ASSETS
LIABILITIES
NET POSITION
INCOME STATEMENT

ILLUSTRATED GUIDE TO THE FINANCIAL STATEMENTS

California State University, San Bernardino

Fiscal Year ended June 30, 2015

Introduction

As a public university, CSUSB is required to produce annual financial statements audited by external auditors. These financial statements must adhere to strict and often times complex accounting rules and standards based on Generally Accepted Accounting Principles (GAAP), making them hard to understand for non-accountants.

The Accounting Services Office believes that this effort should not only be driven by compliance, but also by one of our core values: transparency. So it is within the spirit of openness to all our campus community that we created this "guide to our financial statements" to present financial information in a way that is easily understood and allows readers to answer some of the basic questions about our financial position.

You could also refer to this guide as "financial statements for non-accountants." As you read through this document, we hope you'll be able to see where CSUSB holds its resources, what the claims against those resources are, and what's left over in the end.

Lastly, we thank the University of Colorado, Denver for letting us borrow its template for this guide.

A FEW DEFINITIONS

Assets - resources held by the University.

Capital Assets - the University's **buildings, land, equipment, library books, and other tangible assets** that are used to teach students, conduct research, and handle daily operations.

Accounts Receivable - assets due the University, primarily the receivables due from students (for tuition and fees), and from federal, state, and private sponsors (for research).

Investments - a security or other asset that a government agency holds primarily for purpose of income or profit (e.g. stocks, bonds).

Current Assets - assets expected to be used within one year (such as inventories) or that will convert to cash within one year (such as current investments and current accounts receivable).

Noncurrent Assets - assets that exceed the one-year time frame.

Deferred Outflows - a consumption of resources applicable to a future reporting period (these are essentially assets).

Liabilities - claims against the University's resources (assets).

Accrued Expenses - expenses reported in the period in which they occur but for which payment is made in a subsequent period. The vast majority of the University's accrued expenses are salaries and benefits earned but not paid as of the end of the fiscal year.

Unearned Revenue - payments for services that have come to the University in advance of the University providing those services (e.g., summer tuition and fees paid for courses that are not completed by June 30, and payment on grants and contracts prior to the research being conducted/work being performed). Unearned revenue is treated as a liability since the University has not yet performed the work (teaching, research, etc.) needed in order to "earn" that revenue.

Long-Term Debt (Revenue Bonds) - CSUSB's portion of the System Revenue Bond Program approved by the Board of Trustees and administered by the Chancellor's Office. The bonds are to finance student housing, student unions, parking facilities and health facilities.

Pension - Specified monthly benefit provided by the University to the eligible employees after they retire.

OPEB (other post-employment benefits) - health and other benefits provided to individuals after their University employment has ended, e.g. post-retirement medical benefit.

Current Liabilities - liabilities that will be paid within one year.

Noncurrent Liabilities - claims that exceed the one-year time frame.

Deferred Inflows - an acquisition of net assets applicable to a future reporting period (these are essentially liabilities).

Net Position - assets plus deferred outflows less liabilities and deferred inflows **(essentially, the difference between resources and claims against those resources)**. Net position can either be positive (usually a good thing) or negative (probably a bad thing).

Operating Revenues - revenues (money) received from what the University does as its primary missions: teach, conduct research and auxiliary enterprises.

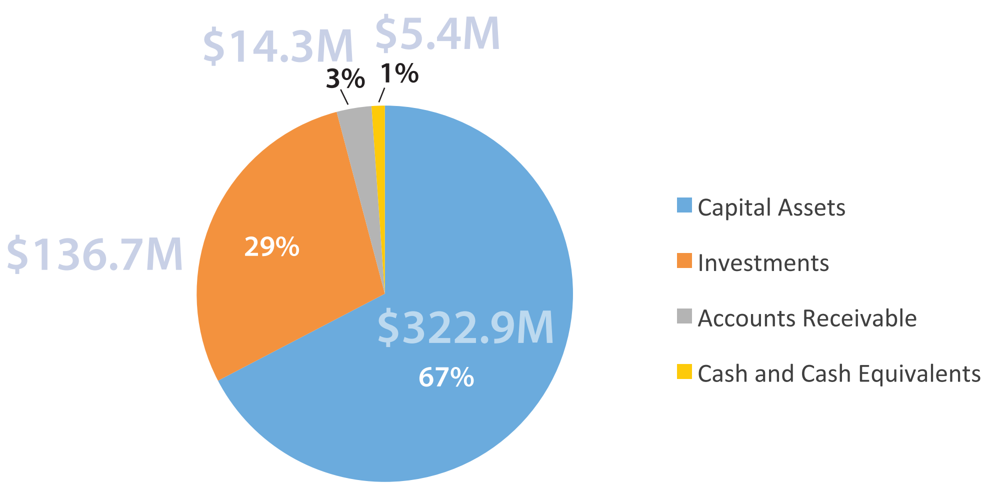
Operating Expenses - costs incurred in fulfilling the University's primary mission.

Non-operating Revenues and Expenses - those amounts that are not directly related to the University's primary mission but are still important drivers of its financial results (major non-operating revenues are the state appropriations, federal grants, gifts, and investment income ... major non-operating expenses are investment losses and interest expense on the University's outstanding debt).

BALANCE SHEET: ASSETS

- **First let's look at the different components of the University's assets as of June 30, 2015:**

Total Assets as of June 30, 2015



Below are the details and examples for each component:

Capital Assets - These are buildings and other tangible assets that the University has. This section made up the majority of the University's total assets. Capital assets include land, infrastructure, buildings and building improvements, works of art and historical treasure, equipment, library books and materials, and software.

Example: The new parking lot N currently in construction!

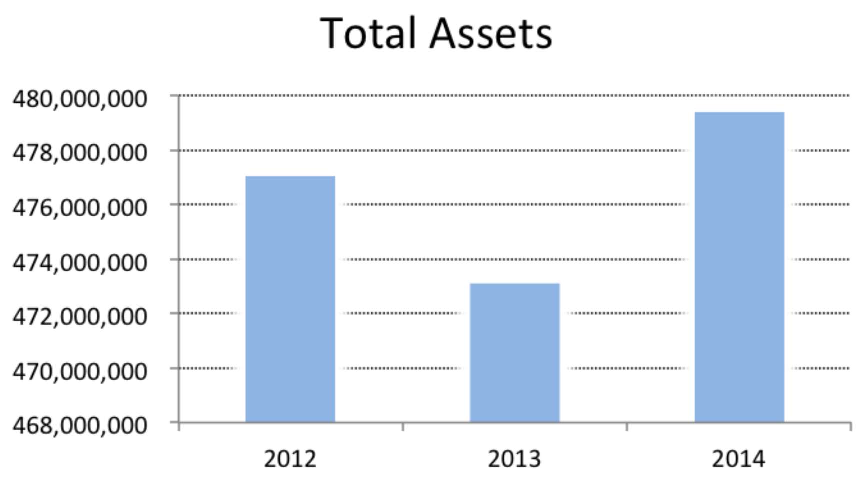
Cash -This is the most liquid asset that the University possesses. Liquidity measures the ability for the University to pay its short-term obligations. Cash is used in accounting to pay short-term liabilities and other expenses. This made up 1% of total assets.

Investments - The University holds a variety of investments that have steady returns, but can vary year over year. Investments are reported at fair value. This section made up 29% of the University's total assets.

Accounts Receivable - This account is what students, the state, and the federal government has outstanding to the University. It is put in the asset account because we are expecting payments from these entities to pay off their remaining balances. Not all payments owing to the University will necessarily be collected. This amount can be decreased by Allowance for Doubtful Accounts, which is an estimate of Accounts Receivable that will ultimately be uncollectible. This section made up 3% of total assets.

Example: Student Cody Coyote enrolls in summer classes that begin on June 22. He hasn't paid the tuition by June 30, which creates a receivable balance for the University at year end.

- **Now that we've reviewed the different types of assets, let's take a look at how the University's total assets changed over the last 3 years:**



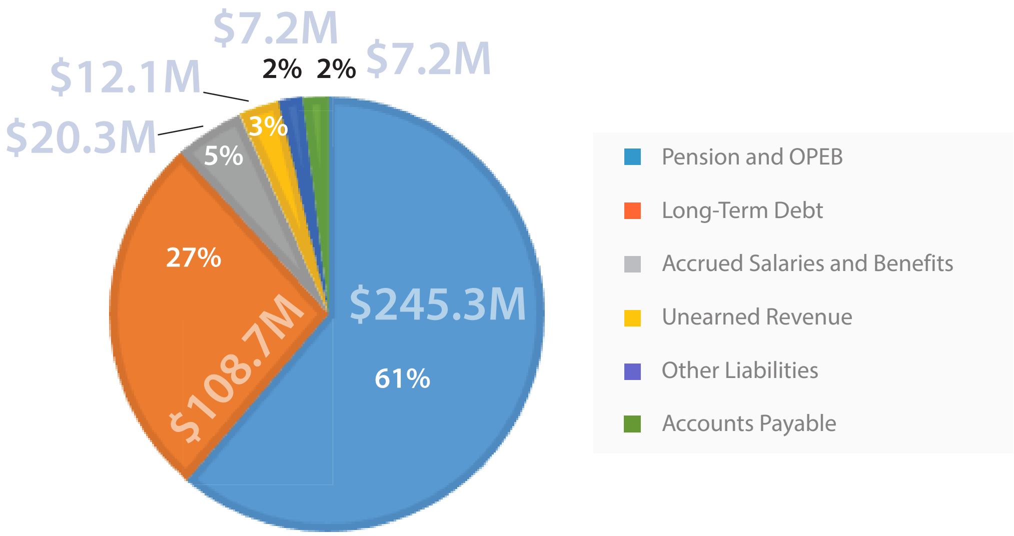
Explanation: Assets decreased mainly due to the depreciation of the University's capital assets. They depreciated by $12 million from 2013 to 2014.

Explanation: Assets increased mainly due to new capital assets added and investments that the university holds. From FY13 to FY14, the University received donated land worth of $8 million, and investments jumped by $6 million.

BALANCE SHEET: LIABILITIES

First let's look at the different components of the University's liabilities as of June 30, 2015:

Total liabilities as of June 30, 2015



Below are the details and examples of each component:

<u>Accounts Payable (AP)</u> - This number represents the amount that is owed to other entities that is expected to be payed within the fiscal year it is accrued. It usually increases when the University has capital projects. This made up 2% of the University's total liabilities.

Example: ABC Company bills the University for construction materials. The University records the invoice on 4/1/2016 (creates AP). However, ABC Company gives us 45 days to pay. The AP stays on the books until we pay it via check.

<u>Accrued Salaries and Benefits</u> - This section of the balance sheet shows the amount of pay and benefits (e.g. vacation, holiday etc.) that employees of the University have earned but have not been paid in cash. This made up 5% of the total liabilities.

Example: Mr. J. Smith accrues vacation hours monthly and has earned 80 hours during the year. However he only took 40 hours off. The remaining 40 hours is a liability for the University.

<u>Unearned Revenue</u> - This account is in the liability section for the University and it represents payments for services that have come to the University in advance of the University providing the service. When the University fulfills its obligation, this account is transferred to a Revenue account in the Income Statement. This made up 3% of total liabilities.

Example: Student Cody Coyote pays his summer tuition in May. Summer class starts on June 22. By year end, the University has only provided services and earned the tuition for 8 days. The remaining cash paid by Student Cody Coyote is

Unearned Tuition and Fee Revenue for the University (the University is obligated to provide classes after June 30).

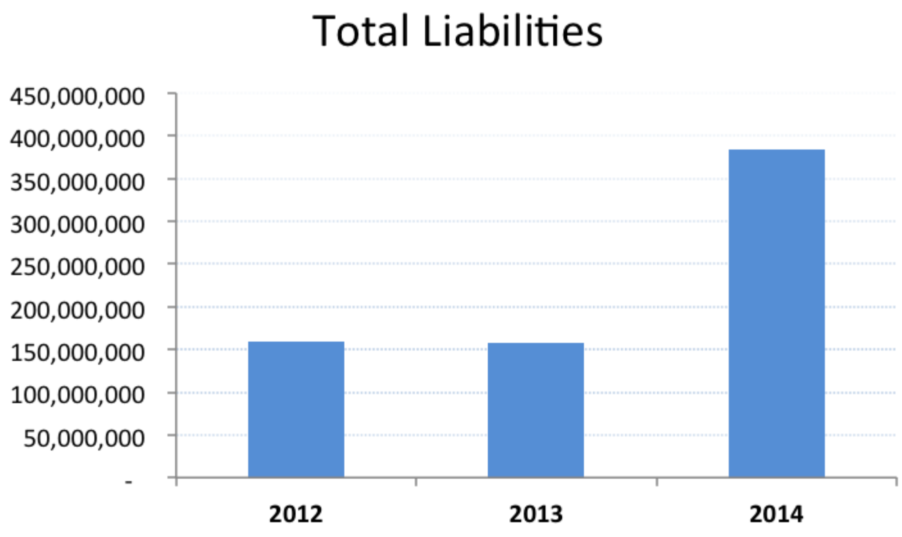
Long-Term Debt: The University has bonds outstanding with various sections of the school. The funds were used to finance student housing, student union, parking facilities and health facilities. As of June 30, 2015, the bonds equal to $109 million. This made up 28% of the University's total liabilities.

Example: The newest bond that was issued was for the expansion of the Santos Manuel Student Union and Recreation and Wellness Center.

Pension and OPEB Liability: The University has obligation to pay fixed monthly pension benefits as well as to provide other post-retirement benefits (e.g. medical) to eligible employees upon retirement. Both the University and employees make contributions to CalPERS. Future pension benefit payments are discounted to present value. The unfunded portion (present value of total future payments minus contributions made) is presented as the net pension liability for the University. This made up 60% of the total liabilities.

Example: Employee J. Smith is entitled to receive $500 monthly payment upon retirement based on his retirement formula with CalPERS. The total payments that will be made to him in the future (with the assumption of age, discount rate, inflation, investment return etc.) are estimated to be $100,000 at the current date (present value). The University and employee made contributions of $50,000 to CalPERS. The remaining $50,000 becomes the net pension liability for the University for employee J. Smith.

- **Now that we've reviewed the different types of liabilities, let's take a look at how the University's total liabilities changed over the last 3 years:**



Explanation: Liabilities increased due to the implementation of accounting pronouncement

GASB 68 - Accounting and Financial Reporting for Pensions, following which the University recorded a $232 million net pension liability at 6/30/15. This made up 60% of the University's total liabilities.

Pre-GASB 68 - The University only records the annual contribution ($23 million in FY14) to CalPERS.

Post-GASB 68 - The University records the net pension liability (projected plan assets minus projected pension liability). Plan assets refer to investments made by CalPERS using contribution funds from the University and from employees. Pension liability refers to estimated total retirement benefit payments the University needs to pay its employees.

GASB 68 - Accounting and Financial Reporting for Pensions: The standard is designed to improve transparency regarding pension liability by requiring recognition of pension liability in the financial statements.

Coming soon - **GASB 74** - Financial Reporting for Postemployment Benefit Plans other than Pensions Plan: This standard applies for OPEB and works in a similar way with GASB 68. On June 30, 2018, the OPEB Liability is expected to increase to better reflect the obligation of the University for providing OPEB benefits to employees upon their retirement. Similar to pension, the University currently only records the contributions made.

BALANCE SHEET: NET POSITION

Net Position is broken down into the following categories:

Net investment in capital assets - The University's capital asset balance less debt issued to fund those capital assets.

Example: The Santos Manuel Student Union (capital asset) minus the debt raised to fund the project (long-term debt).

Restricted for nonexpendable purposes - Endowments received as gifts: only the investment earnings on the gift can be spent, and then only on scholarships, endowed chairs and the like.

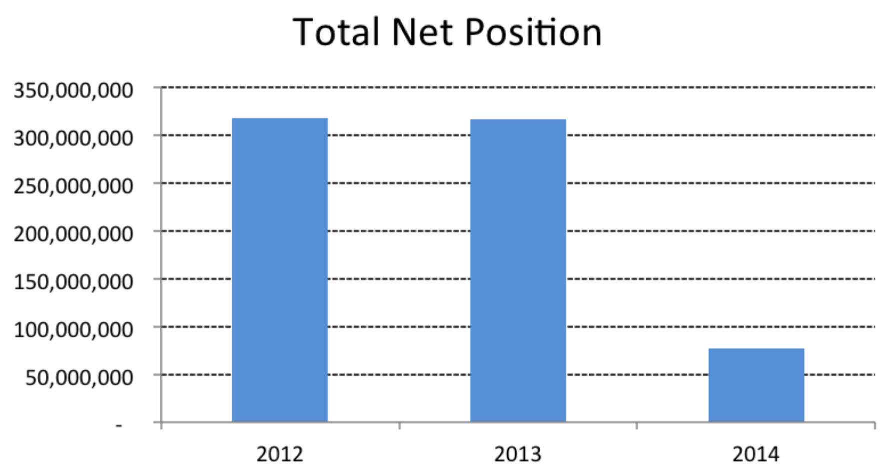
Example: Endowments, only interest is allowed to be spent.

Restricted for expendable purposes - Entire gift can be spent, not just the investment earnings. Funds can be spent only in accordance with restrictions established by external third parties.

Example: Scholarships, designated gift funds

Unrestricted - Balances designated for use by leadership to address University needs.

- **Now that we've reviewed the different types of net position, let's take a look at the University's total Net Position over the last 3 years:**



Explanation: Net Position decreased due to the implementation of GASB 68, following which the University reduced net position by $ 240 million in FY2014.

Pre-GASB 68 - The University only reduces the Net Position by the annual contribution amount ($23 million in FY14) to CalPERS.

Post-GASB 68 - The University reduces the Net Position by the net pension liability and related deferred inflows of resources.

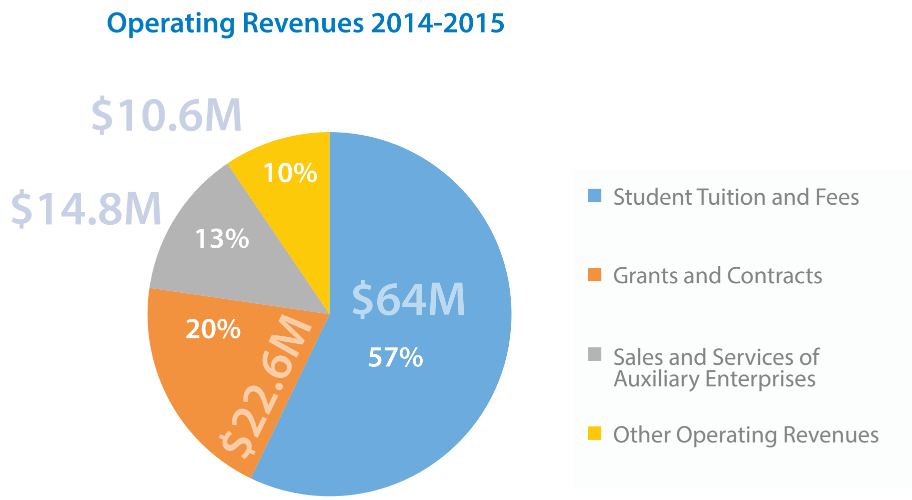
GASB 68 - Accounting and Financial Reporting for Pensions - The standard is designed to improve transparency regarding pension liability by requiring recognition of pension liability in the financial statements.

Coming soon - **GASB 74** - Financial Reporting for Postemployment Benefit Plans other than Pensions Plan: This standard applies for OPEB and works in a similar way with GASB 68. On June 30, 2018, the Net Position is expected to further decrease to better reflect the obligation of the University for providing OPEB benefits to employees upon their retirement. Similar to pension, the University currently only records the contributions made.

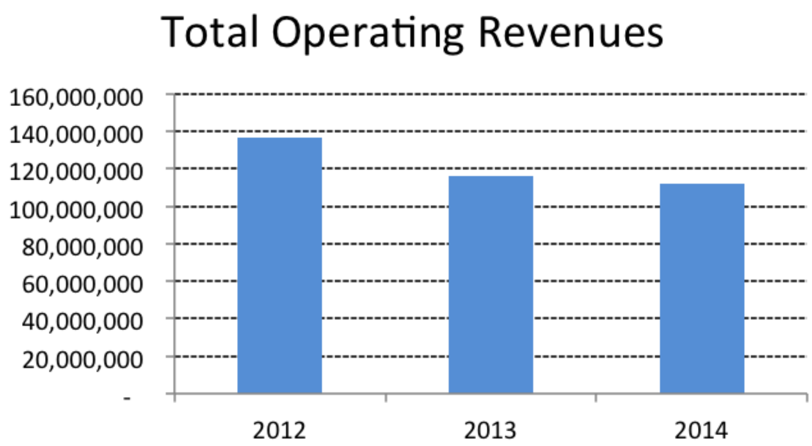
INCOME STATEMENT

Operating revenues are funds that are collected by the school to fund its primary mission. Whereas **Operating Expenses** are the cost of fulfilling the mission such as teach, research, academic support, etc.

Below are the different components of the University's operating revenues and operating expenses as of June 30, 2015:

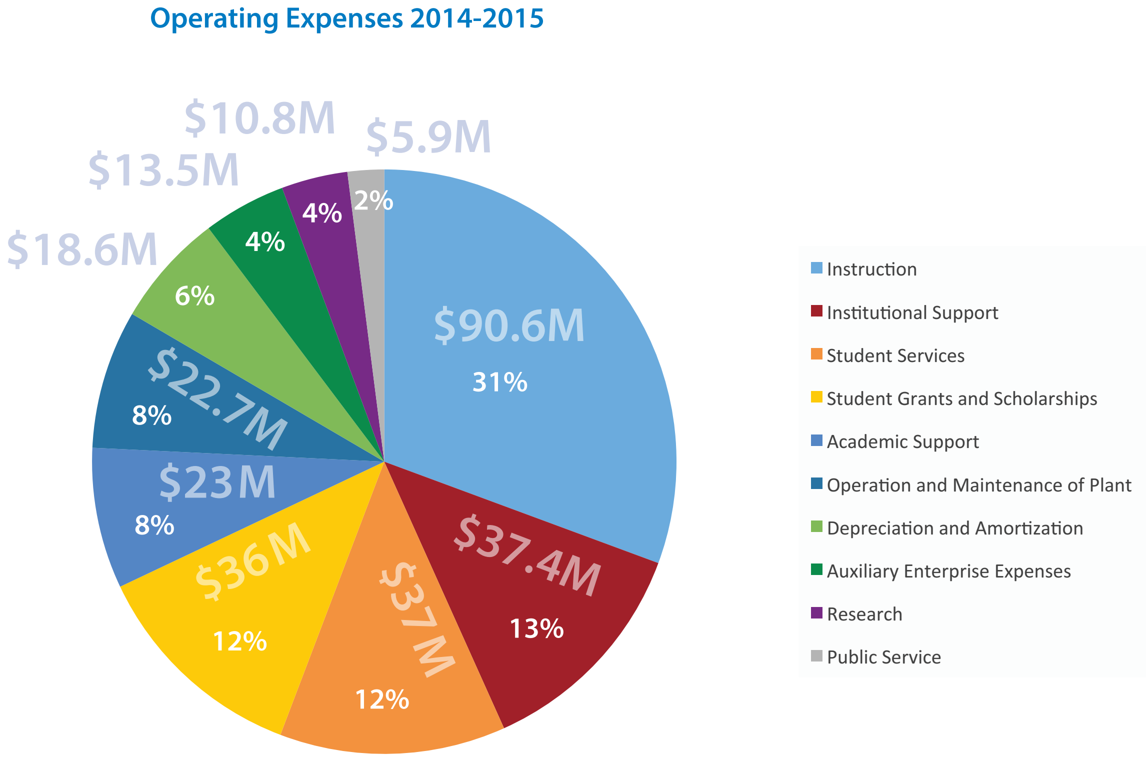


- **Now let's look at how the operating revenues changed over the last three years:**

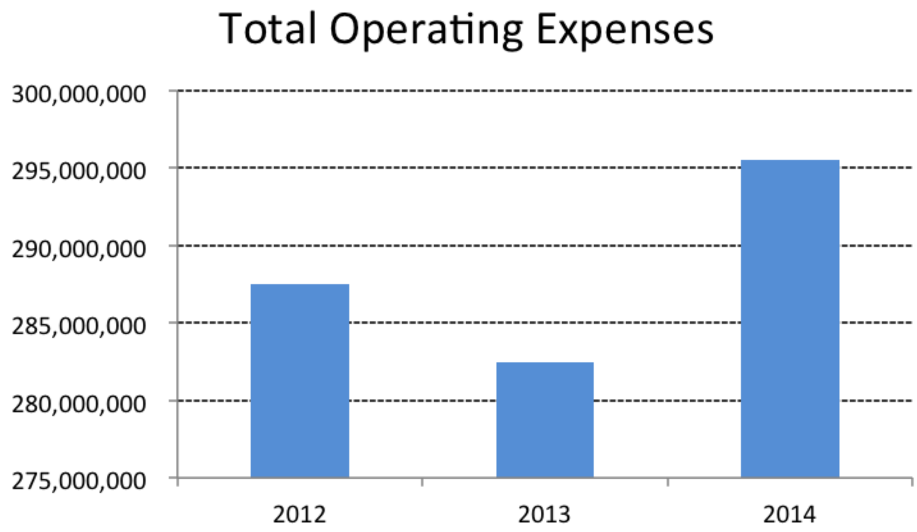


Explanation: 2013 vs. 2012: Operating revenues decreased mainly due to a change in methodology to calculate scholarship allowances, decreased summer enrollment and lower tuition rates. This increase was partially offset by higher CEL fees.

2014 vs. 2013: Operating revenues decreased mainly due to higher scholarship allowances, partially offset by higher tuition and fees from increased enrollment.



- **Now let's look at how the operating expenses changed over the last three years:**

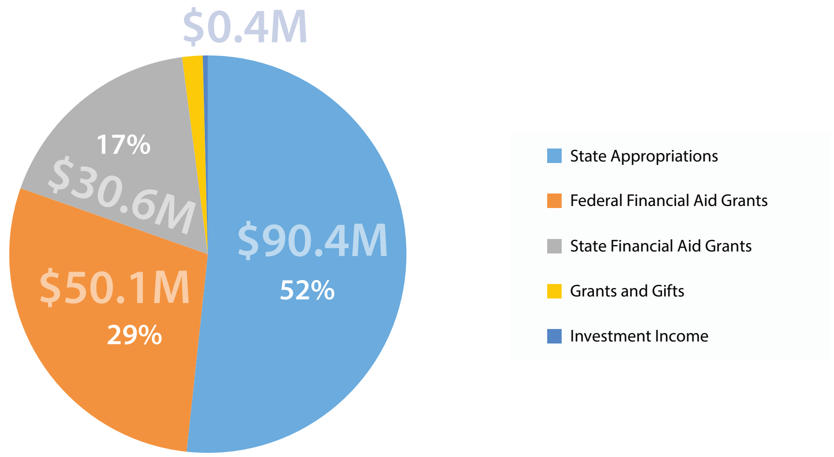


Explanation: 2013 vs. 2012: Operating expenses decreased from FY2012 to FY2013 mainly due to a change in methodology to calculate student scholarships and fellowships.

2014 vs. 2013: Operating expenses increased from FY2013 to FY 2014 mainly due to higher instruction and student service expenses, which was caused by increased enrollment.

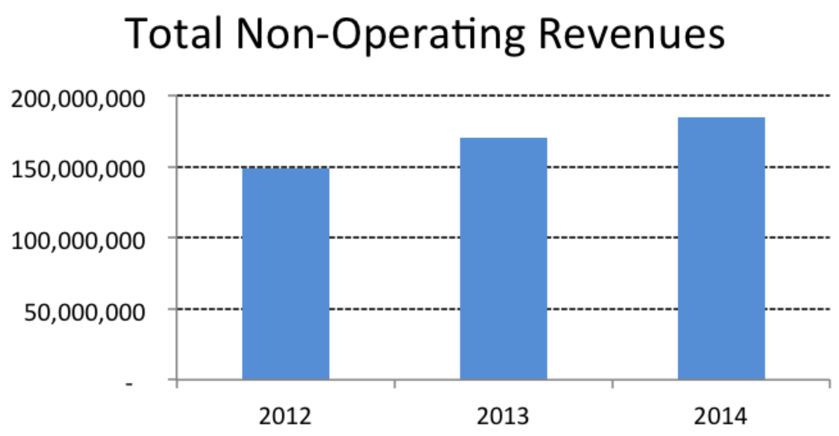
Non-Operating Revenues are funds that the University receives from the state and federal government. The major sections of balance sheet are State Appropriations (CSU Budget), Federal Financial Aid Grants, and State Financial Aid Grants.

Non-Operating Revenues 2014-2015



As you may have noticed, State Appropriations made up approximately 50% of the University's total Non-Operating Revenues in FY2014.

- **Now let's look at how the non-operating revenues changed over the last three years:**



Explanation: Non-Operating revenues increased from FY 2013 to FY 2014 due to higher State appropriations.