



STATE UNIVERSITY CONSTRUCTION FUND
(A Component Unit of the State University of New York)

Financial Statements

March 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

STATE UNIVERSITY CONSTRUCTION FUND
(A Component Unit of the State University of New York)

Financial Statements
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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

Board of Trustees
State University Construction Fund
Albany, New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the State University Construction Fund (the Fund), a component unit of the State University of New York, which comprise the statement of net position as of March 31, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the year 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of March 31, 2017, and the changes in its financial position and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.



Other Matters

Prior Year Financial Statements

The accompanying financial statements of the State University Construction Fund as of and for the year ended March 31, 2016, were audited by other auditors, whose report thereon, dated June 27, 2016, expressed an unmodified opinion on those financial statements and included an emphasis of matter paragraph that described the Fund's adoption of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, discussed in note 1 to the Fund's 2016 financial statements.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2017, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

KPMG LLP

Albany, New York
August 8, 2017

STATE UNIVERSITY CONSTRUCTION FUND
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Management's Discussion and Analysis (unaudited)
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The following management's discussion and analysis (MD&A) presents management's analysis of the State University Construction Fund's (the Fund) financial performance during the fiscal years ended March 31, 2017 and 2016. Management has prepared the financial statements and related note disclosures along with this MD&A. Please read it in conjunction with the Fund's financial statements and accompanying notes.

Overview of the State University Construction Fund

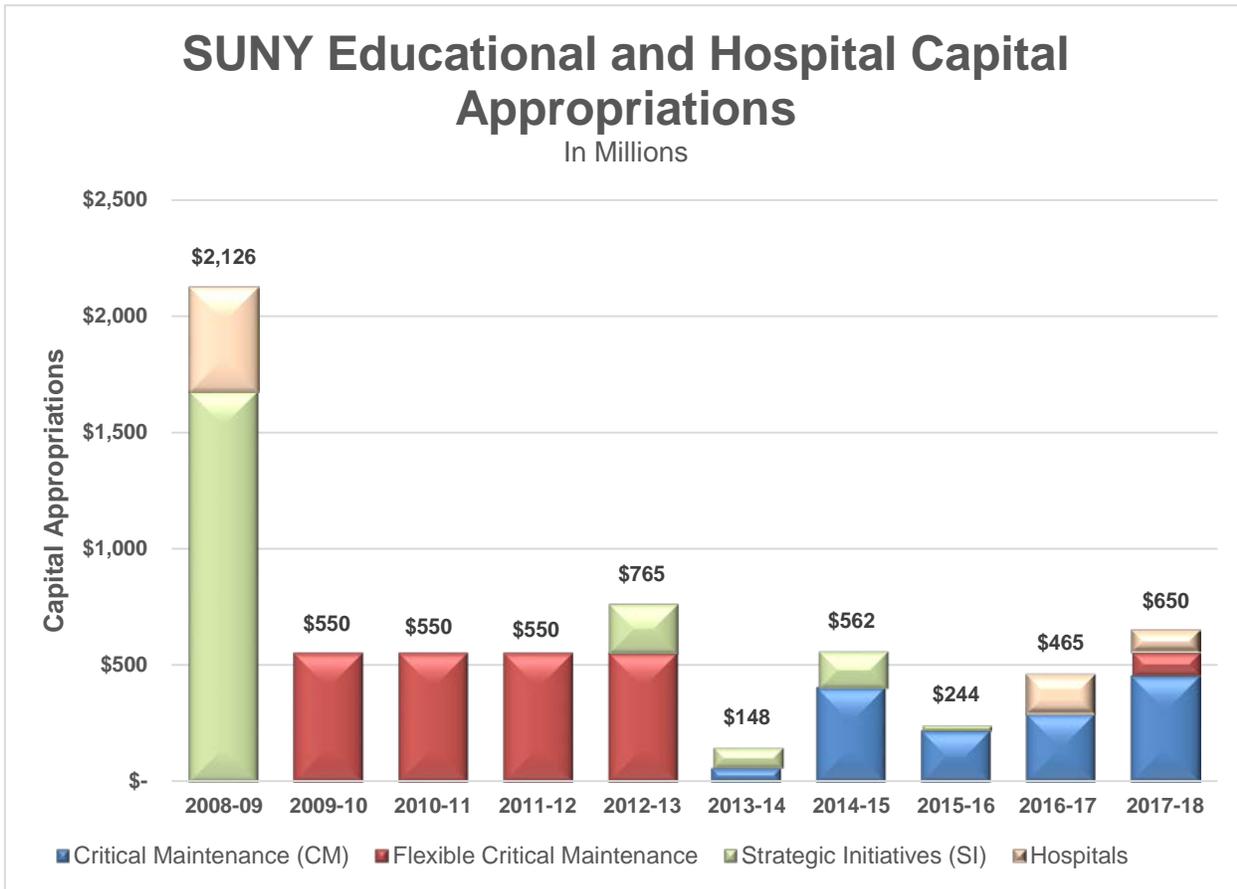
The Fund is a corporate governmental agency constituting a public benefit corporation of New York State (State). Pursuant to State Education Law, the Fund has been specifically designated to provide academic buildings, dormitories, and other facilities for State-operated institutions and statutory colleges that fall under the jurisdiction of the State University of New York (SUNY). The Fund is primarily responsible for administering SUNY's Educational Facilities and Hospital Capital programs. The State budget process establishes the appropriations authorizing spending, the bonding necessary to support that spending, annual disbursement limits, and the debt service payments on outstanding debt for these programs. With limited exceptions, the debt service obligations for the Educational Facilities are paid directly by the State. The three SUNY teaching hospitals are responsible for reimbursing the State for the debt service payments made on their behalf.

In 1998, the State Executive and Legislature adopted the first multi-year capital plan for SUNY's Educational Facilities and Hospital Capital Programs, enabling SUNY and the Fund to plan within known funding levels over a multi-year period. The 1998 plan was followed by two multi-year capital plans, the last of which concluded in 2013. For the four subsequent fiscal years, from 2013-14 through 2016-17, the Executive and the Legislature provided annual and unpredictable levels of capital appropriations for these programs. This resulted in a multitude of challenges related to long-term capital planning, project delivery, and disbursement management to meet the State-established spending limits.

During the years of unpredictable funding, SUNY, in collaboration with the Fund, campuses and partners in the construction industry, intensified their advocacy efforts to secure another multi-year capital plan. These efforts proved successful in 2017. The 2017-18 Enacted State Budget provided an increased level of capital support for the Educational Facilities and Hospital Capital Programs, with a planned multi-year capital funding level of \$550 million to be provided annually through fiscal year 2021-22.

As seen in the following chart, the appropriations provided since the last multi-year capital plan ended in 2013 have not only been unpredictable, but have also varied in the purposes for which they can be used. These restrictions have ranged from appropriations for projects that address critical maintenance in existing facilities only (Restricted Critical Maintenance), for more flexible critical maintenance that can also be used for additions and new construction (Flexible Critical Maintenance), and for specific projects (Strategic Initiatives). Additionally, the State has only provided Hospital appropriations in 2008, 2016 and 2017.

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NYSUNY 2020 Challenge Grant Program

In 2011, the State University of New York and the Office of the Governor established the NYSUNY 2020 Challenge Grant Program to spur economic growth and strengthen SUNY's academic programs. Funding had been made available to support seven rounds of NYSUNY 2020 grants totaling \$475 million. In addition, over \$300 million in special appropriations for sizeable NYSUNY 2020 projects at the University at Buffalo and the University at Albany have also been enacted.

To date, four rounds of competitively selected awards totaling \$300 million have been approved, and it is anticipated that the fifth round of awards, at \$55 million, will be announced shortly. The 2017-18 Enacted State Budget provides another \$55 million for the seventh round of grants under NYSUNY 2020.

Funding for the Capital Program

Since 2008, SUNY's capital programs have been largely supported by bond proceeds. The Fund does not issue debt, nor does it hold title to any of SUNY's facilities. Prior to February 2003, a major portion of the capital costs were financed by bonds issued by the Dormitory Authority of the State of New York (DASNY) under the State University Educational Facilities Revenue Bond Program. Under this arrangement, the Fund receives an

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annual debt service appropriation from the State and is responsible for making semi-annual debt service payments to DASNY. These payments are classified as contractual financing payments within the accompanying financial statements.

As of February 2003, bonds issued in support of the capital programs administered by the Fund are issued by DASNY and supported by a dedicated portion of State Personal Income Tax revenues. Debt service payments for these bonds are made directly by the State, and the Fund receives no appropriation for debt service on these bonds. As the Fund is not required to make the debt service payments on these bonds, these payments are not reported in the Fund's financial statements.

In recent years, the Fund has received and administered funding provided for specific Educational Facility and Hospital projects from other State entities. In addition to the NYSUNY 2020 Challenge Grant Projects and various economic development grants funded by the Empire State Development Corporation, the Fund has also received funding for the benefit of other SUNY capital projects from the Division of Homeland Security and Emergency Services, and the Department of Health.

Required Financial Statements

The financial statements of the Fund are based on U.S. generally accepted accounting principles (U.S. GAAP) and contain the following three statements that provide information on the Fund's financial activity and the results of its operations for the years ended March 31, 2017 and 2016:

- The statements of net position include all of the Fund's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, and provide information about the nature and amount of investments in resources (assets) and the obligations to Fund creditors (liabilities). The statements of net position present the financial position of the Fund at the end of each fiscal year.
- The statements of revenues, expenses and changes in net position report the Fund's revenues and expenses and include the results of operations for each fiscal year.
- The statements of cash flows provide information about the Fund's cash receipts and cash payments during each fiscal year. The statements of cash flows report cash receipts, cash payments, and the net changes in cash resulting from operating, financing (capital and noncapital), and investing activities.

Financial Statement Summary

Condensed Summary of Net Position

As reported in the summary below, the total assets and deferred outflows of resources of the Fund as of March 31, 2017 increased by \$47.2 million, or 15%, from March 31, 2016, and decreased by \$115.7 million, or 26.9%, from March 31, 2015 to March 31, 2016. The total liabilities and deferred inflows of resources also increased as of March 31, 2017 by \$50.2 million, or 17%, from March 31, 2016, and decreased by

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\$114.9 million, or 28%, from March 31, 2015 to March 31, 2016. The following table shows a summary of changes from the prior year amounts:

	<u>2017</u>	<u>2016</u> (In thousands)	<u>2015</u>
Current assets	\$ 350,387	311,129	427,483
Noncurrent assets	2,715	2,822	2,565
Deferred outflows of resources	<u>8,516</u>	<u>425</u>	<u>—</u>
Total assets and deferred outflows of resources	<u>\$ 361,618</u>	<u>314,376</u>	<u>430,048</u>
Current liabilities	\$ 318,717	279,513	395,891
Noncurrent liabilities	23,708	15,556	14,121
Deferred inflows of resources	<u>2,846</u>	<u>—</u>	<u>—</u>
Total liabilities and deferred inflows of resources	<u>\$ 345,271</u>	<u>295,069</u>	<u>410,012</u>
Invested in capital assets	\$ 1,182	1,382	1,120
Restricted for contractual financing payments	29	29	30
Unrestricted	<u>15,136</u>	<u>17,896</u>	<u>18,886</u>
Total net position	<u>\$ 16,347</u>	<u>19,307</u>	<u>20,036</u>

The increase in net assets and deferred outflows of resources, and liabilities and deferred inflows of resources, at March 31, 2017 as compared to March 31, 2016 is due primarily to the increase in the Fund's long-term pension obligations and the receipt of additional sponsor funds during fiscal year 2016-17 that were not spent at year end. The \$3 million decrease in total net position is a result of increased obligations for pension and other post-employment benefits, and depreciation of fixed assets.

The decrease in assets and liabilities at March 31, 2016 as compared to March 31, 2015 is due primarily to the planned use of sponsor funds provided in support of the NYSUNY 2020 projects.

The noncurrent assets of the Fund include a nominal amount of capital assets and a receivable for compensated absences. The noncurrent liabilities of the Fund include other post-employment benefits obligation, compensated absences, and net pension liability. Project costs are shown as expenses and are not capitalized as capital assets within the Fund's financial statements. In addition, the debt issued to fund project costs is not a liability of the Fund, and therefore, is not recorded as a long-term liability within the Fund's financial statements. The capital assets and corresponding debt related to project costs are reported in the financial statements of SUNY.

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

Total Fund revenues decreased by 13.1%, and expenses by 12.8% for the fiscal year ended March 31, 2017, as compared to the year ended March 31, 2016, and both revenues and expenses increased by approximately 2.8% for the fiscal year ended March 31, 2016, as compared to the year ended March 31, 2015. The following table shows a summary of changes from the prior year amounts:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(In thousands)	
Operating revenues	\$ 765,330	880,284	856,344
Operating expenses	(768,398)	(881,079)	(858,343)
Nonoperating revenues (expenses)	<u>109</u>	<u>66</u>	<u>(19)</u>
Total change in net position	<u>\$ (2,959)</u>	<u>(729)</u>	<u>(2,018)</u>

Note: Analysis reflects the net activity related to contractual financing payments.

Revenues and expenses decreased during the fiscal year ended March 31, 2017 as a result of several factors. The construction activity for the large round one NYSUNY 2020 projects is nearing completion, the projected state bonded disbursements continue to be closely monitored, and the spending related to the 2008-13 capital plan is cycling down.

Economic Factors that May Affect the Future

In response to recommendations made by consultants procured by the State Division of the Budget, the State has been gradually changing the structure of the appropriations provided to the Fund for the Educational Facilities Program. The changes are intended to provide appropriations that more effectively address statewide capital needs within limited capital bonding capacity. As a result, the Educational Facilities appropriations have been restructured to facilitate centralized decision-making and to ensure that the funding is applied to the highest priority critical maintenance needs across the SUNY system, regardless of campus size. In the past, critical maintenance appropriations have been distributed to each campus based on a formula that considered its academic gross square footage, the age of campus facilities, and the size of the student body. Working within this new structure that will allocate funding to projects based on a high priority need, the Fund is modifying its project selection approach to respond most effectively to the State's increased level of support. The new approach to project selection is intended to ensure that deferred maintenance backlog is reduced and that asset renewal needs are addressed, while also assisting campuses in their efforts to address their strategic and academic missions.

While the increased level of support planned for the Educational Facilities Program (\$550 million planned annually through 2021-22) will provide much needed funding to address the significant needs of nearly 1,900 aging academic buildings and SUNY's vast infrastructure, the \$550 million planned for each of the next four years will be subject to annual appropriation by the Executive and the Legislature. In addition, the planned level of new support (\$2.8 billion), as well as prior year unspent appropriations totaling \$1.9 billion, must be accommodated within significantly reduced annual spending limits established in the 2017-18 Enacted State Five-Year Capital Program & Financing Plan. Managing the disbursements associated with this level of

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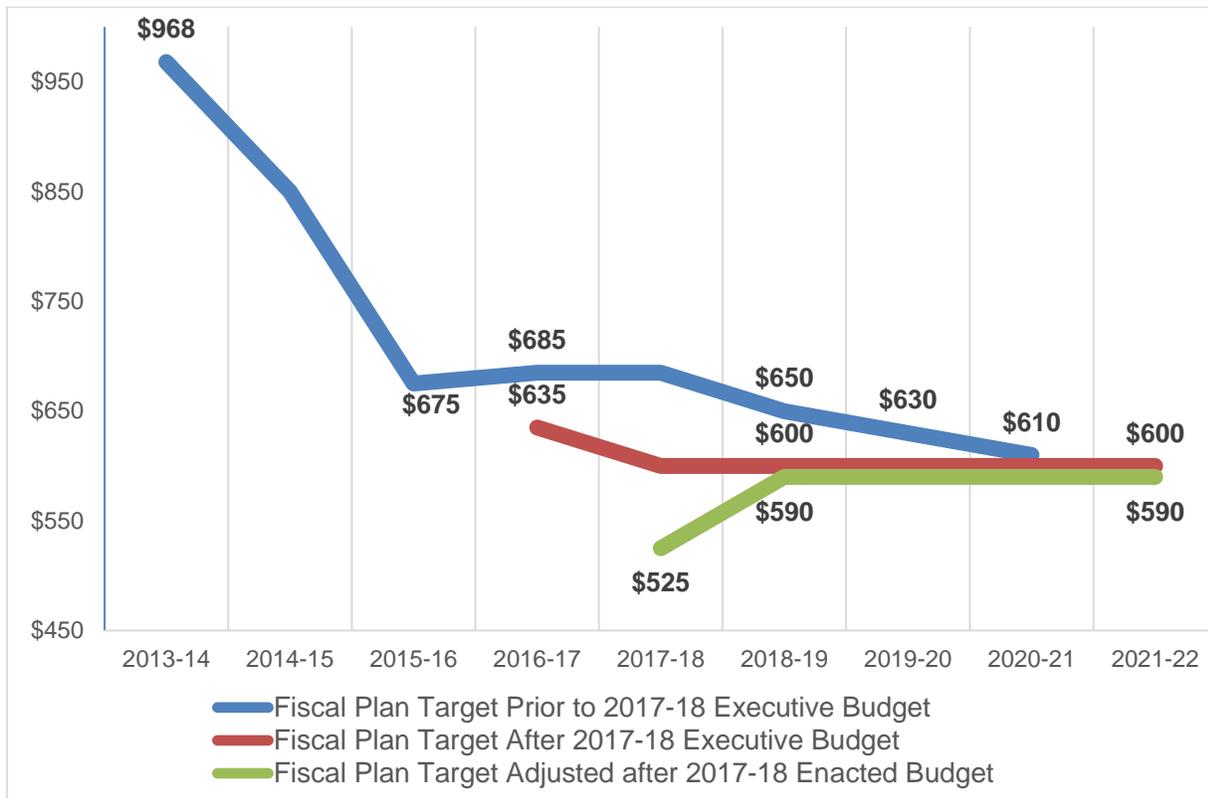
appropriation, while meeting the reduced annual spending limits depicted in the following chart, will require careful monitoring and a renewed focus on accurate modeling and predicting project disbursements to ensure minimal disruption to the capital program.

The reduced spending limits are directly influenced by limited and diminishing State bonding capacity under the State Debt Reform Act of 2000.

As seen in the following chart, the Fund's annual spending limits in the State's five year Capital Program and Financing Plan (Fiscal Plan) were significantly reduced in the 2017-18 Executive Budget, and then adjusted again in the 2017-18 Enacted State Budget.

FISCAL PLAN TARGETS

In millions



Contacting the State University Construction Fund

This financial report is designed to provide interested parties with the Fund's financial results. If you have questions about this report or would like additional information regarding the Fund's programs, please visit the Fund's website at <https://www.sucf.suny.edu>.

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Statements of Net Position

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Assets	2017	2016
Current assets:		
Cash	\$ 1,464,435	674,792
Cash deposits with the State of New York	184,456,235	168,457,351
Investments at fair value	30,551,746	31,301,642
Receivables:		
State of New York	133,797,775	110,629,588
Accrued interest	117,141	65,932
Total current assets	350,387,332	311,129,305
Noncurrent assets:		
Receivable from the State of New York	1,532,796	1,440,340
Capital assets, net of accumulated depreciation	1,181,949	1,381,526
Total assets	353,102,077	313,951,171
Deferred outflows of resources – pension resources	8,515,531	425,188
Total assets and deferred outflows of resources	361,617,608	314,376,359
Liabilities		
Current liabilities:		
Project costs payable	84,855,112	61,078,344
Accounts payable and accrued expenses	1,911,916	1,397,537
Retention on construction contracts	53,818,971	57,679,466
Advances from sponsors	178,130,729	159,357,977
Total current liabilities	318,716,728	279,513,324
Noncurrent liabilities:		
Other postemployment benefits	14,841,050	12,554,210
Net pension liability	7,334,135	1,561,695
Compensated absences	1,532,796	1,440,340
Total liabilities	342,424,709	295,069,569
Deferred inflows of resources:		
Deferred inflows of resources – State of New York	1,964,725	—
Deferred inflows of resources – pension resources	880,786	—
Total deferred inflows of resources	2,845,511	—
Total liabilities and deferred inflows of resources	345,270,220	295,069,569
Net position:		
Invested in capital assets	1,181,949	1,381,526
Restricted for contractual financing payments	29,554	29,418
Unrestricted	15,135,885	17,895,846
Total net position	\$ 16,347,388	19,306,790

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position

Years ended March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Project cost recovery:		
State of New York	\$ 710,653,278	710,468,473
Sponsor	<u>54,676,386</u>	<u>169,814,954</u>
Total operating revenues	<u>765,329,664</u>	<u>880,283,427</u>
Operating expenses		
Project costs administered by:		
State University Construction Fund	465,367,328	592,244,212
State University of New York campuses	<u>303,030,955</u>	<u>288,834,731</u>
Total operating expenses	<u>768,398,283</u>	<u>881,078,943</u>
Operating loss	<u>(3,068,619)</u>	<u>(795,516)</u>
Nonoperating revenues (expenses)		
New York State appropriations for contractual financing payments to Dormitory Authority of the State of New York	238,543,484	93,056,453
Contractual financing payments to Dormitory Authority of the State of New York	<u>(238,543,484)</u>	<u>(93,056,453)</u>
Investment income, net	<u>109,217</u>	<u>66,131</u>
Total nonoperating revenues (expenses), net	<u>109,217</u>	<u>66,131</u>
Change in net position	<u>(2,959,402)</u>	<u>(729,385)</u>
Net position, beginning of year	<u>19,306,790</u>	<u>20,036,175</u>
Net position, end of year	<u>\$ 16,347,388</u>	<u>19,306,790</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended March 31, 2017 and 2016

	2017	2016
Cash provided (used) by operating activities		
Cash received from construction cost recovery	\$ 760,841,773	777,964,561
Cash payments for project costs	(744,563,440)	(882,176,109)
Net cash provided (used) by operating activities	16,278,333	(104,211,548)
Cash flows provided (used) by noncapital financing activities		
Cash received from New York State contractual financing payment appropriations	238,543,484	93,056,453
Cash payments for contractual financing payments	(238,543,484)	(93,056,453)
Net cash provided (used) by noncapital financing activities	—	—
Cash flows used by capital and related financing activities		
Purchase of capital assets	(297,710)	(706,651)
Net cash used by capital and related financing activities	(297,710)	(706,651)
Cash flows provided (used) by investing activities		
Investment income received	81,039	25,388
Proceeds from sales and maturities of investments	74,583,657	46,595,753
Purchase of investments	(73,856,792)	(46,519,921)
Net cash provided (used) by investing activities	807,904	101,220
Net increase (decrease) in cash and cash equivalents	16,788,527	(104,816,979)
Cash and cash equivalents*, beginning of year	169,132,143	273,949,122
Cash and cash equivalents*, end of year	\$ 185,920,670	169,132,143
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	\$ (3,068,619)	(795,516)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	489,095	445,519
Loss on disposition of capital assets	8,192	—
Changes in:		
State of New York receivables	(23,260,643)	11,506,299
Deferred outflows of resources	(8,090,343)	(425,188)
Project costs payable	23,776,768	(11,498,680)
Accounts payable and accrued expenses	514,379	162,706
Retention on construction contracts	(3,860,495)	8,358,195
Advances from sponsors	18,772,752	(113,399,977)
Other postemployment benefits	2,286,840	1,967,002
Deferred inflows of resources	2,845,511	—
Net pension liability	5,772,440	(527,283)
Compensated absences	92,456	(4,625)
	\$ 16,278,333	(104,211,548)

* Cash and cash equivalents include cash and cash deposits with the State of New York

See accompanying notes to financial statements.

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(1) Organization and Summary of Significant Accounting Policies

The State University Construction Fund (the Fund) was created in 1962 as a corporate governmental agency constituting a public benefit corporation of the State of New York (State). Pursuant to State Education Law, the Fund has been specifically designated to provide academic buildings, dormitories, and other facilities for State-operated institutions and statutory colleges under the jurisdiction of the State University of New York (SUNY). The Fund is included as a blended component unit in the financial statements of SUNY.

The Fund administers the State's 50% statutory share of community college capital projects on behalf of SUNY, but has no involvement in the design or construction of such projects. In addition, the Fund apportions its residence hall appropriation to SUNY which funds and administers the residence hall program. These revenues and project costs are recorded by SUNY and the other State agencies and, accordingly, are not included in the financial statements of the Fund.

The Fund is also required to manage the debt service for certain facilities related debt which is funded through appropriations from the State, however this debt is not an obligation of the Fund.

(a) Financial Reporting

The Fund follows U.S. generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

The Fund's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues are recognized in the period which they are earned, and expenses are recognized in the period which they are incurred.

The Fund reports its financial statements as a special-purpose government engaged in business-type activities, as defined by GASB. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The financial statements of the Fund consist of classified statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows, using the direct method of reporting cash flows from operations and other sources.

(b) Operating Revenues

The Fund's principal sources of revenue to recover its operating expenses consists of support from the State and from campus sponsors. The State is reimbursed for disbursements from the Fund's capital appropriations with proceeds from bonds issued by the Dormitory Authority of the State of New York (DASNY). All other revenues are considered nonoperating. Revenue from campus sponsors consists of funds received from public and private sources. Sponsor funds are generally received in advance and recorded as advances from sponsors, and recorded as revenue when the corresponding project costs are incurred. All operating revenues are recorded at the time the related expenses are incurred.

(c) Operating Expenses

The Fund's operating expenses include design, construction, equipment, and administrative costs which total \$768,398,283 and \$881,078,943 for the years ended March 31, 2017 and 2016,

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respectively. These costs include administrative expenses of the Fund of \$25,485,012 and \$25,430,243 for the years ended March 31, 2017 and 2016, respectively; all other expenses are considered nonoperating. Expenses, other than those related to contractual financing payments, are recorded when the liability is incurred.

(d) Investments

In accordance with the Fund's Investment Guidelines, investments are limited to (1) obligations of the United States Government and its Agencies with a maturity of twelve years or less; (2) repurchase agreements with a maturity of ninety days or less that are collateralized by obligations of the United States Government and its Agencies; (3) certificates of deposit purchased from banks or trust companies located within New York State with a maturity of five years or less; to the extent a certificate of deposit is not insured by the Federal Deposit Insurance Corporation, it must be collateralized by obligations of the United States Government and its Agencies, and (4) commercial paper with a maturity of ninety days or less that carries the highest rating of two independent rating agencies.

Investments in marketable securities are stated at fair value based upon quoted market prices. Investment income is recorded on the accrual basis, and purchases and sales of investment securities are reflected on a trade date basis.

(e) Capital Assets

All capital assets are carried at historical cost. Capital assets, including intangible assets, over \$5,000 are capitalized. Depreciation is recorded in the statements of revenues, expenses, and changes in net position with accumulated depreciation reflected in the statements of net position. Depreciation is provided over the assets' estimated useful lives, ranging from 5 to 15 years, using the straight-line method.

(f) Retention on Construction Contracts

In accordance with standard construction industry practice, the Fund withholds payment on a portion of construction invoices pending satisfactory completion of the contract. The full amount of the invoice is recognized as an expense in the period in which the contract work is performed and the associated contract retention is recognized as a current liability.

(g) Compensated Absences

Employees accrue vacation leave, primarily based on the number of years of service, up to a maximum rate of 25 days per year and may accumulate no more than a maximum of 53 days. The recorded liability for annual vacation, including fringe benefits for social security, was \$1,532,796 and \$1,440,340 at March 31, 2017 and 2016, respectively.

(h) Post-Retirement Benefits

Other postemployment costs, other than pensions, are recognized on an actuarially determined basis as employees earn benefits that are expected to be used in the future. Substantially all of the Fund's employees may become eligible for these benefits if they reach normal retirement age while working for the Fund. Health care benefits are provided through plans whose premiums are based on the benefits

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paid during the year. The amounts earned include employee sick leave credits expected to be used to pay for a share of post-retirement health insurance.

(i) Retirement

The Fund participates in the New York State and Local Retirement System which is a cost-sharing multiple employer pension plan. A portion of the Plan's net pension liability (asset), as well as deferred inflows and outflows of resources from pension activities are reflected in the reported amounts in the financial statements.

(j) Deferred Outflows and Deferred Inflows of Resources

Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. Deferred inflows of resources are defined as an acquisition of net assets by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets, and deferred inflows of resources decrease net position, similar to liabilities.

(k) Net Position

The Fund's net position is classified in the following categories: invested in capital assets, consisting of capital assets, net of accumulated depreciation; restricted for contractual financing payments, consisting of restricted assets and deferred outflows of resources reduced by related liabilities and deferred inflows of resources restricted for specific purposes by law or parties external to the Fund; and unrestricted, consisting of assets and deferred outflows of resources reduced by related liabilities and deferred inflows of resources that are not classified as invested in capital assets or restricted. When both restricted and unrestricted resources are available for use, it is the Fund's policy to use restricted resources first, and then unrestricted resources as they are needed.

(l) Income Taxes

The income of the Fund is exempt from all State income and franchise taxes, under the provisions of the enabling legislation, and from Federal income taxes as a governmental agency of the State.

(m) Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosed in the related notes. Actual results could differ from those estimates.

(n) Adoption of Accounting Standards

The Fund adopted GASB Statement No. 72, Fair Value Measurement and Application, during the year ended March 31, 2017. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value as further described in note 4.

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(2) Cash

Cash consists of funds deposited in demand deposit accounts with a financial institution held by the New York State Commissioner of Taxation and Finance for the Fund. At March 31, 2017 and 2016, the Fund had deposits with book values and bank balances of \$1,464,435 and \$674,792, respectively.

(3) Cash Deposits with the State of New York

Cash deposits with the State of New York represent funds held, on behalf of the Fund, in the State's Short-Term Investment Pool and are available on demand. The Fund's cash balances are pooled with other State funds for short-term investment purposes. These balances are limited to legally permitted investments which include: obligations, or guarantees of the United States; obligations of the State of New York and its political subdivisions; certificates of deposit, savings bank trust company notes, bankers' acceptance, corporate bonds, commercial paper, and repurchase agreements. The Fund considers cash deposits with the State of New York to be cash equivalents.

(4) Investments

Investments are monitored by the New York State Department of Taxation and Finance and held in custodial accounts on behalf of the Fund. The Fund requires delivery to its custodian of all securities purchased as well as collateral for repurchase agreements. As of March 31, 2017 and 2016, all securities held for the Fund were registered in the Commissioner of Tax and Finance's name, as custodian or fiscal agent of the Fund.

The fair value of the Fund's investments is measured using three levels:

Level 1: Investments with observable market prices. Fair value is readily determinable based on quoted market prices in active markets for identical securities.

Level 2: Investments whose inputs are other than quoted prices in active markets that are observable either directly or indirectly and fair value is determined through the use of models or other valuation methodologies.

Level 3: Investments have significant unobservable inputs. The inputs into the determination of fair value are based on the best information available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Fund invests in U.S. Treasury bills which are valued using observable market prices determined on quoted market prices in active markets. The Fund invests in certificates of deposits which are valued at cost.

The method used produces a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Fund believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a materially different fair value measurement at the reporting dates.

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The following table summarizes the fair value of the Fund's investments as of March 31, 2017 and 2016, all of which had maturities of less than one year:

	<u>2017</u>	<u>2016</u>	<u>Level</u>
Investment type:			
U.S. Treasury bills	\$ 30,034,934	30,287,986	1
Certificates of deposit	<u>516,812</u>	<u>1,013,656</u>	2
Total investments	<u>\$ 30,551,746</u>	<u>31,301,642</u>	

Net investment income for the years ended March 31, 2017 and 2016, consisted of interest income, realized gains, and change in unrealized appreciation/depreciation aggregating \$109,217 and \$66,131, respectively.

The Fund has an investment policy that limits its exposure to losses arising from credit risk, interest rate risk, custodial credit risk, and concentration of credit risk.

Credit risk is the risk that an issuer will not fulfill its obligations. New York State law limits the types of investments that the Fund can purchase, which minimizes the Fund's exposure to credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund's policy for managing this risk is to hold investment securities to maturity, at which time the fair value of the investment is equal to its stated maturity value.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to perform on a transaction, the Fund will not be able to recover the value of investment securities that are in the possession of an outside party. The Fund's policy is to hold investments in the Commissioner of Tax and Finance's name, as custodian or fiscal agent of the Fund, which are protected by the physical delivery of the purchased securities to the Commissioner of Tax and Finance.

The Fund relies upon the policies and procedures of the Commissioner of Taxation and Finance to ensure that the market value of collateral and accrued interest, if any, shall equal or exceed the value of the secured investment and accrued interest at all times. Concentration of credit risk is the risk of loss attributed to the amount invested in a single issuer. The investments of the Fund are diversified by financial institution, investment instrument, rate of return, and maturity pursuant to policies established by the Commissioner of Taxation and Finance.

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March 31, 2017 and 2016

(5) Capital Assets

Capital assets are comprised of the following:

	<u>March 31, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>March 31, 2017</u>
Automobiles	\$ 547,427	—	—	547,427
Furniture, fixtures, and equipment	332,444	46,325	(35,827)	342,942
Computer software	<u>2,070,191</u>	<u>251,385</u>	<u>—</u>	<u>2,321,576</u>
	2,950,062	297,710	(35,827)	3,211,945
Less accumulated depreciation	<u>(1,568,536)</u>	<u>(489,095)</u>	<u>27,635</u>	<u>(2,029,996)</u>
Capital assets, net	<u>\$ 1,381,526</u>	<u>(191,385)</u>	<u>(8,192)</u>	<u>1,181,949</u>

	<u>March 31, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>March 31, 2016</u>
Automobiles	\$ 547,427	—	—	547,427
Furniture, fixtures, and equipment	266,241	66,203	—	332,444
Computer software	<u>1,429,743</u>	<u>640,448</u>	<u>—</u>	<u>2,070,191</u>
	2,243,411	706,651	—	2,950,062
Less accumulated depreciation	<u>(1,123,017)</u>	<u>(445,519)</u>	<u>—</u>	<u>(1,568,536)</u>
Capital assets, net	<u>\$ 1,120,394</u>	<u>261,132</u>	<u>—</u>	<u>1,381,526</u>

Depreciation expense for the years ended March 31, 2017 and 2016 was \$489,095 and \$445,519, respectively, and is included in project costs administered by the Fund in the statements of revenues, expenses, and changes in net position.

(6) Receivables from the State

Amounts receivable from the State represent accrued project expenses, including contract retention and certain administrative costs accrued and will be paid by the State from capital appropriations.

(7) Retirement Benefits

(a) Plan Description and Benefits Provided

The Fund participates in the New York State and Local Retirement System (the System), a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common

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Retirement Fund (CRF), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the CRF and is the administrative head of the System. The Comptroller is an elected official determined in a direct state-wide election and serves a four-year term. System benefits are established under the provisions of the New York State Retirement and Social Security Law (NYSRSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship, and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute.

The System is included in the State's financial report as a pension trust fund. The System report, including information with regard to benefits provided, may be obtained by writing to the New York State and Local Retirement System, Office of the State Comptroller, 110 State Street, Albany, New York 12244.

(b) Contributions

Most members of New York State and Local Employees' Retirement System (ERS) who joined on or before July 26, 1976 are enrolled in a noncontributory plan. Members of ERS who joined after July 26, 1976 are enrolled in a contributory plan which requires a 3% contribution of their salary. As a result of Article 19, of the NYSRSSL, eligible Tier 3 and Tier 4 employees, with a membership date after July 26, 1976, who have ten or more years of membership or credited service with the System, are not required to contribute. Generally, members of the System may retire at 55; however, members of Tiers 2, 3, 4, and 5 will receive a reduced benefit if they retire before 62 with less than 30 years of service. Tier 5 members must be 62 years of age with at least 10 years of service credit to retire with full benefits. Any employee with less than five years of service may withdraw and obtain a refund, including interest, of the accumulated employee contributions. The full benefit age for Tier 6 is 63 for ERS members. Tier 6 members with 10 years of service or more can retire as early as age 55 with reduced benefits. The contribution rate varies from 3% to 6% depending on salary. Members are required to contribute for all years of service.

Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension fund. Fund contributions for the current year and prior year were equal to 100% of the contributions required, and were as follows:

2017	\$	1,964,725
2016		2,315,167

(c) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions

At March 31, 2017 and March 31, 2016, the Fund reported a liability of \$7,334,135 and \$1,561,695, respectively, for its proportionate share of the net pension liability. The net pension liability as of these dates was measured as of March 31, 2016 and March 31 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of these respective dates. The Fund's proportion of the net pension liability was based on a projection of the

STATE UNIVERSITY CONSTRUCTION FUND
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March 31, 2017 and 2016

Fund's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At March 31, 2017 and March 31, 2016, the Fund's proportion was .0456947% and .0462280%, respectively.

For the years ended March 31, 2017 and March 31, 2016, the Fund recognized pension expense of \$2,675,466 and \$1,439,336, respectively. At March 31, 2017, the Fund reported deferred outflows of resources related to pensions from the following sources:

	<u>2017</u>		<u>2016</u>
	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>	<u>Deferred outflows of resources</u>
Differences between expected and actual experience	\$ 37,061	869,339	49,992
Changes in assumptions	1,955,792	—	—
Net differences between projected and actual investment earnings on pension plan investments	4,351,011	—	271,247
Changes in proportion and differences between employer contributions and proportionate share of contributions	206,942	11,447	103,949
Employer contributions made subsequent to the the measurement date	<u>1,964,725</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 8,515,531</u>	<u>880,786</u>	<u>425,188</u>

Note: As of March 31, 2016, there were no reported deferred inflows of resources.

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As of March 31, 2017, \$1,964,725 reported as deferred outflows of resources resulted from the Fund's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended March 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending March 31:		
2018	\$	1,443,848
2019		1,443,848
2020		1,443,848
2021		<u>1,338,476</u>
Total	\$	<u><u>5,670,020</u></u>

(d) Actuarial Assumptions

The total pension liability at March 31, 2017 and March 31, 2016 was determined by using an actuarial valuation as of April 1, 2015 and April 1, 2014, respectively, with updated procedures used to roll forward the respective total pension liability to March 31, 2016 and March 31, 2015. The actuarial valuation used the following actuarial assumptions:

Assumptions	March 31, 2016	March 31, 2015
Actuarial cost method	Entry age normal	Entry age normal
Inflation rate	2.5%	2.5%
Salary Scale ERS	3.8%, indexed by service	3.8%, indexed by service
Investment rate of return, including inflation	7% compounded annually, net of expenses	7% compounded annually, net of expenses
Decrement	Developed from the Plan's 2015 experience study of the period April 1, 2005 through 'March 31, 2015	Developed from the Plan's 2015 experience study of the period April 1, 2005 through March 31, 2010
Mortality improvement	Society of Actuaries Scale MP-2014	Society of Actuaries Scale MP-2014

Annuitant mortality rates for the April 1, 2015 actuarial valuation are based on April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on MP-2014.

Annuitant mortality rates for the April 1, 2014 actuarial valuation are based on April 1, 2005 – March 31, 2011 System's experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation were based on the results of an actuarial experience study for the period April 1, 2005 – March 31, 2010.

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The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2016 and 2015, are as follows:

<u>Asset type</u>	<u>Target allocation</u>	<u>Long-term expected real rate</u>
Domestic equity	38%	7.30%
International equity	13	8.55
Private equity	10	11.00
Real estate	8	8.25
Absolute return strategies	3	6.75
Opportunistic portfolio	3	8.60
Real assets	3	8.65
Bonds and mortgages	18	4.00
Cash	2	2.25
Inflation-Indexed bonds	2	4.00
	<u>100%</u>	

(e) Discount Rate

The discount rate used to calculate the total pension liability was 7%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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(f) Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the Fund's proportionate share of the net pension liability calculated using the discount rate of 7%, as well as what the Fund's proportionate share of the net pension liability or asset would be if it were calculated using a discount rate that is one percentage point lower (6%) or one percentage-point higher (8%) than the current rate:

	1% decrease (6)%	Current discount (7)%	1% increase (8)%
Fund's proportionate share of the net pension liability (asset)	\$ 16,537,940	7,334,135	(442,688)

(g) Other Pension Plan

The Fund also participates in the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), a defined contribution retirement plan, as an optional retirement plan for certain employees previously participating in TIAA/CREF. The Fund assumes no liability for TIAA/CREF members other than the payment of contributions. TIAA/CREF provides retirement and death benefits for or on behalf of those full-time employees electing to participate in this optional retirement program. Participation eligibility as well as contributory and noncontributory requirements is established by NYSRSSL. Benefits are determined by the amount of individual accumulations and the retirement income option selected. All benefits vest after the completion of one year of service. Individually owned annuity contracts that provide for full ownership of retirement and survivor benefits are purchased at the time of vesting. TIAA/CREF is contributory for employees who joined after July 27, 1976, who contribute 3% of their salary. For those employees with ten years or more of membership, employee contributions are phased out over three years. Employer contributions range from 8% to 15% of salaries depending upon when the employee was hired. Employer contributions paid by the Fund to TIAA/CREF for the years ended March 31, 2017 and 2016 approximated \$125,100 and \$119,900, respectively, and equal 100% of the contribution required for each year.

(8) Other Postemployment Benefits

The State, on behalf of the Fund, provides health insurance coverage for eligible retired Fund employees and their spouses as part of the New York State Health Insurance Plan (NYSHIP). NYSHIP offers comprehensive benefits through various providers consisting of hospital, medical, mental health, substance abuse, and prescription drug programs. The State administers NYSHIP and has the authority to establish and amend the benefit provisions offered. NYSHIP is considered an agent multiple-employer defined benefit plan, is not a separate entity or trust, and does not issue stand-alone financial statements. The Fund, as a participant in the plan, recognizes Other Postemployment Benefit (OPEB) expenses on an accrual basis. Employee contribution rates for NYSHIP are established by the State and are generally 10% for enrollee insurance premiums and 25% for dependent insurance premiums.

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The Fund accounts for its OPEB obligation based on the approach provided in GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The initial unfunded actuarial accrued liability is being amortized over an open period of thirty years using the level percentage of projected payroll amortization method. NYSHIP premiums are being financed on a pay-as-you-go basis.

The Fund's OPEB obligation and funded status of the plan as of March 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
OPEB obligation:		
Annual required contribution and annual OPEB cost	\$ 3,678	3,187
Employer contributions paid	(1,391)	(1,220)
Increase in OPEB obligation	2,287	1,967
Net obligation at beginning of year	12,554	10,587
Net obligation at end of the year	\$ 14,841	12,554
Funded status:		
Actuarial accrued liability (AAL)	\$ 73,197	65,143
Actuarial value of OPEB plan assets	—	—
Unfunded Actuarial Accrued Liability (UAAL)	\$ 73,197	65,143
	2017	2016
Actuarial valuation date	April 1, 2016	April 1, 2014
Funded ratio (actuarial value of plan assets/AAL)	— %	— %
Covered payroll	\$12,268	\$12,058
UAAL as a percentage of covered payroll	597%	540%

The actuarial valuation utilizes a frozen entry age actuarial cost method. The actuarial assumptions include a 2.637% discount rate, payroll growth rate of 3%, and an annual healthcare cost trend rate for medical coverage of 6.75% initially, reduced by decrements to a rate of 4.75% after 7 years.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined results are subject to continual revision as actual results are compared to past expectations and new estimates are made in the future. The actuarial methods and assumptions used are designed to reduce short-term volatility in reported amounts and reflect a long-term perspective.

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March 31, 2017 and 2016

(9) Commitments and Contingencies

(a) Lease Expense

The Fund leases office space from SUNY on a month-to-month basis. Rent expense is inclusive of maintenance, insurance, and utilities. Rent expense for the years ended March 31, 2017 and 2016, approximated \$776,000 for each year.

(b) Construction Projects

The Fund, in its normal course of business, has entered into contracts for the design and construction of various projects. At March 31, 2017 and 2016, these outstanding contract commitments approximated \$800 million and \$900 million, respectively.

(c) Pending Litigation, Claims, and Disputes

The Fund is involved in legal disputes with various contractors and professional service firms. These disputes are related to claims for extra work, late completion, and other matters generally applicable to construction and professional service contracts. In addition, the Fund is involved in personal injury related legal disputes. Based on information presently available, the Fund believes that there are substantial defenses in connection with these disputes and that its ultimate liability, if any, after considering insurance coverage will not materially affect its financial position.

(d) Contractual Payments to DASNY

In connection with DASNY/State University Educational Facilities Revenue Bond Program issues, the Fund has entered into a financing agreement with DASNY whereby the Fund provides for contractual payments to DASNY in semiannual installments due on or before each April 10 and October 10. Payments are made solely from contractual financing appropriations received from the State. For the years ended March 31, 2017 and 2016, these payments were \$238,543,484 and \$93,056,453, respectively. As of March 31, 2017, the approximate future minimum contractual financing payment commitments on DASNY bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total commitments</u>
For the year ending March 31,			
2018	\$ 196,178,726	50,941,759	247,120,485
2019	129,972,380	42,347,476	172,319,856
2020	73,903,696	37,522,735	111,426,431
2021	76,177,485	35,309,065	111,486,550
2022	86,646,472	31,889,790	118,536,262
2023 through 2027	366,084,965	94,356,460	460,441,425
2028 through 2031	175,715,000	13,364,125	189,079,125
Total	<u>\$ 1,104,678,724</u>	<u>305,731,410</u>	<u>1,410,410,134</u>

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Notes to the Financial Statements

March 31, 2017 and 2016

Since February 2003, Personal Income Tax (PIT) Bonds were issued by the State to support the capital program. The State also issued Sales Tax Bonds during the 2013-14 and 2014-15 fiscal years. The debt service on the PIT and Sales Tax bonds is paid directly by New York State to DASNY and, accordingly, no contractual financing payments related to these bonds pass through to the Fund.

(10) Subsequent Events

The Fund has evaluated subsequent events for potential recognition or disclosure through August 8, 2017, the date at which the financial statements were available to be issued, and determined that there were no additional items to disclose.

STATE UNIVERSITY CONSTRUCTION FUND
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Required Supplementary Information

Schedule of Funding Progress – Other Postemployment Benefits

(in millions of dollars)

(unaudited)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) - Frozen entry age (b)</u>	<u>Unfunded AAL UAAL (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
April 1, 2016	\$ —	73,197	73,197	— %	12,268	597 %
April 1, 2014	—	64,303	64,303	—	11,471	560
April 1, 2012	—	40,030	40,030	—	11,625	350

See accompanying independent auditors' report.

STATE UNIVERSITY CONSTRUCTION FUND
(A Component Unit of the State University of New York)

Required Supplementary Information

Schedule of Proportionate Share of the Net Pension Liability (Measurement Date)

Years ended March 31, 2017 and 2016

(unaudited)

	2017	2016
Fund's share of the net pension liability	0.0456947 %	0.0462280 %
Fund's proportionate share of the net pension liability	\$ 7,334,135	1,561,695
Fund's covered-employee payroll	13,336,781	13,231,635
Fund's proportionate share of the net pension liability as a percentage of its covered-employee payroll	55.0 %	11.8 %
Plan fiduciary net position as a percentage of the total pension liability	90.7 %	97.9 %

Note: This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

STATE UNIVERSITY CONSTRUCTION FUND
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Required Supplementary Information

Schedule of Pension Contributions

For the years ended March 31

(unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 1,964,725	2,315,167	2,559,118	2,605,798	2,495,787	1,686,749	1,263,910	619,371	666,346	811,086
Contributions in relation to the contractually required contribution	1,964,725	2,315,167	2,559,118	2,605,798	2,495,787	1,686,749	1,263,910	619,371	666,346	811,086
Contribution deficiency (excess)	—	—	—	—	—	—	—	—	—	—
Fund's covered-employee payroll	13,336,781	13,231,635	12,353,220	12,087,887	12,334,824	10,273,168	10,305,245	8,723,407	8,148,426	7,754,434
Contribution as a percentage of covered- employee payroll	14.73 %	18.95 %	20.72 %	21.56 %	20.23 %	16.42 %	12.26 %	7.10 %	8.18 %	10.46 %

See accompanying independent auditors' report.



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**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***

Board of Trustees
State University Construction Fund
Albany, New York:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of net position of the State University Construction Fund (the Fund) as of March 31, 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 8, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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

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

Compliance and Other Matters

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



Purpose of this Report

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

KPMG LLP

Albany, New York
August 8, 2017