KPMG

CALIFORNIA STATE UNIVERSITY INSTITUTE

A Discretely Presented Component Unit of the California State University

Financial Statements and Supplementary Schedules

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY INSTITUTE
A Discretely Presented Component Unit of the California State University

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
California State University Institute:

We have audited the accompanying financial statements of the California State University Institute, a component unit of the California State University, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the California State University Institute's basic financial statements for the years then ended 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 statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California State University Institute as of June 30, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1 through 3 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedules 1 through 3 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Irvine, California
September 21, 2018

The following discussion and analysis provides an overview of the financial position and performance of the California State University Institute (the Institute) as of and for the years ended June 30, 2018 and 2017. It is designed to assist the readers in focusing on financial overview and analysis of the financial activities of the Institute. The discussion has been prepared by management and should be read in conjunction with the basic financial statements and accompanying notes, which follow this section.

Overview of the Financial Statements

The financial statements of the Institute as of and for the years ended June 30, 2018 and 2017 have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as amended by GASB Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. For reporting purposes, the Institute is considered a special-purpose government engaged in business-type activities. The Institute's basic financial statements are the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

Statement of Net Position – The Statement of Net Position presents the financial position of the Institute at the end of the fiscal year and includes all assets and liabilities of the Institute. The difference between total assets and total liabilities – net position – is one indicator of the current financial condition of the Institute, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year.

A summary of the Institute's assets, liabilities, and net position at June 30, 2018, 2017, and 2016 is as follows:

Condensed Schedule of Net Position

	June 30		
	2018	**2017**	**2016**
Assets:			
Current assets	$ 170,236,503	3,597,399	8,197,470
Other noncurrent assets	2,926,000	240,000	991,000
Total assets	173,162,503	3,837,399	9,188,470
Liabilities:			
Current liabilities	166,934,876	492,882	5,382,163
Noncurrent liabilities	2,926,000	200,000	700,000
Total liabilities	169,860,876	692,882	6,082,163
Net position:			
Unrestricted	3,301,627	3,144,517	3,106,307
Total net position	$ 3,301,627	3,144,517	3,106,307

Assets

The Institute's assets totaled $173.2 million on June 30, 2018 compared to $3.8 million in the prior year, an increase of $169.4 million. The net increase is primarily attributed to revenue bond anticipation notes (BANs) receivable of which $168.9 million were new issuances. The Institute's capital financing receivable, current and noncurrent, totaled $40 thousand as of June 30, 2018, a decrease of $251 thousands, or 86%, as compared to the previous year. Total assets decreased by $5.4 million from $9.2 million in 2016 to $3.8 million in 2017. The decrease relates primarily to the BANs receivable of which $203.2 million were paid off with the Systemwide Revenue Bond (SRB) Series 2017 bond sale proceeds. The Institute's capital financing receivable totaled $291 thousands as of June 30, 2017, a decrease of $1.6 million, or 84%, as compared to June 30, 2016.

Liabilities

The Institute's liabilities totaled $169.9 million on June 30, 2018 compared to $693 thousand in the prior year, an increase of $169.2 million. The increase is primarily due to an increase in outstanding commercial paper, current and noncurrent. There is a direct relationship between BANs and capital financing receivables and commercial paper payable. BANs are issued by the California State University (the CSU) to provide short-term financing to CSU campuses for construction projects. BANs are purchased by the Institute with proceeds from the Institute's issuance of commercial paper. BANs and capital financing receivables act as collateral for the Institute's commercial paper and contain terms consistent with the commercial paper issued. During fiscal year 2018, BANs receivable increased as noted above. When BANs receivable and capital financing receivables increase, commercial paper payable also increases.

The Institute's liabilities totaled $693 thousand on June 30, 2017, a decrease of $5.4 million, or 89%, as compared to the previous year. The decrease was primarily due to a decrease in outstanding commercial paper.

Net Position

Net position serves as a useful indicator of the Institute's financial position representing the assets net of liabilities. Net position fluctuates annually due to the Institute's operating results as well as changes in investment income. The Institute's net position is classified as unrestricted, however, the unrestricted net position may be designated for use by the Institute.

The Institute's net position increased by $157 thousand, or 5% during fiscal year 2018. The Institute's net position increased by $38 thousand, or 1% during fiscal year 2017.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year on an accrual basis and are classified as either operating or nonoperating. It presents the results of the Institute's operations and changes in net position over the course of the fiscal year.

(Continued)

A summary of the Institute's Statement of Revenues, Expenses, and Changes in Net Position is as follows:

Condensed Schedule of Revenues, Expenses, and Changes in Net Position

		Years ended June 30,	
	2018	2017	2016
Operating revenues	$ 2,974,894	2,605,757	495,674
Operating expenses	2,842,923	2,590,133	1,441,504
Operating gain (loss)	131,971	15,624	(945,830)
Nonoperating revenues	25,139	22,586	36,594
Change in net position	157,110	38,210	(909,236)
Net position, beginning of year	3,144,517	3,106,307	4,015,543
Net position, end of year	$ 3,301,627	3,144,517	3,106,307

Operating Revenues and Expenses

During fiscal year 2018, the operating revenues totaled $3.0 million, an increase of $369 thousand, or 14% compared to fiscal year 2017. During fiscal year 2017, the operating revenues totaled $2.6 million, an increase of $2.1 million or 426%, compared with fiscal year 2016. The increase during fiscal year 2018 is primarily due to an increase of program support collected from members as a result of a significant number of new BAN issuances. The increase during fiscal year 2017 was primarily due to an increase of program support collected from members as a result of BANs receivable outstanding for longer durations. During fiscal year 2017, a significant number of BANs projects were paid off towards the end of the fiscal year (May 2017).

During fiscal year 2018, the operating expenses totaled $2.8 million, an increase of $253 thousand, or 10% compared to fiscal year 2017. During fiscal year 2017, the operating expenses totaled $2.6 million, an increase of $1.1 million, or 80% compared to fiscal year 2016. The increase during fiscal year 2018 is due to higher program costs and interest on debt for several new issuances in fiscal year 2018. The increase during fiscal year 2017 is primarily due to higher interest on debt as the majority of debt was paid off during fiscal year 2016. Program costs consist mainly of administrative fees related to the issuance of commercial paper, such as fees paid to dealers, trustees, and rating agencies, and fees for letters of credit and other overhead costs.

(Continued)

Similar to the relationship between BANs receivable and commercial paper payable, there is also a direct relationship between interest expense paid to commercial paper dealers and interest charged to members participating in the commercial paper program. Interest charged to members typically matches interest expense with variances attributed to the capital financing program in which interest is charged based on a tax-exempt rate and adjusted annually as necessary. Prior to the start of the new fiscal year, the Institute resets, as necessary, the interest rate based on Securities Industries and Financial Market Association (SIFMA) index plus a margin for the market rate increase and program costs. The interest rate on the capital financing program is 1.50%, which remains unchanged as of June 30, 2018 and 2017.

Long-Term Debt Obligations (Commercial Paper Program)

The Institute manages a commercial paper program for various financing activities. To minimize debt service costs during construction periods, the CSU Board of Trustees (the Board) initially finances capital improvements with proceeds of commercial paper notes. The commercial paper notes are issued by the Institute and secured by BANs, which are issued by the Board. When the commercial paper capacity reaches its maximum limit, the short-term debt is refinanced with permanent bond financing through the CSU SRB. In a few cases, financing for certain projects with shorter amortization schedules may remain in commercial paper financing rather than the traditional longer-term bonds, and are amortized over shorter to medium terms using revenue derived from the projects. The Board also utilizes commercial paper issued by the Institute to internally finance certain equipment and software purchases of CSU campuses. CSU campuses enter into installment purchase obligations and make installment payments over terms consistent with the useful life of the financed equipment or software (typically 5–7 years). These installment payments are applied to repay outstanding commercial paper principal and interest, with interest adjusted annually.

Factors Impacting Future Periods

On July 9, 2018, the Institute rolled over, or renewed, $11.8 million tax-exempt and $3.1 million taxable commercial paper for San Marcos Extended Learning Building and Parking Structure Project, and $4.6 million taxable commercial paper for the LA RongXiang Xu Bioscience Innovation Center Project. The commercial paper was collateralized by BANs on terms consistent with the commercial paper and bears interest at the same rate as is paid on the related commercial paper.

On July 10, 2018, $300 thousand tax-exempt commercial paper note principal for the CSUF Faculty-Staff Housing Project matured, which was the final payoff for this project. There was no outstanding commercial paper payable balance due to the final payoff.

On July 10, 2018, the Institute also rolled over commercial paper for seven different projects totaling $146.4 million with an increase of $491 thousand. The commercial paper is collateralized by BANs on terms consistent with the respective commercial paper bearing interest at the same rate as is paid.

CALIFORNIA STATE UNIVERSITY INSTITUTE

A Discretely Presented Component Unit of the California State University

Statements of Net Position

June 30, 2018 and 2017

		2018	2017
Assets:			
Current assets:			
Cash and cash equivalents	$	32,919	9,124
Accounts receivable		4,895	—
Investments		3,389,281	2,915,218
Revenue Bond Anticipation Notes receivable, current portion		166,279,000	400,000
Interest receivable		468,741	724
Capital financing receivables, current portion		40,000	251,000
Prepaid expenses		21,667	21,333
Total current assets		170,236,503	3,597,399
Noncurrent assets:			
Revenue Bond Anticipation Notes receivable, less current portion		2,926,000	200,000
Capital financing receivables, less current portion		—	40,000
Total noncurrent assets		2,926,000	240,000
Total assets		173,162,503	3,837,399
Liabilities:			
Current liabilities:			
Accounts payable		110,532	92,524
Interest payable		545,344	358
Commercial paper payable, current portion		166,279,000	400,000
Total current liabilities		166,934,876	492,882
Noncurrent liabilities:			
Commercial paper payable, net of current portion		2,926,000	200,000
Total liabilities		169,860,876	692,882
Net position:			
Unrestricted		3,301,627	3,144,517
Total net position	$	3,301,627	3,144,517

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY INSTITUTE

A Discretely Presented Component Unit of the California State University

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2018 and 2017

		2018	2017
Operating revenues:			
Program support	$	1,694,354	1,510,712
Interest income		1,280,540	1,095,045
Total operating revenues		2,974,894	2,605,757
Operating expenses:			
Program costs		1,564,779	1,506,092
Interest on debt		1,278,144	1,084,041
Total operating expenses		2,842,923	2,590,133
Operating gain		131,971	15,624
Nonoperating revenues:			
Investment income, net		24,633	22,046
Other nonoperating revenues		506	540
Total nonoperating revenues		25,139	22,586
Increase in net position		157,110	38,210
Net position, beginning of year		3,144,517	3,106,307
Net position, end of year	$	3,301,627	3,144,517

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY INSTITUTE

A Discretely Presented Component Unit of the California State University

Statements of Cash Flows

Years ended June 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Program support	$	1,689,459	1,519,353
Expenditures and other deductions		(1,547,105)	(1,531,308)
Interest received on notes		812,523	788,404
Interest paid on commercial paper		(733,158)	(775,899)
Net cash provided by operating activities		221,719	550
Cash flows from capital and related financing activities:			
Proceeds from commercial paper		160,850,000	199,649,000
Payments of commercial paper		(300,000)	(1,824,000)
Net cash provided by capital and related financing activities		160,550,000	197,825,000
Cash flows from investing activities:			
Invested in Revenue Bond Anticipation Notes		(160,850,000)	(199,649,000)
Proceeds from Revenue Bond Anticipation Notes		300,000	500,000
Proceeds from capital financing arrangements		251,000	1,566,000
Investment income, net		45,364	28,224
Purchases of investments		(3,166,726)	(34,048,480)
Sales of investments		2,672,438	33,749,645
Net cash used in investing activities		(160,747,924)	(197,853,611)
Net change in cash and cash equivalents		23,795	(28,061)
Cash and cash equivalents at beginning of year		9,124	37,185
Cash and cash equivalents at end of year	$	32,919	9,124
Reconciliation of operating gain (loss) to net cash provided by (used in) operating activities:			
Operating gain	$	131,971	15,624
Adjustments to reconcile operating gain to net cash provided by operating activities:			
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable		(4,895)	8,641
Decrease (increase) in interest receivable		(468,017)	3,232
Increase in prepaid expenses		(334)	(1,666)
(Decrease) increase in accounts payable		18,008	(23,550)
(Decrease) increase in interest payable		544,986	(1,731)
Net cash provided by operating activities	$	221,719	550
Supplemental disclosures of noncash capital and related financing activities:			
Commercial paper proceeds directly wired to escrow agent by bank	$	8,055,000	203,498,873
Bond proceeds directly wired to Commercial Paper Trustee by bank		(8,055,000)	(203,498,873)
Rollover of commercial paper – principal issued		198,071,000	408,778,000
Rollover of commercial paper – principal paid		(198,071,000)	(408,778,000)

See accompanying notes to financial statements.

(1) Organization

California State University Institute (the Institute) is a nonprofit California corporation that is an auxiliary organization of the California State University (the CSU). The Institute is a discretely presented component unit of the CSU. The Institute's primary purpose is to provide financing, in the form of commercial paper, to fund projects to be undertaken at the various CSU campuses.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements for the Institute have been prepared under the standards promulgated by the Governmental Accounting Standards Board (GASB) using the accrual basis of accounting and economic resources measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

(b) Net Position

The Institute's net position is classified as unrestricted. Unrestricted net position may be designated for use by the Institute. The Institute has adopted a policy of utilizing restricted funds, when available, prior to unrestricted funds.

(c) Cash and Cash Equivalents and Statements of Cash Flows

The Institute considers all highly liquid investments with an original maturity date of three months or less to be cash and cash equivalents. The Institute considers amounts included in the CSU Consolidated Investment Pool (the Investment Pool) to be investments. Certain transactions recorded as revenue or expenses in the accompanying Statements of Revenues, Expenses, and Changes in Net Position include transactions between entities that are also participants in the Investment Pool. The Institute considers changes in the respective participants' equity in the Investment Pool resulting from these transactions to represent cash flows of the Institute in the accompanying Statements of Cash Flows.

(d) Investments

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

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

(e) Revenues

The Institute reports collections from the participating members for program support in the Statements of Revenues, Expenses, and Changes in Net Position for revenues recognized during the period earned. The rates charged to campuses for short-term campus construction project financings are equal to the rates charged on the Institute's commercial paper. The rates charged to participating members for capital financings are higher than the rates charged on the Institute's commercial paper due to the administrative costs to run this program. Investment income, net is recognized during the period earned.

(f) Classification of Revenues and Expenses

The Institute considers operating revenues and expenses in the Statements of Revenues, Expenses, and Changes in Net Position to be those revenues and expenses that result from exchange transactions or other activities that are connected directly to the Institute's primary purposes. 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 requirements. These nonoperating activities primarily include the Institute's net investment income.

(g) Income Taxes

The Institute is an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the Institute is 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 is granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

(h) Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual amounts may differ from those estimates.

(3) Cash and Cash Equivalents, Investments, and Investment Income, Net

The Institute's cash and cash equivalents and investments as of June 30, 2018 and 2017 are classified in the accompanying Statements of Net Position as follows:

		2018	2017
Cash and cash equivalents	$	32,919	9,124
Investments		3,389,281	2,915,218
Total cash, cash equivalents, and investments	$	3,422,200	2,924,342

(a) Cash and Cash Equivalents

At June 30, 2018 and 2017, cash and cash equivalents consisted of demand deposits held at a financial institution. The Institute's cash and cash equivalents of $32.9 thousand and $9.1 thousand have a corresponding bank balance of $40 thousand and $23.9 thousand at June 30, 2018 and 2017, respectively. At June 30, 2018, the difference between the book and bank balance is due to outstanding checks.

The Institute maintains centralized management for substantially all of its cash and cash equivalents. Cash in demand deposit accounts is minimized by sweeping available cash balances into the Investment Pool on a daily basis.

(b) Investments

At June 30, 2018 and 2017, the Institute's investment portfolio consisted of investments held in the Investment Pool. Separate accounting is maintained as to the amounts allocable to the various funds and programs.

(i) Investment Policy

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

The Institute's investment policy authorizes funds held in local trust accounts under Education Code Section 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 Institute'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.

(ii) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the custodian, the investments or deposits may not be returned to the Institute. Substantially all of the Institute's securities are registered in the CSU's name by the custodial bank as an agent for the Institute. The Institute's deposits are maintained at financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured. As a result, custodial credit risk for such investments and deposits is remote.

(iii) Interest Rate Risk

Interest rate risk is the risk that fluctuations in interest rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair market value to fluctuations in market interest rates. The Institute's investment guidelines measure interest rate risk by limiting an eligible investment to a 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, reset date, and prepayment speed resulting in the maturity of a bond being less than its 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 Institute's investment portfolio for each investment type as of June 30, 2018 are presented in the table below:

Investment type		Fair value	Duration (in years)
Asset-backed securities	$	254,906	1.05694
Certificates of deposit		176,018	0.20921
Corporate bonds		996,486	0.92657
Money market funds		8,467	—
Mortgage-backed securities		234	2.18645
Municipal bonds		45,141	1.15095
Repurchase agreements		8,904	0.00537
U.S. agency securities		1,028,865	0.96169
U.S. Treasury securities		870,260	1.20576
Total investments	$	3,389,281	

Durations of the Institute's investment portfolio for each investment type as of June 30, 2017 are presented in the table below:

Investment type		Fair value	Duration (in years)
Asset-backed securities	$	249,389	1.53413
Certificates of deposit		123,661	0.28861
Corporate bonds		803,617	1.26804
Money market funds		12,526	—
Mortgage-backed securities		289	1.93128
Municipal bonds		13,210	1.97600
Repurchase agreements		8,206	0.00813
U.S. agency securities		1,052,472	1.33882
U.S. Treasury securities		651,848	1.37675
Total investments	$	2,915,218	

Another way the Institute 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.

(iv) 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 risk is measured by the assignment of a rating by a nationally recognized statistical rating organization.

By law, the Institute 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 acceptances, and negotiable certificates of deposit. Therefore, occurrence of credit risk is considered remote.

Ratings of the Institute's investment portfolio for each investment type as of June 30, 2018 are presented in the table below:

		Rating as of June 30, 2018				
Investment type		**Fair value**	**AAA**	**AA**	**A**	**Not rated**
Asset-backed securities	$	254,906	254,906	—	—	—
Certificates of deposit		176,018	64,986	—	111,032	—
Corporate bonds		996,486	6,922	151,057	838,507	—
Money market funds		8,467	—	—	—	8,467
Mortgage-backed securities		234	—	234	—	—
Municipal bonds		45,141	17,731	25,142	2,268	—
Repurchase agreement		8,904	—	—	—	8,904
U.S. agency securities		1,028,865	17,587	1,011,278	—	—
U.S. Treasury securities		870,260	—	870,260	—	—
Total investments	$	3,389,281	362,132	2,057,971	951,807	17,371

Ratings of the Institute's investment portfolio for each investment type as of June 30, 2017 are presented in the table below:

		Rating as of June 30, 2017				
Investment type		**Fair value**	**AAA**	**AA**	**A**	**Not rated**
Asset-backed securities	$	249,389	249,389	—	—	—
Certificates of deposit		123,661	52,160	15,514	55,987	—
Corporate bonds		803,617	8,083	187,790	607,744	—
Money market funds		12,526	4	—	4,515	8,007
Mortgage-backed securities		289	—	289	—	—
Municipal bonds		13,210	—	13,210	—	—
Repurchase agreement		8,206	—	—	1,939	6,267
U.S. agency securities		1,052,472	16,165	1,036,307	—	—
U.S. Treasury securities		651,848	—	651,848	—	—
Total investments	$	2,915,218	325,801	1,904,958	670,185	14,274

(v) Concentration Risk

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

As of June 30, 2018, the following investments of the Investment Pool (excluding U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the Institute's total investment portfolio: FHLBanks Office of Finance totaling $450 thousand, or 13.28% and Federal National Mortgage Association (Fannie Mae) totaling $327 thousand, or 9.64%. As of June 30, 2017, the following investments of the Investment Pool (excluding U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the Institute's total investment portfolio: FHLBanks Office of Finance totaling $362.1 thousand, or 12%; Federal National Mortgage Association (Fannie Mae) totaling $308.5 thousand, or 11%; Federal Farm Credit Banks Funding Corporation totaling $185.9 thousand, or 6%; and Federal Home Loan Mortgage Corporation (Freddie Mac) totaling $152 thousand, or 5%.

(vi) Fair Value Measurements

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Institute has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability. This valuation is accomplished using management's best estimate of fair value, with inputs into the determination of fair value that require significant management judgment or estimation.

The following table presents investments that are measured at fair value on a recurring basis at June 30, 2018:

Investment type		Fair value	Level 1	Level 2	Net asset value (NAV)
Asset-backed securities	$	254,906	—	254,906	—
Certificates of deposit		176,018	—	176,018	—
Corporate bonds		996,486	—	996,486	—
Money market funds		8,467	—	—	8,467
Mortgage backed securities		234	—	234	—
Municipal bonds		45,141	—	45,141	—
Repurchase agreement		8,904	—	8,904	—
U.S. agency securities		1,028,865	—	1,028,865	—
U.S. Treasury securities		870,260	—	870,260	—
Total investments	$	3,389,281	—	3,380,814	8,467

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

Investment type		Fair value	Level 1	Level 2	Net asset value (NAV)
Asset-backed securities	$	249,389	249,389	—	—
Certificates of deposit		123,661	—	123,661	—
Corporate bonds		803,617	107,302	696,315	—
Money market funds		12,526	—	—	12,526
Mortgage-backed securities		289	—	289	—
Municipal bonds		13,210	—	13,210	—
Repurchase agreement		8,206	—	8,206	—
U.S. agency securities		1,052,472	531,396	521,076	—
U.S. Treasury securities		651,848	—	651,848	—
Total investments	$	2,915,218	888,087	2,014,605	12,526

The following discussion describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair value are affected by the assumptions used.

Investments are classified in Level 1 as fair value and are obtained at the last sale price on the last business day of the current fiscal year, as quoted on a recognized exchange or an industry standard pricing service, when available. Investments for which no sale was reported as of the close of the last business day of the current fiscal year are valued at the quoted bid price provided by the Institute's external investment managers or their custodians.

Investments are classified in Level 2 as fair value are calculated using valuations that include observable market quoted prices for similar assets or liabilities. Observable inputs other than quoted prices such as price services or indices, estimates, appraisals, assumptions, and other methods that are reviewed by management. Changes in market conditions and economic environments may impact the net asset value (NAV) of the funds and consequently, the fair value of the Institute's interests in the funds.

There were no assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2018 or 2017.

Money Market Funds are not categorized under the fair value hierarchy and are shown at NAV. These investments are measured at amortized cost when calculating NAV per share (or its equivalent) of the investment.

(c) Investment Income, Net

Investment income, net, included within the Statements of Revenues, Expenses, and Changes in Net Position is comprised of changes in unrealized losses of $20.7 thousand and $16.3 thousand and interest and dividend income of $45.3 thousand and $38.4 thousand for the years ended June 30, 2018 and 2017, respectively.

(4) Revenue Bond Anticipation Notes Receivable

Revenue Bond Anticipation Notes (BANs) are issued by the CSU to provide short-term financing to CSU campuses for construction projects. BANs are purchased by the Institute with proceeds from the Institute's issuance of commercial paper. BANs act as collateral for the Institute's commercial paper and contain terms consistent with the commercial paper (note 6).

(Continued)

At June 30, 2018 and 2017, the Institute held $169.2 million and $600 thousand, respectively, in BANs in relation to various campuses' commercial paper issuances. Interest on BANs is equal to the interest on the commercial paper with maximum and minimum weighted average interest rates for the years ended June 30, 2018 and 2017 of 2.1% and 1.10%, and 0.87% and 0.45%, respectively. As of June 30, 2018, the Institute classified $166.2 million in BANs as current assets to be consistent with the presentation of the related commercial paper as management has the intent and ability to collect these receivables on or before June 30, 2019 through debt issued by the Systemwide Revenue Bond Program. As of June 30, 2018 and 2017, BANs receivable consisted of the following:

Project names		2018	2017
Fullerton Housing Refinance	$	300,000	600,000
SDSU Tula/Tenochca Replacement		22,529,000	—
SLO Cal Poly Corporation – Vista Grande Replacement Building		26,581,000	—
San Bernardino College of Extended Learning Expansion		20,443,000	—
SDSU – New Student Residence Hall Project		41,382,000	—
Stanislaus University Union Renovation and Expansion		15,670,000	—
CSU Sacramento Parking Structure V Project		3,015,000	—
San Marcos Extended Learning Building and Parking		14,900,000	—
Cal State LA Auxiliary Bioscience Innovation Center		4,525,000	—
Cal State LA Parking Structure E Project		11,775,000	—
Maritime Academy Hotel Acquisition		8,085,000	—
Total BANs receivable	$	169,205,000	600,000

Future BAN payments due to the Institute as of June 30, 2018 are as follows:

Year(s)		Total
2019	$	166,279,000
2020		72,000
2021		72,000
2022		72,000
2023		2,710,000
Total	$	169,205,000

The carrying amount of these notes approximates fair value as of June 30, 2018 and 2017. The fair values were estimated based on quoted market rates for instruments with similar terms and remaining maturities.

(5) Capital Financing Receivable

The CSU and the Institute created a program to finance certain capital needs of CSU campuses and auxiliaries, whereby the CSU enters into capital financing agreements with the Institute. The capital financing receivables are used to fund a wide range of software, hardware, and other equipment needs of campuses. The capital financing acts as collateral for the Institute's issuance of commercial paper, the proceeds of which are used to provide funds for financings. The capital financing receivables require the CSU campuses to make quarterly installment payments to the Institute over periods of up to eight years. A portion of the payments are used to repay principal and interest on the commercial paper (note 6). The interest rate is based on a tax-exempt rate, which is adjusted annually. Prior to the start of the new fiscal year, the Institute resets the interest rate based on Securities Industries and Financial Market Association (SIFMA) index plus a certain margin for the market rate increase and program costs. The interest rate on the capital financing receivable is 1.50%, which remains unchanged as of June 30, 2018 and 2017.

At June 30, 2018 and 2017, the Institute held $40 thousand and $291 thousand, respectively, in capital financing receivables. The commercial paper issuances corresponding to the capital financing projects had maximum and minimum weighted average interest rates of 2.1% and 1.10%, and 0.87% and 0.45% for the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, the capital financing receivables consisted of the following:

Campuses		2018	2017
CSU Bakersfield	$	40,000	157,000
San Jose State		—	134,000
Total capital financing receivables	$	40,000	291,000

Future capital financing payments due to the Institute as of June 30, 2018 are as follows:

Year		Principal	Interest	Total
2019	$	40,000	375	40,375
Total	$	40,000	375	40,375

(6) Commercial Paper

The Institute manages a commercial paper program, which provides for secured borrowings through issuance of Series A Tax Exempt and Series B Taxable Notes up to an authorized aggregate principal and accrued interest amount of $500 million. The commercial paper notes are issued in denominations of $1 thousand principal amounts each or any integral multiple thereof, and secured by BANs and other capital financing agreements (notes 4 and 5). The commercial paper program is supported by a $300 million letter of credit facility, issued on a several but not joint basis by State Street Bank and Trust Company and Wells Fargo Bank, National Association. As of June 30, 2018 and 2017, commercial paper with a face amount of $169.2 million and $600 thousand, respectively, was issued and outstanding. As of June 30, 2018, the Institute classified $166.2 million in commercial paper payable as a current liability, consistent with the presentation of the related BANs, as the balance will be paid off on or before June 30, 2019 through debt issued by the Systemwide Revenue Bond Program. The borrowings have variable maturity dates not to exceed 270 days with rollover provisions at maturity and bear interest at tax-exempt or, in the case of taxable commercial paper, taxable commercial paper interest rates as calculated by the commercial paper dealers as of each maturity date. The maturing commercial paper is rolled, or renewed, until such time that a Systemwide Revenue Bond is issued to pay off the portion of the outstanding commercial paper balance. The CSU has the ability to, and intends to, extend certain BANs to periods longer than one year; accordingly, the related outstanding amount of commercial paper related to these BANs at year-end has been classified as a long-term obligation. The maximum and minimum weighted average interest rates at June 30, 2018 and 2017 were 2.1% and 1.10%, and 0.87% and 0.45%, respectively.

The carrying amounts of the Institute's commercial paper payable are as follows:

		2018	2017
Commercial paper payable, current portion	$	166,279,000	400,000
Commercial paper payable, net of current portion		2,926,000	200,000
Total commercial paper payable	$	169,205,000	600,000

The changes in outstanding debt during fiscal years 2018 and 2017, which include the rollover of commercial paper, are as follows:

		2018	2017
Commercial paper, beginning balance	$	600,000	5,964,000
Commercial paper issued, including rollovers – principal		366,976,000	608,427,000
Commercial paper paid, including rollovers – principal		(198,371,000)	(613,791,000)
Commercial paper, ending balance	$	169,205,000	600,000

The carrying amounts of commercial paper payable approximate their fair values as of June 30, 2018 and 2017. The fair values of commercial paper payable were estimated based on quoted market rates for instruments with similar terms and remaining maturities.

(7) Related Party

The Institute provides funding to the CSU Chancellor's Office for administrative services. The administrative services totaled $168.7 thousand and $160.7 thousand in fiscal years 2018 and 2017, respectively.

(Continued)

The Institute provides financing to CSU campuses to support construction projects and certain capital needs (notes 4 and 5). The Institute received revenue for program support from the CSU campuses totaling $1.7 million and $1.5 million at June 30, 2018 and 2017, respectively. Additionally, interest income received by the Institute from CSU campuses was $1.3 million and $1.1 million for the years ended June 30, 2018 and 2017, respectively.

(8) Subsequent Events

Subsequent events have been evaluated through September 21, 2018, which corresponds to the date when the financial statements were issued. There are no subsequent events that require disclosure.

Schedule 1

CALIFORNIA STATE UNIVERSITY INSTITUTE

A Discretely Presented Component Unit of the California State University

Schedule of Net Position

June 30, 2018

(For inclusion in the California State University)

Assets:		
Current assets:		
Cash and cash equivalents	$	32,919
Short-term investments		3,389,281
Accounts receivable		473,636
Notes receivable, current portion		166,319,000
Prepaid expenses		21,667
Total current assets		170,236,503
Noncurrent assets:		
Notes receivable, net of current portion		2,926,000
Total noncurrent assets		2,926,000
Total assets		173,162,503
Liabilities:		
Current liabilities:		
Accounts payable		110,532
Other liabilities		545,344
Long-term debt obligations, current portion		166,279,000
Total current liabilities		166,934,876
Noncurrent liabilities:		
Long-term debt obligations, net of current portion		2,926,000
Total liabilities		169,860,876
Net position – unrestricted	$	3,301,627

See accompanying independent auditors’ report.

Schedule 2

CALIFORNIA STATE UNIVERSITY INSTITUTE

A Discretely Presented Component Unit of the California State University

Schedule of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2018

(For inclusion in the California State University)

Revenues:		
Operating revenues:		
Other operating revenues	$	2,974,894
Expenses:		
Operating expenses:		
Auxiliary enterprise expenses		2,842,923
Operating gain		131,971
Nonoperating revenues:		
Investment income, net		24,633
Other nonoperating revenues		506
Net nonoperating revenues		25,139
Increase in net position		157,110
Net position:		
Net position, beginning of year		3,144,517
Net position, end of year	$	3,301,627

See accompanying independent auditors' report.

Schedule 3

CALIFORNIA STATE UNIVERSITY INSTITUTE

A Discretely Presented Component Unit of the California State University

Other Information

June 30, 2018

(For inclusion in the California State University)

Composition of investments at June 30, 2018:

		Current	Noncurrent	Total
Asset-backed securities	$	254,906	—	254,906
Certificates of deposit		176,018	—	176,018
Corporate bonds		996,486	—	996,486
Money market funds		8,467	—	8,467
Mortgage-backed securities		234	—	234
Municipal bonds		45,141	—	45,141
Repurchase agreements		8,904	—	8,904
U.S. agency securities		1,028,865	—	1,028,865
U.S. Treasury securities		870,260	—	870,260
Total investments	$	3,389,281	—	3,389,281

Fair value hierarchy in investments at June 30, 2018:

			Fair value measurements using			
		Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant observable inputs (Level 3)	Net asset value (NAV)
Asset-backed securities	$	254,906	—	254,906	—	—
Certificates of deposit		176,018	—	176,018	—	—
Corporate bonds		996,486	—	996,486	—	—
Money market funds		8,467	—	—	—	8,467
Mortgage-backed securities		234	—	234	—	—
Municipal bonds		45,141	—	45,141	—	—
Repurchase agreements		8,904	—	8,904	—	—
U.S. agency securities		1,028,865	—	1,028,865	—	—
U.S. Treasury securities		870,260	—	870,260	—	—
Total investments	$	3,389,281	—	3,380,814	—	8,467

Long-term liabilities activity schedule:

		Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Current portion	Long-term portion
Long-term debt obligations:							
Commercial paper	$	600,000	366,976,000	(198,371,000)	169,205,000	166,279,000	2,926,000
Total long-term liabilities	$	600,000	366,976,000	(198,371,000)	169,205,000	166,279,000	2,926,000

Long-term debt obligation schedule:

		Revenue bonds		All other long-term debt obligations		Total	
		Principal	Interest	Principal	Interest	Principal	Interest
Year(s) ending June 30:							
2019	$	—	—	166,279,000	—	166,279,000	—
2020		—	—	72,000	—	72,000	—
2021		—	—	72,000	—	72,000	—
2022		—	—	72,000	—	72,000	—
2023		—	—	2,710,000	—	2,710,000	—
Total	$	—	—	169,205,000	—	169,205,000	—

See accompanying independent auditors' report.