

Illustrated Guide to the Financial Statements

FY2016/17



SAN FRANCISCO

STATE UNIVERSITY

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SFSU's management prepared the financial statements.

The accounting policies used to prepare the financial statements conform to accounting principles generally accepted in the United States.

SFSU's independent external auditors, KPMG, have conducted an audit of the basic financial statements in accordance with auditing standards generally accepted in the United States.

Introduction

San Francisco State University ("the University"), as a part of the California State University system, is subject to an annual financial statement audit by the external auditors. The 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.

Fiscal Affairs believes that this effort should not only be driven by compliance, but also by one of our core values: transparency. Therefore, it is within the spirit of openness to our campus community that we create this "Illustrated Guide to the 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 statements.

Please refer to this guide as "financial statements for non-accountants." As you read this document, we hope you will be able to see where the University holds its resources, what the financial obligations against those resources are, and what is left over in the end.

Definitions

Assets - resources owned by the University.

Current Assets - assets expected to be used through the normal operations of the University within one year or that will convert to cash within one year (such as current investments and current accounts receivable).

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

Investments - a security or other investment assets that the University holds primarily for the purpose of income or profit (such as stocks).

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

Non-current Assets - assets that are not likely to convert to cash within the one-year period (such as long-term investments).

Deferred Outflows - a consumption of net assets that is applicable to a future accounting period (these are essentially assets).

Liabilities - obligated future sacrifices of economic benefits of the University due to past transactions or events.

Current Liabilities – financial obligations the University will pay within a one-year time frame.

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 received by the University in advance of the University providing the corresponding services (such as summer tuition and fees received for courses that are not completed by June 30, and grants received prior to the research being conducted and work being performed). Unearned revenue is treated as a liability since the University has not yet performed the work (teaching, research, etc.) in order to "earn" that revenue.

Noncurrent Liabilities - long-term financial obligations listed on the University's balance sheet that are not due within the one-year period.

Long-Term Debt (Revenue Bonds) - the University'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, and parking facilities.

Pension - defined retirement benefits provided by the University to 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.

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

Net Position - assets plus deferred outflows less liabilities and deferred inflows (essentially, the difference between resources and financial obligations 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 mission: student education.

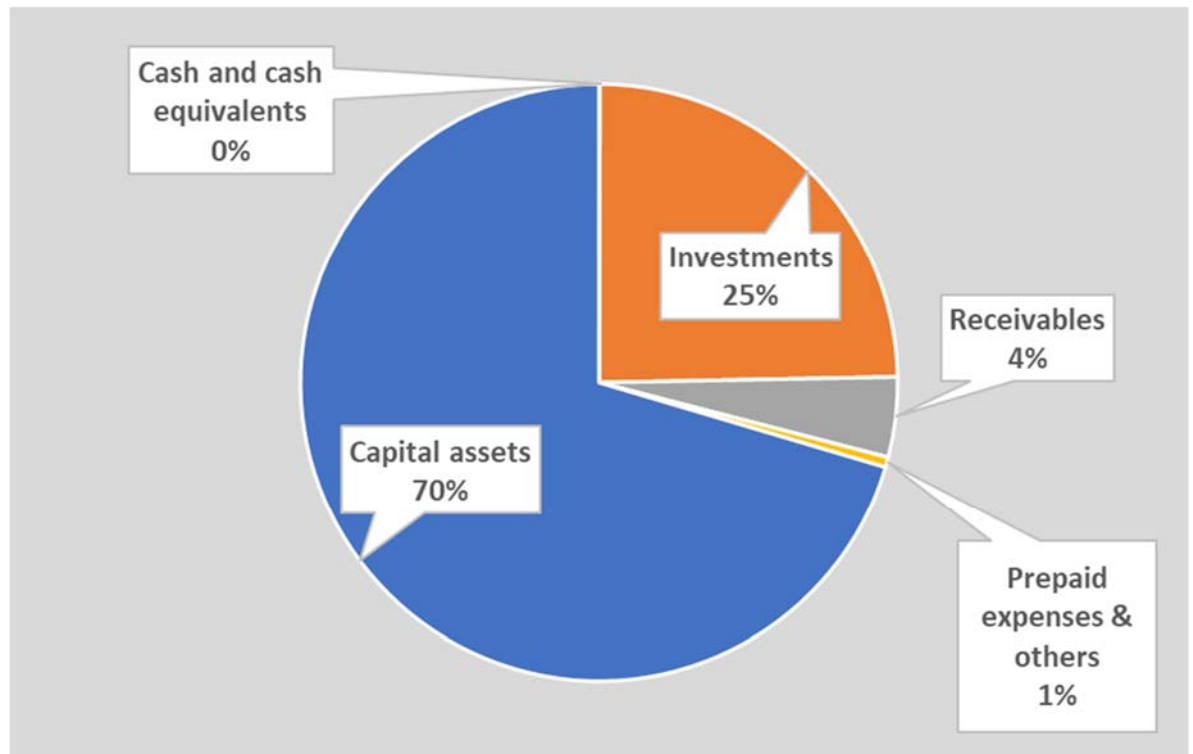
Operating Expenses - costs incurred in fulfilling the University's primary mission.

Non-Operating Revenues and Expenses - the revenues and expenses that are not a direct result of pursuing the University's primary mission but are still important drivers of its financial results (major Non-Operating revenues are the state appropriations, federal and state financial aid grants, gifts, and investment income).

Balance Sheet: Assets

First let us look at the different components of the University's assets:

Total Assets: \$781 million as of 6/30/2017



Below are the details of each component:

Capital Assets - These are buildings, land, infrastructure, works of art and historical treasure, equipment, construction work in progress, library books and materials, and software. This section made up 70% of the University's total assets as of 6/30/2017.

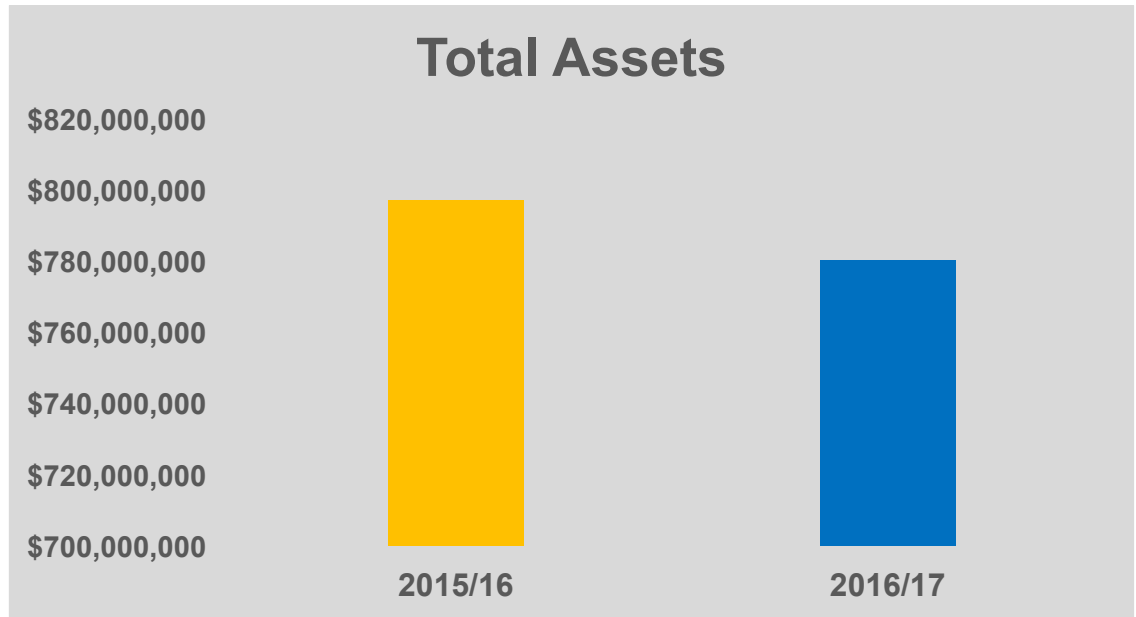
Investments - The University holds a variety of investments under central management by the Chancellor's Office. Investments are reported at fair market value and includes short-term investments and long-term investments. This section made up 25% of the University's total assets as of 6/30/2017.

Receivables - Receivables include short-term receivables, long-term receivables, and student loans receivables. This is what students, the state, the federal government, or other third parties have outstanding to the University. Receivables are included in the asset account because we are expecting payments from these entities to pay off their remaining balances. Not all payments owed to the University will necessarily be collected. This amount can be decreased by the Allowance for Doubtful Accounts, which is an estimate of receivables that will ultimately not be collected. This section made up 4% of total assets as of 6/30/2017.

Prepaid Expenses – Prepaid expenses arise on a balance sheet because the University has made payments for goods and services to be received in the near future. Prepaid expenses made up 1% of total assets as of 6/30/2017.

Cash and Cash Equivalents - This is the most liquid asset that the University possesses. Cash includes petty cash and checks on hand as of 6/30/2017.

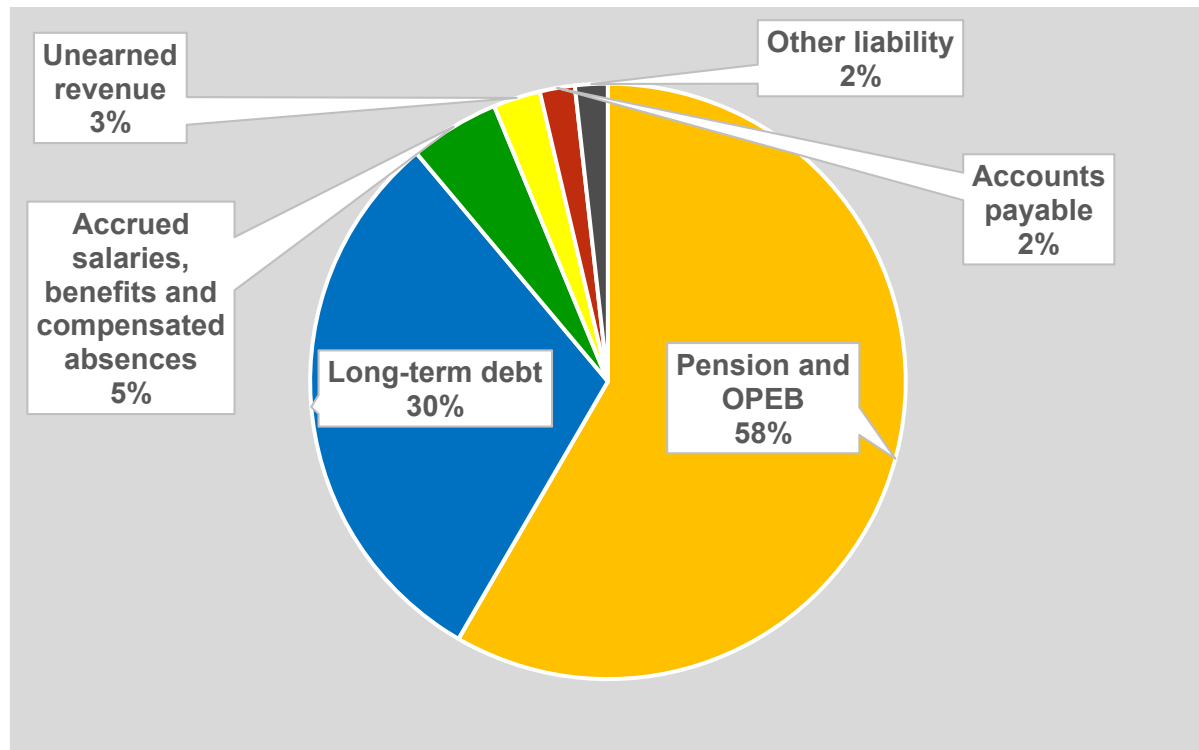
Now that we have reviewed the different types of assets, let us look at how the University's total assets changed over the last 2 years:



Explanation: FY2016/17 vs FY2015/16: the total assets decreased by \$17 million mainly due to the decrease of other long-term investments and endowment investment. This decrease is partially offset by the increase of the University's capital assets and accounts receivable.

Balance Sheet: Liabilities

First let's look at the different components of the University's liabilities:
Total Liabilities: \$920 million as of 6/30/2017



Below are the details and examples of each component:

Pension and OPEB Liability - The University provides defined pension benefits as well as other post-retirement benefits (e.g. medical and dental) to eligible employees upon retirement. Both the University and employees contribute to CalPERS. This made up 58% of the total liabilities as of 6/30/2017.

Long-Term Debt - The University has long-term debt (revenue bonds) outstanding to finance student housing, student union, and parking facilities. As

of June 30, 2017, long-term debt equals \$281 million. This made up 30% of the University's total liabilities.

Example: The latest revenue bond that was issued was for the construction of the Mashouf Wellness Center.

Accrued Salaries and Benefits - This section of the balance sheet shows the amount of salaries and benefits (e.g. vacation, holiday etc.) that employees of the University have earned but have not been paid. 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.

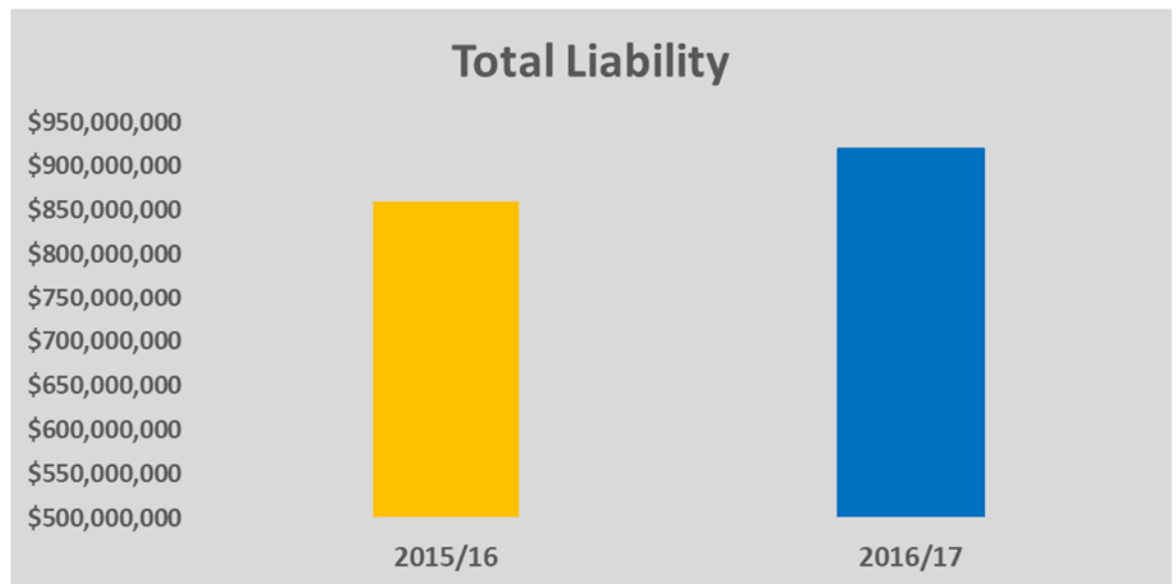
Unearned Revenue - Payments received by the University in advance of the University providing the corresponding services. When the University fulfills its obligation, the amount is transferred to a Revenue account in the Income Statement. This made up 3% of total liabilities.

Example: Student A pays his summer tuition in May. Summer class starts on June 22. By the end of the fiscal year, the University has only provided classes and earned the tuition for 8 days. The remaining cash paid by Student A is Unearned Revenue of the University (the University is obligated to provide classes after June 30).

Accounts Payable (AP) - This represents the amount that the University owes to other entities because it purchases goods or services on credit from a supplier or vendor. This made up 2% of the University's total liabilities.

Example: ABC Company bills the University for office supplies. The University records the invoice on 6/15/2017 (creates AP). However, ABC Company gives us 45 days to pay. The AP stays on the books until the University pays it.

Now that we have reviewed the different types of liabilities, let us look at how the University's total liabilities changed over the last 2 years:



Explanation: FY2016/17 vs FY2015/16: the total liabilities increased by \$61 million mainly due to the increase of net pension liability and OPEB, offset by decrease of unearned revenue, and long-term debt.



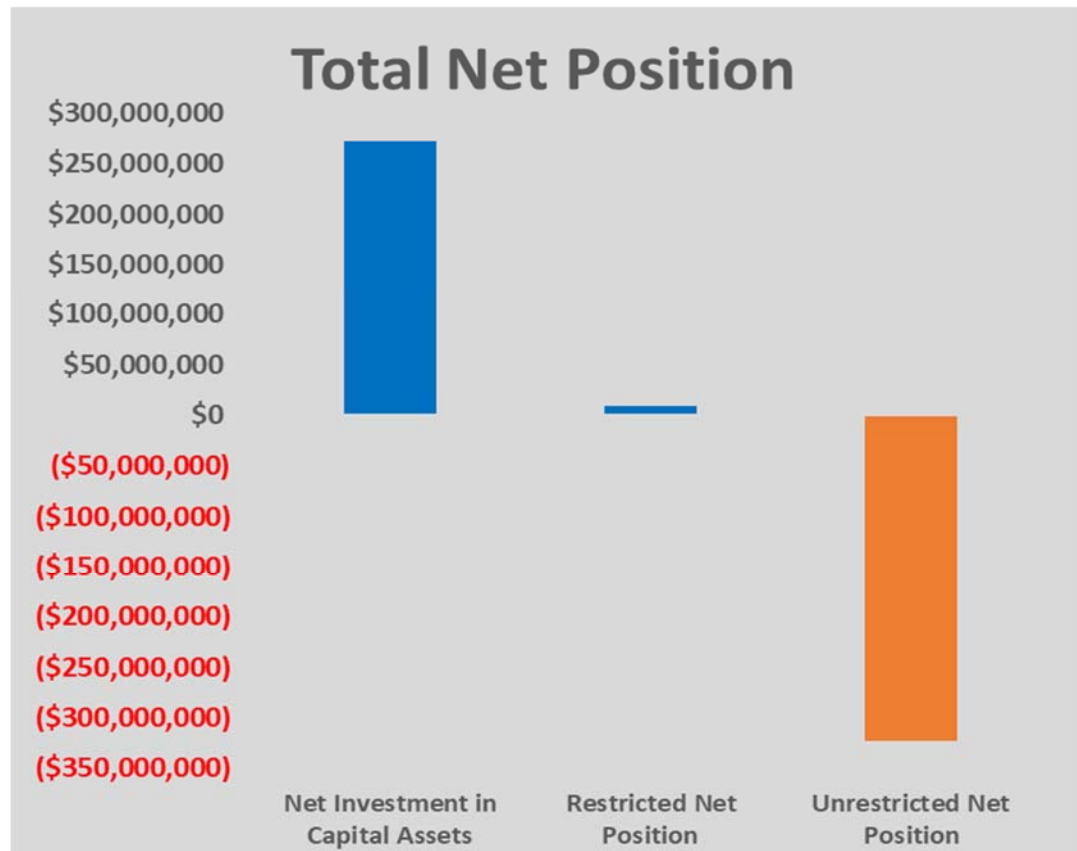
GASB 68 - Accounting and Financial Reporting for pensions, which has been in effect since July 2014. GASB 68 requires the University to record the net pension liability as the actuarial present value of projected pension benefit payments to be provided to current active and inactive employees (total pension liability), less the amount of the pension plan's fiduciary net position. Projected pension benefit payments are based on the benefit terms and agreement and incorporate the effects of projected salary changes, service credits, and projected post-employment benefit changes such as cost-of-living-adjustments.

Pre-GASB 68 - The University would only record the annual pension contribution of \$49million if GASB 68 were not in place in FY2016/17.

Post-GASB 68 - The University records the net pension liability of \$514 million as of 6/30/2017 and pension expenses of \$51 million in FY2016/17.

Balance Sheet: Net Position

First let's look at the different components of the University's net position: Total net position: **(\$41 million)** as of 6/30/2017



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. As of 6/30/ 2017, net investment in capital assets equals \$272 million.

Example: The Mashouf Wellness Center (capital asset) minus the debt raised to fund the project (long-term debt).

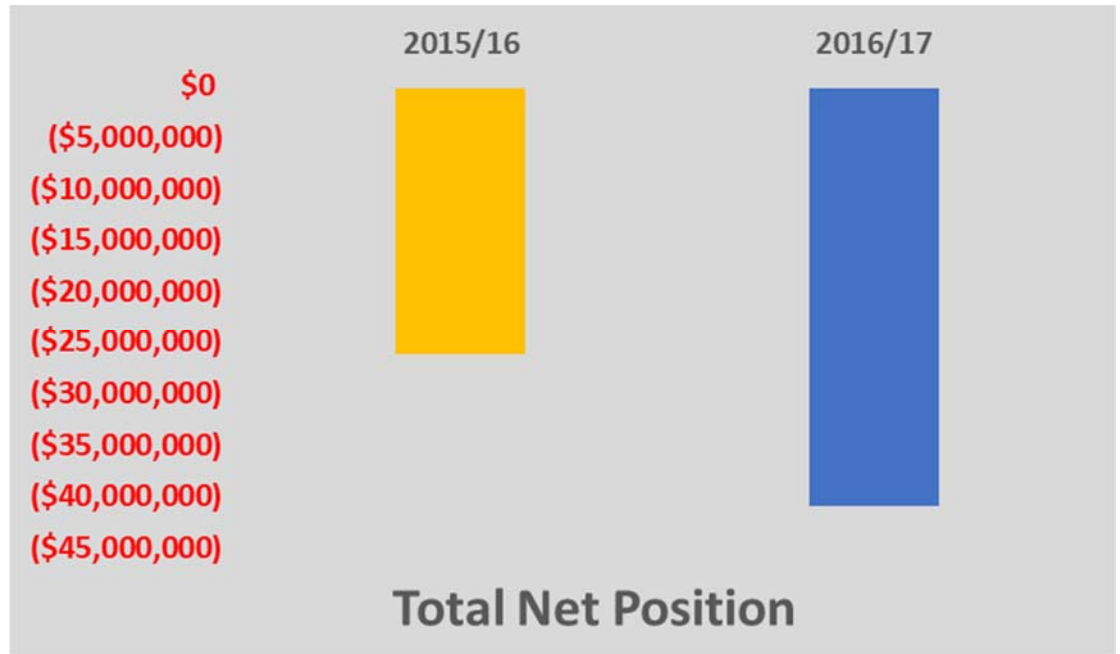
Restricted Net Position - Restricted net position has constraints on its use that are either externally imposed by creditors, sponsors, or law. Restricted net position includes nonexpendable and expendable net position. As of 6/30/2017, restricted net position equals \$9 million.

Example: As of 6/30/2017, all the endowment was transferred to the SFSU Foundation so the University does not have any restricted nonexpendable net position.

Unrestricted Net Position - Net resources available to the University for general and educational obligations, with the balances designated for use by leadership to address the University needs. As of 6/30/ 2017, unrestricted net position equals (\$322) million.

Example: Campus housing program, student center program, student health service, and parking program are primary examples of operations that have unrestricted net position with designated uses.

Now that we have reviewed the different types of net position, let us look at the University’s total net position over the last 2 years:

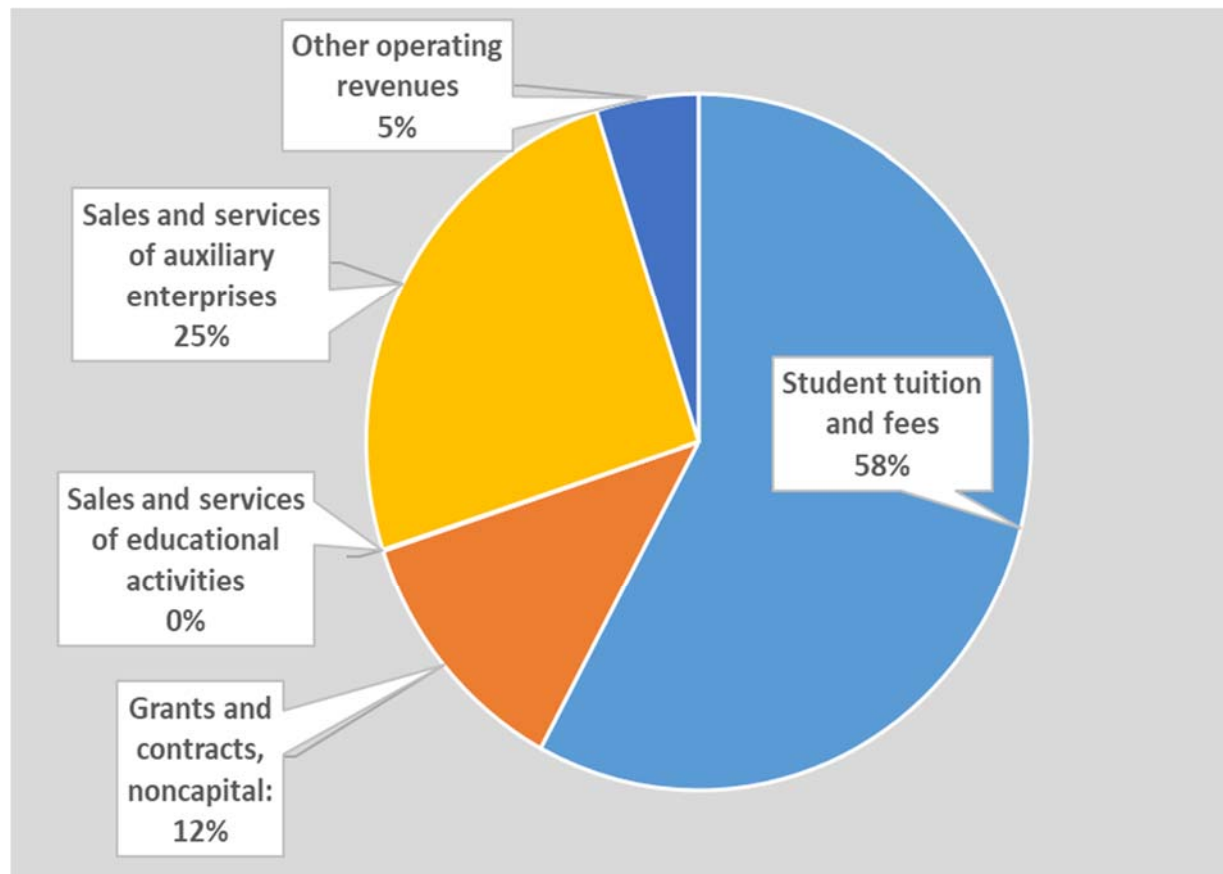


Explanation: FY2016/17 vs FY2015/16: net position decreased by \$15 million mainly due to the decrease of the unrestricted net position, offset by increase of the net investment in capital assets. Both FY2016/17 and FY2015/16 have negative net position.

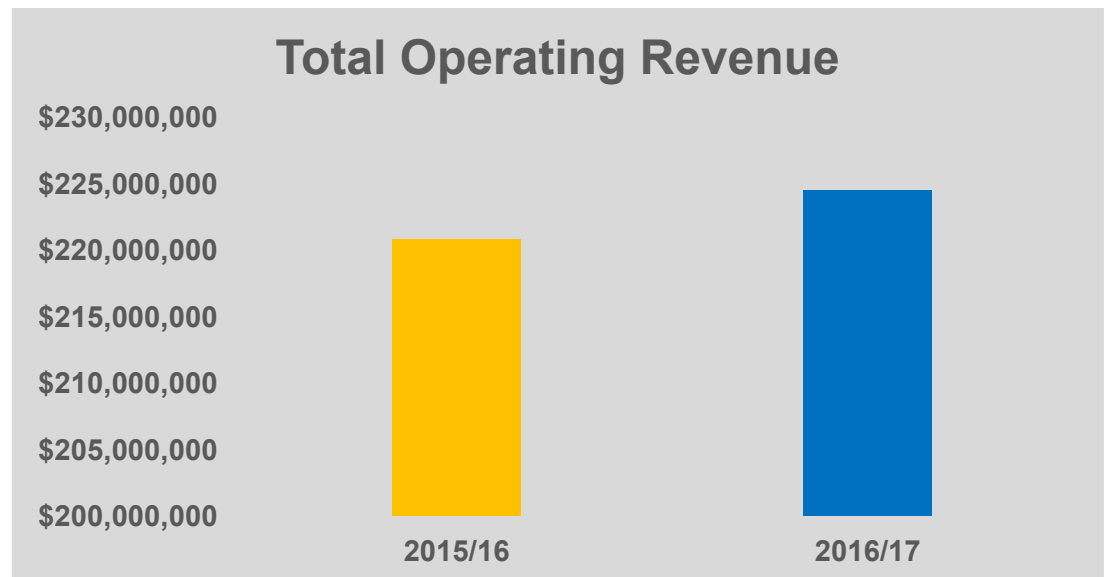
Income Statement: Operating Revenue

Operating revenues are funds that are collected by the University to fund its primary mission.

Below are the different components of the University's operating revenue in FY2016/17: **Operating Revenue in FY2016/17: \$225 million**



Now let us look at how the operating revenue changed over the last 2 years:



Explanation: FY2016/17 vs. FY2015/16: operating revenue increased by \$4 million mainly due to increase of sales and services of auxiliary enterprises, and grants and contracts, which were partially offset by a decrease of student tuition and fees.

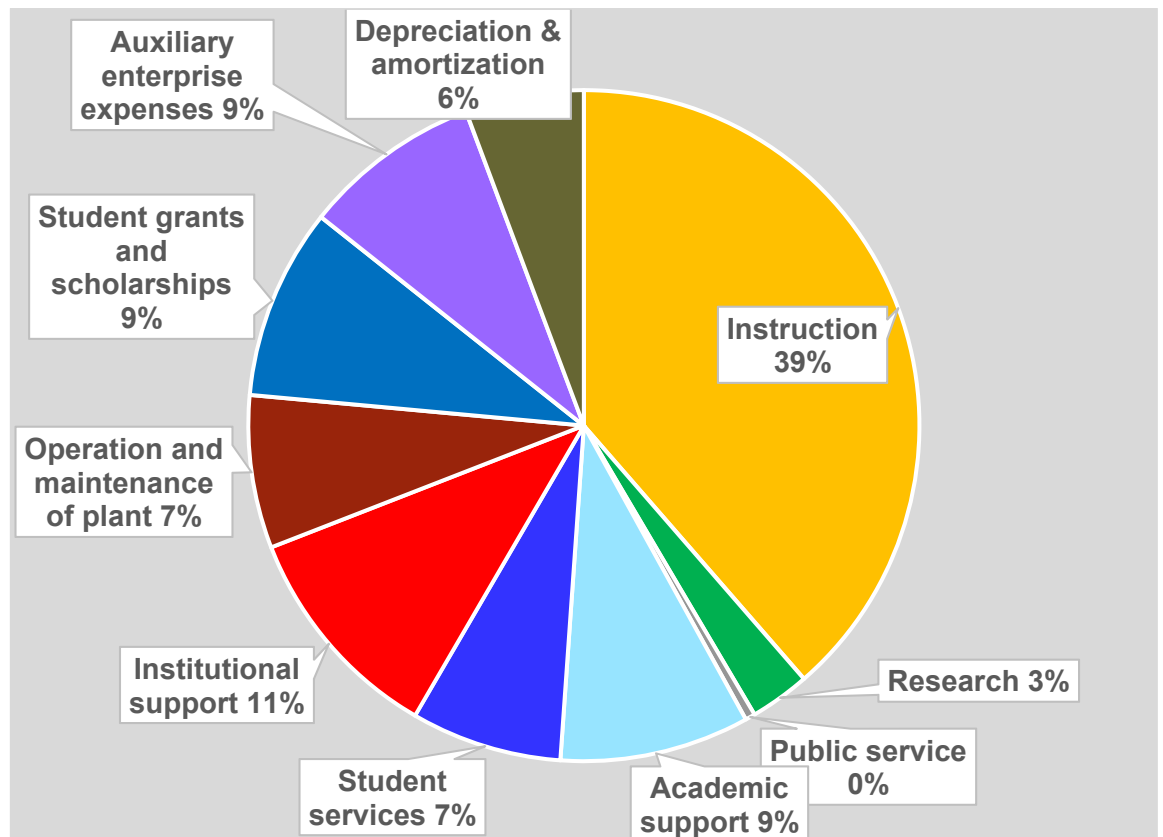
Income Statement: Operating Expense

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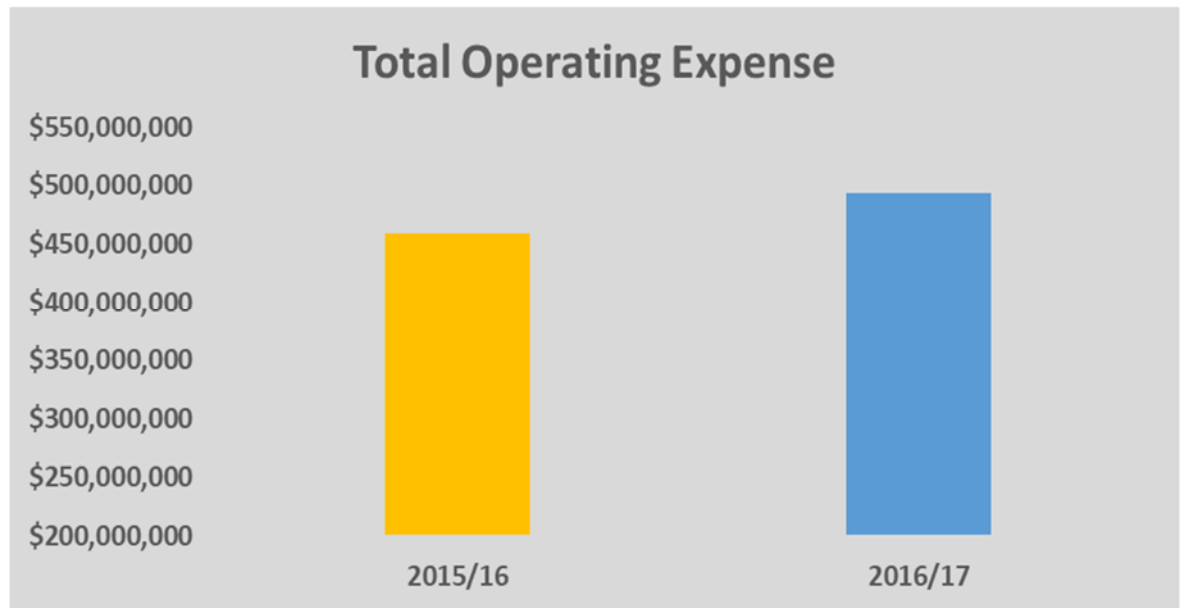
Operating Expense is the cost of fulfilling the mission including instruction, research, academic support, student service, etc. The University reports operating expense by functional classification.

The total operating expenses in FY2016/17: \$494 million.

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, then total instruction and educational support activities account for 67% of the total operating expenses of the University.



Now let us look at how the operating expense changed over the last 2 years:

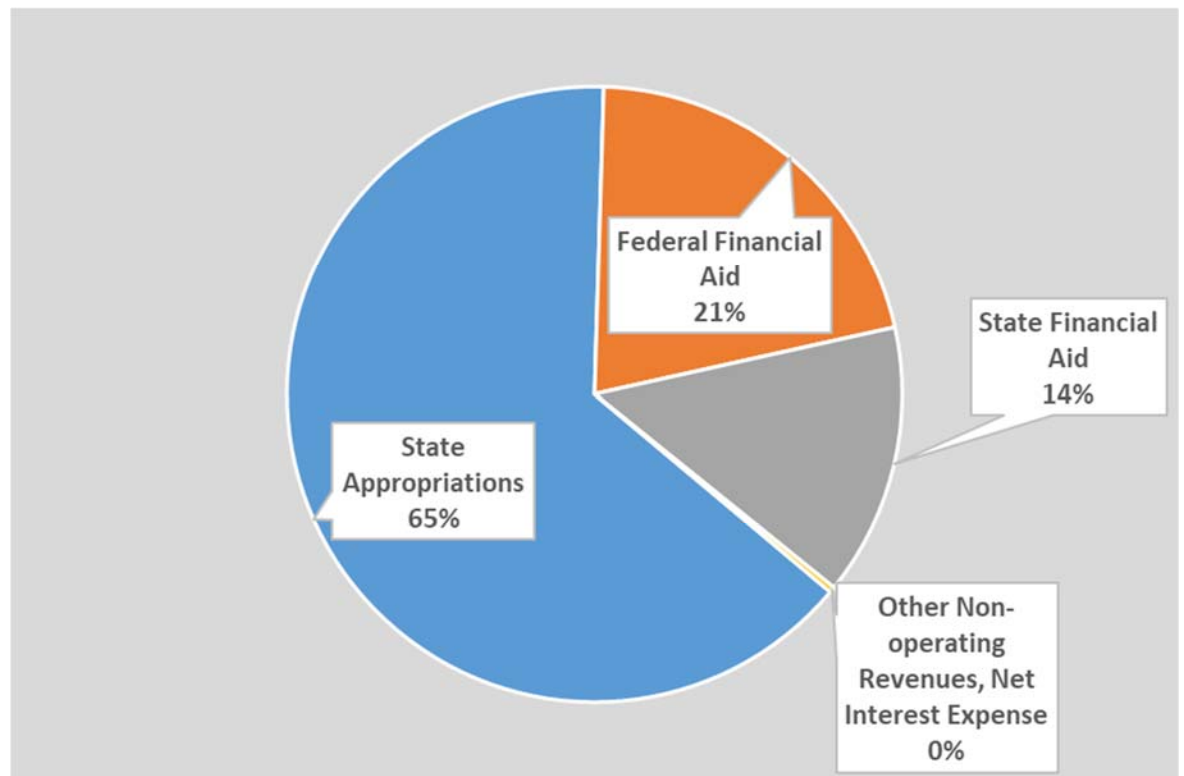


Explanation: FY2016/17 vs. FY2015/16: operating expense increased by \$34 million mainly due to higher instruction, research, and institutional support expenses.

Income Statement: Non-Operating Revenue

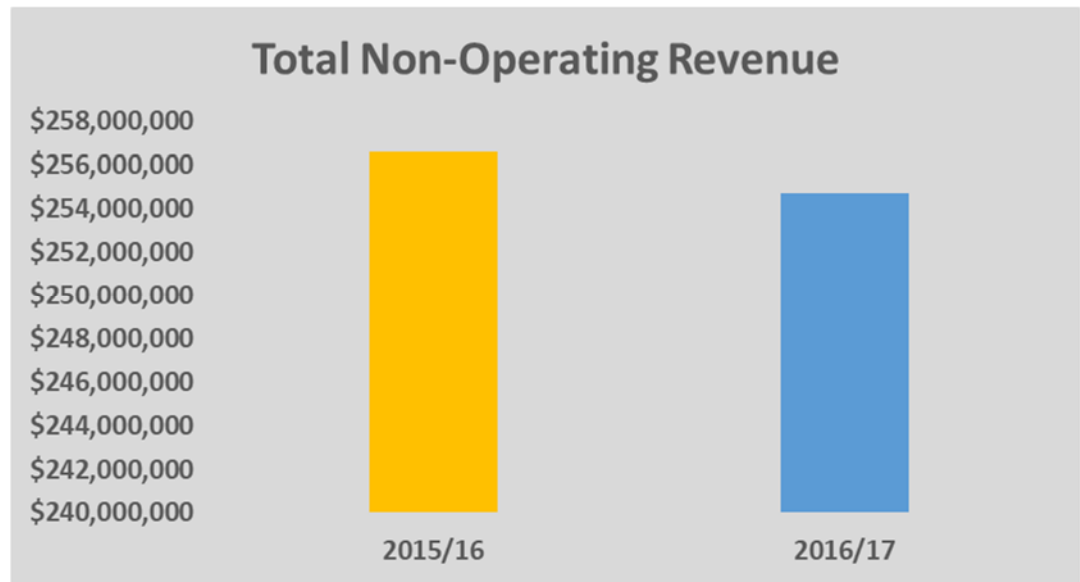
Non-Operating revenue is the amounts that are not a direct result of pursuing the University's primary mission. The major sections are State Appropriations, Federal Financial Aid Grants, and State Financial Aid Grants.

Non-Operating Revenue in FY2016/17: \$255 million



As you may have noticed, State Appropriations made up approximately 65% of the University's total Non-Operating Revenue in FY16/17.

Now let us look at how the Non-Operating revenue changed over the last 2 years:



Explanation: FY2016/17 vs. FY2015/16: Non-Operating revenue decreased by \$1.9 million mainly due to decrease of gifts, federal financial aid, investment income and other non-operating revenue, partially offset by the increase of state appropriations.