

Chico State Enterprises

(Formerly The CSU, Chico Research Foundation)

Financial Statements and Supplementary Information
For the Years Ended June 30, 2019 and 2018, as Restated



CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)
Financial Statements
Years Ended June 30, 2019 and 2018, as Restated

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Chico State Enterprises

Report on the Financial Statements

We have audited the accompanying financial statements of Chico State Enterprises (CSE), which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Chico State Enterprises as of June 30, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in accordance with principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 13 to the financial statements, certain errors resulting in an overstatement of amounts previously reported as unearned revenue and the understatement of amounts previously reported as unbilled revenue, federal grant revenue and unrestricted net position as of and for the year ended June 30, 2018 were discovered internally during the current year. Accordingly, amounts reported for unbilled revenue, unearned revenue, federal grant revenue and restricted net position, expendable - research have been restated as of June 30, 2018 to correct the errors. Our opinion is not modified with respect to that matter.

**INDEPENDENT AUDITORS' REPORT,
CONTINUED**

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information presented on pages 22-35 is presented for the purposes of additional analysis as required by the California State University Chancellor's Office and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2019 on our consideration of CSE'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 CSE's internal control over financial reporting and compliance.

Aldrich CPAs + Advisors LLP

San Diego, California
September 20, 2019

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)**Statements of Net Position**

As of June 30, 2019 and 2018, as Restated

	<u>2019</u>	<u>2018, restated</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,294,723	\$ 4,069,021
Short-term investments	1,073,176	6,151,512
Accounts receivable, net	11,577,465	5,449,601
Unbilled revenue	5,197,332	3,860,506
Prepaid expenses and other assets	430,189	376,172
Total Current Assets	<u>22,572,885</u>	<u>19,906,812</u>
Non-current Assets:		
Other long-term investments	7,828,232	6,534,439
Capital assets, net	11,164,543	10,178,555
Other assets	687,929	836,213
Total Noncurrent Assets	<u>19,680,704</u>	<u>17,549,207</u>
Total Assets	<u>\$ 42,253,589</u>	<u>\$ 37,456,019</u>
Current Liabilities:		
Accounts payable	\$ 3,233,320	\$ 1,358,438
Accrued salaries and benefits payable	1,980,447	1,871,689
Accrued compensated absences	389,966	358,211
Unearned revenue	1,713,570	1,730,403
Long-term debt obligations, current portion	127,595	123,725
Other current liabilities	361,825	10,052
Total Current Liabilities	<u>7,806,723</u>	<u>5,452,518</u>
Non-current Liabilities:		
Accrued compensated absences, net of current portion	85,602	78,632
Long-term debt obligations, net of current portion	2,283,733	2,411,328
Other postemployment benefits obligation	608,733	529,756
Other long-term liabilities	257,834	250,846
Total Noncurrent Liabilities	<u>3,235,902</u>	<u>3,270,562</u>
Total Liabilities	11,042,625	8,723,080
Net Position:		
Net investment in capital assets	8,753,215	7,643,502
Restricted for:		
Expendable:		
Research	5,478,308	3,673,338
Other	10,930,646	7,575,410
Unrestricted	6,048,795	9,840,689
Total Net Position	<u>\$ 31,210,964</u>	<u>\$ 28,732,939</u>

See accompanying notes to the financial statements.

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)**Statements of Revenues, Expenses, and Changes in Net Position**

Years Ended June 30, 2019 and 2018, as Restated

	2019	2018, restated
Operating Revenue:		
Grants and contracts - noncapital:		
Federal	\$ 21,684,467	\$ 21,060,211
State	6,857,645	7,137,040
Local	1,344,996	1,338,685
Non-governmental	3,841,875	2,501,096
Sales and services of educational activities	4,326,347	4,029,832
Sales and services of auxiliary enterprises	2,737,262	3,147,757
Other operating revenues	877,110	1,707,521
Total Operating Revenue and Other Support	<u>41,669,702</u>	<u>40,922,142</u>
Expenses:		
Operating Expenses:		
Instruction	3,110,978	4,339,955
Research	2,368,996	2,293,448
Public service	20,144,370	21,263,438
Academic support	2,152,933	2,540,174
Student services	2,053,915	2,074,486
Institutional support	3,655,412	3,578,803
Operation and maintenance of plant	356,352	244,892
Student grants and scholarships	1,697,652	110,795
Auxiliary enterprises expenditures	3,021,067	2,666,421
Depreciation and amortization	1,037,156	874,070
Total Operating Expenses	<u>39,598,831</u>	<u>39,986,482</u>
Net Operating Gain	2,070,871	935,660
Non-Operating Revenues (Expenses):		
Investment income, net	485,424	422,181
Interest expense	(72,411)	(86,274)
Other non-operating revenue (expense)	(5,859)	425,469
Total Non-Operating Income	<u>407,154</u>	<u>761,376</u>
Income Before Other Additions	2,478,025	1,697,036
Grants and gifts - capital	-	839,790
Increase in Net Position	<u>2,478,025</u>	<u>2,536,826</u>
Net Position, beginning	28,732,939	26,196,113
Net Position, ending	<u>\$ 31,210,964</u>	<u>\$ 28,732,939</u>

See accompanying notes to the financial statements.

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)**Statements of Cash Flows**

Years Ended June 30, 2019 and 2018, as Restated

	<u>2019</u>	<u>2018, restated</u>
Cash Flows From Operating Activities:		
Federal grants and contracts	\$ 15,505,375	\$ 19,952,692
State grants and contracts	5,730,261	7,725,470
Local grants and contracts	1,335,996	1,392,458
Nongovernmental grants and contracts	3,835,875	2,282,870
Payments to suppliers	(16,737,596)	(19,612,729)
Payments to employees	(18,732,375)	(20,343,295)
Payments to students	(755,586)	(96,320)
Sales and services of educational activities	4,275,760	4,039,939
Sales and services of auxiliary enterprises	2,692,695	3,016,241
Other receipts	1,064,135	2,505,299
	<u>(1,785,460)</u>	<u>862,625</u>
Net Cash Provided (Used) by Operating Activities		
	(1,785,460)	862,625
Cash Flows From Capital and Related Financing Activities:		
Capital grants and gifts	-	839,790
Proceeds from sales of capital assets	-	2,082,990
Acquisitions of capital assets	(2,039,103)	(1,178,629)
Principal paid on capital debt	(123,725)	(168,971)
Interest paid on capital debt	(83,525)	(111,650)
	<u>(2,246,353)</u>	<u>1,463,530</u>
Net Cash Provided (Used) by Capital and Related Financing Activities		
	(2,246,353)	1,463,530
Cash Flows From Investing Activities:		
Investment income	485,424	138,871
Notes receivable payments	49,523	35
Purchase of investments	(542,678)	(3,000,000)
Withdrawals from investments	4,265,246	2,520,566
	<u>4,257,515</u>	<u>(340,528)</u>
Net Cash Provided (Used) by Investing Activities		
	4,257,515	(340,528)
Net Increase in Cash	225,702	1,985,627
Cash, beginning	<u>4,069,021</u>	<u>2,083,394</u>
Cash, ending	<u>\$ 4,294,723</u>	<u>\$ 4,069,021</u>

See accompanying notes to the financial statements.

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)**Statements of Cash Flows, continued**

Years Ended June 30, 2019 and 2018, as Restated

	<u>2019</u>	<u>2018, restated</u>
Reconciliation of net operating gain to net cash provided by (used in) operating activities:		
Net operating gain	\$ 2,070,871	\$ 935,660
Adjustments to reconcile net operating gain to net cash from operating activities:		
Depreciation and amortization expense	1,037,156	874,070
Changes in assets and liabilities:		
Accounts receivable, net	(6,127,864)	5,889
Unbilled revenue	(1,336,826)	(594,514)
Prepaid expenses and other assets	94,267	(685,294)
Accounts payable	1,874,882	(116,132)
Accrued salaries and benefits payable	108,758	807,816
Accrued compensated absences	38,725	36,750
Unearned revenue	16,833	(306,690)
Other postemployment benefits obligation	78,977	(68,890)
Other liabilities	358,761	(26,040)
Net Cash Provided (Used) by Operating Activities	<u>\$ (1,785,460)</u>	<u>\$ 862,625</u>
Supplemental schedule of noncash capital and related financing activities:		
Capital Grants and Gifts:		
Capital grants and gifts received	<u>\$ -</u>	<u>\$ 839,790</u>
Principal Paid on Capital Debt:		
Principal paid on capital debt	<u>\$ (123,725)</u>	<u>\$ (168,971)</u>

See accompanying notes to the financial statements.

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)

Notes to the Financial Statements

Years Ended June 30, 2019 and 2018, as Restated

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

Chico State Enterprises (CSE) is a not-for-profit auxiliary organization of California State University, Chico (CSU, Chico) that administers various funds and performs other activities related to the CSU, Chico community. CSE administers grants and contracts, as well as non-philanthropic agency accounts, incentive accounts, and enterprise activities.

Formerly The CSU, Chico Research Foundation, the organization changed its name to Chico State Enterprises in June of 2019. This name change resulted from a reorganization of the auxiliary to include activities of The Office of Research and Sponsored Programs which had previously been managed through Academic Affairs of CSU, Chico. In addition to administering grant and contract activities, CSE also oversees the development of grants and contracts, a function that had previously resided with The Office of Research and Sponsored Programs.

Basis of Accounting

Pursuant to the requirements established by the Chancellor of the California State University, CSE has adopted the provisions of Statement No. 35 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. With minor exceptions, this statement provides that public colleges and universities are subject to the financial reporting requirements of GASB Statement No. 34, which is applicable to state and local governments. CSE is an auxiliary organization to CSU, Chico. Therefore, is determined to be a component unit of CSU, Chico, in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. All component units are required to adopt GASB Statement Nos. 34 and 35. Management has elected not to present management's discussion and analysis (MD&A) that GASB has determined is necessary to supplement, although not required to be a part of, the basic financial statements. CSE adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements establish standards for reporting deferred outflows of resources, deferred inflows of resources, and net position for all state and local governments.

The financial statements are prepared using the economic measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred.

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and present insignificant risk of change in value because of a change in interest rates. They consist of cash on hand and in commercial checking and savings accounts.

Investments

Short-term investments consist of deposits in Local Agency Investment Fund (LAIF).

In December of 2018, CSE entered into a memorandum of understanding (MOU) with the University Foundation (UF) to invest CSE's cash balances that exceed operating needs. As the auxiliary managing the investment of over \$85,000,000 on behalf of CSU, Chico, a primary focus of the UF is investment oversight. The MOU between the two auxiliaries leverages the investment expertise of UF and maximizes investment earnings of CSE efficiently. CSE funds are invested in an account belonging to CSE, and management of the funds is subject to the Investment Policy of the UF. Fees paid to the UF are 10% of earnings on an annual basis, paid monthly.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value.

CSE participates in LAIF managed by the State of California. The fair value of CSE's investment in LAIF is the same as the carrying value of the pool shares. There were no LAIF funds invested in derivatives as of June 30, 2019 and 2018. Oversight of LAIF is provided by the Local Investment Advisory Board (LIAB), which consists of five members

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)

Notes to the Financial Statements

Years Ended June 30, 2019 and 2018, as Restated

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Investments, continued

as designated by statute. The Chairman of the LIAB is the California State Treasurer or their designated representative. CSE is considered to be a voluntary participant in the LAIF investment pool.

Fair Value Measurements GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value and establishes a framework for measuring fair value under generally accepted accounting principles.

CSE classifies its fair value assets and liabilities into a hierarchy of three levels based on the markets in which they are traded and the reliability of the assumptions used to determine fair value. The asset or liability measurement level within the hierarchy is based on the lowest level of any assumption that is significant to the measurement. The three levels are defined as follows:

- Level 1 – Quoted market prices for identical instruments traded in active exchange markets.
- Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.
- Level 3 – Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect CSE's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation, which may be significant.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. As a practical expedient, certain financial instruments may be valued using net asset value (NAV) per share. NAV is the amount of net assets attributable to each share of outstanding capital stock at the end of the period.

Accounts Receivable

Accounts receivable include amounts due from federal, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to CSE's grants and contracts. CSE utilizes the allowance method where uncollectible accounts are determined based on past payment history. There was no allowance recorded for the years ended June 30, 2019 and 2018.

Unbilled Revenue

Unbilled revenue includes amounts which have been expended through grants and contracts that as of June 30, 2019 and 2018, had yet to be billed to the grant or contract funder.

Unearned Revenue

Unearned revenue represents payments received for grants and contracts, for which services or other deliverables have not yet been provided.

Prepaid Expenses and Other Assets

Prepaid expenses include advance payments and deposits for grant and contract expenses for contracted services, materials and supplies, and travel. Other assets include inventories. Also included in other assets is the reserve for post-retirement health benefits held as a quasi-endowment in the University Foundation.

Capital Assets

Capital assets are stated at cost or, if acquired by gift, are recorded at estimated market value at the date of acquisition. Livestock is recorded at a unit value which approximates average cost for the particular species, gender, size, and age of the animal. Capital assets are not capitalized by CSE if the title remains with or reverts to the grantor. Planned major maintenance is accounted for using the direct expense method. Expenditures for new

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)

Notes to the Financial Statements

Years Ended June 30, 2019 and 2018, as Restated

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Capital Assets, continued

construction, major renewals and replacements, and equipment over \$5,000 are capitalized.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Depreciation for capital assets purchased with grant and contract funds has been charged using an estimated useful life of five years. Livestock is not depreciated because management considers the unit values to approximate amounts to be realized on the ultimate disposition of livestock.

Net Position

CSE's net position is classed as follows:

- Net Investment in Capital Assets – This represents CSE's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- Restricted Net Position – Expendable – This includes resources in which CSE is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. Restricted net position amounts include funds held for CSU, Chico for campus licensing agreements.
- Unrestricted – This represents amounts that are not restricted for any project or other purposes.

When an expense is incurred for purposes of which both restricted and unrestricted net positions are available, restricted resources are applied first.

Operating and Non-operating Revenues (Expenses)

All revenues that relate to the ongoing operations of CSE are included in operating revenues. Gains and losses not directly related to the ongoing operations and interest incurred on capital related debt are reported as nonoperating.

Charges for services include revenues based on exchange transactions, namely sales of educational and student activities and sales of agricultural products.

Grants and contracts are received from federal and state governmental agencies and various other organizations. CSE receives an administration fee to cover indirect overhead costs and recognizes this fee as income over the life of the grant or contract as a percentage of total expenditures or salaries and wages as specified in the grant or contract.

Grants and Gifts – Capital

Includes real property or equipment received from donors, federal, state and other funding agencies.

Administrative Expenses

Administrative overhead charges are included in operating expenses. When these charges are made to various programs, they are included in the direct expenses of those programs. Allocations of overhead expenses from one function to another, and those within one function, are eliminated in the statement of activities so that allocated expenses are reported only by the function to which they were allocated.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

CSE is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, income from certain activities not directly related to the tax-exempt purpose is subject to taxation as unrelated business income. Expenses have exceeded the business income;

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)

Notes to the Financial Statements

Years Ended June 30, 2019 and 2018, as Restated

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Income Taxes, continued

accordingly, no provision for income taxes has been recorded. CSE functionally supports CSU, Chico and has been classified in accordance with Section 509(a)(3), Type I.

CSE files exempt organization returns in the U.S. federal and California jurisdictions. The federal returns for tax years 2014 and beyond, and the California returns for tax years 2013 and beyond, remain subject to examination by the taxing authorities.

CSE accounts for income taxes in accordance with FASB ASC 740, Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in CSE's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC 740, Income Taxes, also provides guidance on derecognition and measurement of a tax position taken or expected to be taken in a tax return. Based on this analysis, a liability is recorded if uncertain tax benefits have been received. CSE's practice is to recognize interest and penalties, if any, related to uncertain tax positions in the tax expense.

Subsequent Events

Management has evaluated subsequent events through September 20, 2019, the date which the report was available to be issued.

Note 2 – Concentrations of Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, CSE's deposits may not be returned. The California Government Code and Education Code do not contain legal or policy requirements that limit exposure to custodial credit risk for deposits, other than the provision that a financial institution must secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. This risk is mitigated in that CSE's deposits are maintained at financial institutions that are collateralized as required by state law. As of June 30, 2019 and 2018, CSE had uninsured cash of \$4,219,556 and \$2,894,655, respectively.

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)**Notes to the Financial Statements**

Years Ended June 30, 2019 and 2018, as Restated

Note 3 – Investments

Investments consist of the following for the year ended June 30, 2019:

	<u>Current Unrestricted</u>	<u>Noncurrent Unrestricted</u>	<u>Total</u>
LAIF	\$ 1,063,865	\$ -	\$ 1,063,865
Certificates of deposit	-	737,224	737,224
Money market funds	9,311	-	9,311
Mutual funds - fixed income	-	2,380,612	2,380,612
Mutual funds - equity	-	4,691,864	4,691,864
Private equity	-	18,532	18,532
	<u>\$ 1,073,176</u>	<u>\$ 7,828,232</u>	<u>\$ 8,901,408</u>

Investments consist of the following for the year ended June 30, 2018:

	<u>Current Unrestricted</u>	<u>Noncurrent Unrestricted</u>	<u>Total</u>
LAIF	\$ 5,244,891	\$ -	\$ 5,244,891
Certificates of deposit	-	6,515,907	6,515,907
Money market funds	906,621	-	906,621
Private equity	-	18,532	18,532
	<u>\$ 6,151,512</u>	<u>\$ 6,534,439</u>	<u>\$ 12,685,951</u>

The fair value of investments is categorized as follows for the year ended June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
LAIF	\$ -	\$ -	\$ -	\$ 1,063,865	\$ 1,063,865
Certificates of deposit	-	737,224	-	-	737,224
Money market funds	9,311	-	-	-	9,311
Mutual funds - fixed income	2,380,612	-	-	-	2,380,612
Mutual funds - equity	4,691,864	-	-	-	4,691,864
Private equity	-	-	18,532	-	18,532
	<u>\$ 7,081,787</u>	<u>\$ 737,224</u>	<u>\$ 18,532</u>	<u>\$ 1,063,865</u>	<u>\$ 8,901,408</u>

The fair value of investments is categorized as follows for the year ended June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
LAIF	\$ -	\$ -	\$ -	\$ 5,244,891	\$ 5,244,891
Certificates of deposit	-	6,515,907	-	-	6,515,907
Money market funds	906,621	-	-	-	906,621
Private equity	-	-	18,532	-	18,532
	<u>\$ 906,621</u>	<u>\$ 6,515,907</u>	<u>\$ 18,532</u>	<u>\$ 5,244,891</u>	<u>\$ 12,685,951</u>

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)**Notes to the Financial Statements**

Years Ended June 30, 2019 and 2018, as Restated

Note 3 – Investments, continued

The following schedules summarize the change in the fair value of CSE's Level 3 assets. The gains and losses included in the following schedules are reported as non-operating revenue in the statement of revenues, expenses, and changes in net position.

Change in Level 3 investments for the year ending June 30, 2019:

	<u>Private Equity</u>
June 30, 2018 balance	\$ 18,532
Interest and dividends	-
Realized gains (losses)	-
Unrealized gains (losses)	-
Purchases, sales and conversions, net	-
June 30, 2019 balance	<u>\$ 18,532</u>

Change in Level 3 investments for the year ending June 30, 2018:

	<u>Private Equity</u>	<u>Common Fund</u>	<u>Total Level 3</u>
June 30, 2017 balance	\$ -	\$ 1,881,708	\$ 1,881,708
Interest and dividends	-	21,901	21,901
Realized gains (losses)	-	116,970	116,970
Unrealized gains (losses)	-	5,827	5,827
Purchases, sales and conversions, net	18,532	(2,026,406)	(2,007,874)
June 30, 2018 balance	<u>\$ 18,532</u>	<u>\$ -</u>	<u>\$ 18,532</u>

CSE's investment policy does not limit its investment choices. CSE's investment in LAIF, money market, equity securities and mutual funds are unrated.

Financial instruments which potentially subject CSE to concentrations of credit risk consist primarily of cash investments. At June 30, 2019, LAIF and investments in interest bearing certificates of deposit were 11.95% and 8.28%, respectively, of CSE's total investments. At June 30, 2018, LAIF and investments in interest bearing certificates of deposit were 41.34%, and 51.36%, respectively, of CSE's total investments.

Interest rate risk is the risk whereby changes in market interest rates could adversely affect the fair value of an investment. CSE does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The average maturity for investments held within LAIF is less than one year.

Note 4 – Accounts Receivable

Accounts receivable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Federal, state, and other grants and contracts	\$ 10,168,404	\$ 4,331,754
Due from other auxiliaries	681,911	766,249
Other	727,150	351,598
	<u>\$ 11,577,465</u>	<u>\$ 5,449,601</u>

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)

Notes to the Financial Statements

Years Ended June 30, 2019 and 2018, as Restated

Note 5 – Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows:

	Balance July 1, 2018	Additions	Disposals	Transfers	Balance June 30, 2019
Nondepreciable Capital Assets:					
Land and land improvements	\$ 4,078,046	\$ -	\$ -	\$ -	\$ 4,078,046
Construction in progress	553,469	-	-	(553,469)	-
Breeding livestock	89,300	19,140	-	-	108,440
	<u>4,720,815</u>	<u>19,140</u>	<u>-</u>	<u>(553,469)</u>	<u>4,186,486</u>
Depreciable Capital Assets:					
Building and improvements	8,523,656	25,300	(43,949)	130,489	8,635,496
Equipment and furnishings	12,210,995	1,994,663	(274,030)	422,980	14,354,608
	<u>20,734,651</u>	<u>2,019,963</u>	<u>(317,979)</u>	<u>553,469</u>	<u>22,990,104</u>
	25,455,466	2,039,103	(317,979)	-	27,176,590
Less: Accumulated Depreciation:					
Building and improvements	(5,274,659)	(304,179)	43,949	(2,080)	(5,536,969)
Equipment and furnishings	(10,002,252)	(732,977)	258,071	2,080	(10,475,078)
	<u>(15,276,911)</u>	<u>(1,037,156)</u>	<u>302,020</u>	<u>-</u>	<u>(16,012,047)</u>
	<u>\$ 10,178,555</u>	<u>\$ 1,001,947</u>	<u>\$ (15,959)</u>	<u>\$ -</u>	<u>\$ 11,164,543</u>

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Disposals	Transfers	Balance June 30, 2018
Nondepreciable Capital Assets:					
Land and land improvements	\$ 5,056,163	\$ 251,553	\$ (1,229,670)	\$ -	\$ 4,078,046
Construction in progress	116,944	436,525	-	-	553,469
Breeding livestock	93,360	-	(4,060)	-	89,300
	<u>5,266,467</u>	<u>688,078</u>	<u>(1,233,730)</u>	<u>-</u>	<u>4,720,815</u>
Depreciable Capital Assets:					
Building and improvements	9,275,986	13,523	(765,853)	-	8,523,656
Equipment and furnishings	11,489,048	909,608	(187,661)	-	12,210,995
	<u>20,765,034</u>	<u>923,131</u>	<u>(953,514)</u>	<u>-</u>	<u>20,734,651</u>
	26,031,501	1,611,209	(2,187,244)	-	25,455,466
Less: Accumulated Depreciation:					
Building and improvements	(5,335,939)	(300,921)	362,201	-	(5,274,659)
Equipment and furnishings	(9,592,565)	(573,149)	163,462	-	(10,002,252)
	<u>(14,928,504)</u>	<u>(874,070)</u>	<u>525,663</u>	<u>-</u>	<u>(15,276,911)</u>
	<u>\$ 11,102,997</u>	<u>\$ 737,139</u>	<u>\$ (1,661,581)</u>	<u>\$ -</u>	<u>\$ 10,178,555</u>

	2019	2018
Depreciation and amortization expense related to capital assets	<u>1,037,156</u>	<u>\$ 874,070</u>

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)**Notes to the Financial Statements**

Years Ended June 30, 2019 and 2018, as Restated

Note 6 – Other Assets

	<u>2019</u>	<u>2018</u>
Deposits held by property managers	\$ -	\$ 51,280
Deposits held by unemployment insurance trust	143,350	146,636
Reserve for post-retirement health benefit held as a quasi-endowment in the University Foundation	515,421	601,958
Notes receivable	29,158	36,339
	<u>\$ 687,929</u>	<u>\$ 836,213</u>

Note 7 – Accrued Compensated Absences

Employees of CSE are entitled to paid vacation and paid sick leave based on length of service and other factors. Beginning with fiscal year 2017, CSE negotiated a fixed (with carry-forward) fringe benefit rate with the Department of Health and Human Services to be applied to regular wages for all CSE activities. This fringe rate includes all payroll related costs, including accrued vacation, holiday, and estimated sick leave. The liability for compensated absences relating to paid vacation has been accrued for all employees. CSE's policy is to recognize the costs of sick leave absences when actually paid to employees as sick leave does not vest to the employee.

Note 8 – Long-Term Debt Obligations

	<u>2019</u>	<u>2018</u>
Chancellor's Office note payable in the amount of \$2,475,000 was used to refund the Auxiliary Organization Bonds Series 2003. The note will be paid to the Chancellor's Office in 18 annual installments including principal and interest, with interest rates ranging from 3.00% to 5.00% and principal payments ranging from \$90,000 to \$200,000. The note is secured by revenues of CSE and the final payment is scheduled to be made in November of 2032.	\$ 2,095,000	\$ 2,195,000
Less current portion	(127,595)	(123,725)
Plus unamortized premium	316,328	340,053
	<u>\$ 2,283,733</u>	<u>\$ 2,411,328</u>

The note payable to the Trustees included a premium related to the debt refunding with an original amount of \$431,986. Amortization expense was \$23,725 and \$25,482 for the years ended June 30, 2019 and 2018, respectively. The amount of unamortized premium was \$316,328 and \$340,053 as of June 30, 2019 and 2018, respectively.

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)**Notes to the Financial Statements**

Years Ended June 30, 2019 and 2018, as Restated

Note 8 – Long-Term Debt Obligations, continued

Debt service requirements are as follows:

Year Ending June 30,	Note Payable to CSU, Chancellor's Office		
	Principal	Interest	Total
2020	\$ 105,000	\$ 102,125	\$ 207,125
2021	110,000	96,750	206,750
2022	115,000	91,125	206,125
2023	125,000	85,125	210,125
2024	130,000	78,750	208,750
2025-2029	755,000	286,875	1,041,875
2030-2033	755,000	77,625	832,625
Totals	\$ 2,095,000	\$ 818,375	\$ 2,913,375

Note 9 – Health Care Benefits

CSE obtained fully insured medical and vision healthcare plans for benefited (30 hours/week or more) employees contracted through The LBL Group. Fully insured medical coverage is offered through Blue Shield and fully insured dental & vision coverage is offered through Principal Financial Services. Post-retirement health benefits (medical only) are available to those employees meeting eligibility requirements detailed in the CSE Employee Handbook.

Note 10 – Retirement Plan

CSE sponsors a 403(b) savings plan, which covers fully benefited employees in a funded position. The employer contributions to the plan are at the discretion of the Board of Directors. The employer contribution is based upon an employee's year of service. At the beginning of the second year of service, CSE contributes 2% of the employee's pay to the plan. The percentage increases by 2% for each year of service up to a maximum contribution of 8%. Employer contributions vest immediately to the employee. Expenses recognized for the plan amounted to \$576,613 and \$542,109 for the years ended June 30, 2019 and 2018, respectively.

Note 11 – Postemployment Benefits Other Than Pension Benefits (OPEB)**Plan Description**

CSE administers an endowment-funded single-employer defined benefit healthcare plan. CSE currently provides retiree health benefits to eligible employees to the extent sustainable by the provided endowment and can be terminated at any time. The postretirement health care plan is contributory with retiree contributions adjusted annually. Separate stand-alone financial statements for the plan are not prepared.

Eligibility and Benefits

Tier 1: Employees hired before January 1, 2006 who have attained age 55 and have completed 15 years of credited CSE service will be eligible to receive a CSE-paid medical plan contribution upon retirement. Eligibility is lost for breaks in service that exceed one year. CSE will pay up to \$200 per month for those with single coverage and \$400 for those with dual or family coverage. Benefits are paid for the lifetime of the retiree. As of July 1, 2017, there are 45 active employees and 2 retirees under this benefit structure.

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)**Notes to the Financial Statements**

Years Ended June 30, 2019 and 2018, as Restated

Note 11 – Postemployment Benefits Other Than Pension Benefits (OPEB), continued

Tier 2: Employees hired on or after January 1, 2006 who have attained age 60 and have completed 15 years of credited CSE service will be eligible to receive a CSE-paid medical plan contribution upon retirement. Eligibility is lost for breaks in service that exceed one year. CSE will pay up to \$200 per month for those with single coverage and \$400 for those with dual or family coverage. Benefits are paid until the retiree reaches age 65. As of July 1, 2017, there are 136 active employees under this benefit structure.

As of July 1, 2017, the date of the most recent actuarial valuation, plan participation consisted of:

Retirees and beneficiaries receiving benefits	2
Active employees	181
Total plan participants	<u>183</u>

Funding Policy

CSE has the right to establish and amend the funding policy for its OPEB plan. CSE will fund the plan monthly, on a pay-as-you-go basis for members who meet the eligibility criteria. The contribution requirements of plan members and CSE are established and may be amended by CSE's Board of Directors. For the year ended June 30, 2019, CSE contributed \$13,776, which was the annual required contribution per the July 1, 2017 Actuarial Report for the OPEB.

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OEPB

CSE's Net OPEB Liability was measured as of June 30, 2019. CSEs' annual OPEB cost (expense) is an amount actuarially determined in accordance with Governmental Accounting Standards Board (GASB) Statement Number 75. The Actuarially Determined Contribution (ADC) is an amount actuarially determined by the Actuarial Standards of Practice and applicable Federal and State laws. The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of CSE's annual OPEB cost for the year, the amount actually contributed, and the changes in CSE's net OPEB plan position as of June 30, 2019.

	2019	2018
Service cost	\$ 41,923	\$ 44,538
Interest on net OPEB Obligation	18,930	15,854
Change of assumptions	31,900	(28,221)
Annual OPEB cost (expense)	<u>92,753</u>	<u>32,171</u>
Benefit payments	<u>(13,776)</u>	<u>(17,701)</u>
Net change in total OPEB liability	78,977	14,470
Net OPEB Obligation - Beginning of Year	<u>529,756</u>	<u>515,286</u>
Net OPEB Obligation - End of Year	<u>\$ 608,733</u>	<u>\$ 529,756</u>

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)

Notes to the Financial Statements

Years Ended June 30, 2019 and 2018, as Restated

Note 11 – Postemployment Benefits Other Than Pension Benefits (OPEB), continued

The Net OPEB liability of \$608,733 is presented as a non-current liability on CSE’s statement of net position.

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contributions</u>	<u>Percentage Contributed</u>	<u>Net Ending OPEB Obligation</u>
2019	\$ 92,753	\$ 13,776	14.85%	\$ 608,733
2018	\$ 32,171	\$ 17,701	55.02%	\$ 529,756
2017	\$ 55,214	\$ 22,967	41.60%	\$ 598,646
2016	\$ 54,096	\$ 58,427	108.01%	\$ 566,399

(NOTE: The schedule above is intended to show information for the previous ten (10) years. Since 2018 was the first year for the presentation of this information, only data from 2016 and forward is available.)

Funded Status and Funding Progress

The most recent actuarial valuation report for CSE’s OPEB plan was prepared as of July 1, 2017. As of June 30, 2019, the actuarial accrued liability for benefits was \$608,733 and the fair value of other assets held at the University Foundation was \$515,421. The annual covered payroll was \$8,647,112 and the ratio of the unfunded actuarial accrued liability to covered payroll was 7%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	3.00 percent
Healthcare cost trend rate	5.00 percent for 2018; 5.00 percent for 2019; and 5.00 percent for 2020 and later years
Cap increases	None

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

Retirement and termination assumptions used were based on a review of plan experience and our best estimate of future plan experience.

GASB 75 requires a discount rate that reflects the following:

a) The long-term expected rate of return on OPEB plan investments – to the extent that the OPEB plan’s fiduciary net position (if any) is projected to be sufficient to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return;

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)**Notes to the Financial Statements**

Years Ended June 30, 2019 and 2018, as Restated

Note 11 – Postemployment Benefits Other Than Pension Benefits (OPEB), continued

b) A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher – to the extent that the conditions in (a) are not met.

To determine a resulting single (blended) rate, the amount of the plan’s projected fiduciary net position (if any) and the amount of projected benefit payments is compared in each period of projected benefit payments. The discount rate used to measure CSE’s Total OPEB liability is based on these requirements and the following information:

Reporting date	Measurement Date	Long-Term Expected Rate of Plan Investments (if any)	Municipal Bond 20-Year High Grade Rate Index	Discount Rate
June 30, 2018	June 30, 2018	4.00%	3.62%	3.62%
June 30, 2019	June 30, 2019	4.00%	3.13%	3.13%

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.13%) or 1 percentage point higher (4.13%) than the current discount rate:

	1% Decrease (2.13%)	Discount Rate (3.13%)	1% Increase (4.13%)
Net OPEB liability	\$ 680,391	\$ 608,733	\$ 545,694

Sensitivity of the Net OPEB Liability to Changes in the Trend Rate The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (4.00%) or 1 percentage point higher (6.00%) than the current healthcare cost trend rate of 5%:

	1% Decrease (4.00%)	Trend Rate (5.00%)	1% Increase (6.00%)
Net OPEB liability	\$ 602,362	\$ 608,733	\$ 613,161

Note 12 – Self-Insurance

CSE is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. CSE participates in the California State University Risk Management Authority (CSURMA), a public entity risk pool currently operating as a common risk management and insurance program. CSE pays annual premiums for general liability, property, and workers’ compensation insurance to the Auxiliary Organizations Risk Management Alliance (AORMA), which operates within CSURMA to provide tailored coverage for CSU Auxiliaries.

CSE participates in AORMA’s Unemployment Insurance Program (UIP). At June 30, 2019 and 2018 the deposit requirement within AORMA UIP were \$143,350 and \$146,636, respectively, and are included in other assets as a long-term deposit. CSE will maintain a vested interest in the amount held by AORMA UIP.

CSURMA is economically dependent on its members for funding and has secured a commitment from members to provide sufficient cash flow to meet its operating needs and to fund losses over a period of time. The CSURMA has reinsurance policies through a joint powers authority as well as commercial companies.

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)

Notes to the Financial Statements

Years Ended June 30, 2019 and 2018, as Restated

Note 13 – Prior Period Adjustment/Restatements

Internal review discovered certain errors which resulted in the overstatement of amounts previously reported as unearned revenue and the understatement of amounts previously reported as unbilled revenue, federal grant revenue and restricted, other net position for previous years. Accordingly, adjustments have been made to decrease unearned revenue by \$70,097, increase unbilled revenue by \$423,134 and increase federal revenue by \$493,231 resulting in the restatement of accounts as of June 30, 2018. The result of the entries is an increase in restricted net position, expendable, research of \$493,231 at June 30, 2018. Additionally, internal review facilitated the reclassification of net position, unrestricted; net position, restricted, expendable – research; and net position, restricted, expendable – other to appropriate amounts for balances reported ending June 30, 2018. Accordingly, adjustments have been made to decrease net position, unrestricted by \$5,290,502; increase net position, restricted, expendable – research by \$2,229,164; and increase net position, restricted, expendable – other by \$3,061,338 which resulted in the restatement of these accounts as of June 30, 2018.

Note 14 – Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with current year presentation. These reclassifications had no effect on the reported results of operations.

Note 15 – Related-Party Transactions

Operating Lease and Faculty Use Agreement - CSE operates as an auxiliary organization to CSU, Chico under an operating agreement negotiated every ten years. The current operating and lease agreements expire on June 30, 2027. CSE uses certain CSU, Chico and other facilities under lease agreements requiring annual or monthly rental payments, or space trades.

Information Technology Services - The Associated Students of CSU, Chico (Associated Students) provided information technology services to CSE through June 2019. Beginning in March of 2019, CSE outsourced its IT functions to CSU, Chico for all IT activities except for maintenance and support of CSE's enterprise resource planning (ERP) software, OneSolution.

Facilities Management Services – CSU, Chico provides facilities management support services to CSE for its office buildings, 25 and 35 Main Street.

CSE provides administrative and financial services to the University Foundation.

The University Foundation provides investment oversight to CSE through an MOU. CSE cash balances in excess of operating needs are invested under the investment policy of the University Foundation. CSE pays the University Foundation 10% of earnings on an annual basis, paid on a monthly basis.

Receivable/Payable with CSU, Chico - As required by the operating lease agreement between CSU, Chico and the Associated Students, all payments related to this agreement are directed to CSE.

Receivables and payables with CSU, Chico are a result of grant and contract transactions and other miscellaneous supplies and services.

CSE provides personnel services to the University Foundation under contract. The University Foundation reimburses CSE for the cost of these services. The personnel hired are employees of CSE and participate in CSE's benefit plans. The University Foundation indemnifies CSE for the acts of its employees under the University Foundation's supervision.

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)**Notes to the Financial Statements**Years Ended June 30, 2019 and 2018, as Restated

Note 15 – Related-Party Transactions, continued

The following is a schedule of transactions with related parties at June 30:

	<u>2019</u>	<u>2018</u>
Transaction with CSU, Chico		
Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$ 2,395,193	\$ 2,317,272
Payments to University for other than salaries of University personnel	1,800,526	1,889,528
Payments received from University for services, space, and programs	1,267,949	1,468,749
Gifts (cash or assets) to the University from recognized Auxiliary Organizations	427,647	337,742
Accounts (payable to) University	(243,326)	(225,749)
Accounts receivable from University	3,273	810
Transaction with Associated Students		
Payments for information technology services	\$ 44,000	\$ 101,084
Accounts receivable from Associated Students	536,972	590,532
Accounts (payable to) Associated Students	(39,925)	(9,000)
Transactions with University Foundation		
Payments received for administrative and financial services	\$ 590,000	\$ 570,402
Amount receivable for personnel service expenses	763,122	800,315
Accounts (payable to) University Foundation	(62,905)	-

SUPPLEMENTARY INFORMATION

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)

Schedules of Net Position by Fund

June 30, 2019 and 2018, as Restated

	General Fund	Plant and Bond Fund	Board Designated Fund	Auxiliary Activities Fund	Sponsored Programs Fund	Campus Program Fund	2019	2018, restated
Assets								
Cash and cash equivalents	\$ -	\$ 28,401	\$ 207,037	\$ 109,717	\$ 542,479	\$ 3,407,089	\$ 4,294,723	\$ 4,069,021
Short-term investments	-	5,930	43,011	201,584	113,145	709,506	1,073,176	6,151,512
Accounts receivable, net	213,614	850	305	397,028	10,170,315	795,353	11,577,465	5,449,601
Unbilled revenue	-	-	-	-	5,197,332	-	5,197,332	3,860,506
Inventories	-	-	-	170,402	-	-	170,402	170,402
Prepaid expenses and other assets	675,169	-	10,774	17,776	135,440	34,049	873,208	1,005,644
Other long-term investments	-	51,688	374,881	212,870	986,178	6,202,615	7,828,232	6,534,439
Notes receivable	-	-	-	-	-	74,508	74,508	36,339
Capital assets, net	-	8,071,947	-	2,768,777	-	323,819	11,164,543	10,178,555
Total Assets	\$ 888,783	\$ 8,158,816	\$ 636,008	\$ 3,878,154	\$ 17,144,889	\$ 11,546,939	\$ 42,253,589	\$ 37,456,019
Liabilities								
Accounts payable	\$ 848,898	\$ 15,126	\$ 33,240	\$ 230,761	\$ 1,944,910	\$ 160,385	\$ 3,233,320	\$ 1,358,438
Accrued expenses and other liabilities	1,814,328	258,729	15,840	7,508	685,732	63,959	2,846,096	2,332,891
Unearned revenue	-	-	-	11,774	1,641,201	60,595	1,713,570	1,730,403
Interfund (receivables) payables	(6,773,460)	-	(1,301,161)	679,883	7,394,738	-	-	-
Long-term debt obligations	-	2,411,328	-	-	-	-	2,411,328	2,535,053
Other postemployment benefits obligation	608,733	-	-	-	-	-	608,733	529,756
Reserve for grant cost disallowance	229,578	-	-	-	-	-	229,578	236,539
Total Liabilities	(3,271,923)	2,685,183	(1,252,081)	929,926	11,666,581	284,939	11,042,625	8,723,080
Total Net Position	\$ 4,160,706	\$ 5,473,633	\$ 1,888,089	\$ 2,948,228	\$ 5,478,308	\$ 11,262,000	\$ 31,210,964	\$ 28,732,939

See notes to the supplementary information.

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)

Schedules of Revenue, Expenses, and Changes in Net Position by Fund

Years Ended June 30, 2019 and 2018, as Restated

	General Fund	Plant and Bond Fund	Board Designated Fund	Auxiliary Activities Fund	Sponsored Programs Fund	Campus Program Fund	2019	2018, restated
Revenues and Other Support:								
Agriculture and enterprise sales	\$ -	\$ -	\$ -	2,014,421	-	-	2,014,421	\$ 2,438,949
Sponsored program receipts	-	-	-	-	33,419,448	-	33,419,448	31,975,166
Agriculture research initiative	-	-	-	-	293,071	-	293,071	768,745
University program receipts	-	-	-	-	-	3,872,452	3,872,452	3,710,774
Interest and investment income	515,285	-	-	4,016	-	2,731	522,032	422,181
Other income	735,023	29,633	16,093	5,859	-	32,529	819,137	2,040,080
Total Revenues and Other Support	1,250,308	29,633	16,093	2,024,296	33,712,519	3,907,712	40,940,561	41,355,895
Expenses:								
Auxiliary activities' cost of sales	-	-	-	258,539	-	-	258,539	401,072
Auxiliary activities' expense	-	-	-	2,233,796	-	-	2,233,796	2,569,430
Sponsored programs' disbursements	-	-	-	-	27,199,370	-	27,199,370	27,225,047
University programs' expenses	-	-	84	-	-	3,434,626	3,434,710	3,480,069
Foundation administration	4,127,643	76,074	-	-	-	-	4,203,717	4,191,706
Faculty and grant development	-	-	510,484	-	-	-	510,484	732,487
Interest expense	-	72,405	-	6	-	-	72,411	86,274
Other expense	-	843,098	-	453,717	-	-	1,296,815	553,797
Total Expenses	4,127,643	991,577	510,568	2,946,058	27,199,370	3,434,626	39,209,842	39,239,882
Change in Operations Before Transfer	(2,877,335)	(961,944)	(494,475)	(921,762)	6,513,149	473,086	1,730,719	2,116,013
Transfers:								
Transfers with CSU, Chico	-	-	(1,332)	203,162	(17,304)	(77,848)	106,678	3,311
Transfers with other auxiliaries	3,463	-	825	433,701	21,173	181,466	640,628	417,502
Indirect cost recovery transfers	3,627,921	-	-	-	(3,627,921)	-	-	-
Administrative fee transfers	409,120	-	-	(155,013)	-	(254,107)	-	-
Interfund transfers	(1,171,076)	1,338,212	(3,289,005)	1,121,970	(1,084,127)	3,084,026	-	-
Net Transfers	2,869,428	1,338,212	(3,289,512)	1,603,820	(4,708,179)	2,933,537	747,306	420,813
Change in Net Position	(7,907)	376,268	(3,783,987)	682,058	1,804,970	3,406,623	2,478,025	2,536,826
Net Position, beginning	4,168,613	5,097,365	5,672,076	2,266,170	3,673,338	7,855,377	28,732,939	26,196,113
Net Position, ending	\$ 4,160,706	\$ 5,473,633	\$ 1,888,089	\$ 2,948,228	\$ 5,478,308	\$ 11,262,000	\$ 31,210,964	\$ 28,732,939

See notes to the supplementary information.

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)**Schedules of Activity of the Auxiliary Activities Fund**

Years Ended June 30, 2019 and 2018

	<u>University Farm</u>	<u>Other Enterprise</u>	<u>2019</u>	<u>2018</u>
Sales:				
Livestock and dairy	\$ 704,046	\$ -	\$ 704,046	\$ 577,421
Crop and orchard	864,873	-	864,873	1,058,126
Enterprise receipts	114,341	331,161	445,502	803,402
Total Sales	<u>1,683,260</u>	<u>331,161</u>	<u>2,014,421</u>	<u>2,438,949</u>
Cost of Sales:				
Livestock and dairy	258,539	-	258,539	401,072
Gross Profit	<u>1,424,721</u>	<u>331,161</u>	<u>1,755,882</u>	<u>2,037,877</u>
Operating Expenses:				
Salaries and employee benefits	-	695,367	695,367	718,710
Operating supplies	539,051	14,907	553,958	469,344
Accounting and contractual services	252,391	157,405	409,796	455,300
Depreciation	322,351	131,366	453,717	334,796
Other operating expenses	125,916	95,382	221,298	183,031
Repair and maintenance	137,146	20,543	157,689	164,591
Rent and leasing	106,751	2,950	109,701	135,513
Utilities and telephone	20,517	8,378	28,895	31,644
Travel and meetings	9,388	12,603	21,991	17,475
Registration fees	9,869	4,268	14,137	11,395
Postage and printing	8,645	3,243	11,888	6,511
Insurance	4,012	5,064	9,076	6,119
Total Operating Expenses	<u>1,536,037</u>	<u>1,151,476</u>	<u>2,687,513</u>	<u>2,534,429</u>
Income (Loss) from Operations	<u>(111,316)</u>	<u>(820,315)</u>	<u>(931,631)</u>	<u>(496,552)</u>
Other Income (Expense):				
Other income	5,859	-	5,859	63,281
Interest income	4,016	-	4,016	2,022
Interest expense	(6)	-	(6)	(106)
Total Other Income	<u>9,869</u>	<u>-</u>	<u>9,869</u>	<u>65,197</u>
Transfers:				
In	63,207	1,378,871	1,442,078	345,103
Out	(123,500)	(148,459)	(271,959)	(366,435)
From other auxiliaries	22,370	411,331	433,701	472,177
Net Transfers	<u>(37,923)</u>	<u>1,641,743</u>	<u>1,603,820</u>	<u>450,845</u>
Net Income (Loss), Including Administration				
Fees Paid to the General Fund	\$ <u>(139,370)</u>	\$ <u>821,428</u>	\$ <u>682,058</u>	\$ <u>19,490</u>

See notes to the supplementary information.

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)**Schedules of Source of Funding and Expenditures for Grants and Contracts**

Years Ended June 30, 2019 and 2018, as Restated

	<u>2019</u>	<u>2018, restated</u>
Source of Direct Funding:		
Federal government	\$ 19,774,887	\$ 18,498,246
State of California	5,674,402	6,124,668
Local governments	1,114,890	1,069,258
Nongovernmental funds	3,163,932	2,711,325
Agricultural research initiative	378,359	768,745
Noncash contributions	-	86,385
Total Direct Sources and Transfers	<u>30,106,470</u>	<u>29,258,627</u>
Source of Indirect Cost Reimbursements		
Federal government	2,134,201	1,959,142
State of California	843,371	918,202
Local governments	201,960	243,998
Nongovernmental funds	448,389	387,474
Total Indirect Cost Reimbursements	<u>3,627,921</u>	<u>3,508,816</u>
Total Funding	<u>\$ 33,734,391</u>	<u>\$ 32,767,443</u>
Direct Expenditures:		
Salaries and wages	\$ 10,131,217	\$ 10,954,993
Fringe benefits	4,141,185	3,767,547
Operating expenses	11,878,979	10,515,425
Equipment	406,314	1,138,302
Student support	1,485,908	895,185
Total Direct Expenditures	<u>28,043,603</u>	<u>27,271,452</u>
Indirect Expenditures:		
Salaries, wages, and fringe benefits	1,901,247	2,387,065
Administrative expenses	434,772	111,698
Development	554,032	394,814
Program allocation	500,705	403,279
Other	237,164	211,960
Total Indirect Expenditures	<u>3,627,920</u>	<u>3,508,816</u>
Total Expenditures	<u>\$ 31,671,523</u>	<u>\$ 30,780,268</u>
Sponsored Programs Net	<u>\$ 2,062,868</u>	<u>\$ 1,987,175</u>
Surplus distribution	<u>(257,898)</u>	<u>(1,614,243)</u>
Sponsored Programs Fund Net	<u>\$ 1,804,970</u>	<u>\$ 372,932</u>

See notes to the supplementary information.

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)

Notes to the Supplementary Information

Years Ended June 30, 2019 and 2018, as Restated

Note A – Fund Accounting

The accounts of CSE are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. The funds are organized as follows:

- **General Fund:** This fund is used to account for all financial resources except those required to be accounted for in another fund. This fund recognizes as income various administrative from other funds.
- **Plant and Bond Fund:** This fund is used to account for acquisition of physical properties and funds expended and invested in physical properties for the General Fund, Board Designated Fund, Sponsored Programs Fund, and Campus Programs Fund.
- **Board Designated Fund:** This fund is used to account for all amounts specifically allocated by the Board of Directors to certain programs. These funds are used primarily for the development of grant and contract proposals. Funding is also allocated to support and to finance other CSU, Chico related projects.
- **Auxiliary Activities Fund:** This fund is used to account for the operations of the University Farm, North State Public Radio, and other enterprise activities. These operations reimburse the General Fund for accounting and data processing administration expenses based on the usage of these services.
- **Sponsored Programs Fund:** This fund reflects the activity of various programs designed for instruction, research, and community services. These programs are funded by federal and state governmental agencies and various other organizations. The General Fund receives administrative fees to cover the indirect overhead costs of these programs.
- **Campus Program Fund:** This fund accounts for certain special activities of CSE-affiliated programs. These funds are carried as restricted net position. CSE receives an administrative fee equal to 8% of Campus Program Fund expenditures.

Note B – Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with current year presentation. These reclassifications had no effect on the reported results of operations.

OTHER INFORMATION
For inclusion in the California State University

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)

Other Information (for inclusion in the California State University)

Year Ended June 30, 2019

Schedule of Net Position

Assets:		
Current assets:		
Cash and cash equivalents	\$	4,294,723
Short-term investments		1,073,176
Accounts receivable, net		16,774,797
Capital lease receivable, current portion		—
Notes receivable, current portion		—
Pledges receivable, net		—
Prepaid expenses and other current assets		430,189
Total current assets		<u>22,572,885</u>
Noncurrent assets:		
Restricted cash and cash equivalents		—
Accounts receivable, net		—
Capital lease receivable, net of current portion		—
Notes receivable, net of current portion		—
Student loans receivable, net		—
Pledges receivable, net		—
Endowment investments		—
Other long-term investments		7,828,232
Capital assets, net		11,164,543
Other assets		687,929
Total noncurrent assets		<u>19,680,704</u>
Total assets		<u>42,253,589</u>
Deferred outflows of resources:		
Unamortized loss on debt refunding		—
Net pension liability		—
Net OPEB liability		—
Others		—
Total deferred outflows of resources		<u>—</u>
Liabilities:		
Current liabilities:		
Accounts payable		3,233,320
Accrued salaries and benefits		1,980,447
Accrued compensated absences, current portion		389,966
Unearned revenues		1,713,570
Capital lease obligations, current portion		—
Long-term debt obligations, current portion		105,000
Claims liability for losses and loss adjustment expenses, current portion		—
Depository accounts		—
Other liabilities		361,825
Total current liabilities		<u>7,784,128</u>
Noncurrent liabilities:		
Accrued compensated absences, net of current portion		85,602
Unearned revenues		—
Grants refundable		—
Capital lease obligations, net of current portion		—
Long-term debt obligations, net of current portion		2,306,328
Claims liability for losses and loss adjustment expenses, net of current portion		—
Depository accounts		—
Net other postemployment benefits liability		608,733
Net pension liability		—
Other liabilities		257,834
Total noncurrent liabilities		<u>3,258,497</u>
Total liabilities		<u>11,042,625</u>
Deferred inflows of resources:		
Service concession arrangements		—
Net pension liability		—
Net OPEB liability		—
Unamortized gain on debt refunding		—
Nonexchange transactions		—
Others		—
Total deferred inflows of resources		<u>—</u>
Net Position:		
Net investment in capital assets		8,753,215
Restricted for:		—
Nonexpendable – endowments		—
Expendable:		—
Scholarships and fellowships		—
Research		5,478,308
Loans		—
Capital projects		—
Debt service		—
Others		10,930,646
Unrestricted		6,048,795
Total net position	\$	<u>31,210,964</u>

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)

Other Information (for inclusion in the California State University)

Year Ended June 30, 2019

Schedule of Revenues, Expenses, and Changes in Net Position

Revenues:

Operating revenues:

Student tuition and fees, gross	\$	—
Scholarship allowances (enter as negative)		—
Grants and contracts, noncapital:		
Federal		21,684,467
State		6,857,645
Local		1,344,996
Nongovernmental		3,841,875
Sales and services of educational activities		4,326,347
Sales and services of auxiliary enterprises, gross		2,737,262
Scholarship allowances (enter as negative)		—
Other operating revenues		877,110
Total operating revenues		<u>41,669,702</u>

Expenses:

Operating expenses:

Instruction		3,110,978
Research		2,368,996
Public service		20,144,370
Academic support		2,152,933
Student services		2,053,915
Institutional support		3,655,412
Operation and maintenance of plant		356,352
Student grants and scholarships		1,697,652
Auxiliary enterprise expenses		3,021,067
Depreciation and amortization		1,037,156
Total operating expenses		<u>39,598,831</u>
Operating income (loss)		<u>2,070,871</u>

Nonoperating revenues (expenses):

State appropriations, noncapital		—
Federal financial aid grants, noncapital		—
State financial aid grants, noncapital		—
Local financial aid grants, noncapital		—
Nongovernmental and other financial aid grants, noncapital		—
Other federal nonoperating grants, noncapital		—
Gifts, noncapital		—
Investment income (loss), net		485,424
Endowment income (loss), net		—
Interest expense		(72,411)
Other nonoperating revenues (expenses) - excl. interagency transfers		(5,859)
Other nonoperating revenues (expenses) - interagency transfers		—
Net nonoperating revenues (expenses)		<u>407,154</u>
Income (loss) before other revenues (expenses)		<u>2,478,025</u>

State appropriations, capital

Grants and gifts, capital

Additions (reductions) to permanent endowments

Increase (decrease) in net position 2,478,025

Net position:

Net position at beginning of year, as previously reported		28,239,708
Restatements		493,231
Net position at beginning of year, as restated		<u>28,732,939</u>
Net position at end of year	\$	<u>31,210,964</u>

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)
Other Information (for inclusion in the California State University)
Year Ended June 30, 2019

1 Cash and cash equivalents:

Portion of restricted cash and cash equivalents related to endowments	-
All other restricted cash and cash equivalents	4,294,723
Noncurrent restricted cash and cash equivalents	4,294,723
Current cash and cash equivalents	
Total	4,294,723

2.1 Composition of investments:

	Current	Noncurrent	Total
Money market funds	\$ 9,311		\$ 9,311
Repurchase agreements			-
Certificates of deposit		737,224	737,224
U.S. agency securities			-
U.S. treasury securities			-
Municipal bonds			-
Corporate bonds			-
Asset backed securities			-
Mortgage backed securities			-
Commercial paper			-
Mutual funds		7,072,476	7,072,476
Exchange traded funds			-
Equity securities			-
Alternative investments:			
Private equity (including limited partnerships)		18,532	18,532
Hedge funds			-
Managed futures			-
Real estate investments (including REITs)			-
Commodities			-
Derivatives			-
Other alternative investment types			-
Other external investment pools (excluding SWIFT)			-
Other investments	1,063,865		1,063,865
State of California Local Agency Investment Fund (LAIF)			-
State of California Surplus Money Investment Fund (SMIF)			-
Total investments	1,073,176	7,828,232	8,901,408
Less endowment investments (enter as negative number)	-	-	-
Total investments, net of endowments	\$ 1,073,176	\$ 7,828,232	\$ 8,901,408

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)
Other Information (for inclusion in the California State University)
Year Ended June 30, 2019

2.2 Fair value hierarchy in investments:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)
Money market funds	\$ 9,311	\$ 9,311			
Repurchase agreements	-				
Certificates of deposit	737,224		\$ 737,224		
U.S. agency securities	-				
U.S. treasury securities	-				
Municipal bonds	-				
Corporate bonds	-				
Asset backed securities	-				
Mortgage backed securities	-				
Commercial paper	-				
Mutual funds	7,072,476	7,072,476			
Exchange traded funds	-				
Equity securities	-				
Alternative investments:	18,532			18,532	
Private equity (including limited partnerships)					
Hedge funds					
Managed futures					
Real estate investments (including REITs)					
Commodities					
Derivatives					
Other alternative investment types					
Other external investment pools (excluding SWIFT)					
Other investments					
State of California Local Agency Investment Fund (LAIF)	1,063,865	-	-	-	1,063,865
State of California Surplus Money Investment Fund (SMIF)	-	-	-	-	-
Total investments	\$ 8,901,408	\$ 7,081,787	\$ 737,224	\$ 18,532	\$ 1,063,865

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)
Other Information (for inclusion in the California State University)

Year Ended June 30, 2019

3.1 Composition of capital assets:

	Balance June 30, 2018	Reclassifications	Prior Period Additions	Prior Period Retirements	Balance June 30, 2018 (Restated)	Additions	Retirements	Transfer of completed CWIP	Balance June 30, 2019
Non-depreciable/Non-amortizable capital assets:									
Land and land improvements	\$ 4,078,046				\$ 4,078,046	19,140		\$	\$ 4,078,046
Works of art and historical treasures	89,300				89,300				108,440
Construction work in progress (CWIP)	553,469				553,469			\$ (553,469)	-
Intangible assets:									
Rights and easements	-				-				-
Patents, copyrights and trademarks	-				-				-
Intangible assets in progress (PWIP)	-				-				-
Licenses and permits	-				-				-
Other intangible assets:									
Total intangible assets	-				-				-
Total non-depreciable/non-amortizable capital assets	4,720,815				4,720,815	19,140		(553,469)	4,186,486
Depreciable/Amortizable capital assets:									
Buildings and building improvements	8,523,656				8,523,656	25,300	(43,949)	130,489	8,635,496
Improvements, other than buildings	-				-				-
Infrastructure	-				-				-
Leasehold improvements	-				-				-
Personal property:									
Equipment	12,210,995				12,210,995	1,994,663	(274,030)	422,980	14,354,608
Library books and materials	-				-				-
Intangible assets:									
Software and websites	-				-				-
Rights and easements	-				-				-
Patents, copyrights and trademarks	-				-				-
Licenses and permits	-				-				-
Other intangible assets:									
Total intangible assets	-				-				-
Total depreciable/amortizable capital assets	20,734,651				20,734,651	2,019,963	(317,979)	553,469	22,990,104
Total capital assets	25,455,466				25,455,466	2,039,103	(317,979)	-	27,176,590
Less accumulated depreciation/amortization: (enter as negative number, except for reductions enter as positive number)									
Buildings and building improvements	(5,274,672)	(2,067)			(5,276,739)	(304,179)	43,949		(5,536,969)
Improvements, other than buildings	-				-				-
Infrastructure	-				-				-
Leasehold improvements	-				-				-
Personal property:									
Equipment	(10,002,239)	2,067			(10,000,172)	(732,977)	258,071		(10,475,078)
Library books and materials	-				-				-
Intangible assets:									
Software and websites	-				-				-
Rights and easements	-				-				-
Patents, copyrights and trademarks	-				-				-
Licenses and permits	-				-				-
Other intangible assets:									
Total intangible assets	-				-				-
Total accumulated depreciation/amortization	(15,276,911)				(15,276,911)	(1,037,156)	302,020	-	(16,012,047)
Total capital assets, net	10,178,555				10,178,555	1,001,947	(15,959)	-	11,164,543
	\$ 1,037,156								
	\$ 1,037,156								

3.2 Detail of depreciation and amortization expense:

Depreciation and amortization expense related to capital assets
Amortization expense related to other assets
Total depreciation and amortization

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)
Other Information (for inclusion in the California State University)

Year Ended June 30, 2019

4 Long-term liabilities:

	Balance June 30, 2018	Prior Period Adjustments/Reclas- sifications	Balance June 30, 2018 (Restated)	Additions	Reductions	Balance June 30, 2019	Current Portion	Noncurrent Portion
1. Accrued compensated absences	\$ 436,843	-	\$ 436,843	\$ 567,837	\$(59,112)	\$ 475,568	\$ 389,966	\$ 85,602
2. Claims liability for losses and loss adjustment expenses	-	-	-	-	-	-	-	-
3. Capital lease obligations:								
Gross balance	-	-	-	-	-	-	-	-
Unamortized net premium/(discount)	-	-	-	-	-	-	-	-
Total capital lease obligations	-	-	-	-	-	-	-	-
4. Long-term debt obligations:								
4.1 Auxiliary revenue bonds (non-SRB related)	-	-	-	-	-	-	-	-
4.2 Commercial paper	-	-	-	-	-	-	-	-
4.3 Notes payable (SRB related)	2,195,000	-	2,195,000	-	(100,000)	2,095,000	105,000	1,990,000
4.4 Others:								
Total others	-	-	-	-	-	-	-	-
Sub-total long-term debt	2,195,000	-	2,195,000	-	(100,000)	2,095,000	105,000	1,990,000
4.5 Unamortized net bond premium/(discount)	340,053	-	340,053	-	(23,725)	316,328	-	316,328
Total long-term debt obligations	2,535,053	-	2,535,053	-	(123,725)	2,411,328	105,000	2,306,328
Total long-term liabilities	\$ 2,971,896	\$ -	\$ 2,971,896	\$ 567,837	\$ (652,837)	\$ 2,886,896	\$ 494,966	\$ 2,391,930

5 Capital lease obligations schedule:

Year ending June 30:	Capital lease obligations related to SRB		All other capital lease obligations		Total capital lease obligations	
	Principal Only	Interest	Principal Only	Interest	Principal Only	Interest
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
2024	-	-	-	-	-	-
2025 - 2029	-	-	-	-	-	-
2030 - 2034	-	-	-	-	-	-
2035 - 2039	-	-	-	-	-	-
2040 - 2044	-	-	-	-	-	-
2045 - 2049	-	-	-	-	-	-
Thereafter	-	-	-	-	-	-
Total minimum lease payments	-	-	-	-	-	-
Less: amounts representing interest	-	-	-	-	-	-
Present value of future minimum lease payments	-	-	-	-	-	-
Unamortized net premium/(discount)	-	-	-	-	-	-
Total capital lease obligations	-	-	-	-	-	-
Less: current portion	-	-	-	-	-	-
Capital lease obligations, net of current portion	-	-	-	-	-	-

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)
Other Information (for inclusion in the California State University)
Year Ended June 30, 2019

8 Restatements/Prior period adjustments:

Provide a detailed breakdown of the journal entries (at the financial statement line items level) booked to record each restatement/PPA:

Debit/(Credit)

Transaction #1	Reclassification of June 30, 2018 categorization of Net Position	(2,229,164)
To reclassify the categories of Net Position as of June 30, 2018	Net position, Restricted, Expendable - Research	(3,061,338)
	Net position, Restricted, Expendable - Other	5,290,502

Transaction #2

Record FY2018 unbilled revenue, unearned revenue and federal grant	Record FY2018 unbilled revenue, unearned revenue and federal grant revenue	(493,231)
Unbilled revenue	Unbilled revenue	423,134
Unearned revenues	Unearned revenues	70,097

9 Natural classifications of operating expenses:

	Salaries	Benefits - Other	Benefits - Pension	Benefits - OPEB	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	Total operating expenses
Instruction	1,467,678	495,510	-	-	-	1,147,790	-	3,110,978
Research	1,174,638	198,010	-	-	-	996,348	-	2,368,996
Public service	8,282,020	3,211,523	-	-	-	8,650,827	-	20,144,370
Academic support	788,733	268,596	-	-	-	1,095,604	-	2,152,933
Student services	1,013,565	354,820	-	-	-	685,530	-	2,053,915
Institutional support	1,825,155	982,336	-	-	-	847,921	-	3,655,412
Operation and maintenance of plant	13,250	1,166	-	-	-	341,936	-	356,352
Student grants and scholarships	502,119	210,128	-	-	1,697,652	-	-	1,697,652
Auxiliary enterprise expenses	-	-	-	-	-	2,308,820	-	3,021,067
Depreciation and amortization	-	-	-	-	-	-	1,037,156	1,037,156
Total operating expenses	\$ 15,067,158	\$ 5,722,089	\$ -	\$ -	\$ 1,697,652	\$ 16,074,776	\$ 1,037,156	\$ 39,598,831

10 Deferred outflows/inflows of resources:

1. Deferred Outflows of Resources	Deferred outflows - unamortized loss on refunding(s)	-
	Deferred outflows - net pension liability	-
	Deferred outflows - net OPEB liability	-
	Deferred outflows - others:	-
	Total deferred outflows - others	-
	Total deferred outflows of resources	\$ -
2. Deferred Inflows of Resources	Deferred inflows - service concession arrangements	-
	Deferred inflows - net pension liability	-
	Deferred inflows - net OPEB liability	-
	Deferred inflows - unamortized gain on debt refunding(s)	-
	Deferred inflows - nonexchange transactions	-
	Deferred inflows - others:	-
	Total deferred inflows - others	-
	Total deferred inflows of resources	\$ -

OTHER REPORTS

**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**

To the Board of Directors of
Chico State Enterprises

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 Chico State Enterprises (CSE), which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 20, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CSE'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 CSE's internal control. Accordingly, we do not express an opinion on the effectiveness of CSE'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 a 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CSE'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2019-001.

**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*, CONTINUED**

CSE's Response to Findings

CSE's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. CSE's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 CSE's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CSE's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Aldrich CPAs + Advisors LLP

San Diego, California
September 20, 2019

FINDINGS

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)

Schedule of Findings and Questioned Costs

June 30, 2019

A. SUMMARY OF AUDITORS' RESULTS

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified

Yes

Significant deficiencies identified not considered to be material weaknesses?

No

Noncompliance material to financial statements noted?

No

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)

Schedule of Findings and Questioned Costs

June 30, 2019

B. FINDINGS

Material Weakness:

2019-001 Reimbursable Expenses and Related Billings:

During our audit we reviewed a selection of cash disbursements and noted that many of the invoices and other equivalent information necessary for expense reimbursement by the CSE were being submitted by employees and subcontractors from a month to multiple months after the expense was actually incurred. This contributed to billings being done late resulting in a significant amount of unbilled expenses at year end. More specifically, there was approximately \$1,800,000 worth of reimbursable expenses related to state and federal contracts occurring before year end that were not recognized as a revenue for the year ended June 30, 2019 until late in August 2019. This necessitated a journal entry to record such amounts as revenue, accounts receivable, and unbilled revenue for the year ended June 30, 2019. We recommend that the CSE create (if not already created) and implement a formal invoice submission/reimbursement policy that outlines a specific amount of days a receipt or equivalent information must be submitted by in order for it to be reimbursed by the CSE. We would also recommend that the CSE evaluate its process for billing grantors for reimbursable expenses and create a policy that requires bills to be submitted to granting agencies within a certain amount of days of reimbursable expenses being processed.

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)

Schedule of Findings and Questioned Costs

June 30, 2019

C. RESPONSE TO FINDINGS

Material Weakness:

2019-001 Reimbursable Expenses and Related Billings:

Management acknowledges the challenges the organization has faced in relation to: 1) obtaining invoices in a timely manner; 2) using that information in order to prepare timely billings and 3) the quick turnaround from fiscal year end to the required submission date for audits to the California State University Chancellor's Office.

In July of 2019, management facilitated a reorganization of the former Chico State University Research Foundation (RF). The new organization, Chico State Enterprises (CSE), resulted in the combining of the previous RF Accounting Department and the Research and Sponsored Programs Department into a single unit (the Business Services Department). While the reorganization did result in the reduction in forces of approximately 10%, the new organizational structure will allow for streamlined operations while increasing efficiency and providing greater, unified controls over the collection of invoices and reimbursement requests as well as the billing process.

Management will continue to work with external stakeholders to educate them on internal processes and policy, including the policy which specifically outlines the time frame for the submission of incurred expenses. Management will ensure that all stakeholders follow current and revised policies. Management is currently analyzing the billing process for efficiency opportunities and is committed to improved functionality, timeliness and process revisions in this area by December 31, 2019.

CHICO STATE ENTERPRISES (Formerly The CSU, Chico Research Foundation)

Schedule of Findings and Questioned Costs

June 30, 2019

D. SCHEDULE of PRIOR YEAR FINDINGS

Material Weakness:

2018-001 Revenue Recognition:

CSE receives multiple types of grants/contracts that have different terms for billing and reimbursements. The majority of grants/contracts are cost reimbursed and should have revenue recorded based on actual expenses incurred during the year. CSE also has other grants/contracts that require the CSE to meet a certain benchmark, complete a specific milestone, serve a required number of participants, provide space to use for specific programs, etc. before it is paid by the funder (non-cost reimbursable). Such contracts should have revenue recorded based on when CSE actually meets the criteria specified by the funder (i.e. meets a benchmark, completes a milestone, submits a report, etc.). CSE booked year end entries on non-cost reimbursable contracts/grants that recorded revenue and unbilled revenue based on the amount of expenses incurred on a project. This over stated revenue and unbilled revenue by approximately \$1,000,000. It was recommended that CSE do an analysis of all existing grants/contracts to determine the frequency of billings and whether the grant/contract is cost reimbursable or not and then integrate the information from the analysis (grant type and frequency of billing) into the accounting software. That way CSE could better track billings, cash receipts, and expenses on a grant type basis and would allow CSE to better assess if the amount of unbilled revenue and revenue is correct at year end.

Current Status of Finding 2018-001 Revenue Recognition:

Corrective action taken in relation to finding 2019-001 will also address issues associated with grants and billings that contributed to the revenue recognition error discussed in finding 2018-001.