | 2024/25–2044/45        | 254,770,000              | 235,365,000             |
| Series 2007B                           | 5.27–5.55                   | 2027/28–2037/38        | 13,165,000               | 11,015,000              |
| Series 2007C                           | 5.00                        | 2020/21–2028/29        | 63,275,000               | 47,230,000              |
| Series 2007D                           | 4.00–5.00                   | 2037/38                | 80,360,000               | 71,640,000              |
| Series 2008A                           | 3.50–5.00                   | 2022/23–2039/40        | 375,160,000              | 335,065,000             |
| Series 2009A                           | 3.50–6.00                   | 2015/16–2040/41        | 465,365,000              | 430,880,000             |
| Series 2010A                           | 3.00–5.00                   | 2019/20–2031/32        | 146,950,000              | 119,595,000             |
| Series 2010B                           | 5.45–6.49                   | 2035/36–2041/42        | 205,145,000              | 205,145,000             |
| Series 2011A                           | 2.50–5.25                   | 2020/21–2042/43        | 429,855,000              | 397,700,000             |
| Series 2012A                           | 3.00–5.00                   | 2021/22–2042/43        | 436,220,000              | 430,865,000             |
| Series 2012B                           | 2.79–4.17                   | 2036/37                | 16,700,000               | 15,990,000              |
| Series 2013A                           | 1.50–5.00                   | 2024/25–2026/27        | 308,855,000              | 308,215,000             |
| Series 2014A                           | 3.00–5.00                   | 2018/19–2044/45        | 747,740,000              | 745,920,000             |
|  |                             |                        | <u>\$ 4,403,043,000</u>  | <u>3,687,508,000</u>    |
| Bond Anticipation Notes                | Various                     |                        |                          | 149,285,000             |
| Others                                 | Various                     |                        |                          | <u>65,988,000</u>       |
| Total                                  |                             |                        |                          | 3,902,781,000           |
| Unamortized net bond premium           |                             |                        |                          | <u>223,491,000</u>      |
| Total long-term debt                   |                             |                        |                          | 4,126,272,000           |
| Less current portion                   |                             |                        |                          | <u>(259,535,000)</u>    |
| Long-term debt, net of current portion |                             |                        |                          | <u>\$ 3,866,737,000</u> |

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

June 30, 2015

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

| Year ending June 30: | Principal               | Interest             |
|----------------------|-------------------------|----------------------|
| 2016                 | \$ 259,535,000          | 182,787,000          |
| 2017                 | 119,385,000             | 177,640,000          |
| 2018                 | 125,274,000             | 172,495,000          |
| 2019                 | 128,448,000             | 166,726,000          |
| 2020                 | 130,924,000             | 160,349,000          |
| 2021–2025            | 707,184,000             | 703,570,000          |
| 2026–2030            | 792,990,000             | 518,082,000          |
| 2031–2035            | 830,290,000             | 310,490,000          |
| 2036–2040            | 593,280,000             | 125,230,000          |
| 2041–2045            | 215,315,000             | 19,759,000           |
| 2046–2050            | 156,000                 | —                    |
|                      | <u>\$ 3,902,781,000</u> | <u>2,537,128,000</u> |

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

### **(10) Long-Term Debt Refunding**

#### ***Current Year Refunding***

In August 2014, the University partially defeased certain Systemwide Revenue Bonds (Series 2004A, 2005A, and 2005C) by placing a portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2014A refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. The proceeds from the Series 2014A 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 \$73,912,000 over the life of the bonds. The economic gain (difference between net present values of the debt service payments on the old debt and new debt) from these transactions was approximately \$52,294,000. 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 and as of June 30, 2015 totaled \$469,365,000.

The loss on the debt refunding for SRB Series 2014A amounted to \$6,869,000 as of date of refunding. The loss on debt refunding is the difference between the reacquisition price and the net carrying amount of the old debt, together with any unamortized difference from the prior refunding. The loss on debt refunding is deferred and amortized over the shorter of the old debt (or original amortization period remaining in the prior refunding) or the life of the latest refunding debt. The unamortized loss on debt refunding, included in deferred outflows of resources in the Statement of Net Position, amounted to \$6,582,000 as of June 30, 2015.



## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

June 30, 2015

#### ***Prior Year Refunding***

In prior years, the University defeased certain SRB bonds by placing the proceeds from the issuance of SRB refunding bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the defeased bonds. The proceeds from the refunding bonds were used to purchase U.S. federal, state, and local government securities that were placed in the State University Trust Fund. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased bonds until the bond is called or matured. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. The amount of defeased bonds outstanding, excluding those bonds defeased in fiscal year 2014 as described above, totaled \$802,950,000 as of June 30, 2015.

#### **(11) Long-Term Liabilities Activity**

Long-term liabilities activity of the University for the year ended June 30, 2015 was as follows:

|   | <b>Beginning<br/>balance</b> | <b>Additions</b> | <b>Reductions</b> | <b>Ending<br/>balance</b> | <b>Current<br/>portion</b> |
|---|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| Accrued compensated absences              | \$ 218,243,000               | 143,963,000      | (131,018,000)     | 231,188,000               | 127,694,000                |
| Capitalized lease obligations<br>(note 8) | 1,250,274,000                | 33,410,000       | (73,275,000)      | 1,210,409,000             | 74,718,000                 |
| Long-term debt obligations<br>(note 9):   |                              |                  |                   |                           |                            |
| Systemwide Revenue Bonds                  | 3,507,043,000                | 747,740,000      | (567,275,000)     | 3,687,508,000             | 101,150,000                |
| Bond Anticipation Notes                   | 168,511,000                  | 134,411,000      | (153,637,000)     | 149,285,000               | 148,185,000                |
| Others                                    | 72,898,000                   | 4,678,000        | (11,588,000)      | 65,988,000                | 10,200,000                 |
|   | 3,748,452,000                | 886,829,000      | (732,500,000)     | 3,902,781,000             | 259,535,000                |
| Unamortized net bond premium              | 156,073,000                  | 96,345,000       | (28,927,000)      | 223,491,000               | —                          |
| Total long-term<br>debt obligations       | 3,904,525,000                | 983,174,000      | (761,427,000)     | 4,126,272,000             | 259,535,000                |
| Total long-term<br>liabilities            | \$ 5,373,042,000             | 1,160,547,000    | (965,720,000)     | 5,567,869,000             | 461,947,000                |

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

June 30, 2015

Long-term liabilities activity of the aggregated discretely presented component units of the University for the year ended June 30, 2015 was as follows:

|   | <u>Beginning<br/>balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending<br/>balance</u> | <u>Current<br/>portion</u> |
|---|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| Accrued compensated absences                                | \$ 17,545,000                | 13,044,000       | (12,228,000)      | 18,361,000                | 15,560,000                 |
| Claims liability for losses<br>and loss adjustment expenses | 100,366,000                  | 40,485,000       | (45,736,000)      | 95,115,000                | 26,730,000                 |
| Capitalized lease obligations                               | 375,926,000                  | 17,567,000       | (25,707,000)      | 367,786,000               | 13,880,000                 |
| Long-term debt obligations:                                 |                              |                  |                   |                           |                            |
| Revenue bonds   | 40,510,000                   | —                | (1,420,000)       | 39,090,000                | 1,415,000                  |
| Commercial paper  | 181,150,000                  | 652,397,000      | (679,108,000)     | 154,439,000               | 152,015,000                |
| Notes payable   | 238,828,000                  | 46,530,000       | (51,518,000)      | 233,840,000               | 26,065,000                 |
| Others  | 102,745,000                  | 4,526,000        | (13,741,000)      | 93,530,000                | 6,035,000                  |
|   | 563,233,000                  | 703,453,000      | (745,787,000)     | 520,899,000               | 185,530,000                |
| Unamortized net bond premium                                | 9,460,000                    | 5,938,000        | (883,000)         | 14,515,000                | —                          |
| Total long-term<br>debt obligations                         | 572,693,000                  | 709,391,000      | (746,670,000)     | 535,414,000               | 185,530,000                |
| Total long-term<br>liabilities                              | \$ 1,066,530,000             | 780,487,000      | (830,341,000)     | 1,016,676,000             | 241,700,000                |

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.

A full description of the pension plan regarding numbers of employees covered, benefit provision, assumptions, and membership information are listed in the June 30, 2013 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report.

CalPERS issues a publicly available Actuarial Valuation Report and Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. Copies of

## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

June 30, 2015

the CalPERS Actuarial Valuation Report CAFR may be obtained from the California Public Employees' Retirement System Executive Office, 400 P Street, Sacramento, CA 95814.

#### **Contributions**

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014, the average active employee contribution rates for State Miscellaneous and Peace Officer & Firefighters Plans are 6.525% and 11.252% of annual pay, respectively. The State's contribution rates for State Miscellaneous and Peace Officer & Firefighters Plans are 21.137% and 31.320% of annual payroll, respectively.

University personnel are required to contribute 5.00% of their annual earnings in excess of \$513 per month to CalPERS. Effective January 1, 2013, all new employees that are considered "new members" to CalPERS are required to contribute 50% of the normal cost for their category (e.g., State Miscellaneous Member is 6.00% of their annual earnings per month to CalPERS). The University is required to contribute at an actuarially determined rate; the current rate for State Miscellaneous is approximately 24.28% 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:

|      |                |
|------|----------------|
| 2013 | \$ 462,607,000 |
| 2014 | 493,922,000    |
| 2015 | 602,995,000    |

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

As of June 30, 2015, the University reported a liability of \$5,513,655,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined based on an actuarial valuation as of June 30, 2013 rolled forward to the measurement date. The University's proportion of the State's net pension liability was calculated based on its proportionate share of pensionable compensation. The State considered this a practical, systematic, and a rational approach. At June 30, 2014, the University's proportionate share of the total State net pension liability for the Miscellaneous Plan and Peace Officers & Firefighters Plan was 22.72891% and 1.006233%, respectively.

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

**June 30, 2015**

For the year ended June 30, 2015, the University recognized pension expense of \$418,729,000, which was reported as benefits expense. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

|  | <u>Deferred<br/>outflows of<br/>resources</u> | <u>Deferred<br/>inflows of<br/>resources</u> |
|--|---|--|
| University retirement contribution subsequent to the measurement date            | \$ 602,995,000                                | —  |
| Net difference between projected and actual earnings on pension plan investments | —   | 1,086,744,000                                |
| <b>Total</b>   | <u><u>\$ 602,995,000</u></u>                  | <u><u>1,086,744,000</u></u>                  |

The \$602,995,000 of deferred outflows of resources related to pension resulting from the University's contributions subsequent to the measurement date of June 30, 2014 will be recognized as a reduction of the net pension liability as of the measurement date of June 30, 2015. The deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

|                                   | <u>Deferred<br/>inflows of<br/>resources</u> |
|-----------------------------------|--|
| Measurement period ended June 30: |  |
| 2015                              | \$ 271,686,000                               |
| 2016                              | 271,686,000                                  |
| 2017                              | 271,686,000                                  |
| 2018                              | <u>271,686,000</u>                           |
| <b>Total</b>                      | <u><u>\$ 1,086,744,000</u></u>               |

## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

June 30, 2015

#### Actuarial Assumptions

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and 2014 total pension liability were based on the following actuarial methods and assumptions:

|                                 |   |
|---------------------------------|---|
| Actuarial cost method           | Entry age normal  |
| Actuarial assumptions:          |   |
| Discount rate                   | 7.65%   |
| Inflation                       | 2.75%   |
| Salary increases                | Varies by entry age and service   |
| Investment rate of return       | 7.65%, net of pension plan investment expense but without reduction for administrative expenses including inflation         |
| Postretirement benefit increase | Contract cost of living allowance up to 2.75% until purchasing power protection allowance floor on purchasing power applies |

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates.

#### Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund.

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

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

## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

June 30, 2015

value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

| Asset class                   | New strategic allocation | Real return years 1–10 <sup>1</sup> | Real return years 11+ <sup>2</sup> |
|-------------------------------|--------------------------|-------------------------------------|------------------------------------|
| Global equity                 | 47.00%                   | 5.25%                               | 5.71%                              |
| Global fixed income           | 19.00                    | 0.99                                | 2.43                               |
| Inflation sensitive           | 6.00                     | 0.45                                | 3.36                               |
| Private equity                | 12.00                    | 6.83                                | 6.95                               |
| Real estate                   | 11.00                    | 4.50                                | 5.13                               |
| Infrastructure and Forestland | 3.00                     | 4.50                                | 5.09                               |
| Liquidity                     | 2.00                     | (0.55)                              | (1.05)                             |

<sup>1</sup> An expected inflation of 2.5% used for this period

<sup>2</sup> An expected inflation of 3.0% used for this period

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

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

| Plan                                 | Discount rate<br>-1% (6.65%) | Current<br>discount rate<br>(7.65%) | Discount rate<br>+1% (8.65%) |
|--------------------------------------|------------------------------|-------------------------------------|------------------------------|
| Miscellaneous Plan                   | \$ 7,960,751,000             | 5,411,439,000                       | 3,223,934,000                |
| Peace Officers and Firefighters Plan | 153,998,000                  | 102,216,000                         | 58,719,000                   |

#### **Pension Plan Fiduciary Net Position**

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

## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

June 30, 2015

#### **(b) Postretirement Healthcare Plan**

##### **Plan Description**

The State provides retiree healthcare benefits to statewide employees, including the University employees, through the programs administered by CalPERS. The State's 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 five years of service credit.

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

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

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

##### **Funding Policy**

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

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

## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

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#### Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the total annual required contribution (ARC) for the University's allocated portion of the postretirement healthcare plan, the amount contributed to the plan by the University, and changes in the University's net OPEB obligation (NOO) for the fiscal years ended 2015, 2014, and 2013:

|   | 2015                  | 2014                | 2013                |
|---|-----------------------|---------------------|---------------------|
| <b>Annual required contribution (ARC):</b>  |                       |                     |                     |
| Billable accounts   | \$ 40,931,000         | 38,942,000          | 35,602,000          |
| Nonbillable accounts (dental only)  | 38,765,000            | 40,057,000          | 40,055,000          |
| <b>Total ARC</b>  | <b>79,696,000</b>     | <b>78,999,000</b>   | <b>75,657,000</b>   |
| <b>Contributions:</b>   |                       |                     |                     |
| Billable accounts   | (16,293,000)          | (14,584,000)        | (13,175,000)        |
| Nonbillable accounts (dental only)  | (17,056,000)          | (16,420,000)        | (16,051,000)        |
| <b>Total contributions</b>  | <b>(33,349,000)</b>   | <b>(31,004,000)</b> | <b>(29,226,000)</b> |
| <b>Increase in net OPEB obligation (NOO)</b>  | <b>46,347,000</b>     | <b>47,995,000</b>   | <b>46,431,000</b>   |
| <b>NOO – beginning of year</b>  | <b>267,013,000</b>    | <b>219,018,000</b>  | <b>172,587,000</b>  |
| <b>NOO – end of year:</b>   |                       |                     |                     |
| Billable accounts   | 151,946,000           | 127,308,000         | 102,950,000         |
| Nonbillable accounts (dental only)  | 161,414,000           | 139,705,000         | 116,068,000         |
| <b>Total NOO</b>  | <b>\$ 313,360,000</b> | <b>267,013,000</b>  | <b>219,018,000</b>  |
| <b>Percentage of annual OPEB cost contributed during the years ended June 30, 2015, 2014 and 2013</b> | <b>41.85%</b>         | <b>39.25%</b>       | <b>38.63%</b>       |

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

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



# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

June 30, 2015

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, 2014 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 CAFR for the fiscal year ended 2015.

### **(13) Deferred Outflows and Inflows of Resources**

The composition of deferred outflows and inflows of resources at June 30, 2015 is summarized as follows:

|                                    | <b>Deferred<br/>outflows of<br/>resources</b> | <b>Deferred<br/>inflows of<br/>resources</b> |
|------------------------------------|---|--|
| Related to net pension liability   | \$ 602,995,000                                | 1,086,744,000                                |
| Loss on debt refundings:           |   |  |
| Systemwide Revenue Bonds           | 45,246,000                                    | —  |
| SPWB capitalized lease obligations | 516,000                                       | —  |
| Total                              | <u>\$ 648,757,000</u>                         | <u>1,086,744,000</u>                         |

### **(14) Claims Liability for Losses and Loss Adjustment Expenses**

The University and certain auxiliary organizations have established the CSURMA, a discretely presented component unit of the University, to centrally manage workers' compensation, general liability, industrial and nonindustrial disability, unemployment insurance coverage, and other risk-related programs. The claims liability included in the discretely presented component unit column reflects the estimated ultimate cost of settling claims related to events that have occurred on or before June 30, 2015. 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, 2015.

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

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2015

### (15) Commitments and Contingencies

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

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

Authorized but unexpended expenditures for construction projects as of June 30, 2015 totaled \$352,944,000. 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 \$14,004,000 and \$40,557,000 of natural gas and electricity at fixed prices through June 2017 and December 2019, respectively. The University estimates that the special purchase contracts in place represent approximately 35.40% and 11.27% of its total annual natural gas and electricity expenses, respectively.

### (16) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the Statement of Revenues, Expenses, and Changes in Net Position, and to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2015, operating expenses by natural classification consisted of the following:

|                                       | Salaries         | Benefits      | Scholarships<br>and<br>fellowships | Supplies<br>and other<br>services | Depreciation<br>and<br>amortization | Total         |
|---------------------------------------|------------------|---------------|------------------------------------|-----------------------------------|-------------------------------------|---------------|
| Functional classification:            |                  |               |                                    |                                   |                                     |               |
| Instruction                           | \$ 1,563,473,000 | 583,622,000   | —                                  | 201,603,000                       | —                                   | 2,348,698,000 |
| Research                              | 23,346,000       | 6,296,000     | —                                  | 17,825,000                        | —                                   | 47,467,000    |
| Public service                        | 29,873,000       | 8,411,000     | —                                  | 17,152,000                        | —                                   | 55,436,000    |
| Academic support                      | 365,886,000      | 145,385,000   | —                                  | 198,371,000                       | —                                   | 709,642,000   |
| Student services                      | 372,591,000      | 154,182,000   | —                                  | 205,057,000                       | —                                   | 731,830,000   |
| Institutional support                 | 369,024,000      | 153,220,000   | —                                  | 205,030,000                       | —                                   | 727,274,000   |
| Operation and maintenance<br>of plant | 200,038,000      | 102,402,000   | —                                  | 292,559,000                       | —                                   | 594,999,000   |
| Student grants and scholarships       | —                | —             | 888,558,000                        | —                                 | —                                   | 888,558,000   |
| Auxiliary enterprise expenses         | 72,591,000       | 50,880,000    | —                                  | 202,800,000                       | —                                   | 326,271,000   |
| Depreciation and amortization         | —                | —             | —                                  | —                                 | 438,331,000                         | 438,331,000   |
| Total                                 | \$ 2,996,822,000 | 1,204,398,000 | 888,558,000                        | 1,340,397,000                     | 438,331,000                         | 6,868,506,000 |

## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

June 30, 2015

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

The University is an agency of the State and receives about 37.10% of total revenues through state appropriations. State appropriations allocated to the University aggregated approximately \$2,767,784,000 for the year ended June 30, 2015. State appropriations receivable is \$155,261,000 at June 30, 2015.

#### **(18) Subsequent Events**

In August 2015, the University issued its SRB Series 2015A (Tax Exempt) and Series 2015B (Taxable) with a par amount of \$1,063,675,000 and net proceeds of \$1,180,762,000. The proceeds were used to refund certain maturities of SRB Series 2005A, 2005B, 2005C, and 2007A of \$409,726,000, fund new capital projects of \$541,971,000, payment of BANs of \$147,829,000, refund outstanding bond indebtedness issued by the discretely presented component units of \$14,115,000, capitalized interest expense of \$65,997,000, and cost of issuance of \$1,124,000.

**Schedules of Required Supplementary Information**

**CALIFORNIA STATE UNIVERSITY**

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

June 30, 2015

Last Ten Fiscal Years\*

(Dollar amounts in thousands)

|  | <b>State<br/>of California<br/>Miscellaneous<br/>Plan</b> | <b>State of<br/>California<br/>Peace Officers<br/>&amp; Firefighters<br/>Plan</b> |
|--|---|---|
| University's proportion of the net pension liability   | 22.72891%   | 1.00623%  |
| University's proportionate share of the net pension liability  | \$ 5,411,439  | 102,216   |
| University's covered-employee payroll  | \$ 2,209,786  | 30,160  |
| University's proportionate share of the net pension liability as a<br>percentage of covered-employee payroll | 244.88521%  | 338.91247%  |
| Plan fiduciary net position as a percentage of the total pension liability                                   | 74.17418%   | 72.18915%   |

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

See accompanying independent auditors' report.

**Schedules of Required Supplementary Information**

**CALIFORNIA STATE UNIVERSITY**

**Schedule of Employer Contributions**

Year ended June 30, 2015

Last Ten Fiscal Years\*

(Dollar amounts in thousands)

|   | State<br>of California<br>Miscellaneous<br>Plan | State of<br>California<br>Peace Officers<br>& Firefighters<br>Plan | Total          |
|---|---|--|----------------|
| Actuarially determined contribution                                   | \$ 487,992                                      | 9,403  | 497,395        |
| Contributions in relation to the actuarially determined contributions | (490,106)                                       | (9,657)  | (499,763)      |
| Contribution excess   | <u>\$ (2,114)</u>                               | <u>(254)</u>   | <u>(2,368)</u> |
| Covered-employee payroll  | \$ 2,209,786                                    | 30,160   | 2,239,946      |
| Contributions as a percentage of covered-employee payroll             | 22.17889%                                       | 32.01923%  |                |

Notes to required supplementary information schedule:

Valuation date:

Actuarially calculated contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumption used to determine contribution rates:

Actuarial cost method

Entry age normal in accordance with the requirements of GASB

Amortization method/period

For details, see June 30, 2012 Funding Valuation Report

Asset valuation method

Actuarial Value of Assets. For details, see June 30, 2012 Funding Valuation Report.

Inflation

2.75%

Salary increases

Varies by entry age and service

Payroll growth

3%

Investment rate of return

7.65%, net of pension plan investment expenses but without reduction for and including inflation administrative expenses

Retirement age

The probabilities of retirement are based on the 2010 CalPERS experience

Mortality

The probabilities of mortality are based on the 2010 CalPERS experience retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

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

See accompanying independent auditors' report.

## **COMMITTEE ON AUDIT**

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

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

Mary Ek  
Assistant Vice Chancellor/Controller  
Financial Services

#### **Summary**

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

The CSU A-133 Single Audit Reports were issued on February 15, 2016 with an unmodified opinion, and are included as Attachment A to this item. The issuance of the A-133 Single Audit Reports of Federal Funds was delayed pending release of the CSU systemwide audited financial statements presented in Agenda Item 3 of the March 7-9, 2016 meeting of the Committee on Audit.

There were four audit findings identified in the A-133 Single Audit Reports. Three findings were related to internal controls over administration of federal financial aid funds at several campuses and one related to internal controls over federal procurement and suspension and debarment requirements at one campus. Corrective actions are underway and a status update will be provided at the May 2016 board meeting.



# **CALIFORNIA STATE UNIVERSITY**

## **Single Audit Reports**

**Year ended June 30, 2015**

## CALIFORNIA STATE UNIVERSITY

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

**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

The Board of Trustees  
California State University:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the California State University, an agency of the State of California, as of and for the year ended June 30, 2015, 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 February 15, 2016. Our report refers to the other auditors who audited 88 of the 90 aggregate discretely presented component units, which statements reflect total assets constituting 92% 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 88 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.

Our report included an emphasis of a matter paragraph stating that the University and its discretely presented component units adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (amendment of GASB Statement No. 68).

**Internal Control over Financial Reporting**

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

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



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

#### **Compliance and Other Matters**

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

#### **Purpose of this Report**

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

**KPMG LLP**

Irvine, California  
February 15, 2016



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, 2015. 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 \$321,860,000, which is not included in the schedule of expenditures of federal awards for the year ended June 30, 2015. 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, 2015.

### ***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 items 2015-001, 2015-002, 2015-003, and 2015-004. Our opinion on each major federal program is not modified with respect to these matters.

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

### ***Report on Internal Control Over Compliance***

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 items 2015-001, 2015-002, 2015-003, and 2015-004, that we consider to be significant deficiencies.



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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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, as of and for the year ended June 30, 2015, and have issued our report thereon dated February 15, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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  
February 15, 2016

**CALIFORNIA STATE UNIVERSITY**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2015

| <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  |   | \$ 12,977,202                              |
| Federal Work-Study Program  | 84.033  |   | 15,816,000                                 |
| Federal Perkins Loan Program  | 84.038  |   | 104,449,516                                |
| Federal Pell Grant Program  | 84.063  |   | 921,224,162                                |
| Federal Direct Student Loans  | 84.268  |   | 1,493,343,653                              |
| Teacher Education Assistance for College and Higher Education Grants (TEACH Grants) | 84.379  |   | 1,109,460                                  |
| Total U.S. Department of Education  |   |   | <u>2,548,919,993</u>                       |
| <b>U.S. Department of Health and Human Services:</b>                                |   |   |  |
| Direct programs:  |   |   |  |
| Nurse Faculty Loan Program  | 93.264  |   | 3,654                                      |
| Nursing Student Loan Program  | 93.364  |   | 388,467                                    |
| Total U.S. Department of Health and Human Services                                  |   |   | <u>392,121</u>                             |
| Total Student Financial Assistance Cluster  |   |   | <u>2,549,312,114</u>                       |
| <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  | 04050-SFSP-37                                 | 13,161                                     |
| Total Child Nutrition Cluster   |   |   | <u>13,161</u>                              |
| Passed through California Department of Education:                                  |   |   |  |
| Child and Adult Care Food Program   | 10.558  | 04346-CCSP                                    | 48,310                                     |
| Direct program:   |   |   |  |
| Rural Development, Forestry, and Communities  | 10.672  |   | 62,365                                     |
| Total U.S. Department of Agriculture  |   |   | <u>123,836</u>                             |
| <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                         | 286,974                                    |
| Total U.S. Department of Defense  |   |   | <u>286,974</u>                             |
| <b>U.S. Department of the Interior:</b>   |   |   |  |
| Direct programs:  |   |   |  |
| Department of Interior (not classified elsewhere)                                   | 15.000  |   | 3,116                                      |
| Fish and Wildlife Management Assistance   | 15.608  |   | 2,636                                      |
| Passed through Office of Historic Preservation:                                     |   |   |  |
| Historic Preservation Fund Grants-in-Aid  | 15.904  | C8955518                                      | 9,286                                      |
| Historic Preservation Fund Grants-in-Aid  | 15.904  | C8956509                                      | 6,982                                      |
| Subtotal CFDA 15.904  |   |   | <u>16,268</u>                              |
| Direct programs:  |   |   |  |
| Native American Graves Protection and Repatriation Act                              | 15.922  |   | 27,802                                     |
| Cultural Resources Management   | 15.946  |   | 107,096                                    |
| National Park Service Conservation, Protection, Outreach, and Education             | 15.954  |   | 39,012                                     |
| Total U.S. Department of the Interior   |   |   | <u>195,930</u>                             |

**CALIFORNIA STATE UNIVERSITY**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2015

| <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 Imperial, State of CA - Workforce Development Board:      |   |   |  |
| Workforce Investment Act (WIA) Adult Program                                       | 17.258  | M.O. #55                                      | \$ 9,547                                   |
| Passed through South Bay Workforce Investment Consortium, Incorporated:            |   |   |  |
| Workforce Investment Act (WIA) National Emergency Grants                           | 17.277  |   | 10,930                                     |
| Direct program:  |   |   |  |
| Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants | 17.282  |   | 602,046                                    |
| Passed through City and County of San Francisco: Workforce Innovation Fund         | 17.283  |   | 183,134                                    |
| <b>Total U.S. Department of Labor</b>  |   |   | <b>805,657</b>                             |
| <b>U.S. Department of Transportation:</b>  |   |   |  |
| Passed through California Department of Transportation:                            |   |   |  |
| Department of Transportation (not classified elsewhere)                            | 20.000  | 04A3889                                       | 19,021                                     |
| Department of Transportation (not classified elsewhere)                            | 20.000  | 04A3355                                       | 36,947                                     |
| Department of Transportation (not classified elsewhere)                            | 20.000  | 04A4643                                       | 2,840                                      |
| Department of Transportation (not classified elsewhere)                            | 20.000  | 04A4091                                       | 132,328                                    |
| Department of Transportation (not classified elsewhere)                            | 20.000  | 03A2168                                       | 6,299                                      |
| <b>Subtotal CFDA 20.000</b>  |   |   | <b>197,435</b>                             |
| Passed through County of San Diego Sheriff:  |   |   |  |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated               | 20.608  | 528851-3                                      | 8,449                                      |
| Direct programs:   |   |   |  |
| State Maritime Schools   | 20.806  |   | 727,160                                    |
| Ballast Water Treatment Technologies   | 20.819  |   | 112,470                                    |
| <b>Total U.S. Department of Transportation</b>                                     |   |   | <b>1,045,514</b>                           |
| <b>National Aeronautics and Space Administration:</b>                              |   |   |  |
| Direct program:  |   |   |  |
| Science  | 43.001  |   | 295,328                                    |
| Passed through University of California, San Diego:                                |   |   |  |
| Science  | 43.001  | NNX10AT93H                                    | 9,150                                      |
| Science  | 43.001  | 012815  | 489  |
| Passed through Stanford University:  |   |   |  |
| Science  | 43.001  | PY04430-22727-C                               | 366,784                                    |
| Passed through California Institute of Technology:                                 |   |   |  |
| Science  | 43.001  | 44A-1085525                                   | 69,166                                     |
| <b>Subtotal CFDA 43.001</b>  |   |   | <b>740,917</b>                             |
| Direct Program:  |   |   |  |
| Education  | 43.008  |   | 166,630                                    |
| <b>Total National Aeronautics and Space Administration</b>                         |   |   | <b>907,547</b>                             |
| <b>National Endowment for the Arts:</b>  |   |   |  |
| Direct program:  |   |   |  |
| Promotion of the Arts Grants to Organizations and Individuals                      | 45.024  |   | 10,227                                     |
| <b>Total National Endowment for the Arts</b>                                       |   |   | <b>10,227</b>                              |
| <b>National Endowment for the Humanities:</b>                                      |   |   |  |
| Passed through California Humanities:  |   |   |  |
| Promotion of the Humanities Federal/State Partnership                              | 45.129  | COS12-353                                     | 1,000                                      |
| <b>Total National Endowment for the Humanities</b>                                 |   |   | <b>1,000</b>                               |

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| <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 Science Foundation:</b>   |   |   |   |
| Passed through American Physical Society:                                   |   |   |   |
| Mathematical and Physical Sciences  | 47.049  | APS090114                                     | \$ 7,306                                  |
| Direct programs:  |   |   |   |
| Geosciences   | 47.050  |   | 114,120                                   |
| Education and Human Resources   | 47.076  |   | 623,290                                   |
| Passed through University Enterprises, Incorporated                         |   |   |   |
| California State University, Sacramento:                                    |   |   |   |
| Education and Human Resources   | 47.076  | 523841  | 17,325                                    |
| Education and Human Resources   | 47.076  | HRD-1302873                                   | 7,475                                     |
| Education and Human Resources   | 47.076  | 520541A                                       | 9,026                                     |
| Passed through University Enterprises Corporation at                        |   |   |   |
| California State University, San Bernardino:                                |   |   |   |
| Education and Human Resources   | 47.076  | SA GT 10184                                   | (906)                                     |
| Passed through California State University, Sacramento:                     |   |   |   |
| Education and Human Resources   | 47.076  | 523911  | 11,132                                    |
| Passed through CSU Fresno Foundation:                                       |   |   |   |
| Education and Human Resources   | 47.076  | SC340328-14-01                                | 51,088                                    |
| Passed through Missouri State University:                                   |   |   |   |
| Education and Human Resources   | 47.076  | 11052-002                                     | 43,240                                    |
| Subtotal CFDA 47.076  |   |   | <u>761,670</u>                            |
| Direct program:   |   |   |   |
| ARRA – Trans – NSF Recovery Act Research Support                            | 47.082  |   | <u>23,568</u>                             |
| Total National Science Foundation   |   |   | <u>906,664</u>                            |
| <b>Environmental Protection Agency:</b>                                     |   |   |   |
| Direct program:   |   |   |   |
| Regional Wetland Program Development Grants                                 | 66.461  |   | <u>232,584</u>                            |
| Total Environmental Protection Agency                                       |   |   | <u>232,584</u>                            |
| <b>U.S. Department of Energy:</b>   |   |   |   |
| Direct program:   |   |   |   |
| Energy Efficiency and Renewable Energy Information                          |   |   |   |
| Dissemination, Outreach, Training and Technical                             |   |   |   |
| Analysis/Assistance   | 81.117  |   | <u>251,564</u>                            |
| Total U.S. Department of Energy   |   |   | <u>251,564</u>                            |
| <b>U.S. Department of Education, excluding Student Financial Assistance</b> |   |   |   |
| <b>Cluster:</b>   |   |   |   |
| <b>TRIO Cluster:</b>  |   |   |   |
| Direct program:   |   |   |   |
| TRIO_Student Support Services   | 84.042  |   | 1,471,648                                 |
| Passed through The California State University, Chico                       |   |   |   |
| Research Foundation:  |   |   |   |
| TRIO_Student Support Services   | 84.042  | P042A100584-14                                | 32,084                                    |
| Passed through San Diego State University Research Foundation:              |   |   |   |
| TRIO_Student Support Services   | 84.042  | 40098294                                      | <u>20,000</u>                             |
| Subtotal CFDA 84.042  |   |   | <u>1,523,732</u>                          |
| Direct programs:  |   |   |   |
| TRIO_Talent Search Program  | 84.044  |   | 442,938                                   |
| TRIO_Upward Bound Program   | 84.047  |   | 1,434,149                                 |
| TRIO_McNair Post-Baccalaureate Achievement Program                          | 84.217  |   | <u>206,990</u>                            |
| Total TRIO Cluster  |   |   | <u>3,607,809</u>                          |
| Direct programs:  |   |   |   |
| International Research and Studies  | 84.017  |   | 146,432                                   |
| Higher Education Institutional Aid  | 84.031  |   | 5,249,945                                 |
| Higher Education Institutional Aid – Title V Computer Engineering           | 84.031  |   | 659,999                                   |
| Higher Education Institutional Aid – Engineering Sciences                   | 84.031  |   | <u>737,572</u>                            |



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| <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 Bakersfield College:<br>Higher Education Institutional Aid – Stem and Articulation Program   | 84.031  | GRA 1994                                      | \$ 193,753                                |
| Passed through Santa Barbara City College:<br>Higher Education Institutional Aid  | 84.031  | 12131.4070.562000.60                          | 1,709                                     |
| Passed through Ventura County Community College District:<br>Higher Education Institutional Aid   | 84.031  | P0083733                                      | 96,885                                    |
| Passed through San Mateo County Community College District:<br>Higher Education Institutional Aid   | 84.031  | P031C110159                                   | 108,084                                   |
| Subtotal CFDA 84.031  |   |   | <u>7,047,947</u>                          |
| Direct programs:  |   |   |   |
| TRIO Staff Training Program   | 84.103  |   | 401,041                                   |
| Fund for the Improvement of Postsecondary Education   | 84.116  |   | 245,926                                   |
| Minority Science and Engineering Improvement – Engineering Calculus and Outreach  | 84.120  |   | 139,093                                   |
| Passed through California Department of Rehabilitation:<br>Rehabilitation Services – Vocational Rehabilitation Grants to States                                 | 84.126  | 28592   | 144,485                                   |
| Direct program:<br>Rehabilitation Long-Term Training  | 84.129  |   | 278,596                                   |
| Passed through Ventura Unified School District:<br>Magnet Schools Assistance  | 84.165  | 14-03146                                      | 76,310                                    |
| Passed through Oxnard School District:<br>Magnet Schools Assistance   | 84.165  | 13-176  | 68,503                                    |
| Subtotal CFDA 84.165  |   |   | <u>144,813</u>                            |
| Direct programs:  |   |   |   |
| English Language Acquisition National Professional Development Program  | 84.195  |   | 9,505                                     |
| Special Education – Personnel Development to Improve Services and Results for Children with Disabilities  | 84.325  |   | 904,878                                   |
| Passed through Salus University:<br>Special Education – Personnel Development to Improve Services and Results for Children with Disabilities                    | 84.325  | 83401-A3                                      | 22,000                                    |
| Passed through Commission on Teacher Credentialing:<br>Special Education – Personnel Development to Improve Services and Results for Children with Disabilities | 84.325  | 14STC0035                                     | 797                                       |
| Subtotal CFDA 84.325  |   |   | <u>927,675</u>                            |
| Direct program:   |   |   |   |
| Special Education – Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities                                       | 84.326  |   | 534,737                                   |
| Child Care Access Means Parents in School   | 84.335  |   | 234,012                                   |
| Passed through California State University Bakersfield Auxiliary for Sponsored Programs Administration:<br>Teacher Quality Partnership Grants                   | 84.336  | SA GRA1677                                    | 12,116                                    |
| Passed through The California State University, Chico<br>Research Foundation:<br>Teacher Quality Partnership Grants   | 84.336  | SUB 12-034 and 12-060                         | 13,723                                    |
| Teacher Quality Partnership Grants  | 84.336  | SUB 12-059                                    | 18,441                                    |
| Subtotal CFDA 84.336  |   |   | <u>44,280</u>                             |
| Passed through California State University Dominguez Hills<br>Foundation:   |   |   |   |
| Transition to Teaching  | 84.350  | 5630  | (424)                                     |
| Transition to Teaching  | 84.350  | 5766  | 7,178                                     |
| Subtotal CFDA 84.350  |   |   | <u>6,754</u>                              |

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| <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:   |   |   |   |
| English Language Acquisition State Grants   | 84.365  |   | \$ 156,276                                |
| Passed through California Department of Education:  |   |   |   |
| English Language Acquisition State Grants   | 84.365  | CN110387                                      | 110,713                                   |
| Passed through University of California, Santa Cruz:                                      |   |   |   |
| English Language Acquisition State Grants   | 84.365  | S0183643                                      | 114,245                                   |
| Subtotal CFDA 84.365  |   |   | 381,234                                   |
| Passed through Santa Rosa City Schools:   |   |   |   |
| Mathematics and Science Partnerships  | 84.366  | 101   | 28,535                                    |
| Passed through The Regents of the University of California:                               |   |   |   |
| Improving Teacher Quality State Grants  | 84.367  | NCLB11-CISP-SONOMA                            | 49,606                                    |
| Improving Teacher Quality State Grants  | 84.367  | NCLB11-CMP-SONOMA                             | 28,570                                    |
| Improving Teacher Quality State Grants  | 84.367  | NCLB11-CMP-STANISLAUS                         | 26,952                                    |
| Improving Teacher Quality State Grants  | 84.367  | NCLB11-CWP-TURLOCK                            | 36,531                                    |
| Passed through National Writing Project:  |   |   |   |
| Improving Teacher Quality State Grants  | 84.367  | 92-CA10-SEED2012                              | 9,803                                     |
| Improving Teacher Quality State Grants  | 84.367  | AM2A 92CA10 SEED2012                          | 10,266                                    |
| Subtotal CFDA 84.367  |   |   | 161,728                                   |
| Passed through California Department of Rehabilitation:                                   |   |   |   |
| Promoting Readiness of Minors in Supplemental Security Income                             | 84.418  | 29505   | 7,643                                     |
| Total U.S. Department of Education, excluding Student Financial Assistance Cluster        |   |   | 14,492,245                                |
| <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-4097                                     | 10,490                                    |
| Child Care and Development Block Grant  | 93.575  | CCTR-4043                                     | 58,413                                    |
| Subtotal CFDA 93.575  |   |   | 68,903                                    |
| Passed through California Department of Education:  |   |   |   |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund            | 93.596  | CSPP-4097                                     | 19,066                                    |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund            | 93.596  | CCTR-4043                                     | 106,375                                   |
| Subtotal CFDA 93.596  |   |   | 125,441                                   |
| Total Child Care and Development Fund Cluster   |   |   | 194,344                                   |
| Passed through Healthcare Research and Quality:   |   |   |   |
| Research on Healthcare Costs, Quality and Outcomes  | 93.226  | N/A   | 133                                       |
| Direct programs:  |   |   |   |
| Mental Health Research Grants   | 93.242  |   | 77,095                                    |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance | 93.243  |   | 213,102                                   |
| Passed through University of California, San Francisco:                                   |   |   |   |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance | 93.243  | 8300SC  | 18,356                                    |
| Subtotal CFDA 93.243  |   |   | 231,458                                   |
| Direct program:   |   |   |   |
| Mental Health National Research Service Awards for Research Training                      | 93.282  |   | 22,191                                    |
| Passed through University of California, San Francisco:                                   |   |   |   |
| Minority Health and Health Disparities Research   | 93.307  | 7518SC  | 11,351                                    |
| Direct programs:  |   |   |   |
| Trans-NIH Research Support  | 93.310  |   | 192,393                                   |
| National Center for Research Resources  | 93.389  |   | 35,017                                    |

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| <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 Northcoast Children's Services:<br>Head Start (Humboldt State University)   | 93.600  | HSUCHI  | \$ 37,170                                 |
| Passed through University of California, Berkeley:<br>Foster Care Title IV-E   | 93.658  | 14-2025                                       | 1,083,626                                 |
| Foster Care Title IV-E   | 93.658  | 00008510                                      | 887,338                                   |
| Passed through The Regents of the University of California:<br>Foster Care Title IV-E  | 93.658  | 00008514                                      | 1,026,906                                 |
| Foster Care Title IV-E   | 93.658  | 00008301                                      | 17,479                                    |
| Subtotal CFDA 93.658   |   |   | <u>3,015,349</u>                          |
| Passed through County of Sonoma:<br>PPHF: Community Transformation Grants – Small Communities<br>Program financed solely by Public Prevention and Health Funds                               | 93.737  | 2013-0159-A00                                 | 54,357                                    |
| Passed through Stanford University:<br>Health Careers Opportunity Program  | 93.822  | 266-76210-49878A                              | 59,945                                    |
| Direct program:<br>Biomedical Research and Research Training   | 93.859  |   | 1,832,059                                 |
| Passed through AIDS United:<br>HIV Prevention Activities Non-Governmental Organization Based   | 93.939  | 1U65PS004409-01                               | 124,316                                   |
| Passed through The Regents of the University of California,<br>Los Angeles:<br>Geriatric Education Centers   | 93.969  | 1558 G NA589                                  | 6,403                                     |
| Total U.S. Department of Health and Human Services   |   |   | <u>5,893,582</u>                          |
| <b>Corporation for National and Community Service:</b><br>Direct programs:<br>Learn and Serve America Higher Education   | 94.005  |   | 60,233                                    |
| AmeriCorps   | 94.006  |   | 67,823                                    |
| Passed through Jumpstart for Young Children:<br>AmeriCorps   | 94.006  |   | 17,824                                    |
| Subtotal CFDA 94.006   |   |   | <u>85,647</u>                             |
| Total Corporation for National and Community Service   |   |   | <u>145,880</u>                            |
| <b>U.S. Department of Homeland Security:</b><br>Passed through Department of Parks and Recreation, Division of<br>Boating and Waterways:<br>Boating Safety Financial Assistance              | 97.012  | C8956314                                      | 15,994                                    |
| Passed through Marine Exchange of the San Francisco Bay Area<br>Region:<br>Port Security Grant Program   | 97.056  | 941115724                                     | 1,519,938                                 |
| Passed through California Emergency Management Agency:<br>Homeland Security Grant Program  | 97.067  | 2012-00123                                    | 99,429                                    |
| Passed through Trustees of the CSU:<br>Homeland Security Grant Program   | 97.067  | X0029209-PO000                                | 1,620                                     |
| Passed through County of San Diego Sheriff:<br>Homeland Security Grant Program   | 97.067  | 2011-1077                                     | 22,858                                    |
| Subtotal CFDA 97.067   |   |   | <u>123,907</u>                            |
| Total U.S. Department of Homeland Security   |   |   | <u>1,659,839</u>                          |
| <b>Agency for International Development:</b><br>Passed through World Learning:<br>United States Agency for International Development<br>Foreign Assistance for Programs Overseas             | 98.001  | SPANS-024                                     | 309                                       |
| Total Agency for International Development   |   |   | <u>309</u>                                |
| <b>Research and Development Cluster:</b><br><b>U.S. Department of Agriculture:</b><br>Passed through California Department of Education:<br>Agricultural Research Basic and Applied Research | 10.001  | 59-6201-4-020 and<br>68-6201-1-039            | 13,422                                    |
| Passed through The Regents of the University of California:<br>Agriculture and Food Research Initiative  | 10.310  | 8103  | 5,447                                     |
| Passed through University of California, Santa Barbara:<br>Forestry Research   | 10.652  | KK1339  | 20,327                                    |

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|---|---|---|---|
| <b>Direct programs:</b>   |   |   |   |
| Cooperative Forestry Assistance   | 10.664  |   | \$ 252,723                                |
| Urban and Community Forestry Program                                      | 10.675  |   | 2,500                                     |
| Collaborative Forest Restoration  | 10.679  |   | 80  |
| Total U.S. Department of Agriculture                                      |   |   | <u>294,499</u>                            |
| <b>U.S. Department of Commerce:</b>                                       |   |   |   |
| Passed through Monterey Bay Aquarium Research Institute:                  |   |   |   |
| Integrated Ocean Observing System   | 11.012  | PO# 1111289 - A1                              | 78,196                                    |
| Integrated Ocean Observing System   | 11.012  | NA11NOS0120032                                | 170,987                                   |
| Passed through Sonoma State University:                                   |   |   |   |
| Integrated Ocean Observing System   | 11.012  | SA 110467                                     | 21,616                                    |
| Subtotal CFDA 11.012  |   |   | <u>270,799</u>                            |
| <b>Direct program:</b>  |   |   |   |
| Sea Grant Support   | 11.417  |   | 14,000                                    |
| Passed through California Coastal Commission:                             |   |   |   |
| Coastal Zone Management Administration Awards                             | 11.419  | RD  | 99,374                                    |
| Passed through Point Blue Conservation Science:                           |   |   |   |
| Coastal Zone Management Administration Awards                             | 11.419  | N/A   | 47,313                                    |
| Passed through University of New Hampshire:                               |   |   |   |
| Coastal Zone Management Administration Awards                             | 11.419  | 111C66  | 29,783                                    |
| Coastal Zone Management Administration Awards                             | 11.419  | 12-38   | 256,610                                   |
| Subtotal CFDA 11.419  |   |   | <u>433,080</u>                            |
| <b>Direct program:</b>  |   |   |   |
| Coastal Zone Management Estuarine Research Reserves                       | 11.420  |   | 599,085                                   |
| Passed through Merkel & Associates Incorporated:                          |   |   |   |
| Coastal Zone Management Estuarine Research Reserves                       | 11.420  | GS-10F-0060T/<br>AB-133F-14NC-1535            | 10,401                                    |
| Subtotal CFDA 11.420  |   |   | <u>609,486</u>                            |
| <b>Direct program:</b>  |   |   |   |
| Marine Sanctuary Program  | 11.429  |   | 45,194                                    |
| Passed through Merkel & Associates Incorporated:                          |   |   |   |
| Habitat Conservation  | 11.463  | GS-10F-0060T/<br>AB-133F-14NC-0346            | 42,690                                    |
| <b>Direct program:</b>  |   |   |   |
| Center for Sponsored Coastal Ocean Research –<br>Coastal Ocean Program    | 11.478  |   | 3,143                                     |
| Total U.S. Department of Commerce   |   |   | <u>1,418,391</u>                          |
| <b>U.S. Department of Defense:</b>  |   |   |   |
| <b>Direct programs:</b>   |   |   |   |
| Flood Control Projects  | 12.106  |   | 25,347                                    |
| Basic and Applied Scientific Research                                     | 12.300  |   | 99,959                                    |
| Passed through Army Research Office:                                      |   |   |   |
| Basic, Applied, and Advanced Research in Science and Engineering          | 12.630  | W911NF-15-1-0033                              | 341,133                                   |
| <b>Direct program:</b>  |   |   |   |
| Air Force Defense Research Sciences Program                               | 12.800  |   | 154,969                                   |
| Passed through University of Missouri:                                    |   |   |   |
| Air Force Defense Research Sciences Program                               | 12.800  | C00030628-1                                   | 37,198                                    |
| Subtotal CFDA 12.800  |   |   | <u>192,167</u>                            |
| Total U.S. Department of Defense  |   |   | <u>658,606</u>                            |
| <b>U.S. Department of the Interior:</b>                                   |   |   |   |
| <b>Direct programs:</b>   |   |   |   |
| Fish, Wildlife and Plant Conservation Resource Management                 | 15.231  |   | 23,902                                    |
| Challenge Cost Share  | 15.238  |   | 10,000                                    |
| Central Valley Project Improvement Act, Title XXXIV                       | 15.512  |   | 298,088                                   |
| ARRA – Fish and Wildlife Coordination Act                                 | 15.517  |   | 26,058                                    |
| Fish and Wildlife Management Assistance                                   | 15.608  |   | 39,216                                    |
| Cooperative Endangered Species Conservation Fund                          | 15.615  |   | 85,144                                    |
| Central Valley Project Improvement Anadromous Fish<br>Restoration Program | 15.648  |   | 18,463                                    |

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|--|---|---|--|
| Research Grants (Generic)  | 15.650  |   | \$ 44,549                                  |
| Earthquake Hazards Reduction Program   | 15.807  |   | 49,741                                     |
| U.S. Geological Survey – Research and Data Collection                              | 15.808  |   | 174,748                                    |
| Passed through California Office of Historic Preservation:                         |   |   |  |
| Historic Preservation Fund Grants-In-Aid   | 15.904  | C8356510                                      | 9,000                                      |
| Direct program:  |   |   |  |
| Cooperative Research and Training Programs – Resources of the National Park System | 15.945  |   | 10,729                                     |
| Passed through Santa Monica Mountains Fund:  |   |   |  |
| National Park Service Conservation, Protection, Outreach, and Education            | 15.954  | 103114  | 2,773                                      |
| Total U.S. Department of the Interior  |   |   | <u>792,412</u>                             |
| <b>National Aeronautics and Space Administration:</b>                              |   |   |  |
| Direct program:  |   |   |  |
| Science  | 43.001  |   | 164,931                                    |
| Passed through Los Gatos Research:   |   |   |  |
| Science  | 43.001  | SFSU-1  | 42,906                                     |
| Passed through San Mateo County Community College District:                        |   |   |  |
| Science  | 43.001  | NNX10AU75G                                    | 838  |
| Passed through Oregon State University:  |   |   |  |
| Science  | 43.001  | NS251A-A                                      | 154,933                                    |
| Passed through Arizona State University, Tempe:                                    |   |   |  |
| Science  | 43.001  | 15-718  | 1,175                                      |
| Passed through Jet Propulsion Laboratory:  |   |   |  |
| Science  | 43.001  | 1510249                                       | 10,341                                     |
| Passed through San Jose State University Research Foundation:                      |   |   |  |
| Science  | 43.001  | 21-1614-4877-SFSU                             | 23,385                                     |
| Subtotal CFDA 43.001   |   |   | <u>398,509</u>                             |
| Passed through San Jose State University Research Foundation:                      |   |   |  |
| Aeronautics  | 43.002  | 21-1614-4877-SFSU                             | 15,405                                     |
| Passed through Georgia Institute of Technology:                                    |   |   |  |
| Exploration  | 43.003  | RD224-G1                                      | 163,229                                    |
| Total National Aeronautics and Space Administration                                |   |   | <u>577,143</u>                             |
| <b>National Science Foundation:</b>  |   |   |  |
| Direct programs:   |   |   |  |
| Engineering Grants   | 47.041  |   | 82,032                                     |
| Mathematical and Physical Sciences   | 47.049  |   | 1,023,429                                  |
| Geosciences  | 47.050  |   | 1,014,457                                  |
| Passed through The Regents of the University of California:                        |   |   |  |
| Geosciences  | 47.050  | S0184227                                      | 6,009                                      |
| Subtotal CFDA 47.050   |   |   | <u>1,020,466</u>                           |
| Direct program:  |   |   |  |
| Computer and Information Science and Engineering                                   | 47.070  |   | 154,028                                    |
| Passed through San Diego State University Research Foundation:                     |   |   |  |
| Computer and Information Science and Engineering                                   | 47.070  | SA0000426                                     | 6,023                                      |
| Subtotal CFDA 47.070   |   |   | <u>160,051</u>                             |
| Direct program:  |   |   |  |
| Biological Sciences  | 47.074  |   | 1,322,344                                  |
| Passed through University of California, Berkeley:                                 |   |   |  |
| Biological Sciences  | 47.074  | 00007925                                      | 93,780                                     |
| Subtotal CFDA 47.074   |   |   | <u>1,416,124</u>                           |
| Direct programs:   |   |   |  |
| Social, Behavioral, and Economic Sciences  | 47.075  |   | 35,344                                     |
| Education and Human Resources  | 47.076  |   | 563,144                                    |
| Passed through Humboldt State University   |   |   |  |
| Sponsored Programs Foundation:   |   |   |  |
| Education and Human Resources  | 47.076  | PO 0009730651-HMSPF                           | 6,978                                      |

**CALIFORNIA STATE UNIVERSITY**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2015

| <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 Enterprises, Incorporated                             |   |   |  |
| California State University, Sacramento:  |   |   |  |
| Education and Human Resources   | 47.076  | 523751  | \$ 9,960                                   |
| Education and Human Resources   | 47.076  | 523951  | 15,000                                     |
| Passed through The University Foundation at Sacramento State:                   |   |   |  |
| Education and Human Resources   | 47.076  | 802628-515451-515455                          | 294  |
| Education and Human Resources   | 47.076  | MOUHRD-1302873-52396                          | 15,000                                     |
| Subtotal CFDA 47.076  |   |   | 610,376                                    |
| Direct programs:  |   |   |  |
| Polar Programs  | 47.078  |   | 130,675                                    |
| Trans – NSF Recovery Act Research Support                                       | 47.082  |   | 76,542                                     |
| Total National Science Foundation   |   |   | 4,555,039                                  |
| <b>Environmental Protection Agency:</b>   |   |   |  |
| Passed through California Coastal Conservancy:                                  |   |   |  |
| Congressionally Mandated Projects   | 66.202  | CONTRACT NO. 10-030                           | 165,671                                    |
| Passed through Santa Monica Bay Restoration Foundation:                         |   |   |  |
| Regional Wetland Program Development Grants                                     | 66.461  | 14-19   | 7,030                                      |
| Direct program:   |   |   |  |
| TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals | 66.707  |   | 35,648                                     |
| Total Environmental Protection Agency   |   |   | 208,349                                    |
| <b>U.S. Department of Energy:</b>   |   |   |  |
| Direct programs:  |   |   |  |
| Department of Energy (not classified elsewhere)                                 | 81.000  |   | 70,527                                     |
| Office of Science Financial Assistance Program                                  | 81.049  |   | 156,392                                    |
| Passed through Lawrence Livermore National Laboratory:                          |   |   |  |
| Office of Science Financial Assistance Program                                  | 81.049  | BB608315                                      | 9,721                                      |
| Subtotal CFDA 81.049  |   |   | 166,113                                    |
| Passed through Cornell University:  |   |   |  |
| Renewable Energy Research and Development                                       | 81.087  | 68579-10096                                   | 156,394                                    |
| Total U.S. Department of Energy   |   |   | 393,034                                    |
| <b>U.S. Department of Education:</b>  |   |   |  |
| Direct program:   |   |   |  |
| Investing in Innovation (i3) Fund   | 84.411  |   | 655,728                                    |
| Total U.S. Department of Education  |   |   | 655,728                                    |
| <b>U.S. Morris K. Udall Foundation:</b>   |   |   |  |
| Direct program:   |   |   |  |
| Morris K. Udall Scholarship Program   | 85.400  |   | 96,684                                     |
| Total U.S. Morris K. Udall Foundation   |   |   | 96,684                                     |
| <b>U.S. Department of Health and Human Services:</b>                            |   |   |  |
| Direct programs:  |   |   |  |
| Environmental Public Health and Emergency Response                              | 93.070  |   | 11,250                                     |
| Research Related to Deafness and Communication Disorders                        | 93.173  |   | 121,482                                    |
| Mental Health Research Grants   | 93.242  |   | 859,464                                    |
| Passed through Santa Clara University:  |   |   |  |
| Mental Health Research Grants   | 93.242  | NIH008-01                                     | 24,074                                     |
| Passed through Arizona State University:  |   |   |  |
| Mental Health Research Grants   | 93.242  | 10-262  | 6,721                                      |
| Subtotal CFDA 93.242  |   |   | 890,259                                    |
| Direct program:   |   |   |  |
| Immunization Cooperative Agreements   | 93.268  |   | 30,750                                     |
| Passed through University of California, Berkeley:                              |   |   |  |
| Alcohol Research Programs   | 93.273  | 00007430                                      | 73,883                                     |

**CALIFORNIA STATE UNIVERSITY**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2015

| <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:   |   |   |  |
| Mental Health Research Career/Scientist Development Awards   | 93.281  |   | \$ 29,040                                  |
| Centers for Disease Control and Prevention_ Investigations and Technical Assistance  | 93.283  |   | 159,375                                    |
| Passed through Stanford University:  |   |   |  |
| Discovery and Applied Research for Technological Innovations to Improve Human Health   | 93.286  | 60917381-114033                               | 11,698                                     |
| Direct programs:   |   |   |  |
| Minority Health and Health Disparities Research  | 93.307  |   | 14,931                                     |
| Trans-NIH Research Support   | 93.310  |   | 1,301,764                                  |
| Passed through University of California, San Francisco:  |   |   |  |
| Cancer Cause and Prevention Research   | 93.393  | 5647SC  | 12,012                                     |
| Direct program:  |   |   |  |
| Cancer Detection and Diagnosis Research  | 93.394  |   | 312,197                                    |
| Passed through Stanford University:  |   |   |  |
| ARRA Trans-NIH Recovery Act Research Support   | 93.701  | 24024890-12656-A                              | 59,844                                     |
| Direct programs:   |   |   |  |
| PPHF: Health Care Surveillance/Health Statistics – Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by Prevention and Public Health Fund | 93.745  |   | 162,805                                    |
| State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)  | 93.757  |   | 7,500                                      |
| Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)   | 93.758  |   | 57,379                                     |
| Cardiovascular Diseases Research   | 93.837  |   | 248,101                                    |
| Passed through Medical College of Georgia:   |   |   |  |
| Cardiovascular Diseases Research   | 93.837  | 22411-2                                       | 7,977                                      |
| Subtotal CFDA 93.837   |   |   | <u>256,078</u>                             |
| Passed through University of California, San Francisco:  |   |   |  |
| Diabetes, Digestive, and Kidney Diseases Extramural Research   | 93.847  | 8109 SC                                       | 59,880                                     |
| Direct program:  |   |   |  |
| Allergy, Immunology and Transplantation Research   | 93.855  |   | 86,124                                     |
| Passed through The Regents of the University of California:  |   |   |  |
| Allergy, Immunology and Transplantation Research   | 93.855  | 6125 SC                                       | 144,448                                    |
| Subtotal CFDA 93.855   |   |   | <u>230,572</u>                             |
| Direct program:  |   |   |  |
| Biomedical Research and Research Training  | 93.859  |   | 1,009,372                                  |
| Passed through Stanford University:  |   |   |  |
| Biomedical Research and Research Training  | 93.859  | 26977560-30501-K                              | 1,168                                      |
| Passed through University of California, San Francisco:  |   |   |  |
| Biomedical Research and Research Training  | 93.859  | A120112                                       | 60,631                                     |
| Biomedical Research and Research Training  | 93.859  | 7284 SC                                       | 54,346                                     |
| Biomedical Research and Research Training  | 93.859  | 7754 SC                                       | 48,956                                     |
| Passed through University of Washington:   |   |   |  |
| Biomedical Research and Research Training  | 93.859  | 755971  | 20,677                                     |
| Subtotal CFDA 93.859   |   |   | <u>1,195,150</u>                           |

**CALIFORNIA STATE UNIVERSITY**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2015

| <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  |   | \$ 646,668                                 |
| Passed through Research Foundation for Mental Hygiene, Incorporated:  |   |   |  |
| Child Health and Human Development Extramural Research  | 93.865  | 25999   | 84,431                                     |
| Subtotal CFDA 93.865  |   |   | 731,099                                    |
| Passed through University of Southern California:   |   |   |  |
| Aging Research  | 93.866  | 57764387                                      | 70,900                                     |
| Passed through University of California, San Francisco:   |   |   |  |
| Aging Research  | 93.866  | 444986-31259                                  | 2,874                                      |
| Subtotal CFDA 93.866  |   |   | 73,774                                     |
| Direct programs:  |   |   |  |
| Assistance Programs for Chronic Disease Prevention and Control  | 93.945  |   | 48,750                                     |
| Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems     | 93.988  |   | 90,766                                     |
| Total U.S. Department of Health and Human Services  |   |   | 5,942,238                                  |
| <b>U.S. Department of Homeland Security:</b>  |   |   |  |
| Passed through Smithsonian Institution:   |   |   |  |
| Information Analysis Infrastructure Protection (IAIP) and Critical Infrastructure Monitoring and Protection | 97.080  | 15-SUBC-440-0000315055                        | 96,839                                     |
| Total U.S. Department of Homeland Security  |   |   | 96,839                                     |
| <b>U.S. Agency for International Development:</b>   |   |   |  |
| Direct program:   |   |   |  |
| USAID Foreign Assistance for Programs Overseas  | 98.001  |   | 7,738                                      |
| Total U.S. Agency for International Development   |   |   | 7,738                                      |
| Total Research and Development Cluster  |   |   | 15,696,700                                 |
| Total Expenditures of Federal Awards  |   |   | \$ 2,591,968,166                           |

See accompanying notes to schedule of expenditures of federal awards and independent auditors' report on compliance for each major federal program; report on internal control over compliance; and report on schedule of expenditures of federal awards required by 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, 2015

**(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 are \$87,005,567 and \$1,275,163, respectively, at June 30, 2015. The amounts included in the accompanying Schedule consist of loans advanced to students and the administrative cost allowance for the year ended June 30, 2015.

**(4) Administrative Cost Allowances**

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

|   |                            |
|---|----------------------------|
| Federal Perkins Loan Program                                  | \$ 1,293,403               |
| Federal Pell Grant Program                                    | 764,520                    |
| Federal Work-Study Program                                    | 528,581                    |
| Federal Supplemental Educational<br>Opportunity Grant Program | <u>91,517</u>              |
| Total administrative cost allowances                          | <u><u>\$ 2,678,021</u></u> |

**CALIFORNIA STATE UNIVERSITY**  
 Notes to Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2015

**(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>       |
|---|-----------------|---------------------|
| Rural Development, Forestry, and Communities  | 10.672          | \$ 15,774           |
| Education   | 43.008          | 18,000              |
| Geosciences   | 47.050          | 29,105              |
| Regional Wetland Program Development Grants   | 66.461          | 232,584             |
| Higher Education Institutional Aid  | 84.031          | 448,358             |
| Fund for the Improvement of Postsecondary Education   | 84.116          | 50,528              |
| Special Education - Personnel Development to Improve Services<br>and Results for Children with Disabilities | 84.325          | 43,980              |
| Mental Health Research Grants   | 93.242          | 45,955              |
| Trans-NIH Research Support  | 93.310          | 18,429              |
| United States Agency for International Development<br>Foreign Assistance for Programs Overseas              | 98.001          | 40,291              |
| <b>Subtotal Non-Research and Development Cluster</b>  |                 | <b>943,004</b>      |
| <b>Research and Development Cluster:</b>  |                 |                     |
| Integrated Ocean Observing System   | 11.012          | 107,741             |
| Coastal Zone Management Administration Awards   | 11.419          | 161,481             |
| Air Force Defense Research Sciences Program   | 12.800          | (9,185)             |
| Central Valley Project Improvement Act, Title XXXIV   | 15.512          | 110,872             |
| Cooperative Endangered Species Conservation Fund  | 15.615          | 58,262              |
| Central Valley Project Improvement (CVPI) Anadromous<br>Fish Restoration Program (AFRP)                     | 15.648          | 12,775              |
| Mathematical and Physical Sciences  | 47.049          | 113,554             |
| Geosciences   | 47.050          | 25,100              |
| Biological Sciences   | 47.074          | 54,901              |
| Education and Human Resources   | 47.076          | 15,773              |
| Polar Programs  | 47.078          | 534                 |
| Mental Health Research Grants   | 93.242          | 375,674             |
| Trans-NIH Research Support  | 93.310          | 144,061             |
| Allergy and Infectious Diseases Research  | 93.855          | 20,634              |
| Child Health and Human Development Extramural Research  | 93.865          | 135,461             |
| <b>Subtotal Research and Development Cluster</b>  |                 | <b>1,327,638</b>    |
| <b>Total Amounts Provided to Subrecipients</b>  |                 | <b>\$ 2,270,642</b> |

**CALIFORNIA STATE UNIVERSITY**  
**Schedule of Findings and Questioned Costs**  
**Year ended June 30, 2015**

**(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        |
| 97.056   | Port Security Grant Program               |
| 93.859   | Biomedical Research and Research Training |

Dollar Threshold Used to Distinguish Between Type A and Type B programs: \$1,279,682

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

**CALIFORNIA STATE UNIVERSITY**  
**Schedule of Findings and Questioned Costs**  
**Year ended June 30, 2015**

**(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**

**2015-001**

|                                |  |
|--------------------------------|--|
| <i>Compliance requirement:</i> | Disbursements To and On Behalf of Students   |
| <i>Campus:</i>                 | Dominguez Hills, East Bay, Monterey Bay, San Jose, San Luis Obispo, and San Marcos |
| <i>Cluster name/program:</i>   | Student Financial Aid Cluster  |
| <i>CFDA number:</i>            | 84.268 Federal Direct Student Loans, 84.038 Federal Perkins Loan Program           |
| <i>Federal agency:</i>         | U.S. Department of Education   |
| <i>Passed through entity:</i>  | None   |
| <i>Award year:</i>             | July 1, 2014 through June 30, 2015   |

***Criteria or Specific Requirement***

Per 34 CFR section 668.165, with respect to each disbursement of Federal Direct Loans or Federal Perkins Loans, institutions must notify the student or parent in writing to communicate the date and amount of the disbursement and of the student's or parent's right to cancel all or a portion of the loan or loan disbursement and have the loan proceeds returned to the holder of the loan. This notification must be made no earlier than 30 days before and no later than 30 days after each loan disbursement if the campus has implemented an affirmative confirmation process and no later than 7 days after disbursement if they have not implemented an affirmative confirmation process.

***Condition Found and Context***

During our testwork, we selected 175 samples of notifications for federal loan disbursements made to students from seven campuses and noted the following:

- We identified 75 student notifications that did not contain the specific amount of the loan disbursement.
- We identified 30 student notifications that did not contain the date the notifications were sent to the students.
- We identified 28 student notifications that were not performed in a timely manner. The notifications were sent 147 days before the date of loan disbursement and up to 112 days after the date of loan disbursement.

**CALIFORNIA STATE UNIVERSITY**  
**Schedule of Findings and Questioned Costs**  
**Year ended June 30, 2015**

Since student notifications were late or missing information at 6 of the 7 campuses sampled, we consider this to be a significant deficiency in internal control over the compliance requirement for disbursements to and on behalf of students.

***Cause and Effect***

The notification noncompliance at the six campuses resulted from not having a control that was properly designed to ensure that notifications sent to students or parents have met all federal requirements.

***Questioned Costs***

None noted.

***Recommendation***

We recommend that the University adopt policies that would include providing and maintaining documentation of notification sent to borrowers of their right to cancel federal loans.

***Views of Responsible Officials***

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

**CALIFORNIA STATE UNIVERSITY**  
**Schedule of Findings and Questioned Costs**  
**Year ended June 30, 2015**

**2015-002**

|                                |   |
|--------------------------------|---|
| <i>Compliance requirement:</i> | Enrollment Reporting  |
| <i>Campus:</i>                 | Dominguez Hills, East Bay, Los Angeles, Monterey Bay, San Jose, San Luis Obispo, and San Marcos |
| <i>Cluster name/program:</i>   | Student Financial Aid Cluster   |
| <i>CFDA number:</i>            | 84.268 Federal Direct Student Loans   |
| <i>Federal agency:</i>         | U.S. Department of Education  |
| <i>Passed through entity:</i>  | None  |
| <i>Award year:</i>             | July 1, 2014 through June 30, 2015  |

***Criteria or Specific Requirement***

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

***Condition Found and Context***

During our testwork, we selected 175 samples of reporting enrollment status changes to NSLDS from seven campuses and noted the following:

- We identified 78 samples which were not reported to the NSLDS within the 30/60 day reporting period.
- We identified 13 samples with student status changes which were not accurately reported to NSLDS.
- We identified 10 samples with student status changes which were not reported to NSLDS.
- We identified 4 samples which did not report the student graduation status change to NSLDS.
- We identified 4 instances related to inadequate control documentation.

Since late or inaccurate enrollment status reporting in conjunction with inadequate documentation of controls was identified at 7 of the 7 campuses sampled, we consider this to be a significant deficiency in internal control over the compliance requirement for enrollment status reporting.

**CALIFORNIA STATE UNIVERSITY**  
**Schedule of Findings and Questioned Costs**  
**Year ended June 30, 2015**

***Cause and Effect***

All seven campuses sampled have contracted with the National Student Clearinghouse (NSC) to assist in the reporting of enrollment status changes to NSLDS. Each of the seven campuses tested were relying on the timely filing by NSC, and as such, were not performing their own independent checks of data received by NSLDS, or properly accounting for the time lag incurred by NSLDS in the processing of changes, resulting in late and or inaccurate data submissions.

***Questioned Costs***

None noted.

***Recommendation***

We recommend that the University review its policies and procedures, as well as enhance its procedures and controls to ensure timely and accurate reporting of student enrollment status changes to NSLDS. We also recommend the University review its data submissions against the NSLDS website to ensure the information is transmitted timely and accurately.

***Views of Responsible Officials***

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

**CALIFORNIA STATE UNIVERSITY**  
**Schedule of Findings and Questioned Costs**  
**Year ended June 30, 2015**

**2015-003**

|                                |   |
|--------------------------------|---|
| <i>Compliance requirement:</i> | Special Tests and Provisions – Return of Title IV Funds   |
| <i>Campus:</i>                 | Dominguez Hills, Los Angeles, Monterey Bay, San Jose, San Luis Obispo, and San Marcos   |
| <i>Cluster name/program:</i>   | Student Financial Aid Cluster   |
| <i>CFDA number:</i>            | 84.268 Federal Direct Student Loans, 84.063 Federal Pell Grant Program, 84.038 Federal Perkins Loan Program, 84.033 Federal Work-Study Program, 84.007 Federal Supplemental Educational Opportunity Grants, 84.379 Teacher Education Assistance for College and Higher Education Grants |
| <i>Federal agency:</i>         | U.S. Department of Education  |
| <i>Passed through entity:</i>  | None  |
| <i>Award year:</i>             | July 1, 2014 through June 30, 2015  |

***Criteria or Specific Requirement***

Per 34 CFR sections 668.22 (a)(1) through a(5), with respect to the Return of Title IV funds, the following requirements apply:

- When a student withdraws officially or unofficially, the institution must determine the withdrawal date and the amount of Title IV aid earned by the student as of the student's withdrawal date.
- If the student's withdrawal date is after the completion of 60% of the calendar days of the semester, no refund is generated. If it is less than 60%, a refund calculation must be performed and funds must be returned within 45 days of the withdrawal date.
- Aid must be returned in the following order: unsubsidized direct loans, subsidized direct loans, Federal Perkins loans, Federal Direct Plus, Federal Pell Grant, Federal Supplemental Educational Opportunity Grants, Teacher Education Assistance for College and Higher Education Grants and Iran and Afghanistan Service Grants.

***Condition Found and Context***

During our testwork, we selected 175 samples of returns of Title IV funds from seven campuses and noted the following:

- We identified 57 samples wherein the Title IV funds were incorrectly calculated, as the University used the incorrect number of holiday days for the Spring semester and wrong end date for the Fall semester. This resulted in over awards of \$7,917 and under awards of \$61 of Title IV funds.
- We identified 19 samples in which the return of Title IV funds exceeded the 45 day limit ranging from 8 to 128 days.



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- We identified 1 sample that did not have adequate support evidencing that funds were returned to the student, or returned to the Federal agency.
- We identified 5 instances related to inadequate control documentation.

***Cause and Effect***

For the refunds returned after the 45 days allowed, we noted the following:

- 1) We noted management review controls are in place at two campuses to capture the completeness and accuracy of refunds. However, we also noted that the management review control of the refund calculations was not properly designed to detect the timeliness of the review and submission of the Return of Title IV calculation, as the review was performed in intervals greater than 45 days.
- 2) We noted that there were no documented controls in place at three campuses to support that a review and monitoring of accurate and timely Return of Title IV funds was occurring.
- 3) We noted that the management review control was not functioning properly during the Spring Semester at one campus.

For the refunds calculated incorrectly, we noted the following:

- 1) Fourteen refunds were computed incorrectly because the preparer utilized an incorrect semester end date. The correct date resulted in the students completing less than 60% of the semester.
- 2) There were 158 refunds that were computed incorrectly because the campuses used the incorrect number of days allowed for the Spring Break. Using the correct number of days resulted in the students completing less than 60% of the semester, thereby requiring a Return of Title IV funds.
- 3) There were 43 refunds that were computed incorrectly because the incorrect number of days allowed for the Fall Break was used in the computation. Using the correct number of days resulted in the students completing less than 60% of the semester, thereby requiring a Return of Title IV funds.

For one sample item selected, we were unable to obtain sufficient evidence that the computation of Return of Title IV funds occurred accurately and timely.

Since late or inaccurate return of Title IV funds was identified at 7 of the 7 campuses sampled, we consider this to be a significant deficiency in internal control over the compliance requirement for Return of Title IV Funds.

***Questioned Costs***

Under return of Title IV Funds known amounts: \$1,721 at Dominguez Hills, \$5,360 at San Marcos, \$318 at Monterey Bay, and \$454 at San Jose.

Over return of Title IV Funds known amounts: \$61 at San Jose.

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***Recommendation***

We recommend that effective internal control procedures be implemented to ensure that the return of funds is processed accurately in addition to being returned to the Federal agency in a timely manner. Additionally, proper documentation needs to be retained in order to demonstrate the existence of control procedures.

***Views of Responsible Officials***

The University concurs with the recommendation. Campuses will implement and document internal controls to ensure the return of funds is calculated correctly and done within prescribed time frames.

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**2015-004**

|                                |  |
|--------------------------------|--|
| <i>Compliance Requirement:</i> | Procurement and Suspension and Debarment |
| <i>Campus:</i>                 | Maritime Academy                         |
| <i>Cluster name/program:</i>   | Port Security Grant                      |
| <i>CFDA number:</i>            | 97.056                                   |
| <i>Federal Agency:</i>         | U.S. Department of Homeland Security     |
| <i>Passed through entity:</i>  | None                                     |
| <i>Award year:</i>             | July 1, 2014 through June 30, 2015       |

***Criteria or Specific Requirement***

**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.

**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.

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***Condition Found and Context***

During our testwork over procurement requirements, we selected 3 contracts for which federal funds were expended during the year ended June 30, 2015. Current year expenditures related to these contracts totaled \$83,635. We were not provided with procurement records that included the basis for contractor selection or the justification for lack of competition for two of the contracts totaling \$57,982.

During our testwork over suspension and debarment requirements, for the three 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.

***Views of Responsible Officials***

The University concurs with the recommendation. The University will strengthen procurement procedures to ensure compliance with the CSU and Federal competitive bid requirements. The University has updated its general terms and conditions to include required language related to certification that the vendor or contractor is not debarred or suspended.