STATE UNIVERSITY CONSTRUCTION FUND

(A Component Unit of the State University of New York)

Financial Statements

March 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

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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 statements of net position as of March 31, 2018 and 2017, 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 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 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 of America. Those standards require that we plan and perform the audits 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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that 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 July 19, 2018 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

July 19, 2018

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, 2018 and 2017. 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.

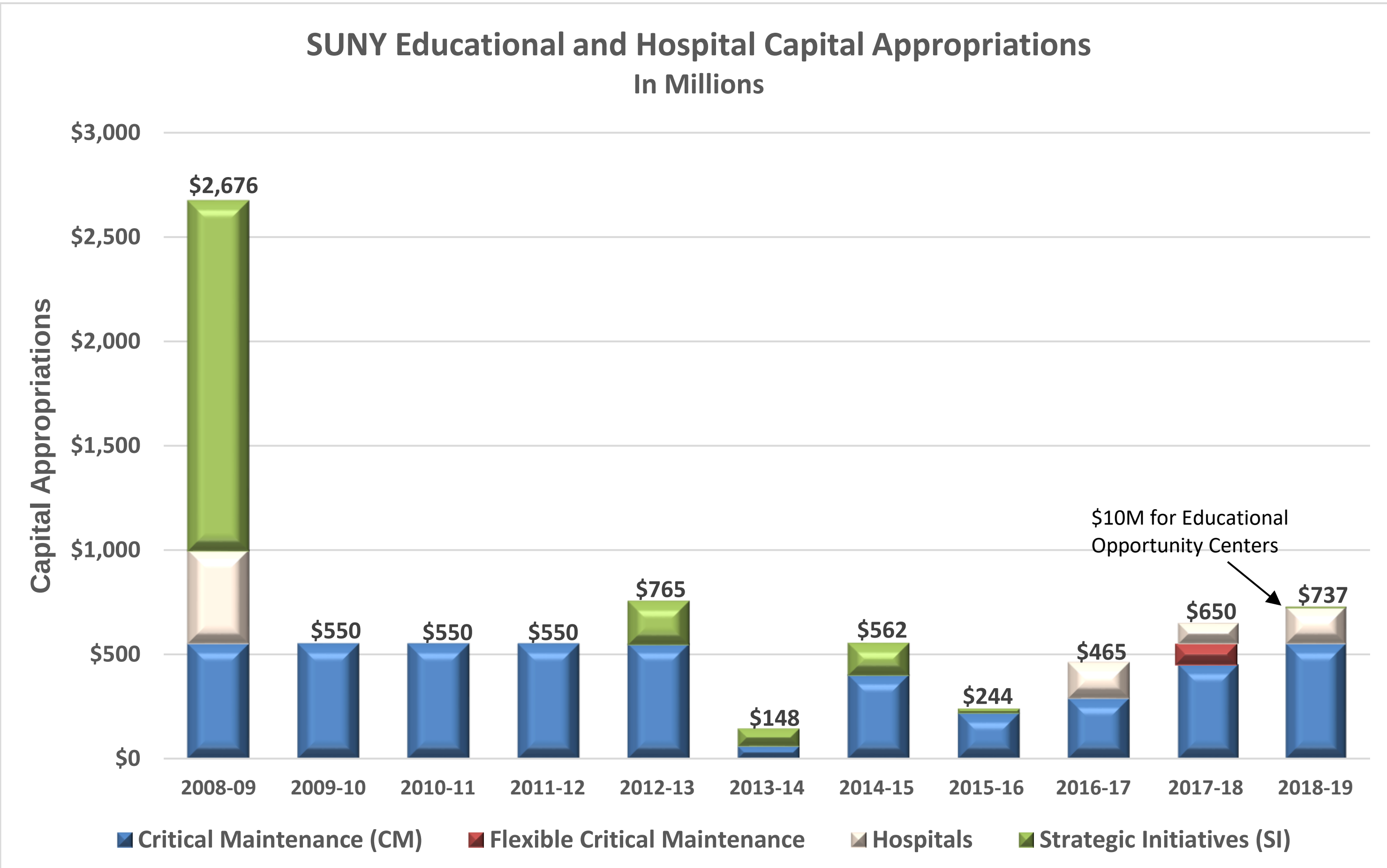
Overview of the State University Construction Fund

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 design and construction industry, intensified their advocacy efforts to secure another multi-year capital plan. These efforts proved successful. The 2017-18 Enacted State Budget provided a level of capital support for the Educational Facilities Capital Program of $550 million and $50 million for the Hospital Capital Program. Additionally, the 2017-18 Enacted Capital Fiscal Plan indicated that similar levels of capital funding would be provided annually through fiscal year 2021-22. As planned, the 2018-19 Enacted Budget also provided $550 million for the Educational Facilities Capital Program, $10 million specifically for SUNY Educational Opportunity Centers, an additional $100 million for the Hospital Capital Program to support new capital projects, as well as $77.3 million in new Hospital Capital appropriations to reimburse the hospitals for prior year appropriations utilized to maximize hospital disproportionate share revenues.

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 included various restrictions on use, such as: projects that address critical maintenance in existing facilities only (Restricted Critical Maintenance), 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 provided Hospital appropriations in 2008 and then not again until 2016, with year-at-a-time funding provided again in 2017 and 2018.



Funding for the Capital Program

SUNY's capital programs are 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 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 or Sales 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. The Fund has received funding for the benefit of other SUNY capital projects from the Empire State Development Corporation, 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 (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, 2018 and 2017:

- 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, 2018 decreased by $24 million, or 6.6%, from March 31, 2017 and increased by $47.2 million, or 15%, from March 31, 2016 to March 31, 2017. The total liabilities and deferred inflows of resources also decreased as of March 31, 2018 by $21.1 million, or 6.1%, from March 31, 2017, and increased by

$50.2 million, or 17%, from March 31, 2016 to March 31, 2017. The following table shows a summary of changes from the prior year amounts:

	2018	2017	2016
		(In thousands)	
Current assets	$ 330,305	$ 350,387	$ 311,129
Noncurrent assets	2,590	2,715	2,822
Deferred outflows of resources	4,709	8,516	425
Total assets and deferred outflows of resources	337,604	361,618	314,376
Current liabilities	298,359	318,717	279,513
Noncurrent liabilities	23,190	23,708	15,556
Deferred inflows of resources	2,630	2,846	—
Total liabilities and deferred inflows of resources	324,179	345,271	295,069
Invested in capital assets	1,004	1,182	1,382
Restricted for contractual financing payments	30	29	29
Unrestricted	12,391	15,136	17,896
Total net position	$ 13,425	$ 16,347	$ 19,307

The decrease in net assets and deferred outflows of resources, and liabilities and deferred inflows of resources, at March 31, 2018 as compared to March 31, 2017, is due primarily to the increase in the use of sponsor funding by the university centers on several large projects during fiscal year 2017-2018. The $2.9 million decrease in total net position is a result of increased obligations for pension and other postemployment benefits, and depreciation of fixed assets.

The increase in assets and liabilities 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 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 postemployment 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.

(Continued)

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

Total Fund operating revenues and operating expenses increased by 5.5% for the fiscal year ended March 31, 2018, as compared to the year ended March 31, 2017, and operating revenues decreased by approximately 13.1%, and operating expenses decreased by 12.8% for the fiscal year ended March 31, 2017, as compared to the year ended March 31, 2016. The following table shows a summary of changes from the prior year amounts:

	2018	2017	2016
		(In thousands)	
Operating revenues	$ 807,079	$ 765,330	$ 880,284
Operating expenses	(810,341)	(768,398)	(881,079)
Nonoperating revenues (expenses), net	340	109	66
Total change in net position	$ (2,922)	$ (2,959)	$ (729)

Revenues increased during the fiscal year ended March 31, 2018 as a result of an increase of sponsor funds received from the university centers to fund large projects. Expenses increased during the fiscal year due to the completion of several large round one NYSUNY 2020 projects and equipment expenditures related to these projects, and an increase in hospital spending related to capital spending that was moved from operating funds to capital funds.

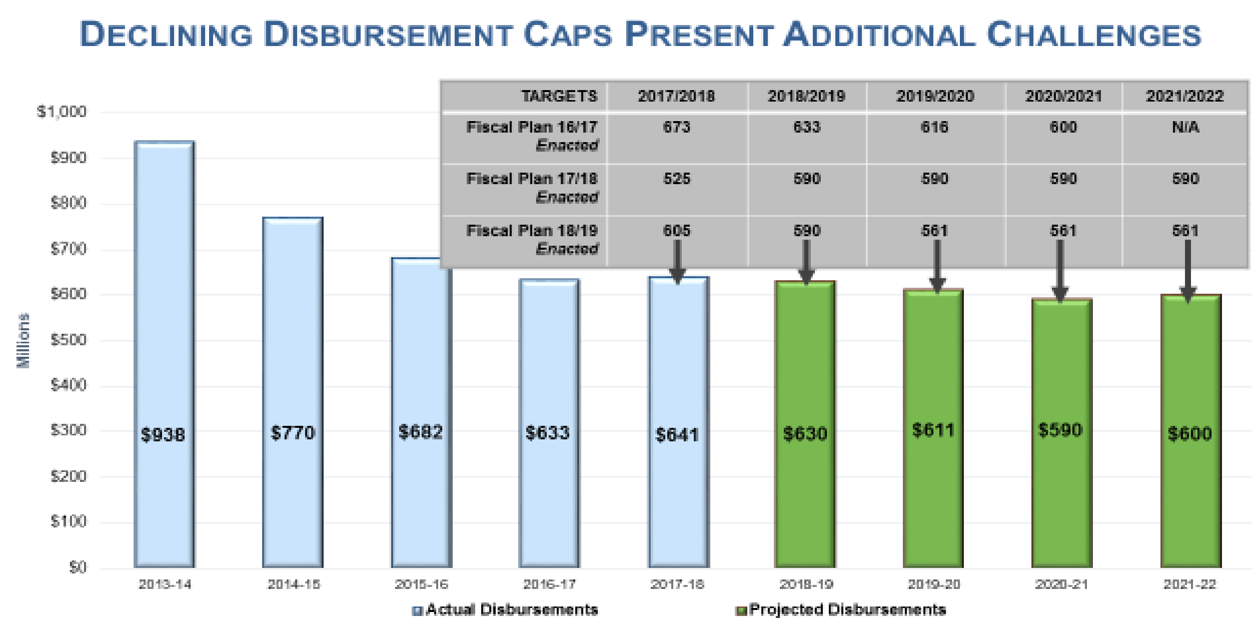
Economic Factors that May Affect the Future

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 allocates funding to projects based on a high priority need, the Fund has been 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) will provide much needed funding to address the significant needs of over 1,800 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, as well as prior year unspent appropriations totaling $2.1 billion, must be accommodated within significantly reduced annual spending limits established in the 2018-19 State Five-Year Capital Program & Financing Plan. Managing the disbursements associated with this level of 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. The spending limits were further reduced in the 2018-19 Enacted State Budget.



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 http://www.sucf.suny.edu.

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

Statements of Net Position

March 31, 2018 and 2017

Assets and Deferred Outflows of Resources	**2018**	**2017**
Current assets:		
Cash	$ 1,293,447	$ 1,464,435
Cash deposits with the State of New York	160,530,788	184,456,235
Investments at fair value	30,988,641	30,551,746
Receivables:		
State of New York	137,001,677	133,797,775
Accrued interest	215,970	117,141
Other receivables	275,000	—
Total current assets	330,305,523	350,387,332
Noncurrent assets:		
Receivable from the State of New York	1,585,663	1,532,796
Capital assets, net of accumulated depreciation	1,004,318	1,181,949
Total assets	332,895,504	353,102,077
Deferred outflows of resources – pension resources	4,708,511	8,515,531
Total assets and deferred outflows of resources	337,604,015	361,617,608
Liabilities and Deferred Inflows of Resources		
Current liabilities:		
Project costs payable	88,674,341	84,855,112
Accounts payable and accrued expenses	1,539,974	1,911,916
Retention on construction contracts	51,317,361	53,818,971
Advances from sponsors	156,827,228	178,130,729
Total current liabilities	298,358,904	318,716,728
Noncurrent liabilities:		
Other postemployment benefits	17,238,359	14,841,050
Net pension liability	4,366,169	7,334,135
Compensated absences	1,585,663	1,532,796
Total liabilities	321,549,095	342,424,709
Deferred inflows of resources:		
Deferred inflows of resources – State of New York	1,957,973	1,964,725
Deferred inflows of resources – pension resources	671,612	880,786
Total deferred inflows of resources	2,629,585	2,845,511
Total liabilities and deferred inflows of resources	324,178,680	345,270,220
Net position:		
Invested in capital assets	1,004,318	1,181,949
Restricted for contractual financing payments	29,557	29,554
Unrestricted	12,391,460	15,135,885
Total net position	$ 13,425,335	$ 16,347,388

See accompanying notes to financial statements.

STATE UNIVERSITY CONSTRUCTION FUND

(A Component Unit of the State University of New York)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended March 31, 2018 and 2017

	2018	2017
Operating revenues:		
Project cost recovery:		
State of New York	$ 712,845,344	$ 710,653,278
Sponsor	94,233,542	54,676,386
Total operating revenues	807,078,886	765,329,664
Operating expenses:		
Project costs administered by:		
State University Construction Fund	449,946,319	465,367,328
State University of New York campuses	360,395,085	303,030,955
Total operating expenses	810,341,404	768,398,283
Operating loss	(3,262,518)	(3,068,619)
Nonoperating revenues (expenses):		
New York State appropriations for contractual financing payments to Dormitory Authority of the State of New York	125,186,162	238,543,484
Contractual financing payments to Dormitory Authority of the State of New York	(125,186,162)	(238,543,484)
Investment income, net	340,465	109,217
Total nonoperating revenues (expenses), net	340,465	109,217
Change in net position	(2,922,053)	(2,959,402)
Net position, beginning of year	16,347,388	19,306,790
Net position, end of year	$ 13,425,335	$ 16,347,388

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended March 31, 2018 and 2017

	2018	2017
Cash (used) provided by operating activities:		
Cash received from construction cost recovery	$ 782,243,616	$ 760,841,773
Cash payments for project costs	(805,844,462)	(744,563,440)
Net cash (used) provided by operating activities	(23,600,846)	16,278,333
Cash flows provided (used) by noncapital financing activities:		
Cash received from New York State contractual financing payment appropriations	125,186,162	238,543,484
Cash payments for contractual financing payments	(125,186,162)	(238,543,484)
Net cash provided (used) by noncapital financing activities	—	—
Cash flows used by capital and related financing activities:		
Purchase of capital assets	(309,857)	(297,710)
Sales of capital assets	9,527	—
Net cash used by capital and related financing activities	(300,330)	(297,710)
Cash flows (used) provided by investing activities:		
Investment income received	230,975	81,039
Proceeds from sales and maturities of investments	258,062,683	74,583,657
Purchase of investments	(258,488,917)	(73,856,792)
Net cash (used) provided by investing activities	(195,259)	807,904
Net (decrease) increase in cash and cash equivalents	(24,096,435)	16,788,527
Cash and cash equivalents*, beginning of year	185,920,670	169,132,143
Cash and cash equivalents*, end of year	$ 161,824,235	$ 185,920,670
Reconciliation of operating loss to net cash (used) provided by operating activities:		
Operating loss	$ (3,262,518)	$ (3,068,619)
Adjustments to reconcile operating loss to net cash (used) provided by operating activities:		
Depreciation	466,384	489,095
Loss on disposition of capital assets	11,577	8,192
Changes in:		
State of New York receivables	(3,256,769)	(23,260,643)
Deferred outflows of resources	3,807,020	(8,090,343)
Project costs payable	3,819,229	23,776,768
Accounts payable and accrued expenses	(371,942)	514,379
Retention on construction contracts	(2,501,610)	(3,860,495)
Advances from sponsors	(21,578,501)	18,772,752
Other postemployment benefits	2,397,309	2,286,840
Deferred inflows of resources	(215,926)	2,845,511
Net pension liability	(2,967,966)	5,772,440
Compensated absences	52,867	92,456
Net cash (used) provided by operating activities	$ (23,600,846)	$ 16,278,333

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

See accompanying notes to financial statements.

(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 $810,341,404 and $768,398,283 for the years ended March 31, 2018 and 2017, respectively. These costs include administrative expenses of the Fund of $28,491,980 and $25,485,012 for the years ended March 31, 2018 and 2017, 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 (FDIC), it must be collateralized by obligations of the United States Government and its Agencies, and (4) commercial paper with a maturity of two hundred seventy 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 $1,585,663 and $1,532,796 at March 31, 2018 and 2017, respectively.

(h) Other Postemployment 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 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. 82, *Pension Issues* (GASB 82), during the year ended March 31, 2018. This statement addresses accounting and financial reporting for payroll related issues in the required supplementary information, the selection of assumptions and treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The effect of adopting GASB 82 was not material to the financial statements.

(Continued)

(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, 2018 and 2017, the Fund had deposits with book values and bank balances of $1,293,447 and $1,464,435, 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, 2018 and 2017, all securities held for the Fund were registered in the Commissioner of Tax and Finance's name, as custodian and 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 taxable Municipal Commercial Paper, with a market value calculated using the purchase price plus any accrued interest that has accrued through the holding period. The Fund also 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

(Continued)

assumptions to determine fair value of certain financial instruments could result in a materially different fair value measurement at the reporting dates.

The following table summarizes the fair value of the Fund's investments as of March 31, 2018 and 2017, all of which had maturities of less than one year:

	2018	2017	Level
Investment type:			
U.S. Treasury bills	$ 30,540,641	$ 30,034,934	1
Certificates of deposit	448,000	516,812	2
Total investments	$ 30,988,641	$ 30,551,746	

Net investment income for the years ended March 31, 2018 and 2017, consisted of interest income, realized gains, and change in unrealized appreciation/depreciation aggregating $340,465 and $109,217, 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.

(Continued)

(5) Capital Assets

Capital assets are comprised of the following:

	March 31, 2017	Additions	Disposals	March 31, 2018
Automobiles	$ 547,427	$ —	$ (34,265)	$ 513,162
Furniture, fixtures, and equipment	342,942	31,610	(35,173)	339,379
Computer software	2,321,576	278,247	—	2,599,823
	3,211,945	309,857	(69,438)	3,452,364
Less accumulated depreciation	(2,029,996)	(466,384)	48,334	(2,448,046)
Capital assets, net	$ 1,181,949	$ (156,527)	$ (21,104)	$ 1,004,318

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

Depreciation expense for the years ended March 31, 2018 and 2017 was $466,384 and $489,095, 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 (System or ERS), 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

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, or at the System website: www.osc.state.ny.us/retire .

(b) Contributions

Most members of 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 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:

2018	$	1,957,973
2017		1,964,725

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

At March 31, 2018 and 2017, the Fund reported a liability of $4,366,169 and $7,334,135, respectively, for its proportionate share of the net pension liability. The net pension liability as of these dates was measured as of March 31, 2017 and 2016, 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 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, 2018 and 2017, the Fund's proportion was 0.0464673% and 0.0456947%, respectively.

For the years ended March 31, 2018 and 2017, the Fund recognized pension expense of $2,587,853 and $2,675,466, respectively. At March 31, 2018, the Fund reported deferred outflows and inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred outflows of resources	**Deferred inflows of resources**	**Deferred outflows of resources**	**Deferred inflows of resources**
Differences between expected and actual experience	$ 109,412	$ 663,027	$ 37,061	$ 869,339
Changes in assumptions	1,491,643	—	1,955,792	—
Net differences between projected and actual investment earnings on pension plan investments	872,101	—	4,351,011	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	277,382	8,585	206,942	11,447
Employer contributions made subsequent to the measurement date	1,957,973	—	1,964,725	—
Total	$ 4,708,511	$ 671,612	$ 8,515,531	$ 880,786

As of March 31, 2018 and 2017, $1,957,973 and $1,964,725, respectively, 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, 2019. 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:		
2019	$	913,240
2020		913,240
2021		806,527
2022		(554,081)
Total	$	2,078,926

(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, 2016 and April 1, 2015, respectively, with updated procedures used to roll forward the respective total pension liability to March 31, 2017 and March 31, 2016. The actuarial valuation used the following actuarial assumptions:

Assumptions	March 31, 2017	March 31, 2016
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 investment expenses	7% compounded annually, net of investment expenses
Cost of Living Adjustments	1.3% annually	1.3% annuallly
Decrement	Developed from the Plan's 2015 experience study of the period April 1, 2010 through March 31, 2015	Developed from the Plan's 2015 experience study of the period April 1, 2010 through March 31, 2015
Mortality improvement	Society of Actuaries Scale MP-2014	Society of Actuaries Scale MP-2014

Annuitant mortality rates for the April 1, 2016 and April 1, 2015 actuarial valuations are based on April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2016 valuation were based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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, 2017 and 2016, are as follows:

	2017		2016	
Asset type	**Target allocation**	**Long-term expected real rate**	**Target allocation**	**Long-term expected real rate**
Domestic equity	36 %	4.55 %	38 %	7.30 %
International equity	14	6.35	13	8.55
Private equity	10	7.75	10	11.00
Real estate	10	5.80	8	8.25
Absolute return strategies	2	4.00	3	6.75
Opportunistic portfolio	3	5.89	3	8.60
Real assets	3	5.54	3	8.65
Bonds and mortgages	17	1.31	18	4.00
Cash	1	(0.25)	2	2.25
Inflation-Indexed bonds	4	1.50	2	4.00
	100 %		100 %	

(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.

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

The following presents the Fund's current year proportionate share of the net pension liability calculated using the current year 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)	$ 13,944,672	$ 4,366,169	$ (3,732,441)

The following presents the Fund's prior year proportionate share of the net pension liability calculated using the prior year 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 prior 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, 2018 and 2017 approximated $127,300 and $125,100, respectively, and equal 100% of the contribution required for each year.

(Continued)

(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.

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, 2018 and 2017 are as follows (in thousands):

	2018	2017
OPEB obligation:		
Annual required contribution and annual OPEB cost	$ 3,781	$ 3,678
Employer contributions paid	(1,384)	(1,391)
Increase in OPEB obligation	2,397	2,287
Net obligation at beginning of year	14,841	12,554
Net obligation at end of the year	$ 17,238	$ 14,841
Funded status:		
Actuarial accrued liability (AAL)	$ 74,970	$ 73,197
Actuarial value of OPEB plan assets	—	—
Unfunded Actuarial Accrued Liability (UAAL)	$ 74,970	$ 73,197

	2018	2017
Actuarial valuation date	April 1, 2017	April 1, 2016
Funded ratio (actuarial value of plan assets/AAL)	— %	— %
Covered payroll	$13,860	$12,268
UAAL as a percentage of covered payroll	541%	597%

The actuarial valuation utilizes a frozen entry age actuarial cost method. The 2018 actuarial assumptions include a 2.398% discount rate (2.637% for 2017), payroll growth rate of 3%, and an annual healthcare cost trend rate for medical coverage of 6.25% (6.75% for 2017) initially, reduced by decrements to a rate of 4.5% (4.75% for 2017) after 8 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.

(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, 2018 and 2017, 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, 2018 and 2017, these outstanding contract commitments approximated $690 million and $800 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.

(Continued)

(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, 2018 and 2017, these payments were $125,186,162 and $238,543,484, respectively. As of March 31, 2018, the approximate future minimum contractual financing payment commitments on DASNY bonds are as follows:

	Principal	Interest	Total commitments
For the year ending March 31,			
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	73,544,665	28,031,735	101,576,400
2024 through 2028	357,570,300	73,184,725	430,755,025
2029 through 2031	110,685,000	6,504,125	117,189,125
Total	$ 908,499,998	$ 254,789,651	$ 1,163,289,649

Since February 2003, Personal Income Tax (PIT) Bonds were issued by the State to support the capital program. The State has also issued Sales Tax Bonds since 2013 to support the capital program. 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 July 19, 2018, 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

(A Component Unit of the State University of New York)

Required Supplementary Information

Schedule of Funding Progress – Other Postemployment Benefits

(in millions of dollars)

(unaudited)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - Frozen entry age (b)	Unfunded AAL UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
April 1, 2017	$ —	$ 74,970	$ 74,970	— %	$ 13,860	541 %
April 1, 2016	—	73,197	73,197	—	12,268	597
April 1, 2014	—	64,303	64,303	—	11,471	561

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, 2018, 2017 and 2016

(unaudited)

	2018	2017	2016
Fund's share of the net pension liability	0.0464673 %	0.0456947 %	0.0462280 %
Fund's proportionate share of the net pension liability	$ 4,366,169	$ 7,334,135	$ 1,561,695
Fund's covered-employee payroll	$ 13,083,542	$ 13,336,781	$ 13,231,635
Fund's proportionate share of the net pension liability as a percentage of its covered-employee payroll	33.4 %	55.0 %	11.8 %
Plan fiduciary net position as a percentage of the total pension liability	94.7 %	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
(A Component Unit of the State University of New York)

Required Supplementary Information

Schedule of Pension Contributions

For the years ended March 31

(unaudited)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 1,957,973	$ 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
Contributions in relation to the contractually required contribution	1,957,973	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
Contribution deficiency (excess)	—	—	—	—	—	—	—	—	—	—
Fund’s covered-employee payroll	13,083,542	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
Contribution as a percentage of covered – employee payroll	14.97%	14.73%	17.50%	20.72%	21.56%	20.23%	16.42%	12.26%	7.10%	8.18%

See accompanying independent auditors’ report.

KPMG LLP
515 Broadway
Albany, NY 12207-2974

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, 2018, 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 Juy 19, 2018.

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
July 19, 2018